MARFIN BANK

MARFIN PANK EESTI AS

CONSOLIDATED ANNUAL REPORT 2011

(TRANSLATION FROM ORIGINAL IN ESTONIAN)

Beginning of reporting year	01.01.2011
End of reporting year	31.12.2011

Registry code	10586461
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INTRODUCTION

General Data of Credit Institution

Business name	MARFIN PANK EESTI AS
Location and address	Pärnu mnt 12, 10148 Tallinn, Estonia
Registered in state	Republic of Estonia
Registration date	14.10.1999
Registry code	10586461 (Estonian Commercial Register)
Phone	(+372) 6 802 500
Fax	(+372) 6 802 501
S.W.I.F.T.'s BIC code	SBMBEE22
E-mail	info@marfinbank.ee
Internet home page	http://www.marfinbank.ee

Auditor

Auditor's business name	Aktsiaselts PricewaterhouseCoopers
Auditor's registry code	10142876
Auditor's location and address	Pärnu mnt 15, 10141 Tallinn, Estonia
Name of partner in charge	Tiit Raimla
Name of engagement leader	Stan Nahkor

Report Data

Balance sheet date of report	31.12.2011
Report period	01.01.2011 – 31.12.2011
Report currency and units	Euro (EUR), in thousands of euros

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

Following terms are used in the report:
"Bank"- MARFIN PANK EESTI AS;
"Group" – MARFIN PANK EESTI AS and its 100% subsidiary Osito Casa OÜ.

MANAGEMENT REPORT

Description of the Credit Institution and its Management Bodies

MARFIN PANK EESTI AS is a credit institution, established in 1999 and operating in Estonia. MARFIN PANK EESTI AS (hereinafter: the Bank) holds the activity license issued by the Bank of Estonia, which allows the Bank to engage in all banking operations. Bank has an account manager status of Estonian Central Depository for Securities, is the member of S.W.I.F.T. and pan-Baltic member of NASDAQ OMX Baltic stock exchanges. Bank has joined SEPA (Single Euro Payments Area) systems as an indirect member and the cross-border clearing system TARGET2-Eesti.

MARFIN PANK EESTI AS uses the trademark MARFIN BANK, which is globally used by Marfin Popular Bank group in all international markets.

MARFIN PANK EESTI AS belonged to the banking group of Marfin Popular Bank, registered in Cyprus, and operating in 10 countries with approximately 470 branches. Group has close to 9,000 employees. Year 2011 net consolidated loss of Marfin Popular Bank group totalled 3.3 billion euros according to preliminary results and total assets 34.1 billion euros. Marfin Popular Bank has a B3/ Not Prime (outlook: negative) rating by Moody's Investors Service, and BB+/B (outlook: negative) rating by Fitch Ratings.

The extraordinary general meeting of shareholders decided on 11.04.2011 to convert the Bank's share capital to euros, decrease share capital to cover losses and to increase share capital by 1.6 million euros. Paid-in share capital, 7.0 million euros, is divided into 11,747,957 ordinary shares with nominal value 0.60 euros each.

The owners of MARFIN PANK EESTI AS, as of balance sheet date, were:
70.5427% of shares are owned by Marfin Popular Bank Public Company Ltd. (location Nicosia, Cyprus);
19.6531% of shares are owned by Mr. Nikolaos Sarros (place of residence Athens, Greece);
3.8331% of shares are owned by Sigma Real Estate OÜ (location Tallinn, Estonia), a private limited company under control of Mr. Nikolaos Sarros;
2.9630% is owned by Frösundaviksparken AB (location Ängelholm, Sweden), under control of Mr. Ulrich John;
1.5116% of shares are owned by Mirage Investments OÜ (location Tallinn, Estonia) and 1.4965% is owned by Mr. Emmanouil Karavelakis (place of residence Athens, Greece).

Marfin Popular Bank Public Co Ltd. has concluded a Share Purchase-Sale Agreement with the Ukranian company UKRSELHOSPROM PCF LLC on 22 December 2011 for the sale of its total participation. In addition, Marfin Popular Bank Public Co Ltd. assigned to UKRSELHOSPROM PCF LLC the total of its obligations and rights arising from a subordinated loan which was granted to the Bank. The transaction entered into force on 29.03.2012.

The Supervisory Board of the Bank had five members at the end of the reporting period: Mr. Fotios Karatzenis (Chairman of the Supervisory Board), Mr. Achillefs Giannisis, Mr. Frank Ulrich John, Mr. Emmanouil Karavelakis and Mr. Christos Stylianides. Mr. Efthymios Bouloutas resigned from the Supervisory Board in December 2011. The extraordinary shareholders meeting of 29.03.2012 approved the Supervisory Board membership as follows: Mr. Oleksandr Rechytskyi, Mr. Stanislav Vilens'kyy, Mr. Vadym Iermolaiev, Mr. Frank Ulrich John and Mr. Nikolaos Sarros.

The Management Board of the Bank had three members at the end of the reporting period. Mr. Riho Rasmann is the Chairman of the Management Board, and the members of the Management Board are Mr. Sven Raba and Mr. Mart Veskimägi. Mr. Roul Tutt acted as a member of the Management Board until May 2011. The Chairman of the Management Board and the members of the Management Board do not own shares neither hold options to acquire shares of the Bank.

The Bank has one subsidiary in real estate sector - Osito Casa OÜ. The activities of the company were transfered to the Bank in September 2011, and there is a plan to liquidate the subsidiary in year 2012. The Bank has no participating interests, exceeding 20% shareholding in any company, but the Bank owns 16% of business development company European Business Development AS.

Description of Economic Environment

The Estonian economy was growing faster than expected during the first three quarters of year 2011 with growth rate exceeding 8%. In the 4th quarter the growth slowed to below expectations 4% annual increase and to first quarterly contraction (-0.8%) since the 1st quarter of 2010. Annual GDP growth was 7.5%.

Main driver behind the success story of Estonia was export driven growth in manufacturing. 38% annual increase of exports was recorded in year 2011. In the 4th quarter of year 2011 the growth impetus started to wane as uncertainties in the external environment were on the rise. The main contributor was again primarily export of the manufacturing, mainly decrease in electronic sector. The slowdown of exports is however somewhat balanced by the positive developments in domestic demand where retail sales have shown stable growth throughout the year 2011.

Further developments in Estonia depend mainly on external uncertainties, primarily on how problems in several euro-area sovereign bond markets are solved and if the growth of the main export partners of Estonia can be maintained. Therefore, as already seen in the 4th quarter of 2011, it can be expected that the Estonian economic growth will decelerate further in year 2012. If the external situation deteriorates even more, a recession cannot be ruled out. Nevertheless, Estonia's domestic economic imbalances have decreased compared to the situation a couple of years ago and this has boosted resilience to external implications. Most notably the current account is in surplus, private sector's debt burden has shrunk and productivity has improved. Also Estonian membership in the Eurozone from 01.01.2011 has brought along greater stability by lowering interest rates, bringing greater confidence and boosting foreign investments, even though the Eurozone itself has become the center of the crisis.

The Estonian labor market had as well several positive surprises in year 2011 as employment has increased and unemployment has dropped. The expected slowdown of growth in year 2012 may make employers want to cut the number of their employees again, but the situation will become serious only if there occurs a longer-term standstill or a recession.

The robust economic growth of year 2011 was been accompanied as well by a faster-than-expected inflation rate. Annual increase of the HICP was 5.0% in year 2011. This was caused mainly by a rapid rise in the price of energy and food commodities in the global market. Wage pressure was not excessive in the year 2011 and slowing economic growth is likely to hinder further wage growth as well. In longer term, however, labor-market pressures may pose a threat to Estonia's balanced economic development.

Due to the improved loan-to-deposit ratio the funding needs of the banks operating in the Estonian market have decreased, making them more independent from their parent banks and providing a good basis for future loan growth. Cash flows from loan repayments and growing deposits are sufficient to support the new lending volumes. At the same time, it is likely that the companies and households are postponing borrowing due to the uncertain economic environment as well due the stricter rules imposed on new lending by banks. As a result, the corporate loan portfolio decreased by 5.9% and household loan portfolio by 2.6% in year 2011 and the growth is expected to be negative as well in year 2012. On the same time corporate and household deposits increased by 6.6%, improving the loan to deposit ratio further. Also the Nordic parent banks of larger market participants have still sufficient access to wholesale funding markets and are capable of providing all funding for the subsidiaries operating in Estonia if needed. This, as well as the growing deposit portfolio has kept the Estonian interbank money market non-existent and interest rates offered to customer deposits at low level. Only smaller banks with non-Nordic background have kept interest rates higher.
Even though the monetary policy of the ECB has had direct effect to the interest rate levels in Estonian market by lowering the base rates and resulting in lower interest rates of deposits and Euribor, the euro-area sovereign debt crisis has started to increase loan interest margins on both corporate and household loans. The average interest rate margin over 6 month Euribor was 2.7% on corporate loans and 1.8% on household loans in December of year 2011.

The loan portfolio quality improved significantly in year 2011, when the share of loans overdue by more than 60 days decreased to 4.8%, thus reaching the level of spring 2009. The loan portfolio quality improved across almost all sectors, mostly due to the write-offs of uncollectible loans, but also due to the rapid economic growth of year 2011.

Table: projection of economic indicators

	2011	2012	2013
Real GDP growth (%)	7.5	1.9	3.6
Inflation (HICP, %)	5.0	2.8	2.9
Current account (% of GDP)	2.7	2.0	0.9
Real export growth (%)	23.5	1.6	6.4
Unemployment (%)	12.1	10.4	9.8
Gross wage growth (%)	1.7	3.7	5.0
Private sector debt (%)	-3.7	-1.4	2.2
Budget balance (% of GDP)	0.7	-2.0	-0.7

Sources: Statistics of Estonia, Bank of Estonia

Major Economic Events

12th year of operations has been a year of fast growth for the Bank primarily in terms of customer numbers. Number of customers of the Bank increased 11% during the year (year earlier 23%), the number of active depositors remained at the same level. The Bank is offering free of charge normal euro payments to its customers in its internet bank, and many other fees and commissions are more favorable as well. Rent of safe-deposit boxes is offered in the Tallinn main branch as a new service from 30 May 2011.

Client deposits with the Bank totaled 32.8 million euros as of 31.12.2011 (46.1 million euros as of 31.12.2010). Volumes of private person deposits have continued to increase, and have permanently passed the deposit volumes of the other client groups, which have decreased compared with the beginning of the year. Bank continues to pay higher interest rates on time deposits, than the market average, which has also caused increase in the average depositing period.

Gross loan portfolio (excluding deposits with financial institutions and accrued interests) comprised 29.9 million euros, decreasing 17.0% from beginning of the year (i.e. more than banking sector average -4.5%) and forming 70.5% of total assets as at the end of financial year (31.12.2010: 64.1%). Gross loan portfolio amounted 36.1 million euros as of 31.12.2010. Bank had continuously much more deposits than loans – deposits ratio to loans stood at 1.10 as of 31.12.2011 (1.28 at year-end 2010). Total assets of the Bank have decreased 24.5% from beginning of the year, reaching 42.5 million euros as of 31.12.2011 (as of 31.12.2010 the balance sheet total was 56.3 million euros).

Decrease in interest income, conservative loan and other loss provisions caused the net loss of the Bank in year 2011, but the trend of provisions is clearly down. Write-offs of hopeless claims totaled 0.3 million euros (2010: 1.4 million euros). Net loss of 2011 comprised 2.2 million euros (net loss of year 2010 was 3.9 million euros).

Net interest income of the reporting period was 1.2 million euros (2010: 1.6 million euros), earned mostly on loans. Net fees and commissions income totaled 0.02 million euros (2010: 0.2 million euros). 0.06 million euros was earned on foreign exchange transactions (2010: 0.3 million euros). The decrease in income from foreign exchange and fees and commissions income was also caused by Estonia joining the Eurozone, which lowered the volumes of foreign exchange transactions and adjusted the fees charged on euro payments (with the earlier cheaper or free of charge payments in kroons). Total operating income from banking activities (excluding loan provisions) comprised 1.1 million euros in year 2011 compared with 2.0 million euros year earlier. Administrative expenses of year 2011 and 2010 were 2.2 million euros and 2.4 million euros correspondingly, with savings achieved mainly from salary expenses.

Bank's equity totaled 4.8 million euros as of 31 December 2011 and the regulatory capital adequacy stood at 23.01% (31.12.2010: 5.5 million euros, capital adequacy 22.49%). Share capital increase by 5.0 million euros is planned to be carried out in the first half of year 2012.

No new branch offices were opened in year 2011. Branch offices in Pärnu and Jõhvi were closed from beginning of March 2011, due to less demand for services rendered in bank branch. Bank branch offices are located in the center of Tallinn and Tartu. Bank's internet bank is available in Estonian, English and Russian languages, telephone bank service is available during working hours.

The Bank filed an application to join the international card organisation Visa Europe Limited in year 2010, with the intention to start issuing international debit cards in the future, followed by credit cards. Visa approved the associated membership status in June 2010. Project is scheduled to be continued in year 2012.

Public Information on Remuneration

Remuneration of the work of the members of the Supervisory Board is decided by the general meeting of shareholders of the Bank. The work of one member of the Supervisory Board was compensated in year 2011 (in year 2010: 2). Total of 25 thousand euros of membership fees was calculated in year 2011 (total of 51 thousand euros in year 2010).

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

Supervisory Board of the Bank formed a Remuneration Committee with its decision of 17 June 2011. Remuneration Committee has four members and consists mainly of Supervisory Board members, rules and regulations of the committee are under preparation. Former remuneration was dependent on the yearly budget of the Bank, approved by the Supervisory Board, salaries of the members of the Management Board were approved by the Supervisory Board of the Bank, salaries of employees by the managing director of the Bank, chairman of the Management Board. There is no performance pay system. Remuneration does not depend on risk management. Bank does not pay remuneration in shares, share options or other similar rights.

Calculated salaries of the members of the Management Board totalled 204 thousand euros in year 2011, of employees 704 thousand euros. Calculated salaries of the members of the Management Board totalled 240 thousand euros in year 2010, of employees 822 thousand euros. Performance fees nor resignation compensations (redundancy payments at amounts higher than mandatory by law) have been paid in 2011 and 2010, no payments have been made in connection with employment commencement either. There are no accrued unpaid performance fees. Average number of employees was 39 in year 2011 (46 year earlier), number of employees at the end of year 2011 was 38 (46 at the end of 2010). Additional details of components of personnel expenses have been disclosed in Note 8 of the financial statements.

Corporate Governance Report

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

Ratios

		2011	**2010**
Return on equity	ROE	-42.37%	-57.32%
Equity multiplier	EM	8.39	7.49
Profit margin	PM	-94.91%	-118.88%
Asset utilisation	AU	5.32%	6.44%
Return on assets	ROA	-5.05%	-7.65%
Net interest margin	NIM	3.82%	4.40%
Basic earnings per share	Basic EPS	-0.17	-0.27
Diluted earnings per share	Diluted EPS	-0.17	-0.27
Spread	SPREAD	4.50%	4.78%
Yield on interest-earning assets	YIEA	7.29%	7.22%
Cost of interest-bearing liabilities	COL	2.79%	2.44%

Explanations to ratios

Total income includes the following income items: interest income, fees and commissions income, dealing profits, income from financial investments, other operating income, extraordinary income, income from value adjustments of fixed and intangible assets (+), income from value adjustments of advances and off-balance sheet commitments (+), income from value adjustments of long term financial investments.

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

Ratings

MARFIN PANK EESTI AS has not been rated by international rating agencies. Parent company of the Bank, Marfin Popular Bank Public Company Ltd. holds the following ratings:

Moody's Investors Service:
Long Term: B3
Short Term: Not Prime
Outlook: Negative

Fitch Ratings:
Long Term: BB+
Short Term: B
Outlook: Negative

Legal Disputes

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

The total of six court actions have been filed against the Bank as of the date of compiling the management report. There are no cases pending in courts or arbitration bodies that might cause significant proprietary damage to the Group.

Consolidated Financial Statements 2011

Consolidated Statement of Comprehensive Income

	Note	EUR ths. 2011	EUR ths. 2010
Interest income	1	2,163	2,671
Interest expense	2	-1,073	-1,064
Net interest income		**1,090**	**1,607**
Fees and commissions income	3	71	337
Fees and commissions expense	4	-47	-153
Net fees and commissions income		**24**	**184**
Net trading gains	5	**59**	**264**
Other operating income	6	**167**	**13**
Other operating expenses	7	**-205**	**-122**
Administrative expenses		**-2,174**	**-2,405**
Personnel expense	8	-955	-1,146
Payroll related taxes	9	-325	-390
Other administrative expenses	10	-894	-869
Depreciation and amortisation of tangible and intangible assets	11	**-109**	**-102**
Provisions (+/-)	12	**-90**	**0**
Operating profit/loss before allowances		**-1,238**	**-561**
Impairment loss on financial assets	13	**-1,007**	**-3,373**
NET LOSS FOR THE PERIOD		**-2,245**	**-3,934**
Net change in revaluation reserve of available-for-sales financial assets		**1**	**10**
COMPREHENSIVE LOSS FOR THE PERIOD		**-2,244**	**-3,925**

The accounting policies on pp. 15-26 and notes to the financial statements on pp. 27-62 form an integral part of the Financial Statements.

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Kuupäev/date 11.04.12
PricewaterhouseCoopers, Tallinn

Consolidated Statement of Financial Position

	Note	EUR ths. 31.12.2011	EUR ths. 31.12.2010
ASSETS			
Cash	14	**117**	**183**
Loans and advances		**37,221**	**50,961**
Balances with central bank	15	8,778	16,943
Due from other banks	16	4,679	6,202
Due from customers	17	23,764	27,815
Financial assets held for trading	18	**5**	**10**
Available-for-sale financial assets	19	**124**	**317**
Property and equipment	20	**184**	**236**
Investment properties	21	**4,557**	**4,617**
Intangible assets	22	**105**	**124**
Other assets	23	**152**	**131**
TOTAL ASSETS		**42,465**	**56,579**
LIABILITIES			
Financial liabilities held for trading	18	**6**	**43**
Financial liabilities measured at amortised cost		**37,022**	**50,404**
Due to credit institutions	24	15	0
Due to customers	24	32,808	46,102
Subordinated debt	25	4,033	4,030
Borrowed funds from government and foreign aid	26	166	272
Tax liabilities	27	**87**	**56**
Other liabilities	28	**521**	**604**
TOTAL LIABILITIES		**37,636**	**51,107**
SHAREHOLDERS' EQUITY	29		
Share capital		7,049	9,384
Statutory legal reserve		36	36
Fair value reserve of available-for-sale financial assets		-11	-12
Accumulated deficit		-2,245	-3,935
TOTAL SHAREHOLDERS' EQUITY		**4,829**	**5,472**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**42,465**	**56,579**

The accounting policies on pp. 15-26 and notes to the financial statements on pp. 27-62 form an integral part of the Financial Statements.

Consolidated Statement of Cash Flows

	Note	EUR ths. 2011	EUR ths. 2010
Cash flows from operating activities		**-4,959**	**12,660**
Interests received		2,021	2,853
Interests paid		-799	-902
Fees and commissions received		56	330
Fees and commissions paid		-47	-153
Administrative expenses		-2,133	-2,398
Trading income received		59	264
Other operating income		92	13
Other operating expenses		-201	-122
Change in due from other banks	16	2,106	-28
Change in due from customers of credit institution	17	6,920	2,618
Change in due to credit institutions	24	1,538	-9,014
Change in due to customers	24	-13,370	18,890
Change in assets and liabilities connected with other operating activities		-1,201	310
Cash flows from investing activities		**-78**	**-3,148**
Purchase of property and equipment	20	-56	-131
Purchase of intangible assets	22	-6	-109
Purchase of investment properties	21	-95	-2,908
Disposals of investment properties	21	79	0
Cash flows from financing activities		**1,312**	**2,876**
Increase of share capital	29	1,600	2,839
Interest paid on subordinated debt	25	-182	-161
Other borrowings received	26	100	287
Borrowings repaid	26	-206	-89
Total cash flows		**-3,725**	**12,388**
Cash and cash equivalents at the beginning of year		**17,299**	**4,911**
Net change in cash and cash equivalents		**-3,725**	**12,388**
Cash and cash equivalents at the end of the year *		**13,574**	**17,299**

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

	Note	EUR ths. 2011	EUR ths. 2010
Cash	14	117	183
Mandatory reserve and deposits with the Bank of Estonia	15	8,778	14,239
Deposits with credit institutions with original maturity of less than 3 months	16	4,679	2,877
Total		**13,574**	**17,299**

The accounting policies on pp. 15-26 and notes to the financial statements on pp. 27-62 form an integral part of the Financial Statements.

Consolidated Statement of Changes in Equity

	EUR ths. 2011	EUR ths. 2010
Share capital		
Balance at the beginning of period	9,384	12,814
Share capital reduction to cover losses	-3,935	-6,270
Share capital increase	1,600	2,839
Balance at the end of period	**7,049**	**9,384**
Statutory legal reserve		
Balance at the beginning of period	36	36
Balance at the end of period	**36**	**36**
Fair value reserve of available-for-sale financial assets		
Balance at the beginning of period	-12	-22
Comprehensive loss for the period	1	10
Balance at the end of period	**-11**	**-12**
Accumulated deficit		
Balance at the beginning of period	-3,935	-6,270
Share capital reduction to cover losses	3,935	6,270
Comprehensive loss for the period	-2,245	-3,934
Balance at the end of period	**-2,245**	**-3,935**
Total shareholders' equity:		
at the beginning of period	**5,472**	**6,558**
at the end of period	**4,829**	**5,472**

Additional information in Note 29.

The accounting policies on pp. 15-26 and notes to the financial statements on pp. 27-62 form an integral part of the Financial Statements.

Accounting Policies

Accounting policies

MARFIN PANK EESTI AS Group (hereinafter also “the Group”) consists of MARFIN PANK EESTI AS and its subsidiary Osito Casa OÜ. MARFIN PANK EESTI AS (hereinafter also “the Bank”) is a credit institution domiciled in Estonia, Osito Casa OÜ is a private limited company domiciled in Estonia.

The Management Board of the Bank has approved the financial statements on 04 April 2012. The Supervisory Board will review the annual report in April 2012, and compile a written report about it, which will be presented to the general meeting of shareholders. The Management Board of the Bank will present the annual report, independent auditor’s report and profit distribution proposal for approval to the ordinary general meeting of shareholders in April 2012.

The financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union. Several changes to texts of valid standards have entered into force since 1 January 2011 and new IFRS standards became mandatory for the company from the financial year which began on 1 January 2011. Adoption of new standards or changes to standards have not caused significant changes in accounting policies or affected the results of operations of the Group.

Change in the Functional and Presentation Currency

The Republic of Estonia joined the Eurozone on 1 January 2011, and adopted euro as its national currency, replacing the Estonian kroon. Consequently starting from 1 January 2011 the functional currency of the Group is Euro. Change in functional currency is recognised prospectively. As of 1 January 2011 the balances and transactions of parent company and its subsidiary located in Estonia have performed recalculation using the conversion rate of 15.6466 kroons/euro.

Consolidated financial statements of 2011 have been presented in euros. Comparative figures are recalculated to Euros using the conversion rate 15.6466 kroons/euro. The exchange rate has been the same during previous periods and therefore no currency translation differences arose.

Basis of Preparation

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

Consolidated financial statements include all subsidiaries controlled by the parent company. When an entity began or ceased to be controlled by the parent company during the year, its results are included only from the date control commenced or up to the date control ceased. Control of the parent company over the subsidiary is presumed to exist where more than one half of a subsidiary’s voting power is controlled by the parent company, or the parent company is able to govern the operational and financial policies of a subsidiary, or control the removal or appointment of a majority of subsidiary’s management board. Intra-group transactions and balances, and any unrealised gains and losses arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements.

The financial statements are prepared on the historical cost basis, except for available for sale and held for trading financial instruments measured at fair value.

Significant Judgements and Estimates by the Management

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

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

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolio to assess potential impairment of asset value. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or state or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

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

Effects of Changes in Economic Environment

Recent volatility in global and Estonian financial markets

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against. Subsection "Description of Economic Environment" of the Management Report gives more detailed overview of current economic conditions and future scenarios in Estonia.

Impact on collateral (especially real estate)

The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. Although the market in Estonia for many types of collateral, also real estate, has been has been showing first signs of stabilisation, the liquidity is still low for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

Impact on customers

Customers (borrowers) of the Group have been affected and may be affected further by the lower liquidity situation and other effects of the macroeconomic downturn which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial assets. To the extent that information is available, management has properly and to the best of its knowledge reflected revised estimates of expected future cash flows in its impairment assessments.

Liquidity

As the Group is financed by the parent in the extent necessary and the parent is ready to raise additional capital if necessary, the liquidity has not been affected by the changes in economic environment.

Assets and Liabilities Denominated in Foreign Currencies

Foreign currency transactions are recorded in the official currency of the Republic of Estonia based on the foreign currency exchange rates of the European Central Bank (until 31 December 2010: Bank of Estonia) valid on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated based on the foreign exchange rates of the European Central Bank (until 31 December 2010: Bank of Estonia) valid on the balance sheet date. Changes in exchange rates are recognised in the profit and loss in "Net trading income". Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit and loss, and other changes in the carrying amount are recognised in other comprehensive income (which accumulate as fair value reserve in equity). Translation differences on non-monetary items classified as fair value through profit and loss (such as equities held at fair value through profit or loss) are reported as part of the fair value gain or loss. Translation differences on equities classified as available-for-sale financial assets, are included in other comprehensive income for the period.

Offsetting

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

Cash and Cash Equivalents

Cash on hand is recognised as cash in the statement of financial position. Cash and cash equivalents in the statement of cash flows include cash, demand deposits, overnight deposits and up to 3-month time deposits with other credit institutions and the surplus of the mandatory reserve balance with the Bank of Estonia. Cash flows are reported in the statement of cash flows using the direct method. Cash and cash equivalents are stated in the statement of financial position at amortised cost.

Financial Instruments

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

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

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

Financial Investments

Held-to-maturity investments

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

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and gains and losses on changes of fair value (other than impairment losses, interest income and foreign exchange gains and losses) are recognised directly in equity. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. Fair value is determined by reference to the indicative bid prices of big banks or, if those are not available, the yields of similar securities with a similar maturity denominated in the same currency. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor/customer with no intention of trading the resulting receivable. Loans and receivables are recognised in the statement of financial position when the cash is paid to the borrower or right to demand payment has arisen and are derecognised only when they are repaid or written-off. Loans and receivables are measured at amortised cost using the effective interest method, deducted by repayments and potential impairment.

Derivative Instruments

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

Valuation and Impairment of Loans and Advances

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

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

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

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

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

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

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

Intangible Assets

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

Property and equipment

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

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

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

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

Investment Properties

Investment properties include assets (land, buildings, incl. capitalised expenses), which are kept with an intention to earn rent income or gain through the increase of market value (capital gain) and which the Group does not use for its own business. Investment properties are initially recognised at cost, consisting of purchase price and other directly attributable expenses. Assets are subsequently measured at fair value, based on the method of comparable transactions, unless there are none or in cases when the method of discounted cash flows is acceptable.

Impairment of Assets

The management of the company assesses if there is any indication that an asset may be impaired at each reporting date. If such indication exists, an impairment test is performed and the recoverable amount of the asset estimated. The recoverable amount of an asset is the higher of its fair value (less costs to sell) and value in use calculated using the discounted cash flow method. If the test results show that the recoverable amount of an asset is lower than its carrying amount, the asset is written down to its recoverable amount. If the recoverable amount cannot be determined for an individual asset, the recoverable amount is determined for the smallest group of assets (the cash-generating unit) the asset belongs to. Impairment losses are recognised as expenses in the period in which they are incurred.

If a subsequent impairment test of an asset which has been written down shows that its recoverable amount has risen above its carrying amount, the former impairment loss is reversed and the asset's carrying amount is increased. The increased carrying amount may not exceed the carrying amount which would have been determined (net of amortisation or depreciation) had no impairment loss been recognised.

Financial Liabilities

Financial liabilities include customer deposits, liabilities to other banks and other liabilities. Financial liabilities to customers are recognised in the statement of financial position on their settlement date (value date) at fair value net of transaction costs and are subsequently measured at amortised cost using effective interest rate method and recorded on line "Due to customers". Interest expenses are recorded in the income statement under "Interest expense".

The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity. The amortisation of the transaction costs is presented in the profit and loss together with the interest expenses. The respective interest expenses are recorded in the profit and loss under "Interest expense ".

Borrowed Funds from Government and Foreign Aid

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

Interest, Fees and Commissions

All interest and similar income is recognised as interest income. Similar income includes income connected with the contractual maturity/redemption date or amount of the asset and it is recognised over the term of the receivable. Interest income is calculated using the original effective interest rate applied in discounting the estimated future cash flows of the asset.

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

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

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

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

Dividends are recognised in the profit and loss when the entity's right to receive payment is established.

Payables to employees

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

Social tax includes payments to the state pension fund. Group has no existing legal nor factual obligations to make pension or similar payments supplementary to social tax.

Accounting for Leases

Lease agreements are classified as finance leases if all significant risks and rewards arising from the agreement are transferred to the lessee. Assets leased on terms of finance lease are recognised at the lower of fair value and present value of minimum lease payments and depreciated according to their useful life of the asset or lease term. All other lease agreements are treated as operating leases and the payments made on the basis of those agreements are expensed in the period for which they are made.

Mandatory Reserve in the Bank of Estonia

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

Higher requirement was in force in year 2010 - the Bank of Estonia had established a mandatory reserve requirement to credit institutions at 7% of the average amount of deposits and issued financial guarantees. Credit institutions were obliged to keep at least 40% of the established mandatory reserve maintained in Estonian kroons on the correspondent account at the Bank of Estonia on a daily basis. Fulfillment of the reserve requirement was monitored based on a month's average. Regulations changed due to the changeover to euros.

Contingent Liabilities

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

Corporate Income Tax

The profit of Estonian legal entities is not taxed according to effective legislation; therefore deferred income tax assets and liabilities do not exist. In place of profit, income tax is levied on dividends paid out of retained earnings. The tax rate is 21/79 of the amount paid out as net dividends. The corporate income tax payable on dividends is recognised as the income tax expense of the same period in which the dividends are declared, irrespective of the period for which the dividends are declared or the period in which the dividends are actually paid out.

Earnings/Losses per Share

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

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

Financial Guarantees

Guarantees issued by the Group to customers and potential loan commitments as well as unused loan amounts are recognised on off-balance sheet accounts. Received guarantee fees are reported in income over the period of the guarantee.

Financial guarantee liabilities are initially recorded at their fair value and the initial fair value is amortised over the life of the financial guarantee. Therefore the financial guarantee liability is carried at the higher of the amortised amount and present value of future payments (if it is likely that payments are to be made under the guarantee). Liabilities arising from financial guarantees are reported under other liabilities.

Adoption of New or Revised Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from 01.01.2011:

Improvements to International Financial Reporting Standards, issued in May 2010 (effective for annual periods beginning on or after 1 January 2011).

The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 01.01.2011 that had a material impact to the Group.

New Accounting Pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 01.01.2012, and which the Group has not early adopted.

IFRS 9, Financial Instruments : Classification and Measurement (effective for annual periods beginning on or after 1 January 2015; not yet adopted by the EU). IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities, and in December 2011 to change its effective date and add transition disclosures. Key features of the standard are as follows:
• Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
• An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
• All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
• Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRS 10, Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.
The Group is currently assessing the impact of the standard on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 13, Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

Presentation of Items of Other Comprehensive Income, amendments to IAS 1, (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU). The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the Financial Statements

Note 1: Interest Income

	EUR ths. 2011	EUR ths. 2010
From loans	1,998	2,635
From demand deposits with other banks	10	16
From time deposits with other banks	149	14
From debt securities	5	4
Other interest income	1	1
Total	**2,163**	**2,671**
Interest income by geographical areas		
Estonia	2,046	2,647
OECD countries (excl. Estonia)	117	24
Total	**2,163**	**2,671**

Note 2: Interest Expense

	EUR ths. 2011	EUR ths. 2010
On demand deposits	13	18
On time deposits	864	873
On derivatives	7	6
On subordinated debt	185	163
Other interest expense	4	4
Total	**1,073**	**1,064**
Interest expense by geographical areas		
Estonia	878	816
OECD countries (excl. Estonia)	195	248
Total	**1,073**	**1,064**

Note 3: Fees and Commissions Income

	EUR ths. 2011	EUR ths. 2010
Account opening and maintenance fees	21	25
Bank transaction fees	37	207
Securities' transaction fees	7	98
Other fees and commissions income	6	7
Total	**71**	**337**
Fees and commissions income by geographical areas		
Estonia	45	191
OECD countries (excl. Estonia)	26	146
Total	**71**	**337**

Note 4: Fees and Commissions Expense

	EUR ths. 2011	EUR ths. 2010
Securities' transactions expenses	6	61
Bank transaction expenses	15	58
S.W.I.F.T. expenses	26	33
Collection charges and other fee expenses	0	1
Total	**47**	**153**

Note 5: Net Trading Gains

	EUR ths. 2011	EUR ths. 2010
From foreign exchange *	60	261
From shares and debt securities in trading portfolio	-1	2
Total	**59**	**264**

* Profits from foreign exchange (FX transactions) decreased significantly in year 2011 following the changeover to euro.

Note 6: Other operating income

	EUR ths. 2011	EUR ths. 2010
Rental income from investment property	108	16
Operating expenses from property generating rental income	-16	-3
Other operating income	75	0
Total	**167**	**13**

Note 7: Other Operating Expenses

	EUR ths. 2011	EUR ths. 2010
Guarantee Fund payments *	68	23
Financial Supervision Authority fees	55	55
Stock Exchange fees	22	20
Other operating expenses	60	23
Total	**205**	**122**

* Guarantee Fund payments have increased as the deposit volumes, forming the base for contribution calculation, have increased significantly in year 2011.

Note 8: Personnel Expense

	EUR ths. 2011	EUR ths. 2010
Salaries	920	1,076
Compensation to the Supervisory Board members	25	51
Fringe benefits	15	18
Income tax on fringe benefits	4	6
Change in vacations pay accrual	-9	-5
Total	**955**	**1,146**

Note 9: Payroll Related Taxes

	EUR ths. 2011	EUR ths. 2010
From salaries	312	365
From compensation to the Supervisory Board members	8	17
From fringe benefits	8	10
Social insurance tax from change in vacations pay accrual	-3	-2
Total	**325**	**390**

Note 10: Other Administrative Expenses

	EUR ths. 2011	EUR ths. 2010
Rent of premises	378	351
Other professional services purchased	180	133
Advertising expenses	83	114
Office expenses	58	75
Transportation expenses	73	71
Other expenses	34	19
Post and telecommunication expenses	54	67
Training and business trip expenses	12	19
IT expenses	22	21
Total	**894**	**869**

Note 11: Depreciation and Amortisation of Tangible and Intangible Assets

	Note	EUR ths. 2011	EUR ths. 2010
Depreciation of tangible assets	20	84	78
Amortisation of intangible assets	22	25	24
Total		**109**	**102**

Note 12: Provisions (+/-)

	EUR ths. 2011	EUR ths. 2010
Provisions related to taxation (Note 28)	**90**	**0**

Note 13: Impairment Loss on Financial Assets

	EUR ths. 2011	EUR ths. 2010
Available-for-sale financial assets (Note 19):		
Impairment loss on available-for-sale financial assets	-194	0
Loans (Note 17):		
Impairment loss on claims	-1,405	-4,029
Recoveries of impaired loans	525	666
Total loans	**-880**	**-3,363**
Fair value gain/loss on investment properties	136	0
Impairment on other assets *	-69	-10
Total	**-1,007**	**-3,373**

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

Note 14: Cash

	EUR ths. 31.12.11	EUR ths. 31.12.10
In Euros	102	112
In other currencies	15	71
Total	**117**	**183**

Note 15: Balances with Central Bank

	EUR ths. 31.12.11	EUR ths. 31.12.10
Mandatory reserve with the Bank of Estonia	597	2,703
Surplus of the mandatory reserve with the Bank of Estonia	8,181	14,239
Accrued interests receivable	0	1
Total	**8,778**	**16,943**

Note 15 continued:

The mandatory reserve requirement of 7% of deposits, borrowings and debt instruments issued, as stipulated by the decree of the president of the Bank of Estonia, was in force on 31.12.2010, filled by the month's average account balance in Estonian kroons kept on correspondent account with the Bank of Estonia.
After Estonia joined the Eurozone on 01.01.2011, the mandatory reserve requirement is followed in accordance with the Regulation of the European Central Bank on the application of minimum reserves (ECB/2003/9). Changes included the basis of the mandatory reserve, rate of mandatory reserve as well as allowed deductions. The mandatory reserve rate is 2% of deposits and borrowings, after allowed deductions, from 01.01.2011, filled by average of period set by the European Central Bank, by depositing the appropriate amount of euros on TARGET2 account with the Bank of Estonia.

Note 16: Due from Other Banks

	EUR ths.	EUR ths.
	31.12.11	**31.12.10**
Correspondent accounts	**4,679**	**6,202**
Receivables by country		
Estonia	4,067	1,645
OECD countries (excl. Estonia)	612	4,557
Total	**4,679**	**6,202**
Due from other banks by bank ratings (Moody's Investors Service)		
A1	4,067	1,643
Aa3	517	833
B2	8	0
Baa2	0	2,347
Baa3	0	2
Not rated *	87	1,376
Total	**4,679**	**6,202**

* Claims to a credit institution registered in Denmark, which has no foreign rating, and to Marfin Egnatia Bank S.A. have been disclosed as not rated.

Note 17: Due from Customers

	EUR ths.	EUR ths.
	31.12.11	**31.12.10**
Due by customer types (gross)		
Due from financial institutions	317	317
Loans:		
Loans to financial institutions	997	1,246
Loans to private companies	24,337	26,816
Loans to non-profit organisations	54	42
Loans to private persons	4,612	5,608
Total loans	**30,000**	**33,711**
Accrued interest receivable	1,138	1,038
Total due from customers (gross)	**31,455**	**35,067**

Note 17 continued:

Specific loan loss allowances	-7,551	-7,072
General loan loss allowances	-85	-65
Unamortised transaction fees	-55	-114
Total due from customers (net)	**23,764**	**27,815**
Loans by collaterals (gross)		
Mortgage	24,993	28,524
Commercial pledge	368	594
Pledge of shares	0	0
Deposit	8	298
Other security over movables	999	1,247
Other	3,210	2,523
Without collateral	1,560	1,564
Total	**31,138**	**34,750**
Due by remaining maturity (gross)		
On demand	317	312
Up to 3 months	383	1,676
3 to 12 months	1,499	2,854
1 to 2 years	3,142	1,786
2 to 5 years	5,711	9,974
over 5 years	4,258	3,140
past due but not impaired	4,907	5,692
impaired loans	10,100	8,595
Accrued interest receivable	1,138	1,038
Total	**31,455**	**35,067**
Loans by categories (gross)		
category 1 – standard loans	12,162	17,154
category 2 – watch loans	816	521
category 3 – doubtful loans	1,498	1,751
category 4 – insecure loans	16,662	15,324
Total	**31,138**	**34,750**
Incl. working loans by categories (gross)		
category 1 – standard loans	11,920	16,528
category 2 – watch loans	796	353
category 3 – doubtful loans	167	342
category 4 – insecure loans	2,153	2,248
Total	**15,036**	**19,471**

Loan classification system to five categories is based on Bank of Estonia Governor's decree no. 9, 27.06.2000. Neither past due nor impaired loans have been classified as working loans as of 31.12.2011 and 31.12.2010.

Due by countries (gross)		
Estonia	31,116	34,438
OECD countries (excl. Estonia)	339	629
Total	**31,455**	**35,067**

Note 17 continued:

Past Due and Impaired Loans

Overdue loans by client type (gross)		
Loans to private companies	12,894	11,692
Interest claims to private companies	1,029	933
Loans to private persons	2,113	2,595
Interest claims to private persons	66	58
Total	**16,102**	**15,278**
No. of non-performing loans	65	67

Incl. impaired loans by customer type (gross)		
Loans to private companies	8,468	6,542
Accrued interest receivable from private companies	692	660
Loans to private persons	1,633	2,053
Accrued interest receivable from private persons	54	51
Total	**10,847**	**9,306**

Fair Value of Collaterals of Past Due and Impaired Loans

	EUR ths. **31.12.11**	EUR ths. **31.12.10**
Collaterals of past due loans	4,113	2,203
Collaterals of impaired loans	8,301	6,453
Total	**12,414**	**8,656**

Specific Loan Loss Allowances by Client Type		
Private companies		
Loan loss allowances at beginning of period	-6,071	-4,950
New loan loss allowances during period	-939	-3,331
Claims written off	344	1,636
Deductions of allowances during period	148	574
Loan loss allowances at end of period	**-6,518**	**-6,071**
Private persons		
Loan loss allowances at beginning of period	-1,001	-460
New loan loss allowances during period	-409	-633
Deductions of allowances during period	377	92
Loan loss allowances at end of period	**-1,033**	**-1,001**
Total specific loan loss allowances	**-7,551**	**-7,072**

All under-collaterised loans and overdrafts, where the payments are overdue by more than 90 days, are reported as non-performing loans. 4 loans have been written off in year 2011 (no loans have been written off in year 2010).

Maximum credit risk arising from on-balance sheet assets is equal to the carrying value of the financial assets, as the conditions have not been re-negotiated. Credit risk arising from unused loan limits disclosed off-balance sheet comprise EUR 640 ths. (31.12.2010: EUR 108 ths.) (see Note 33).

Management has disclosed its opinion on fair value of loans in Note 42.

Note 17 continued:

Overdue financial assets maturity structure

	EUR ths. 31.12.11	EUR ths. 31.12.10
Private companies		
Up to 90 days	1,764	1,965
91 days to 1 year	2,863	2,711
1 to 2 years	1,894	5,517
over 2 years	7,402	2,431
Total	**13,923**	**12,624**
Private persons		
Up to 90 days	492	1,215
91 days to 1 year	546	580
1 to 2 years	628	634
over 2 years	513	224
Total	**2,179**	**2,653**
Total overdue financial assets	**16,102**	**15,278**

incl. maturity structure of unimpaired financial assets

	EUR ths. 31.12.11	EUR ths. 31.12.10
Private companies		
Up to 90 days	1,695	1,894
91 days to 1 year	348	2,481
1 to 2 years	1,610	1,048
over 2 years	1,110	0
Total	**4,763**	**5,423**
Private persons		
Up to 90 days	262	322
91 days to 1 year	0	227
1 to 2 years	231	0
over 2 years	0	0
Total	**493**	**549**
Total unimpaired financial assets	**5,256**	**5,972**

Restructured loans

	EUR ths. 31.12.11	EUR ths. 31.12.10
Loans to private companies	10,101	9,338
Loans to private persons	704	716
Total	**10,805**	**10,054**

Bank has restructured 31 loans, as of 31.12.2011, where the payment difficulties have temporary nature. 25 loans were restructured as of 31.12.2010.

10 loans were restructured during year 2011, including 6 loans to companies and 4 loans to private persons. Claim balances as of 31.12.2011 were accordingly EUR 10,101 ths. and EUR 704 ths.

9 loans were restructured during year 2010, including 4 loans to companies and 5 loans to private persons. Claim balances as of 31.12.2010 were accordingly EUR 2,033 ths. and EUR 599 ths.

Note 17 continued:

Financial effect of collateral of overdue loans

	EUR ths. 31.12.11	EUR ths. 31.12.10
Over-collaterised loans		
Loan balance (net)	7,912	7,616
Fair value of collateral	12,037	12,150
Under-collaterised loans		
Loan balance (net)	835	1,039
Fair value of collateral	373	348

Note 18: Financial Assets/Financial Liabilities Held for Trading

	EUR ths. 31.12.11	EUR ths. 31.12.10
Derivatives *	-4	-33
incl. financial assets	2	10
incl. financial liabilities	-6	-43
Financial assets in fair value through profit and loss	3	1
incl. shares listed on a stock exchange (active market)	3	1
Total	**-1**	**-33**
Shares and other securities by countries		
Estonia	-4	3
OECD countries (excl. Estonia)	3	-36
Total	**-1**	**-33**

*** Derivatives**

	EUR ths. 31.12.11	EUR ths. 31.12.10
Currency related derivatives:		
claims (in contract value)	5,956	13,744
commitments (in contract value)	5,959	13,806
fair value	-3	-32
Interest rate and commodity related derivatives:		
claims (in contract value)	0	539
commitments (in contract value)	0	539
fair value	0	-1

Note 19: Available-for-Sale Financial Assets

	EUR ths. 31.12.11	EUR ths. 31.12.10
Debt securities and other shares by issuer		
Debt securities of credit institutions	55	55
Debt securities of private companies	66	66
Shares and fund units of private companies *	3	196
Total	**124**	**317**

Note 19 continued:

	2011	2010
Movements in debt securities and other shares		
Balance at beginning of year	317	190
Purchases	0	117
Impairment charge (Note 13)	-194	0
Fair value revaluation	0	9
Interest accruals	1	0
Total	**124**	**317**
Debt securities and other shares by ratings		
Without ratings	124	317

* Comprises mainly the fund units of GILD Arbitrage Riskikapitalifond as of 31.12.2010.

Debt securities and other shares by countries		
Estonia	124	317

Impairment charges of available-for-sale financial assets

	EUR ths. **2011**	EUR ths. **2010**
Debt securities of private companies	**194**	**0**

Note 20: Property and Equipment

EUR ths.

	Capitalised construction expenses *	Compu-ters	Furniture	Other tangible assets	Total
Balance as of 01.01.2011					
At cost	**370**	**79**	**87**	**267**	**801**
Accumulated depreciation	-248	-68	-67	-181	**-565**
Net value	**121**	**10**	**19**	**85**	**236**
Changes in 2011					
Purchases during period	0	9	1	46	**56**
Depreciation expense (Note 11)	-34	-7	-7	-36	**-84**
Property and equipment write-offs (at cost)	-55	-4	-20	-32	**-111**
Balance as of 31.12.2011					
At cost	**315**	**84**	**68**	**281**	**748**
Accumulated depreciation	-245	-72	-57	-190	**-564**
Net value	**70**	**12**	**11**	**91**	**184**

Note 20 continued:

EUR ths.

	Capitalised construction expenses *	Compu-ters	Furniture	Other tangible assets	Total
Balance as of 01.01.2010					
At cost	**294**	**76**	**76**	**229**	**674**
Accumulated depreciation	-220	-61	-60	-150	**-492**
Net value	**74**	**14**	**15**	**79**	**182**
Changes in 2010					
Purchases during period	76	7	11	38	**131**
Depreciation expense (Note 11)	-28	-11	-7	-32	**-78**
Property and equipment write-offs (at cost)	0	-4	0	0	**-4**
Balance as of 31.12.2010					
At cost	**370**	**79**	**87**	**267**	**801**
Accumulated depreciation	-248	-68	-67	-181	**-565**
Net value	**121**	**10**	**19**	**85**	**236**

* Reconstruction expenses of rented premises.

Note 21: Investment Properties

	EUR ths. 2011	EUR ths. 2010
Investment properties at beginning of year	4,617	280
Investment properties acquired	-160	4,337
Investment properties sold	-36	0
Fair value revaluation	136	0
Total	**4,557**	**4,617**

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

Investment properties are valued at fair value, derived by the Bank mainly from transactions in market value with similar assets. Discounted cash flows method has been used in fair value valuation for assets covered with existing contracts, realising in the future, in the carrying value of 1,501 thousand euros as of 31.12.2011 (2,046 thousand euros as of 31.12.2010).

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

Note 22: Intangible Assets

Software and licenses	EUR ths. 2011	EUR ths. 2010
Balance as of 01.01.		
At cost	**378**	**270**
Accumulated amortisation	-254	-230
Net value	**124**	**40**
Changes during report year		
Purchases during period	6	109
Amortisation expense (Note 11)	-25	-24
Balance as of 31.12.		
At cost	**384**	**378**
Accumulated amortisation	-279	-254
Net value	**105**	**124**

Note 23: Other Assets

	EUR ths. 31.12.11	EUR ths. 31.12.10
Fees and commissions receivable	3	4
Prepaid supervision fees *	57	55
Other prepaid expenses **	71	66
Other receivables	19	3
Other assets and accrued revenue	2	3
Total	**152**	**131**

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

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

Note 24: Deposits

	EUR ths. 31.12.11	EUR ths. 31.12.10
Deposits from credit institutions	15	0
Other deposits	32,808	46,102
Total	**32,823**	**46,102**
Demand deposits	9,020	19,556
Time deposits	23,456	26,288
Accrued interests	347	258
Total	**32,823**	**46,102**

Note 24 continued:

Demand deposits by customer groups		
Companies	7,494	17,623
Private persons	1,252	1,719
Non-profit organisations	259	212
Financial institutions	0	2
Credit institutions	15	0
Total	**9,020**	**19,556**
Time deposits by customer groups		
Private persons	16,561	12,814
Companies	6,567	11,282
Non-profit organisations	328	2,192
Total	**23,456**	**26,288**
Deposits by maturities		
On demand	9,021	19,556
Up to 3 month	9,254	7,758
3 to 12 months	11,676	15,405
1 to 2 years	2,241	2,075
2 to 5 years	631	1,307
Total	**32,823**	**46,102**

Note 25: Subordinated Debt

	EUR ths. **2011**	EUR ths. **2010**
Debt balance at beginning of period	4,030	4,028
Subordinated debt received	0	0
Interest payable	3	2
Total	**4,033**	**4,030**

Group took a 4.0 million euro subordinated debt from Marfin Egnatia Bank S.A., a bank belonging to the group, in December 2009, bearing an interest rate 6 month Euribor + 3% p.a. This 10-year subordinated loan can be treated as tier 2 own funds.

Note 26: Borrowed Funds from Government and Foreign Aid

	EUR ths. **2011**	EUR ths. **2010**
Debt balance at beginning of period	272	74
Borrowings received	100	287
Borrowings repaid	206	89
Balance at end of period	**166**	**272**
Debts by maturities		
Up to 3 months	62	94
3 to 12 months	33	45
1 to 2 years	40	61
2 to 5 years	31	71
Total	**166**	**272**

Note 26 continued:

Borrowings from Estonian Rural Development Foundation are reported under borrowed funds from government and foreign aid. Borrowings bear a fixed interest rate 1.5 - 3% p.a.

Note 27: Tax Liabilities

	EUR ths.	EUR ths.
	31.12.11	**31.12.10**
Taxes payable	**87**	**56**

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

Note 28: Other Liabilities

	EUR ths.	EUR ths.
	31.12.11	**31.12.10**
Payments in transmission *	55	174
Payables to employees	45	57
Payables to suppliers	43	21
Prepaid expenses	6	2
Other liabilities	0	45
Provision to cover potential liabilities **	372	304
Total	**521**	**604**

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

**Group has formed a short-term provision both as of 31.12.2010 and 31.12.2011 to cover potential liabilities in connection with the sale contracts of assets disclosed as property investments.

Note 29: Shareholders' Equity

Shares

Paid-in share capital 7,048,774.20 euros is divided into 11,747,957 common shares with nominal value of 0.60 euros. According to the articles of association, the minimum share capital of the Bank is 6,391,164 euros and maximum share capital is 25,564,660 euros. Each registered share gives one vote to the shareholder, which gives shareholder' a right to participate in the management of the Bank, in profit distribution and in case of liquidation in distribution of remaining assets, also other rights stipulated in law and articles of association.

There were no changes in owners in the year 2011, but the proportions of existing shareholders changed through increase of share capital, participated by two shareholders, and decrease of share capital via share cancellation to cover retained losses. Bank's share capital was converted to euros (as a result the share capital and retained losses of prior periods decreased by EUR 574 ths.), decreased by EUR 3,361 ths. to cover retained losses and increased by EUR 1,600 ths. following the decision of the extraordinary general meeting of shareholders dd. 11.04.2011. The change was registered in the commercial register on 18.05.2011.

Note 29 continued:

There is no potential income tax liability from the possible dividend payments on the reporting date, as the Group does not have retained earnings as of 31.12.2011 and 31.12.2010.

Fair Value Reserve for Available-for-Sale Financial Assets

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

Statutory Legal Reserve

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

Note 30: Related-Party Transactions

The following parties are considered to be related in the Annual Report of MARFIN PANK EESTI AS:

a. owners (Marfin Popular Bank Public Company Ltd. was the parent of the Bank);
b. other companies belonging to the same consolidation group;
c. executive management and Supervisory Board;
d. close relatives of the persons mentioned previously and the companies related to them.

Bank's management assesses that the related-party transactions have been concluded on market conditions.

Management Board members of the Group, head of internal audit and their related parties, also companies controlled jointly of privately by these persons:	EUR ths. **31.12.2011**	EUR ths. **31.12.2010**
Loans:		
Balance of loans at beginning of period	13	46
Disbursed loans	20	0
Repaid loans	-14	-34
Balance of loans at end of period	19	13
Deposits	37	61
Interest income	0	1
Interests paid	0	1
Fees and commission income	0	1
Salaries of the members of the Management Board	204	323

Note 30 continued:

Shareholders of the credit institution and their related parties, also companies controlled jointly of privately by these persons:	EUR ths. **31.12.2011**	EUR ths. **31.12.2010**
Loans:		
Balance of loans at beginning of period	687	707
Disbursed loans	0	0
Repaid loans	-507	-20
Balance of loans at end of period	180	687
Interest receivable	1	1
Deposits	195	227
Interest income	103	35
Interests paid	186	2
Fees and commission income	1	1
Fees and commission expense	0	0
Administrative and other operating expenses	285	279
Compensation to the members of the Supervisory Board	25	67

Parent company of the Bank: Marfin Popular Bank Public Company Ltd.	EUR ths. **31.12.2011**	EUR ths. **31.12.2010**
Due from other banks	24	2,347
Interest payable	0	1
Interest income	34	0
Interest expense	7	6
Fees and commission income	1	1
Administrative and other operating expenses	3	2
Off-balance sheet claims	0	539

Consolidation group companies of the parent company:

Marfin Egnatia Bank S.A., Marfin Investment Group Holdings Societe Anonyme	EUR ths. **31.12.2011**	EUR ths. **31.12.2010**
Due from other credit institutions as of 31.12	1	1
Subordinated debt	4,000	4,000
Interest payable	33	30
Interest income	70	6
Interest expense	185	233

Loans to related parties have no loan loss allowances.

Note 31: Geographical Concentration of Clients' Debts

EUR ths., as of 31.12.2011

	Balance sheet claims				
Area	**loans ***	**incl. overdue and doubtful claims**	**securi-ties ****	**Derivatives (notional amounts)**	**by area (%)**
Note	15, 16, 17	17	18, 19	18	
Estonia	36,118	10,626	124	1,127	86.29%
United States of America	338	0	3	0	0.79%
United Kingdom	312	0	2	4,829	11.88%
Denmark	86	0	0	0	0.20%
Germany	179	0	0	0	0.41%
Cyprus	9	0	0	0	0.02%
Finland	0	0	0	0	0.00%
Greece	179	0	0	0	0.41%
Total	**37,221**	**10,626**	**129**	**5,956**	**100.00%**

EUR ths., as of 31.12.2010

	Balance sheet claims				
Area	**loans ***	**incl. overdue and doubtful claims**	**securi-ties ****	**Derivatives (notional amounts)**	**by area (%)**
Estonia	45,736	10,948	317	1,018	74.46%
United States of America	373	0	1	0	0.59%
United Kingdom	312	0	10	12,755	20.69%
Denmark	1,376	0	0	0	2.18%
Germany	459	0	0	0	0.73%
Cyprus	2,347	0	0	0	0.00%
Finland	0	0	0	0	0.00%
Greece	318	0	0	539	1.35%
Total	**50,923**	**10,948**	**327**	**14,312**	**100.00%**

* Includes claims on credit institutions and financial institutions.

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

Note 32: Concentration of Clients' Debts by Economic Sector

EUR ths., as of 31.12.2011	Balance sheet claims				
Economic sector	**loans ***	**incl. overdue and doubtful claims**	**securi-ties ****	**contin-gent assets**	**by area (%)**
Note	15, 16, 17	17	18, 19	18	
Agriculture, forestry and fishing	1,067	703	0	0	3.28%
Mining and quarrying	136	0	0	0	0.25%
Manufacturing	518	3	0	0	0.97%
Electricity, gas, steam and air conditioning supply	182	0	0	0	0.34%
Construction	404	1,286	0	0	3.13%
Wholesale and retail trade	1,404	502	0	0	3.53%
Transportation and storage	196	21	0	1,127	2.49%
Accommodation and food service activities	191	2	0	0	0.36%
Information and communication	0	0	0	0	0.00%
Financial and insurance activities	14,929	323	60	4,829	37.35%
Real estate activities	12,907	5,951	66	0	35.09%
Professional, scientific and technical activities	14	0	0	0	0.03%
Administrative and support service activities	8	0	0	0	0.01%
Human health and social work activities	55	0	0	0	0.10%
Arts, entertainment and recreation	263	4	0	0	0.50%
Other service activities	1,323	368	3	0	3.14%
Private persons	3,624	1,463	0	0	9.43%
Total	**37,221**	**10,626**	**129**	**5,956**	**100.00%**

EUR ths., as of 31.12.2010	Balance sheet claims				
Economic sector	**loans ***	**incl. overdue and doubtful claims**	**securi-ties ****	**contin-gent assets**	**by area (%)**
Agriculture, forestry and fishing	1,216	829	0	0	2.67%
Manufacturing	403	0	0	0	0.53%
Electricity, gas, steam and air conditioning supply	233	0	0	0	0.30%
Construction	800	1,224	0	0	2.65%
Wholesale and retail trade	1,680	422	0	0	2.75%
Transportation and storage	550	27	0	1,018	2.09%
Accommodation and food service activities	391	1	0	0	0.51%
Information and communication	68	0	0	0	0.09%
Financial and insurance activities	24,854	549	257	13,294	50.91%
Real estate activities	14,155	6,383	66	0	26.93%
Professional, scientific and technical activities	17	0	0	0	0.02%
Administrative and support service activities	57	0	0	0	0.07%
Human health and social work activities	232	0	0	0	0.30%
Arts, entertainment and recreation	264	0	0	0	0.35%
Other service activities	1,427	117	3	0	2.02%
Private persons	4,577	1,396	0	0	7.81%
Total	**50,923**	**10,948**	**327**	**14,312**	**100.00%**

Note 32 continued:

* Includes claims on credit institutions and financial institutions.
** Comprises financial assets held for trading and available-for-sale financial assets.

Note 33: Contingent Assets and Liabilities

		31.12.2011
	EUR ths.	EUR ths.
	Claims	**Liabilities**
Irrevocable transactions	**5,956**	**6,599**
Unused loan limits (Note 17)	0	640
Currency forward transactions (Note 18, 34)	5,956	5,959

		31.12.2010
	EUR ths.	EUR ths.
	Claims	**Liabilities**
Irrevocable transactions	**14,312**	**14,778**
Guarantees and similar irrevocable transactions	0	10
Unused loan limits (Note 17)	0	108
Hybrid swaps *	539	539
Currency forward transactions (Note 18, 34)	13,774	13,806
Front-loaded euro cash **	0	316

* Notional amount of swap transaction covering investment deposit AquaTerra, is disclosed as off-balance sheet commitment. Interest expense is accrued on it using 6 months Euribor rate.

** Commitments to the Bank of Estonia, arising from the front-loading agreement for euros, have been disclosed off-balance sheet as of 31.12.2010.

Note 34: Liquidity (Assets and Liabilities by Remaining Maturities)

EUR ths., as of 31.12.2011

Claims, liabilities	On demand	Over-due	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
Claims of the Bank	**2,017**	**3,681**	**13,268**	**176**	**2,573**	**5,177**	**6,213**	**4,527**	**37,632**
Cash and claims to banks	1,672	0	11,902	0	0	0	0	0	**13,574**
Claims to customers	317	3,615	1,359	162	2,463	5,177	6,158	4,513	**23,764**
Securities	6	66	2	0	0	0	55	0	**129**
Other claims	22	0	5	14	110	0	0	14	**165**
Liabilities of the Bank	**7,454**	**0**	**6,544**	**4,646**	**12,171**	**2,654**	**1,681**	**4,596**	**39,746**
Amounts owed to banks	15	0	0	0	0	0	0	0	**15**
Amounts owed to clients	7,384	0	6,350	4,597	11,944	2,420	696	12	**33,403**
Subordinated debt	0	0	0	0	194	194	582	4,584	**5,554**
Other borrowings	0	0	13	49	33	40	31	0	**166**
Other liabilities	55	0	181	0	0	0	372	0	**608**
Net	**-5,437**	**3,681**	**6,724**	**-4,470**	**-9,598**	**2,523**	**4,532**	**69**	**-2,114**
Contingent:									
assets (Note 18,33)	**0**	**0**	**5,956**	**0**	**0**	**0**	**0**	**0**	**5,956**
liabilities (Note 18, 33)	**0**	**0**	**5,959**	**0**	**80**	**44**	**30**	**486**	**6,599**

EUR ths., as of 31.12.2010

Claims, liabilities	On demand	Over-due	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
Claims of the Bank	**20,519**	**4,190**	**5,007**	**1,607**	**2,788**	**2,949**	**10,619**	**3,913**	**51,593**
Cash and claims to banks	20,003	0	3,326	0	0	0	0	0	**23,329**
Claims to customers	312	4,124	1,671	1,607	2,788	2,949	10,565	3,913	**27,929**
Securities	196	66	10	0	0	0	55	0	**327**
Other claims	7	0	0	0	0	0	0	0	**7**
Liabilities of the Bank	**19,787**	**0**	**5,183**	**3,020**	**15,858**	**2,399**	**1,995**	**4,801**	**53,045**
Amounts owed to clients	19,556	0	5,024	2,919	15,681	2,163	1,353	0	**46,696**
Subordinated debt	0	0	15	28	130	174	570	4,801	**5,718**
Other borrowings	0	0	22	73	47	63	72	0	**277**
Other liabilities	231	0	122	0	0	0	0	0	**353**
Net	**732**	**4,190**	**-177**	**-1,412**	**-13,070**	**550**	**8,624**	**-888**	**-1,452**
Contingent:									
assets (Note 18, 33)	**0**	**0**	**13,774**	**0**	**539**	**0**	**0**	**0**	**14,312**
liabilities (Note 18, 33)	**424**	**0**	**13,806**	**7**	**542**	**0**	**0**	**0**	**14,778**

Group has disclosed the financial assets in the tables above in discounted values and liabilities in undiscounted values. Management is monitoring the liquidity buffer to mitigate liquidity risk on a weekly basis, and takes appropriate actions if the liquidity buffer decreases, to replenish this buffer and ensure flawless performance of the Group. Group can also cover the negative cash-flows of the first year with the disposals of the real estate investments if needed, which have been purchased to the balance sheet of the Group from the earlier collateral assets of issued loans.

Note 35: Loss Per Share

	EUR ths. 31.12.11	EUR ths. 31.12.10
Net loss for the reporting period	-2,245	-3,934
Weighted average no. of shares (ths. pcs.)	12,857	14,682
Basic loss per share	**-0.17**	**-0.27**
Diluted loss per share	**-0.17**	**-0.27**

MARFIN PANK EESTI AS has not issued convertible securities.

Note 36: Operating Lease Liabilities

Rental payments for vehicles

MARFIN PANK EESTI AS has concluded operating lease agreements for four vehicles as of 31.12.2011. Longest contract ends on 15.12.2015, i.e. no agreement exceeds 5 years. Operating lease agreements for five vehicles were concluded as of 31.12.2010 and the maturity date of the longest contract was 15.12.2015.

All contractual rent payments are uninterruptable.

Rental payments for vehicles by due dates

	EUR ths. 2011	EUR ths. 2010
Rental payment paid and expensed during reporting year	32	26
Rental payments payable:		
up to 1 year	30	32
1 to 5 years	71	100

Rental payments for bank premises

MARFIN PANK EESTI AS has concluded agreements for renting bank premises in Tallinn and Tartu. Longest rent agreement ends on 31.05.2021.

Rental payments for bank premises by due dates

	EUR ths. 2011	EUR ths. 2010
Rental payment paid and expensed during reporting year	343	317
Rental payments payable during next reporting period:		
from uninterruptable contract:		
up to 1 year	334	113
1 to 5 years	1,591	15
over 5 years	1,087	0

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

Note 37: Risk and Capital Management

Risk Management

MARKET RISK

Interest rate risk
The Group's general strategy is to minimise exposure to the interest rate risk primarily by keeping similar interest rate sensitivity of its assets and liabilities. Interest rate risk sensitivity is analysed by measuring the sensitivity of claims and liabilities with interest rate repricing taking place within a year to +200 basis points parallel shift of all interest curves, and its affect on profits. Assets' and liabilities' interest sensitivity gaps periodised by interest repricing and grouped by period form a basis for analysis. Affect is annualised by weighting interest sensitivity gaps by average length of respective period until year-end. Additionally, the effect of cumulative current year interest sensitivity gap is assessed on next year's profit. See interest positions and sensitivity analysis in Note 39.

Foreign currency risk
The Group maintains minimum positions in foreign currencies necessary to provide services to the customers and wishing to keep a low risk profile. The Group does not take speculative foreign currency positions. The Bank's Management Board has set the limits for maximum open currency positions. All foreign currency positions are continuously monitored and marked to market. Open foreign currency positions are mainly hedged with swaps and forwards.

Open Currency Positions
The short and long net positions of each currency are converted to euros using the rate of last banking day issued by the European Central Bank. Total open net currency position against EUR is limited intraday by 200 thousand euros and overnight FX position by 150 thousand euros. See FX positions and sensitivity analysis in Note 38.

Other price risk
Other price risk of market risks rises from placing Group's assets to instruments sensitive to market risk on the purpose of trading or investment. Market risk emerges from general market conditions unfavourable to the Group, or from decline in the financial position of issuers whose securities are in the trading portfolio. Personnel of the money and capital markets' division make decisions on positions within the limits established by the Management Board.

LIQUIDITY RISK
The main objective of the Group's liquidity management is to match the maturities of assets and liabilities as much as possible, and not to depend too much on short-term financing. The daily management of the Group's liquidity is the responsibility of the money and capital market division. The Group keeps its liquid assets in the correspondent account at the Bank of Estonia, in other Estonian banks, in foreign banks and in marketable securities. Limits for deposits in other banks and securities are set by the Management Board and are subject to regular reviews. The division is responsible for monitoring the Group's daily liquidity and for informing the Management Board. Group has sufficient liquidity buffer through money market limits allocated by banks within the group and Estonian credit institutions, the total of which exceeds 20 million euros. See liquidity positions in Note 34.

Note 37 continued:

CREDIT RISK
The Group's credit risk profile is rather characterised by low risk but stable interest income than high risk and higher interest income. Most decisions related to loans, guarantees and sureties are made by the credit committee. According to the Estonian Credit Institutions Act, the Supervisory Board establishes the competence and limits of credit committee in making decisions. In circumstances where the customer liabilities to the Group exceed the authority of the credit committee due to its potential impact on Group's economic standing, the decision made must also be approved by a member of the Supervisory Board of the Group Credit Committee according to the rules set by the Supervisory Board. All liabilities that customers have to the Group are considered as customer receivables. Loans must be covered by sufficient collaterals. The daily administration and monitoring of the Group's credit risk takes place in the loan and customer relationship division, following very detailed procedures. Procedures cover also analysis of loan projects taking into consideration creditworthiness of customer, previous credit history, financial condition, market conditions and other important factors affecting the credit risk. All lending reports are available online to the loan and customer relationship division. The loan and customer relationship division reports on regular basis to the Management Board about the general credit risk and the financial position of the major loan customers. The credit committee reviews loans in arrears weekly, normal loans are reviewed at least yearly. The adequacy and amount of loan loss allowances are reviewed monthly. Please see Note 17.
Risk Concentration
Risk concentration is considered high if the liabilities and potential liabilities of one client or related parties to the credit institution exceed 10% of the net own funds of the credit institution (the maximum limit allowed by the central bank is 25% of net own funds). The total amount of debts with high risk concentration must not exceed 800% of the net own funds of the credit institution. Please see Note 41.

OPERATIONAL RISKS
Following the advisory guideline "Requirements Regarding the Arrangement of Operational Risk Management" issued by the Financial Supervision Authority, and Group's internal procedures, the Group yearly performs operational risk assessments by divisions and in the Management Board of the Bank. The Management Board also makes analysis of risk indicators, loss events, and complaints of clients, statistics of court claims and changes in the operational environment. Recommendations of internal auditors, and observations of the business continuity workgroup working in the Bank of Estonia are taken into account. 68 operational risks were identified in October 2011 with the dependency on key employees being significant in three divisions. Following new risks were identified: evidences of method risk (court claims against the Group) and other insured events (due to few loss events taking place). Other operational risks mostly decreased in year 2011, through smaller operational volumes and closure of two branches. Rent of generator based solution is planned for year 2012, ensuring the supply of electricity to key premises of head office also in cases of longer breakages in the supply of electricity.

The main instrument for minimising operating and personnel risk is to follow the segregation of duties in performing banking operations. Operations are divided into front and back-office operations so that one employee cannot solely execute a whole operation. The Management Board is responsible for the personnel risk management.
It is important in order to reduce information technology risks that BankSyst, the banking information system used, can be independently developed further and modified by the bank's IT development. Used banking software is also scaleable, allowing to increase server capacity, when the volume of information being processed, grows in time. The banking system is defended from outside intruders by firewalls. All programs belonging to

Note 37 continued:

the banking system are protected by passwords, which are changed according to internal policies set. The banking system is equipped with a system for back-ups.
The Management Board has enforced a principle that only collateral in Estonia or countries with high ratings are accepted in order to avoid country risk.

Internal control system construed in the past to consist of control measures, based on general principles of controls of the Group, set by the Supervisory Board. The Management Board has elaborated the control rules, following the above mentioned general principles. The control measures implemented in the Bank's business processes are regulated by the rules and procedures approved by the Management Board. The Management Board's competence involves in addition to the creation of the control mechanisms, also the implementation and the control over the fulfillment of those mechanisms.

The internal audit is responsible for evaluating the current internal control system, the sufficiency and efficiency of the control mechanisms set by the Management and Supervisory Boards of the Bank and makes recommendations for improvements of the system and tests its operability. The internal audit reports to the Management Board and Supervisory Board of the Bank.

The financial data is maintained online in an information system, which is integrated with the central database. The information of the Group's activities is stored both electronically and on paper in appropriate registers.

The employees' access to the information, which is required for fulfilling their tasks, is regulated by the IT access rules. The Management Board is responsible for informing the Group's employees about the external laws and rules regulating their area of responsibility as well as the internal policies set by the Group's managing bodies.

Capital Management

The Group implemented ICAAP (internal capital adequacy assessment process, which is introduced to the banks and investment firms under article 123 of the 2006/48/EC directive) procedures in year 2008. Financial Supervision Authority has issued guideline "Requirements to the internal capital adequacy assessment process" to Estonian financial institutions, in force since 01.01.2008, which is leading the process and has more details than such guidelines in the neighbouring countries. Group implemented the so-called "Pillar 1 +" method of ICAAP, under which an additional buffer is added to the Pillar 1 regulative capital requirements for uncovered of insufficiently covered risks. ICAAP includes approval of capital plan stating current capital need, expected capital need, required level of capitalisation and sources of additional capital. See capital risk measures in Note 40.

Note 38: Foreign Currency Risk

31.12.2011
EUR ths.

	Balance sheet position assets	Balance sheet position liabilities	Off-balance sheet position assets	Off-balance sheet position liabilities	Net position
EUR and EEK joint position	38,917	32,571	2,738	3,863	5,221
USD position	4,125	4,606	3,217	2,736	0
RUB position	26	26	0	0	0
SEK position	267	268	0	0	0

31.12.2010
EUR ths.

	Balance sheet position assets	Balance sheet position liabilities	Off-balance sheet position assets	Off-balance sheet position liabilities	Net position
EUR and EEK joint position	50,822	40,087	4,797	10,531	5,002
USD position	1,884	7,152	9,515	4,248	-1
RUB position	1,793	1,792	0	0	1
SEK position	0	0	0	0	0

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

Net position in a currency is calculated by adding all balance sheet and off-balance sheet assets and liabilities, subject to changes in currency rates.

Net position in a foreign currency is considered to be short, when liabilities fixed in a foreign currency exceed the assets fixed in the same foreign currency; and long, when assets fixed in a foreign currency exceed the liabilities fixed in the same foreign currency.

Sensitivity analysis of foreign currency risk

The Group is minimising its exposure to foreign currency risks on a daily basis, following the general principles of risk management and approved limits. Total open net foreign currency position of the Bank comprised 6.9 thousand euros as of 31.12.2011 (27.3 thousand euros as of 31.12.2010). Even a simultanous 5% change in unfavourable direction for all used currencies could cause only a 0.2 thousand euro (31.12.2010: 0.8 thousand euro) additional loss, leading to a conclusion, that the exposure to foreign currency risk is insignificant. Used methods and assumptions have not changed compared with previous period.

Note 39: Interest-Bearing Assets and Liabilities by Interest Repricing Period

EUR ths., as of 31.12.2011

Claims, liabilities	Note	up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	accrued claims - commitments	**Total**
Claims of the Bank		**19,463**	**6,109**	**6,392**	**1,074**	**163**	**50**	**4,271**	**37,522**
Claims to banks	15, 16	13,457	0	0	0	0	0	117	**13,574**
Claims to customers	17	5,951	6,109	6,392	1,074	163	50	4,080	**23,819**
Securities	19	55	0	0	0	0	0	74	**129**
Bank's liabilities		**13,652**	**4,529**	**16,195**	**2,280**	**615**	**11**	**380**	**37,662**
Due to banks	34	15	0	0	0	0	0	0	**15**
Deposits	24, 34	13,624	4,480	11,523	2,208	615	11	347	**32,808**
Subordinated debt	25, 34	0	0	4,000	0	0	0	33	**4,033**
Other borrowings	26, 34	13	49	32	72	0	0	0	**166**
Unused loan limits	33	0	0	640	0	0	0	0	**640**
Net		**5,811**	**1,580**	**-9,803**	**-1,206**	**-452**	**39**	**3,891**	**-140**

EUR ths., as of 31.12.2010

Claims, liabilities	Note	up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	accrued claims - commitments	**Total**
Claims of the Bank		**32,132**	**7,185**	**7,555**	**277**	**182**	**38**	**3,907**	**51,277**
Claims to banks	15, 16	23,144	0	0	0	0	0	1	**23,145**
Claims to customers	17	8,924	7,185	7,555	277	182	38	3,653	**27,815**
Securities	19	64	0	0	0	0	0	253	**317**
Bank's liabilities		**24,618**	**2,843**	**19,290**	**2,101**	**1,371**	**0**	**288**	**50,512**
Deposits	24, 34	24,488	2,771	15,245	2,040	1,299	0	258	**46,102**
Subordinated debt	25, 34	0	0	4,000	0	0	0	30	**4,030**
Other borrowings	26, 34	22	72	45	61	71	0	0	**272**
Unused loan limits	33	108	0	0	0	0	0	0	**108**
Net		**7,514**	**4,342**	**-11,735**	**-1,824**	**-1,188**	**38**	**3,619**	**766**

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

<u>Sensitivity analysis of interest rate risk</u>

Interest risk assessment was performed as of 31.12.2011, where the effect of a 200 bps deposit interest curve shift to profit was measured, while the Euribor-based and fixed loan interest rates were kept constant and the interest rate difference remained the same during the period of 1 year. Time deposits with the term up to one year, which would roll-over with 200 bps higher interest rate, were used as the basis for stress test. Deposits with such conditions totalled 20,622 thousand euros as of 31.12.2011 (20,315 thousand euros as of 31.12.2010), the absolute maturity-weighted effect of 200 bps interest curve rise on interest expense being 256 thousand euros in one year (194 thousand euros as of 31.12.2010). Considering that the Group monthly adjusts loan interest rates for loan contracts connected with Group's base interest rate in accordance with its actual interest expenses, the effect of deposit interest rise on net interest income is not expressed in the amount of loans tied with base interest rate. The loans tied with base interest rate totalled 4,850 thousand euros as of 31.12.2011 (7,473 thousand euros as of 31.12.2010), by which the deposit volumes open to interest risk were adjusted during stress test, and the appropriate effect of 200 bps interest curve rise was 195 thousand euros (123 thousand euros as of 31.12.2010). Used methods and assumptions have not changed compared with previous period.

Note 40: Capital Adequacy

	EUR ths.	EUR ths.
	31.12.2011	**31.12.2010**
Share capital paid-in	7,049	9,384
Other reserves	36	36
Accumulated deficit of the previous years	-3	0
Intangible assets	-105	-124
Net loss of the period	-2,245	-3,934
Total tier 1 own funds	**4,734**	**5,360**
Subordinated debt	4,000	4,000
Tier 2 own funds, which exceed the limits	-1,535	-1,320
Second level equity	**2,367**	**2,680**
Minimum own funds	7,102	8,041
Tier 1 own funds after deductions	4,734	5,360
Tier 2 own funds after deductions	2,367	2,680
Own funds for capital adequacy calculations	**7,102**	**8,041**
Credit institutions and investment companies under standard method	106	140
Companies under standard method	241	664
Mass claims under standard method	962	921
Claims backed by mortgages under standard method	109	155
Overdue claims under standard method	881	837
Other assets under standard method	491	499
Total capital requirement for credit risk and counterparty credit risk	**2,790**	**3,216**
Operational risk base method	296	414
Total capital requirement for operational risk	**296**	**414**
Capital requirements for adequacy calculations	**3,086**	**3,631**
Capital adequacy	**23.01%**	**22.15%**

Minimum capital adequacy ratio, as required by the Bank of Estonia, is 10%.

Bank uses standard method for calculating capital requirements for credit risk and base method for calculating capital requirement for operational risk as per capital adequacy calculation directive Basel II. Estonian Financial Supervisory Authority has made an exemption freeing the Bank from capital requirement to cover trading portfolio risks as per Credit Institutions Act § 79 clause 2 sub-clauses 2 and 3 from 01.01.2008.

Note 40 continued: **Credit risk and counterparty credit risk report following the standard method**

EUR ths., 31.12.2011

	Balance sheet						Collaterals	Off-balance sheet						
	Initial value (gross)			Allowances and corrections (-)										
	Claims	Loans	Debt securities and shares	Unamortised fees	Loan provisions	Debt security provisions	Financial collaterals simple method	Loan limits	Cash	Financial guarantees	Derivatives *	Hybrid swaps *	Risk weight	Risk-adjusted amount
Note:	15, 16, 17	17	18, 19	17	17	19		33	33	33	33	33		
Central government and central banks	8,778	0	0	0	0	0	0	0	0	0	0	0		0
I rate credit quality	8,778												0%	0
Credit institutions and investment firms	4,991	0	65	0	0	-11	0	0	0	0	51	0		1,062
I rate credit quality	4,991										51		20%	1,008
II rate credit quality			65			-11							100%	54
Companies	5	2,389	3	-55	0	0	0	0	0	0	11	0		2,408
III and IV rate credit quality	5	2,389	3	-55	0						11		100%	2,408
Retail claims	0	13,210	0	0	-445	0	-49	0	0	0	0	0		9,643
Claims up to EUR 1 mln		13,210		0	-445		-49						75%	9,643
Claims with real estate collaterals	0	1,693	0	0	0	0	0	0	0	0	0	0		1,088
Claims fully covered wiht real estate:														0
Claims, fully covered by mortgage to residential real estate, covered claims up to 70% of the real estate collateral value		930											35%	326
Claims, fully covered by mortgage to residential real estate, covered claims over 70% of the real estate collateral value		763											100%	763
Claims in arrears	0	13,846	66	0	-7,191	0	0	0	0	0	0	0		8,807
III and IV rate credit quality		9,638			-7,090								100%	2,548
V and VI rate credit quality		4,207	66		-101								150%	6,259
Other assets	5,008	0	20	0	0	-3	0	640	0	0	0	0		5,037
Cash	117												0%	0
Property and equipment	4,741												100%	4,741
Prepayments and prepaid expenses	150												100%	150
Investments to shares of other companies, not deducted from own funds			20			-3							100%	18
Loan limits and overdraft limits with contractual maturity up to 1 year (can not be terminated by one party)								640					20%	128
Total	18,782	31,138	155	-55	-7,636	-13	-49	640	0	0	62	0		
													TOTAL RISK-WEIGHTED ASSETS	**28,046**

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

Note 40 continued: **Credit risk and counterparty credit risk report following the standard method**

EUR ths., 31.12.2010

	Balance sheet						Collaterals	Off-balance sheet						
	Initial value (gross)			Allowances and corrections (-)										
	Claims	Loans	Debt securities and shares	Unamorti-sed fees	Loan provisions	Debt security provisions	Financial collaterals simple method	Loan limits	Cash	Financial guarantees	Derivatives *	Hybrid swaps *	Risk weight	Risk-adjusted amount
Note:	15, 16, 17	17	18, 19	17	17	19		33	33	33	33	33		
Central government and central banks	16,943	0	0	0	0	0	0	0	0	0	0	0		0
I rate credit quality	16,943												0%	0
Credit institutions and investment firms	6,514	0	65	0	0	-10	0	0	0	0	137	65		1,398
I rate credit quality	6,514										137	65	20%	1,343
II rate credit quality			65										100%	55
Companies	5	7,034	193	-97	-515	0	0	0	0	10	10	0		6,639
III and IV rate credit quality	5	7,034	193	-97	-515	0				10	10		100%	6,639
Retail claims	0	13,318	0	-17	-621	0	-430	0	0	0	0	0		9,188
Claims up to EUR 1 mio		13,318		-17	-621		-430						75%	9,188
Claims with real estate collaterals	0	2,300	0	0	0	0	0	0	0	0	0	0		1,554
Claims fully covered wiht real estate:														0
Claims, fully covered by mortgage to residential real estate, covered claims up to 70% of the real estate collateral value		1,149											35%	402
Claims, fully covered by mortgage to residential real estate, covered claims over 70% of the real estate collateral value		1,152											100%	1,152
Claims in arrears	0	12,098	66	0	-6,001	0	0	0	0	0	0	0		8,374
III and IV rate credit quality		7,679			-5,939								100%	1,740
V and VI rate credit quality		4,418			-62								150%	6,634
Other assets	5,165	0	9	0	0	-3	0	108	316	0	0	0		5,009
Cash	183								316				0%	0
Property and equipment	4,853												100%	4,853
Prepayments and prepaid expenses	128												100%	128
Investments to shares of other companies, not deducted from own funds			9			-3							100%	6
Loan limits and overdraft limits with contractual maturity up to 1 year (can not be terminated by one party)								108					20%	22
Total	28,627	34,750	333	-114	-7,138	-13	-430	108	316	10	148	65		
TOTAL RISK-WEIGHTED ASSETS														32,161

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

Note 40 continued: **Information Disclosed on Capital Adequacy**

Bank is following the principles set by the Estonian Credit Institutions Act and Bank of Estonia Governor's decree „Procedure for application and calculation of prudential ratios of credit institutions and consolidation groups of credit institutions" in establishing and calculating own funds, as well as deductions and limits from own funds.

All balance sheet and off-balance sheet risk positions are divided between classes of risk exposures stipulated in the Credit Institutions Act, to calculate risk-weighted assets followed by a division to steps of credit quality in order to establish risk weights. Bank uses rating agency Moody's Investors Service's external credit quality assessments in determining capital requirements as per credit quality steps as defined by Financial Supervisory Authority. If there is no foreign rating, the risk weight is assigned following the credit risk standard method principles as stipulated in Bank of Estonia Governor's decree „Procedure for application and calculation of prudential ratios of credit institutions and consolidation groups of credit institutions".

Bank considers the following direct funded credit protection facilities in calculation of the credit risk capital requirement, with the prior assessment each time that they are in compliance with the requirements for recognising financial collaterals as set by Bank of Estonia Governor's decree „Procedure for application and calculation of prudential ratios of credit institutions and consolidation groups of credit institutions": 1) On-balance sheet netting – recognised by agreement as an each time decision; 2) Financial collaterals – recognised depending on the type of underlying asset.
Bank accepts as financial collateral: 1) cash on deposit with, or cash assimilated instruments held by the Bank; 2) shares and convertible debt instruments listed in a main list on a recognised stock exchange and debt instruments meeting the requirements stipulated in Bank of Estonia Governor's decree „Procedure for application and calculation of prudential ratios of credit institutions and consolidation groups of credit institutions". Bank includes only such financial collaterals in the calculation of the credit risk capital requirement, the remaining maturity of which is at least equal to the remaining maturity of the secured risk position. Bank uses the financial collateral simple method, calculating the effect by assigning the value equal to the fair value of financial collateral.

Bank considers the following unfunded credit protection facilities in calculation of the credit risk capital requirement, with the prior assessment each time that they are in compliance with the requirements for recognising unfunded credit protection facilities and credit derivatives as set by Bank of Estonia Governor's decree „Procedure for application and calculation of prudential ratios of credit institutions and consolidation groups of credit institutions":
1) Unfunded credit protection transactions - recognised by agreement as an each time decision or by protection provider, when the credit risk protection is provided by each time standard agreement;
2) Credit derivatives – recognised by transaction as an each time decision.

Bank applies the procedure, as set by Bank of Estonia Governor's decree „Procedure for application and calculation of prudential ratios of credit institutions and consolidation groups of credit institutions", in calculating the effects of unfunded credit protection using credit risk standard method.
Credit risk protection transactions applied as of 31.12.2011 and 31.12.2010 were all financial collaterals of cash deposited with the Bank. Bank has not used unfunded credit protection facilities nor credit derivatives as of 31.12.2011 and 31.12.2010.
Bank applies the principles set by Bank of Estonia Governor's decree „Procedure for application and calculation of prudential ratios of credit institutions and consolidation groups of credit institutions" for calculation of risk-weighted exposure amounts for securitised exposures: „Calculating risk-weighted exposure amounts for securitisation positions under the Standardised Approach".

Bank had no securitised exposures as of 31.12.2011 and 31.12.2010.

Bank has an exemption, as per Credit Institutions Act § 79 clause 3, from calculating separate capital requirement to cover interest position and stock position risk, settlement delivery risk and counterparty risk associated with the trading portfolio. Bank applies credit risk standard method in calculating capital requirements on instruments and counterparty credit risk associated with the trading portfolio.

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

Note 41: Concentration of Risks

			31/12/2011
	no.	EUR ths.	% of net own funds
Number of customers (client groups) with high risk concentration *	20		
Due from customers with high risk concentration		17,148	241.45%
Due from persons related with credit institution		123	1.73%

			31/12/2010
	no.	EUR ths.	% of net own funds
Number of customers (client groups) with high risk concentration	18		
Due from customers with high risk concentration		18,086	224.93%
Due from persons related with credit institution		149	1.86%

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

The maximum allowed risk concentration limit by the central bank of 25% of net own funds was not breached for any clients 31.12.2010. As of 31.12.2011 the risk concentration limit was breached for one client, breach will be elliminated in May 2012 by increase of share capital.

Note 42: Fair Value

The Bank estimates that the fair values of the assets and liabilities recognised in the balance sheet at amortised cost do not differ significantly from their carrying values as at 31.12.2011 and 31.12.2010. Management has assessed the effective interest rates for all financial assets and liabilities at amortised cost, compared it to the market rates effective on the reporting date and concluded that there is no significant difference between effective rates used for financial assets and liabilities and market rates at the balance sheet date.

- Loans to customers are sufficiently short term and issued on market terms or the interest terms have been revised recently to match the market terms, as a result of which the fair market interest rate and respectively the fair value of the loan has not changed significantly during the loan term.
- Deposits and structured deposits are also of short remaining maturity and therefore the fair value does not change significantly during the deposit term.

Note 42 continued:

Assets and liabilities measured at fair value

as of 31.12.2011

	EUR ths. Level 1	EUR ths. Level 2	EUR ths. Level 3	EUR ths. Total
Financial assets at fair value trough profit and loss				
Financial assets held for trading				
Equity securities	3	0	0	3
Derivative financial instruments	2	0	0	2
Available-for-sale financial assets				
Debt securities	0	55	66	121
Equity securities	0	0	3	3
Total assets	**5**	**55**	**69**	**129**
Financial liabilities at fair value trough profit and loss				
Derivative financial instruments	6	0	0	6
Total liabilities	**6**	**0**	**0**	**6**

as of 31.12.2010

	EUR ths. Level 1	EUR ths. Level 2	EUR ths. Level 3	EUR ths. Total
Financial assets at fair value trough profit and loss				
Financial assets held for trading				
Equity securities	10	0	0	10
Derivative financial instruments	1	0	0	1
Available-for-sale financial assets				
Debt securities	0	55	66	121
Equity securities	0	192	3	196
Total assets	**10**	**247**	**70**	**327**
Financial liabilities at fair value trough profit and loss				
Derivative financial instruments	43	0	0	43
Total liabilities	**43**	**0**	**0**	**43**

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

Management is of opinion that the fair value of other financial assets and financial liabilities does not differ significantly from their carrying value.

Note 43: Unconsolidated Financial Statements of the Bank

STATEMENT OF FINANCIAL POSITION

	EUR ths. 31.12.2011	EUR ths. 31.12.2010
ASSETS		
Cash	**117**	**183**
Loans and advances	**37,417**	**52,702**
Balances with central bank	8,778	16,943
Due from other banks	4,679	6,202
Due from customers	23,764	29,557
Financial assets held for trading	**5**	**10**
Available-for-sale financial assets	**124**	**317**
Property and equipment	**184**	**236**
Investment properties	**4,557**	**2,571**
Intangible assets	**105**	**124**
Other assets	**165**	**131**
TOTAL ASSETS	**42,478**	**56,275**
LIABILITIES		
Financial liabilities held for trading	**6**	**43**
Financial liabilities measured at amortised cost	**37,035**	**50,404**
Due to credit institutions	15	0
Due to customers	32,821	46,102
Subordinated debt	4,033	4,030
Borrowed funds from government and foreign aid	166	272
Tax liabilities	**87**	**56**
Other liabilities	**521**	**299**
TOTAL LIABILITIES	**37,649**	**50,802**
SHAREHOLDERS' EQUITY		
Share capital	7,049	9,384
Statutory legal reserve	36	36
Fair value reserve of available-for-sale financial assets	-11	-12
Accumulated deficit	-2,245	-3,935
TOTAL SHAREHOLDERS' EQUITY	**4,829**	**5,472**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**42,478**	**56,275**

Note 43 continued:

STATEMENT OF COMPREHENSIVE INCOME

	EUR ths. 2011	EUR ths. 2010
Interest income	2,235	2,709
Interest expense	-1,073	-1,064
Net interest income	**1,162**	**1,645**
Fees and commissions income	71	337
Fees and commissions expense	-47	-153
Net fees and commissions income	**24**	**184**
Net trading gains	**59**	**264**
Other operating income	**92**	**13**
Other operating expenses	**-201**	**-122**
Administrative expenses	**-2,174**	**-2,405**
Personnel expense	-955	-1,146
Payroll related taxes	-325	-390
Other administrative expenses	-894	-869
Depreciation and amortisation of tangible and intangible assets	**-109**	**-102**
Provisions (+/-)	**-90**	**0**
Operating profit/loss before allowances	**-1,237**	**-523**
Impairment loss on financial assets	**-1,007**	**-3,411**
NET LOSS FOR THE PERIOD	**-2,245**	**-3,934**
Net change in revaluation reserve of available-for-sales financial assets	**1**	**10**
COMPREHENSIVE LOSS FOR THE PERIOD	**-2,244**	**-3,925**

Note 43 continued:

STATEMENT OF CASH FLOWS

	EUR ths. 2011	EUR ths. 2010
Cash flows from operating activities	**-4,959**	**12,660**
Interests received	2,021	2,853
Interests paid	-799	-902
Fees and commissions received	56	330
Fees and commissions paid	-47	-153
Administrative expenses	-2,133	-2,398
Trading income received	59	264
Other operating income	92	13
Other operating expenses	-201	-122
Change in due from other banks	2,106	-28
Change in due from customers of credit institution	6,920	2,618
Change in due to credit institutions	1,538	-9,014
Change in due to customers	-13,370	18,890
Change in assets and liabilities connected with other operationg activities	-1,201	310
Cash flows from investing activities	**-78**	**-3,148**
Purchase of property and equipment	-56	-131
Purchase of intangible assets	-6	-109
Purchase of investment properties	-95	-2,908
Disposals of investment properties	79	0
Cash flows from financing activities	**1,312**	**2,876**
Increase of share capital	1,600	2,839
Interest of subordinated debt	-182	-161
Other borrowings received	100	287
Borrowings repaid	-206	-89
Total cash flows	**-3,725**	**12,388**
Cash and cash equivalents at the beginning of year	**17,299**	**4,911**
Net change in cash and cash equivalents	**-3,725**	**12,388**
Cash and cash equivalents at the end of the year *	**13,574**	**17,299**

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

	EUR ths. 2011	EUR ths. 2010
Cash	117	183
Mandatory reserve and deposits with the Bank of Estonia	8,778	14,239
Deposits with credit institutions with original maturity of less than 3 months	4,679	2,877
Total	**13,574**	**17,299**

Note 43 continued:

STATEMENT OF CHANGES IN EQUITY

	EUR ths. 2011	EUR ths. 2010
Share capital		
Balance at the beginning of period	9,384	12,814
Share capital reduction to cover losses	-3,935	-6,270
Share capital increase	1,600	2,839
Balance at the end of period	**7,049**	**9,384**
Statutory legal reserve		
Balance at the beginning of period	36	36
Balance at the end of period	**36**	**36**
Fair value reserve of available-for-sale financial assets		
Balance at the beginning of period	-12	-22
Comprehensive loss for the period	1	10
Balance at the end of period	**-11**	**-12**
Accumulated deficit		
Balance at the beginning of period	-3,935	-6,270
Share capital reduction to cover losses	3,935	6,270
Comprehensive loss for the period	-2,245	-3,934
Balance at the end of period	**-2,245**	**-3,935**
Total shareholders' equity:		
at the beginning of period	**5,472**	**6,558**
at the end of period	**4,829**	**5,472**
Book value of holdings under control or significant influence	14	3
Value of holdings under control or significant influence, calculated by equity method	-14	-3
Adjusted unconsolidated equity	**4,829**	**5,472**

Note 44: Subsequent Events

Ukrainian agricultural enterprise UKRSELHOSPROM PCF LLC acquired 70.5427% of the shares of MARFIN PANK EESTI AS, formerly owned by Marfin Popular Bank Public Co Ltd., on 29 March 2012. Ukrselhosprom belongs to Ukrainian industrial consortium Alef, which consists of more than twenty companies, including a bank, insurance company and asset management company. Companies belonging to Alef are owned by Ukrainian citizens - controlling participation by Vadym Iermolaiev, and minority participation by Stanislav Vilens'kyy.

New majority shareholder intends to increase the share capital of the Bank by 5 million euros the latest in May 2012 and a change of the business name of the Bank.

SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT 2011

The Annual Report 2011 of MARFIN PANK EESTI AS is signed by:

Riho Rasmann	Chairman of the Management Board		04.04.2012
Sven Raba	Member of the Management Board		04.04.2012
Mart Veskimägi	Member of the Management Board		04.04.2012

pwc

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of MARFIN PANK EESTI AS

We have audited the accompanying consolidated financial statements of MARFIN PANK EESTI AS and its subsidiary, which comprise the consolidated statement of financial position as of 31 December 2011 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation, and true 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 give a true and fair view of the financial position of MARFIN PANK EESTI AS and its subsidiary as of 31 December 2011, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Tiit Raimla
Auditor's Certificate No.287

Stan Nahkor
Auditor's Certificate No.508

11 April 2012

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

THE MANAGEMENT BOARD PROPOSAL TO COVER LOSSES

The Management Board of MARFIN PANK EESTI AS approved the loss of MARFIN PANK EESTI AS for the financial year 2011 in the amount of 2,244,758.52 euros. The Management Board's proposal to the General Meeting of Shareholders' is to record the loss for the financial year 2011 in the amount of 2,244,758.52 euros under the balance sheet heading "Accumulated deficit".

Riho Rasmann	Chairman of the Management Board		04.04.2012
Sven Raba	Member of the Management Board		04.04.2012
Mart Veskimägi	Member of the Management Board		04.04.2012