BIGBANK AS

Annual report

2009

BIGBANK AS

ANNUAL REPORT

Company:	BIGBANK AS (formerly Balti Investeeringute Grupi Pank AS, name change registered on 23 January 2009)
Registry:	Commercial Register of the Republic of Estonia
Registration number:	10183757
Date of entry:	30 January 1997
Address:	Rüütli 23, 51006 Tartu, Estonia
Telephone:	3 727 377 570
Fax:	3 727 377 582
E-mail:	bigbank@bigbank.ee
Website:	www.bigbank.ee
Date of report:	31 December 2009
Beginning of financial year:	1 January 2009
End of financial year:	31 December 2009
Chairman of Management Board:	Targo Raus
Auditors:	KPMG Baltics AS, audit firm entered in the list of auditors on 11 July 2001 as no. 17 Address Narva mnt. 5 Tallinn 10117 Registration number 10096082 Auditors responsible for the audit: - Andres Root, authorised public accountant since 20 June 1990 - Eero Kaup, authorised public accountant since 10 December 1998
Reporting currency:	Reporting currency is the Estonian kroon and figures are presented in millions of currency units rounded to three digits after the decimal point.

This annual report of BIGBANK AS contains a review of operations and consolidated financial statements that have been appended an independent auditor's report and a profit allocation proposal. The document contains 73 pages.

As from 26 February 2009, *Annual report 2009* is available at the head office of BIGBANK AS at 23 Rüütli street in Tartu and all other offices of the company.

The annual report is also available on the website of BIGBANK AS at www.bigbank.ee.

CONTENTS

REVIEW OF OPERATIONS

DESCRIPTION OF THE CREDIT INSTITUTION GROUP

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

Company name:	AS Baltijas Izaugsmes Grupa
Address and domicile:	Brivibas iela 151, LV-1012 Riga, Latvia
Registration number:	40003291179
Registry:	Register of Enterprises of the Republic of Latvia
Date of entry:	18 April 1996
Line of business:	Provision of consumer finance in the Republic of Latvia
Ownership interest:	100%

Company name:	OÜ Rüütli Majad
Address and domicile:	Rüütli 23, 51006 Tartu
Registration number:	10321320
Registry:	Commercial Register of the Republic of Estonia
Date of entry:	27 November 1997
Line of business:	Real estate management
Ownership interest:	100%

Company name:	OÜ Balti Võlgade Sissenõudmise Keskus
Address and domicile:	Rüütli 23, 51006 Tartu, Estonia
Registration number:	11652332
Registry:	Commercial Register of the Republic of Estonia
Date of entry:	11 May 2009
Line of business:	Debt collection and credit reporting
Ownership interest:	100%

In addition, BIGBANK AS has a branch in Lithuania that was entered in the Lithuanian Company Register in 2007, a branch in Latvia that was entered in the Latvian Register of Enterprises in the fourth quarter of 2008, and a branch in Finland that was entered in the Finnish Trade Register in the fourth quarter of 2009.

BUSINESS AND FINANCIAL REVIEW

In 2009, BIGBANK AS (also referred to as “BIGBANK” or the “Group”) continued generating a profit, adapting successfully to the changing economic environment.

In November, BIGBANK was the first Estonian bank to open a branch in Finland. Currently the branch offers term deposits in the Finnish market but the plans for 2010 foresee supplementing the deposit offering with credit services and expanding the office network in the region. In August 2009, BIGBANK successfully entered the cross-border business by launching deposit opportunities for German customers.

At the end of 2009, the consolidated loan portfolio totalled 2,053.582 million kroons, a 10.3% decrease year-over-year, Estonia accounting for 47.1%, Latvia for 40.6% and Lithuania for 12.3% of the total. The proportion of Estonia has dropped by 3.3% while the proportions of

Latvia and Lithuania have increased by 0.4% and 2.9% respectively.

In 2009, BIGBANK upheld its conservative liquidity management policy, increasing the volume of liquid assets at banks to 551.113 million kroons or 19.8% of total assets against 479.392 million kroons and 16.5% at the end of 2008. During the year, BIGBANK used free funds to repurchase its international bonds with a total nominal value of 600.673 million kroons that were originally to be redeemed in 2011.

In the first quarter of 2009, BIGBANK refinanced bonds issued for the local market by redeeming bonds and subordinated bonds of 156.459 million kroons and issuing within the same period bonds of 93.880 million kroons redeemable in 2010 and subordinated bonds of 62.586 million kroons redeemable in 2015. Over the year, BIGBANK redeemed bonds of 104.101 million kroons at maturity.

Deposits from customers surged to 1,173.213 million kroons compared with 630.612 million kroons at the end of 2008, and their geographic dispersion increased.

At the year-end, the Group’s liabilities comprised term deposits from customers (55.7%), international bonds (32.5%), domestic bonds (4.5%), subordinated bonds (5.8%), loans from credit institutions (0.5%) and other liabilities (1.0%).

The Group sustained profitable performance – consolidated net profit for 2009 amounted to 117.066 million kroons (2008: 144.770 million kroons). Interest income for the year was 583.373 million kroons against 686.255 million kroons for 2008. Interest expense decreased to 198.643 million kroons (2008: 248.342 million kroons). At the end of 2009, the average cost of interest-bearing liabilities was 7.7% (2008: 9.6%).

Bad debt allowances continued growing. At the year-end, impairment allowances for loan and interest receivables totalled 409.015 million kroons compared with 210.781 million kroons at the end of 2008. Total impairment allowances increased to 437.982 million kroons (including impairment allowances for loan receivables of 342.829 million kroons, interest receivables of 66.186 million kroons, other customer receivables of 13.198 million kroons and other assets of 15.769 million kroons). On the other hand, the portfolio of receivables overdue for more than 90 days has decreased slightly. Further information on the establishment of credit loss allowances is presented in the notes to the consolidated financial statements.

In response to a decrease in the sales of loans, at the end of 2009 the Group right-sized its sales network: the number of branch offices was reduced by 17 and the number of staff by 118. The restructuring was undertaken to maintain an optimal and efficient sales structure as well as profitability of operations in a challenging economic environment.

At the end of 2009, BIGBANK employed 394 people, including 168 in Estonia, 155 in Latvia, 69 in Lithuania and 2 in Finland. The year-end number of branch offices was 28, including 10 in Estonia, 7 in Latvia and 10 in Lithuania and 1 in Finland.

In April 2009, the membership of the supervisory board of BIGBANK AS increased as Raul Eamets was elected the sixth board member. The current members of the supervisory board are Raul Eamets, Vahur Voll, Juhani Jaeger, Meelis Luht, Linda Terras and Parvel Pruunsild (Chairman). The management board did not change in 2009. The management board has four members - Ingo Põder, Veiko Kandla, Kaido Saar and Targo Raus (Chairman). In 2009, the remuneration of the parent company’s management and the supervisory boards, including relevant taxes, amounted to 4.844 million kroons and 0.941 million kroons respectively.

KEY PERFORMANCE INDICATORS

Financial position indicators (in millions of kroons)	**31 Dec 2009**	**31 Dec 2008**
Total assets	2,785.168	2,913.250
Loans to customers	2,053.582	2,293.781
Including loan portfolio	2,226.537	2,321.090
Including interest receivable	242.401	186.759
Including prepaid interest	-6.341	-3.287
Including impairment allowances	-409.015	-210.781
Including impairment allowances for loans	*-305.865*	*-176.981*
Including impairment allowances for interest receivables	*-66.186*	*-24.940*
Including additional impairment allowances	*-36.964*	*-8.860*
Deposits from customers	1,173.213	630.612
Bonds issued	780.184	1,487.592
Subordinated bonds issued	122.269	172.357
Equity	677.558	579.425

Financial performance indicators (in millions of kroons)	**2009**	**2008**
Interest income	583.373	686.255
Interest expense	198.643	248.342
Salaries and associated charges	91.617	112.543
Other operating expenses	95.180	123.627
Net impairment loss on loans and interest receivables	-239.873	-144.477
Profit for the period	117.066	144.770

For the period (in millions of kroons)	**2009**	**2008**
Average equity	628.492	525.937
Average assets	2,849.209	2,762.813
Average interest-earning assets	2,788.751	2,672.982
Average interest-bearing liabilities	2,160.697	2,181.677
Total income	769.733	820.049

Ratios	**2009**	**2008**
Return on equity (ROE)	18.63%	27.53%
Profit margin (PM)	15.21%	17.65%
Return on loans	30.50%	35.60%
Asset utilization ratio (AU)	27.02%	29.18%
Price difference (SPREAD)	11.73%	14.29%
Equity multiplier (EM)	4.53	5.25
Earnings per share (EPS)	1,463.325	1,809.625
Tier 1 capital ratio	28.70%	22.10%
Yield on interest-earning assets	20.92%	25.67%
Cost of interest-bearing liabilities	9.19%	11.38%

Explanations:

- Financial position indicators (equity, assets, and liabilities) are the arithmetic means of the preceding and reporting periods' closing figures calculated as (carrying value at end of previous reporting period + carrying value at end of current reporting period) / 2

- Return on equity (ROE) – net profit / average equity * 100
- Profit margin (PM) – net profit / total income * 100
- Return on loans = interest income on loan portfolio + income from collection and recovery operations / average loan portfolio
- Asset utilization ratio (AU) – total income / total assets
- Price difference (SPREAD) – interest income / interest-earning assets – interest expense / interest-bearing liabilities
- Equity multiplier (EM) – total assets / total equity
- Earnings per share (EPS) – net profit / period's average number of shares outstanding
- Total income = interest income + fee and commission income + gains/income on financial transactions + other income + gains/income on changes in the values of investment property, property and equipment and intangible assets + gains/income on changes in the values of receivables and off-statement of financial position liabilities + extraordinary income
- Tier 1 capital ratio = tier 1 capital / total risk-weighted assets
- Yield on interest-earning assets – interest income / interest-earning assets
- Cost of interest-bearing liabilities – interest expense / interest-bearing liabilities

SHAREHOLDERS AS AT 31 DECEMBER 2009:

Shareholder	Personal ID number	Address	Number of shares	Ownership interest
Parvel Pruunsild (Chairman of Supervisory Board)	36906162723	Jõgevamaa, Estonia	40,000	50.0%
Vahur Voll (Member of Supervisory Board)	37011262727	Tallinn, Estonia	40,000	50.0%

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

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

GOVERNANCE OF THE COMPANY

The activity of BIGBANK AS is regulated, above all, by the Estonian Commercial Code, the Credit Institutions Act and its Articles of Association. The Articles of Association are amended in accordance with the provisions of the Commercial Code, the Credit Institutions Act and the Articles of Association.

The governing bodies of the company are the shareholders' general meeting, the supervisory board and the management board. The appointment, resignation, removal, and powers of the members of the management board are regulated by the Commercial Code, the Credit Institutions Act and the Articles of Association. Further information on governance is provided in the Corporate Governance Report section of the Review of Operations.

RATINGS

In September 2009, BIGBANK elected to discontinue use of Moody's credit rating services.

LITIGATIONS

At 31 December 2009, the parent company and the Group were not involved in any significant litigation.

ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

FINANCIAL POSITION INDICATORS

Total assets

At the end of 2009, BIGBANK's consolidated assets totalled 2,785.168 million kroons, a 4.4% decrease year-over-year.

At the year-end, the loan portfolio accounted for 73.7% of total assets while monetary assets accounted for 19.8% and other assets (including property and equipment, intangible assets, other receivables and prepayments, deferred tax assets, and other assets) for 6.5%.

Monetary assets

In connection with changes in the macroeconomic environment, the Group maintains high liquidity: at the end of 2009, liquid assets accounted for 19.8% of total assets (16.5% at the end of 2008).

At the year-end, monetary assets totalled 551.113 million kroons, including 477.516 million kroons deposited with the central banks. During the year, monetary assets increased by 15.0%.

At the end of 2009, the mandatory reserves with the central banks stood at 332.308 million kroons compared with 330.094 million kroons at the end of 2008. The mandatory reserve has to account for 15.0% of reporting date debt financing excluding liabilities to local credit institutions.

Loans to customers

At the end of 2009, BIGBANK had 115.4 thousand active loan agreements, including 39.6 thousand in Estonia, 62.4 thousand in Latvia and 13.4 thousand in Lithuania, and the average outstanding loan receivable was 22.0 thousand kroons.

At the year-end, loans to customers totalled 2,053.582 million kroons, the figure breaking down between geographical segments as follows:

- Estonia: 966.783 million kroons (47.1%)
- Latvia: 833.136 million kroons (40.6%)
- Lithuania: 253,663 million kroons (12.3%)

At 31 December 2009, loans to customers (customer receivables) comprised:

- loan receivables of 2,226.537 million kroons with loans to individuals accounting for 98.6% of the portfolio;
- interest receivable on the loans of 236.060 million kroons; and
- specific and collective impairment allowances for loans and interest receivables of 409.015 million kroons (consisting of an impairment allowance for loans of 305.865 million kroons, an impairment allowance for interest receivables of 66.186 million kroons and an additional impairment allowance of 36.964 million kroons).

At the end of 2009, impairment allowances accounted for 16.6% of gross loans to customers against 8.4% at the end of 2008. The rise is attributable to a decrease in new sales and the application of more conservative measurement principles along with higher impairment rates.

Overdue loans and impairment allowances

Overdue loans comprise overdue principal payments as well as the principal that has become payable due to cancellation. According to the terms of the loan agreements, the Group may cancel the agreement unilaterally when at least three scheduled settlements are in arrears. Upon cancellation, the Group will demand settlement of the outstanding loan principal, any interest payments that have fallen due and any collateral claims arising from the settlement delay.

BIGBANK AS is currently the only bank in the region that focuses on the provision of consumer credit only. In line with the corporate strategy, at 31 December 2009 loans against income accounted for 75.9% of the loan portfolio compared with 76.6% at the end of 2008.

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

Debt recovery proceedings have three phases – internal proceedings (the Group will send written and electronic reminders and may offer restructuring, etc), formal collection proceedings (conducted with the assistance of professional debt collection companies) and judicial and execution proceedings. A significant portion of non-performing loans is satisfied through execution proceedings (after a judgement or ruling by the court). In 2009, the Group implemented a more proactive and flexible debt management policy. In contrast to the previous years, debt can now be restructured in all phases of the recovery proceedings. Where possible, the Group uses the more cost efficient and less time-consuming collection proceedings rather than judicial and execution proceedings.

At the end of 2009, loans subject to execution proceedings accounted for 40% of all loans at least 90 days in arrears.

In 2009, the Group recovered 613.867 million kroons of loans and associated receivables at least 90 days in arrears (including principal, interest and other receivables).

During the year, loans of 42.153 million kroons were considered fully impaired and written off the statement of financial position compared with 23.578 million kroons in 2008.

The Group's historical recovery rate for non-performing loans has been high and in clear correlation with the duration of the recovery proceedings. For example (based on the Estonian portfolio), in the case of loans whose execution proceedings were instigated at least two years ago, settlements made to date account for 77% of the loan balance originally transferred for execution. In the case of loans whose execution proceedings were instigated at least three years ago, amounts recovered to date are at least equal to the loan balance originally transferred for execution. However, in the case of the above loans, proceedings will continue for the recovery of collateral claims until all claims have been satisfied.

To mitigate the risks arising from settlement behaviour and cover potential credit losses, the Group has established impairment allowances, which at 31 December 2009 totalled 409.015 million kroons or 16.6% of loan and interest receivables (the corresponding figure for the end of 2008 was 8.4%). Impairment allowances are established on a conservative basis.

Liabilities

In 2009, BIGBANK's liabilities shrank by 226.215 million kroons (9.7%).

The largest portion, i.e., 55.7% of the Group's liabilities is made up of term deposits from customers. In 2009, term deposits grew by 542.601 million kroons to 1,173.213 million kroons. At the end of the previous financial year, term deposits totalled 630.612 million kroons, accounting for 27.0% of consolidated liabilities. At 31 December 2009, term deposits' weighted average duration until maturity was 9.9 months and weighted average interest rate was 6.9% per year.

At the year-end, bonds issued accounted for 37.0% of liabilities, 47.6% (707.408 million kroons) down from the end of 2008, amounting to 780.184 million kroons. The largest proportion of bonds is made up of an international bond issue performed in 2007. The issue size was 1,294.756 million kroons and redemption date is 31 March 2011. The annual interest rate of the bonds is 3 month EURIBOR plus 7.5%. At the end of 2009, the carrying amount of international bonds was 685.676 million kroons and that of domestic bonds 94.508 million kroons.

At the year-end, the bonds' weighted average duration until maturity was 19.9 months and weighted average interest rate 8.7% per year.

During the year, amounts due to credit institutions decreased from 14.867 million kroons to 11.270 million kroons.

At the end of 2009, subordinated liabilities totalled 122.269 million kroons compared with 172.357 million kroons at the end of 2008.

For total liabilities, the year-end weighted average duration until maturity was 14.3 months and the weighted average interest rate was 7.7% per year.

Equity

In 2009, the Group's equity grew by 16.9% to 677.558 million kroons compared with 579.425 million kroons at the end of 2008.

At the end of 2009, the Group's capital adequacy ratio was 26.4%, significantly exceeding the requirement (10%). At 31 December 2009, tier 1 and tier 2 capital totalled 773.364 million kroons, accounting for 27.8% of total assets.

FINANCIAL PERFORMANCE INDICATORS

Interest income

Interest income for 2009 amounted to 583.373 million kroons, a 15.0% decrease year-over-year. The yield on interest earning assets (ratio of interest income to interest earning assets) was 20.9% and the ratio of total income to total assets was 27.0%.

Interest expense

The decrease in interest expense (from 248.342 million kroons in 2008 to 198.643 million kroons for 2009) is attributable to the decline in base interest rates in 2009 as well as growth in the proportion of deposits and shrinkage in the proportion of bonds in the Group's liability structure. During the year, the average cost of financing dropped. At the year-end, the weighted average cost of debt financing was 7.7% compared with 9.7% at the end of 2008. The interest expense to interest income ratio for 2009 was 34.1%

Other operating expenses

In 2009, BIGBANK's other operating expenses decreased by 23.0% to 95.180 million kroons, primarily through a decline in marketing expenses and stamp duties paid to the state.

Salaries

In 2009, salaries totalled 69.212 million kroons, an 18.5% decrease year-over-year. Salary expenses were reduced by optimising the operating volumes and reducing the number of offices.

Net impairment loss on loans and interest receivables

Impairment allowances for loan and interest receivables were increased by 198,234 million kroons compared with 144.477 million kroons in 2008. The Group provides for impairment on a conservative basis.

In connection with changes in the macroeconomic environment, in 2009 the Group established a special collective impairment allowance of 36.964 million kroons in addition to the usual impairment allowances established for loans and interest receivables in the ordinary course of business. The purpose of the collective allowance is to cover the negative impacts that developments in the macroeconomic environment may have on the customers' settlement behaviour.

Other income and other expenses

Other income for the year amounted to 182.017 million kroons, a 37.1% increase on 2008. The largest proportion of other income resulted from debt recovery proceedings. Income from bond repurchase transactions amounted to 53.747 million kroons.

Other expenses (including contributions to the Guarantee Fund and supervision fees to the Financial Supervision Authority) totalled 2.335 million kroons.

Return on the loan portfolio

In 2009, the average gross loan portfolio totalled 2,292.094 million kroons. Interest income on the loan portfolio amounted to 574.831 million kroons and income from debt recovery proceedings was 124.938 million kroons. The period's return on the loan portfolio was 30.5%.

Net profit

The Group ended 2009 with a consolidated net profit of 117.066 million kroons, 19.1% down from 2008. In a turbulent macroeconomic environment, profitability was undermined by the need to create impairment allowances for potential credit losses. On the other hand, early redemption of bonds, undertaken for reducing financing expenses, had a positive effect on the Group's performance.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Recommendations (CGR) promulgated by the Tallinn Stock Exchange is a set of guidelines designed for listed companies. Adherence to CGR is not mandatory and each entity may decide whether to observe the recommended practice and to disclose the extent of compliance in its corporate governance report. The "comply or explain"-principle has been in effect for listed companies since 1 January 2006.

BIGBANK AS complies, where possible, with the practice suggested by CGR. However, some provisions of CGR are intended for companies with a wide shareholder base and cannot be applied to entities with a limited number of shareholders.

The following is an overview of the corporate governance practice of BIGBANK AS and the provisions of CGR that are not complied with together with relevant explanations. The majority of provisions that are not complied with concern BIGBANK AS' shareholder structure and related issues.

BIGBANK AS

BIGBANK AS was established on 22 September 1992. A credit institution's licence was obtained on 27 September 2005. BIGBANK AS specializes in the provision of small and consumer credit.

As a credit institution, BIGBANK AS is subject to supervision by the Estonian Financial Supervision Authority and its activities are regulated, among other legislation, by the Credit Institutions Act that imposes specific management, governance and reporting requirements.

BIGBANK AS is a parent in a group consisting of BIGBANK AS and its wholly owned subsidiaries AS Baltijas Izaugsmes Grupa, OÜ Rüütli Majad and OÜ Balti Võlgade Sissenõudmise Keskus and BIGBANK AS' registered branches in Lithuania (established in 2007), Latvia (established in 2008) and Finland (established in 2009).

The Latvian and Lithuanian branches provide credit services similar to those of BIGBANK AS. Since the establishment of BIGBANK's branch in Latvia, AS Baltijas Izaugsmes Grupa has focused on managing the existing customer portfolio. BIGBANK AS and its Latvian and Finnish branches provide also deposit services. The core activity of OÜ Rüütli Majad is management of real estate used by the parent in Estonia. OÜ Balti Võlgade Sissenõudmise Keskus supports the parent in the debt recovery operations.

The shares in BIGBANK AS are held by two individuals:

- Parvel Pruunsild 50%
- Vahur Voll 50%

At 31 December 2009, the following bonds issued by BIGBANK AS were listed on the Tallinn Stock Exchange:

- Bond issue - ISIN code EE3300088004, issue size 9.900 million Estonian kroons, redemption date 30 January 2014, subordinated bonds
- Bond issue - ISIN code EE3300081801, issue size 52.060 million Estonian kroons, redemption date 26 April 2014, subordinated bonds
- Bond issue - ISIN code EE3300101526, issue size 4.000 million euros (62.586 million Estonian kroons), redemption date 1 October 2015, subordinated bonds
- Bond issue - ISIN code EE3300101500, issue size 5.000 million euros (78.233 million Estonian kroons), redemption date 1 April 2010
- Bond issue - ISIN code EE3300101518, issue size 1.000 million euros (15.647 million Estonian kroons), redemption date 1 October 2010.

At 31 December 2009, the following bonds issued by BIGBANK AS were listed on the Stockholm Stock Exchange:

- Bond issue - ISIN code SE0001993148, issue size 82.750 million euros (1,294.756

million Estonian kroons), redemption date 31 March 2011.

GENERAL MEETING

The general meeting that convened on 27 February 2009, passed motions on the following agenda:

- Approval of the annual report for 2008
- Preparations for appointing an auditor for fiscal 2009
- Election of members of the supervisory board
- Allocation of profits

The meeting was attended by all shareholders representing 100% of the votes determined by shares.

BIGBANK AS does not comply with the provisions of CGR under which notice of a general meeting should be published in a national daily newspaper and on the issuer's website (Article 1.2.1), essential information on the agenda of a general meeting should be published on the issuer's website (Article 1.2.3), and the supervisory board's proposals on agenda items should be published on the issuer's website (Article 1.2.4). In 2009, the general meeting was not attended by members of the management board, the auditor, and members of the supervisory board that are not shareholders (Article 1.3.2). BIGBANK AS does not make participation in the general meeting possible by means of communication equipment (Article 1.3.3).

The above provisions are not applicable to a company that has only two shareholders that are also members of the supervisory board and are therefore informed about the company's activity on a current basis. BIGBANK AS uses the simplified method of giving notice of the general meeting that is provided in Section 294 (1^1) of the Commercial Code. In addition, the company exercises the right of adopting decisions without calling a general meeting that is provided in Section 305 (2) of the Commercial Code because BIGBANK has only two shareholders and consensus in the adoption of decisions is customary. Investors are notified of a general meeting and the resolutions adopted using the stock exchange information system.

In other respects, the company complies with the provisions of CGR Article 1.

MANAGEMENT BOARD

In 2009, the membership of the management board did not change. Accordingly, the management board has four members (under the Articles of Association the number may range from three to five):

- Targo Raus – Chairman
- Veiko Kandla – Member
- Kaido Saar – Member
- Ingo Põder – Member

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

The management board acts in the best interests of the company, the shareholders and the creditors and is guided by those interests in organising the company's risk management, internal audits and work procedure. Members of the parent company's management board supervise the subsidiaries' activities, participating in the work of the supervisory board of the Latvian subsidiary and the management board of OÜ Rüütli Majad (as members of the supervisory and the management board respectively). No conflicts of interest (as defined in Article 2.3.1 of CGR) were detected in the activity of the members of the management board in

2009.

In 2009, BIGBANK AS did not comply with Article 2.2.7 of CGR, which provides that the benefits and bonus schemes of each member of the management board should be published on the corporate website and in the corporate governance report and the principles of remunerating management board members should be explained to the general meeting.

BIGBANK AS has regularly published the aggregate remuneration of the members of the Group's management board in its annual report. The figure for 2009 was 5.600 million kroons including taxes. The requirement of disclosing the remuneration of each member of the management board is primarily aimed at informing the shareholders. In view of the shareholder structure of BIGBANK AS, the disclosure of this information in the company's annual report is not necessary. The principles of remunerating members of the management board were not explained at the general meeting because shareholders are on the supervisory board and consequently aware of the principles.

In other respects, the company complies with the provisions of CGR Article 2.

SUPERVISORY BOARD

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

- Parvel Pruunsild – Chairman
- Vahur Voll – Member
- Meelis Luht – Member
- Linda Terras – Member
- Juhani Jaeger – Member
- Raul Eamets – Member

Under the Articles of Association, the powers of the members of the supervisory board expire on the approval of the annual report by the general meeting. The current members of the supervisory board have been elected based on a resolution by the annual general meeting of 27 February 2009 and a resolution by the shareholders of 7 April 2009 when Raul Eamets was elected as the sixth member of the supervisory board.

The activities of the supervisory board are governed, among other laws and regulations, by the Credit Institutions Act that provides requirements to members of the supervisory board, the cooperation between the supervisory board and the management board, and the control mechanisms established by the supervisory board. The Financial Supervision Authority is given advance notice of the election of members of the supervisory board.

In 2009, the remuneration of members of the supervisory board totalled 0.941 million kroons including taxes. The company does not deem it necessary to provide further information about the remuneration of the members of the supervisory board because the effect of the remuneration on the company's financial performance is not significant (CGR Article 3.2.5). All members of the supervisory board attended more than half of the meetings held in 2009. As far as the company is aware, members of the supervisory board did not have any conflicts of interest (as defined in Article 3.3.2 of CGR) in 2009.

In 2009, the supervisory board did not approve any transactions between the company and a member of the company's management board or a person close to or connected with a member of the management board except transactions related to the status of the member of the management board (e.g., signature or amendment of the service agreement).

The CGR provides (Article 3.2.2) that at least half of the members of the supervisory board have to be independent.

Two out of the six supervisory board members are shareholders (Parvel Pruunsild and Vahur Voll) who each hold 50% of the shares. Linda Terras is indirectly connected with the company through OÜ Edelatuulik Invest that has deposit agreements with BIGBANK AS. At 31 December 2009, the deposits totalled 7.580 million kroons and their terms did not differ from those offered to similar depositors. Other supervisory board members (Meelis Luht, Raul Eamets and Juhani Jaeger) have no connection with the company except for their board member remuneration.

In other respects, the company complies with the provisions of CGR Articles 3 and 4.

DISCLOSURE OF INFORMATION

In accordance with the rules of the Tallinn Stock Exchange, BIGBANK AS first publishes all significant and price sensitive information in the stock exchange information system and the data provided at meetings and press conferences is limited to previously disclosed information. All information that has been made public is available on the company's website (CGR Article 5.6).

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

In 2009, BIGBANK AS did not disclose its financial calendar because the regularity of reporting is provided, among other things, in the Credit Institutions Act. The company issues quarterly reports within two months after the end of each quarter.

In view of the small number of shareholders, the deadline for publishing a notice of the general meeting is not relevant.

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

In other respects, the company complies with the provisions of CGR Article 5.

REPORTING

BIGBANK AS is audited by KPMG Baltics AS that has provided audit services to BIGBANK AS since 2000. In 2009, the auditors were Andres Root as the Lead Partner and Eero Kaup as the Engagement Manager. The Lead Partner changed at the beginning of 2008 and the Engagement Manager changed in 2007. Thus BIGBANK AS complies with the auditor rotation requirement.

BIGBANK AS does not observe this part of CGR Article 6.1.1 that provides that the auditor should attend the meeting of the supervisory board that reviews the annual report. The supervisory board is informed about the company's operating results on a quarterly basis. The information provided to the supervisory board includes information about the results of the audit procedures conducted in the previous quarter. The members of the supervisory board have not considered it necessary to have separate meetings with the auditors.

The supervisory board has not prepared a written evaluation of the work of the auditor (CGR Article 6.2.1) and has not approved the draft of the audit services agreement in writing (CGR Article 6.2.2). However, the management board consults members of the supervisory board in the above issues, any decisions are made collectively and the decisions are approved by the general meeting. The company believes that it is not necessary to change the current system because the shareholders are members of the supervisory board and, therefore, the supervisory board is aware of the terms of the agreement signed with the auditors and other relevant information.

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

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

CONTROL FUNCTIONS

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

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

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

ALCO has six members who determine policies for analysing and controlling the interest rate, currency, liquidity, financial and market risks as well as the financing strategies and plans of the Group and all Group entities.

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

STATEMENT

The management board of BIGBANK AS confirms that the review of operations presents fairly the development as well as the financial position and financial performance of the Group and provides an overview of the main risks and uncertainties. This statement is made based on the information and circumstances the management board was aware of or could reasonably have been expected to foresee at the date the confirmation was given.

Targo Raus

Kaido Saar

Veiko Kandla

Ingo Põder

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management board acknowledges its responsibility for the preparation and fair presentation of the consolidated financial statements of BIGBANK AS as at and for the year ended 31 December 2009 set out on pages 18 to 71 of this report and confirms that to the best of its knowledge, information and belief:

- the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the consolidated financial statements give a true and fair view of the financial position and financial performance of BIGBANK AS Group;
- all significant events that occurred until the date on which the financial statements were authorised for issue (26 February 2010) have been properly recognised and disclosed; and
- BIGBANK AS and its subsidiaries are going concerns.

	Date	Signature
Targo Raus Chairman of Management Board	26.02.2010	
Kaido Saar Member of Management Board	26.02.2010	
Veiko Kandla Member of Management Board	26.02.2010	
Ingo Põder Member of Management Board	26.02.2010	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	**Note**	**2009**	**2008**
(In millions of kroons)			
Assets			
Due from central banks	4	477.516	330.720
Due from banks	4	73.597	148.672
Loans to customers	5, 6, 7	2,053.582	2,293.781
Other receivables and prepayments	8	80.403	62.337
Deferred tax assets	28	21.675	-
Intangible assets	9	4.457	6.240
Property and equipment	10	41.429	49.137
Other assets	11	32.509	22.363
Total assets		**2,785.168**	**2,913.250**
Liabilities			
Loans from banks	12	11.270	14.867
Deposits from customers	13	1,173.213	630.612
Other liabilities and deferred income	14	20.674	28.397
Bonds issued	15	780.184	1,487.592
Subordinated bonds	15	122.269	172.357
Total liabilities		**2,107.610**	**2,333.825**
Equity	34		
Share capital		80.000	80.000
Capital reserve		8.000	8.000
Foreign currency translation reserve		-7.878	-7.945
Earnings retained in prior periods		480.370	354.600
Profit for the period		117.066	144.770
Total equity		**677.558**	**579.425**
Total liabilities and equity		**2,785.168**	**2,913.250**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In millions of kroons)	**Note**	**2009**	**2008**
Interest income	16	583.373	686.255
Interest expense	17	198.643	248.342
Net interest income		**384.730**	**437.913**
Net fees and commissions		-1.723	-1.387
Net gain / loss on financial transactions	18	-1.772	-2.749
Other income	19	182.017	132.765
Total income		**563.252**	**566.542**
Salaries and associated charges	20	91.617	112.543
Other operating expenses	20	95.180	123.627
Depreciation and amortisation expense	9, 10	11.090	10.182
Impairment losses on loans and receivables	7	239.873	144.477
Impairment losses on other assets	11	16.883	0.589
Other expenses	21	2.335	6.529
Total expenses		**456.978**	**397.947**
Profit before income tax		**106.274**	**168.595**
Income tax expense	28	-10.792	23.825
Profit for the year		**117.066**	**144.770**
Foreign currency translation differences for foreign operations		0.067	-13.794
Other comprehensive income / expense for the year		**0.067**	**-13.794**
Total comprehensive income for the year		**117.133**	**130.976**

Basic earnings per share (in kroons)	**33**	**1,463**	**1,810**
Diluted earnings per share (in kroons)	**33**	**1,463**	**1,810**

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Date/kuupäev....26.02.2010..........
Signature/allkiri..........
KPMG, Tallinn

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions of kroons)	Note	2009	2008
Cash flows from operating activities			
Interest received		405.209	576.068
Interest paid		-187.070	-207.462
Other operating expenses paid		-209.792	-242.317
Other income received		110.667	105.866
Other expenses paid		-3.912	-4.603
Recoveries of receivables previously written off		2.309	0.808
Received for other assets		0.741	-
Paid for other assets		-1.845	-1.130
Loans granted		-197.983	-889.374
Repayment of loans granted		384.474	700.387
Change in mandatory reserves with central banks and related interest receivables		-2.158	-54.332
Proceeds from customer deposits		909.155	574.108
Paid on redemption of deposits		-380.970	-157.825
Income tax paid		-32.512	-28.674
Effect of changes in exchange rates		-1.449	-1.381
Net cash from operating activities		**794.864**	**370.139**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets		-3.227	-25.327
Proceeds from sale of property and equipment		0.061	0.020
Net cash used in investing activities		**-3.166**	**-25.307**
Cash flows from financing activities			
Proceeds from bonds issued		-	154.363
Paid on redemption of bonds		-682.546	-281.771
Paid on redemption of subordinated bonds		-18.360	-
Proceeds from loans from banks		-	47.760
Repayment of loans from banks		-3.552	-184.566
Dividends paid	34	-19.000	-24.000
Net cash used in financing activities		**-723.458**	**-288.214**
Effect of exchange rate fluctuations		**1.267**	**-0.725**
Increase in cash and cash equivalents		**69.507**	**55.893**
Cash and cash equivalents at 1 January		**149.298**	**93.405**
Cash and cash equivalents at 31 December	**4**	**218.805**	**149.298**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In millions of kroons)	**2009**	**2008**
Share capital		
Balance at 1 January	80.000	80.000
Balance at 31 December	**80.000**	**80.000**
Reserves – statutory capital reserve		
Balance at 1 January	8.000	8.000
Balance at 31 December	**8.000**	**8.000**
Foreign currency translation reserve		
Balance at 1 January	-7.945	5.849
Change	0.067	-13.794
Balance at 31 December	**-7.878**	**-7.945**
Retained earnings		
Balance at 1 January	499.370	378.600
Profit for the year	117.066	144.770
Dividends paid	-19.000	-24.000
Balance at 31 December	**597.436**	**499.370**
Total equity at 31 December	**677.558**	**579.425**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

BIGBANK AS is a company incorporated and domiciled in Estonia that holds an activity licence of a credit institution. BIGBANK AS bonds are listed on Tallinn Stock Exchange and on Stockholm Stock Exchange. The consolidated financial statements as at and for the year ended 31 December 2009 comprise BIGBANK AS (also referred to as the "parent company") and its subsidiaries AS Baltijas Izaugsmes Grupa, OÜ Rüütli Majad and OÜ Balti Võlgade Sissenõudmise Keskus (together referred to as the "Group").

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

The consolidated financial statements as at and for the year ended 31 December 2009 were signed by the management board on 26 February 2010.

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

CHANGES IN ACCOUNTING POLICIES

Presentation of financial statements

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it is in conformity with the revised standard. As the change in policy only impacts presentation aspects, there is no impact on earnings per share.

Determination and presentation of operating segments

As of 1 January 2009, the Group determines and presents operating segments based on the information that internally is provided to the Group's management that is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*.

The change in accounting policy only impacts the presentation and disclosure aspects and there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance and for which financial information is available. Segment results that are reported to the Group's management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union.

BASIS OF PREPARATION

The financial statements are presented in Estonian kroons, which is the parent company's functional currency. The figures reported in the financial statements are presented in millions of Estonian kroons, rounded to three digits after the decimal point. The consolidated financial statements are prepared on the historical cost basis except that some assets and liabilities are measured at their fair value (financial instruments held for trading and financial instruments classified as available-for-sale) or amortised cost. Group entities apply, in all material respects, uniform accounting policies.

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

USE OF ESTIMATES AND JUDGEMENTS

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

In 2009, the real economies of the countries in which the Group operates experienced a slump with all the ensuing consequences that have exerted and may continue to exert an adverse impact on the performance of companies operating in such an environment. In preparing these consolidated financial statements, management relied on its assessment of how the Estonian and the global economic environment may affect the Group's financial performance and financial position. Owing to the volatility of the market situation, the effect of developments in the economic environment may differ materially from management's current estimates.

Critical judgements include estimates of the impairment of loans (note 1 *Financial instruments* and notes 2 and 7).

The carrying amounts of property and equipment are identified by applying internally established depreciation rates. The depreciation rates are determined by reference to the items' estimated useful lives (see below – Property and equipment).

Collateral transferred to the Group is reviewed on a regular basis and written down to reflect any additional impairment whenever necessary (see below – Other assets).

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

CONSOLIDATION

Subsidiaries

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

Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses and gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements but only to the extent that there is no evidence of impairment.

FOREIGN CURRENCY

Foreign currency transactions

Transactions in foreign currencies are recorded in Estonian kroons by applying the Bank of

Estonia exchanges rates ruling at the dates of the transactions. In the statement of financial position, assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Estonian kroons at the Bank of Estonia exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

Financial statements of the Group's foreign operations

The operation of the Group's entities in other countries is not regarded as an inherent part of Group's operation. Accordingly, the assets and liabilities of foreign operations are translated to Estonian kroons at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to Estonian kroons using the average foreign exchange rates for the period. Exchange differences arising on translating foreign operations are recognised in the statement of financial position (in the *Foreign currency translation reserve* in equity) and in the statement of comprehensive income (in the *Foreign currency translation differences* in other comprehensive income).

Offsetting

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

FINANCIAL INSTRUMENTS

Cash and cash equivalents

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

In the statement of financial position, cash and cash equivalents are measured at their amortised cost.

Financial assets

Financial assets comprise cash, short-term investments, loans to credit institutions and customers, other receivables and accrued income. A financial asset is initially recognised at its fair value.

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

Financial assets at fair value through profit or loss

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

Instruments acquired for trading purposes are recognised in current assets at their fair values. A gain or loss on an instrument that is held for trading is recognised in the statement of comprehensive income.

The fair value of held-for-trading instruments is their quoted ask price at the reporting date.

Loans and receivables

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

Impairment provisions and allowances for loans

Loans provided to customers are recognised in the statement of financial position in *Loans to* *customers*. Loans to customers are assessed for impairment and provided for at both a specific asset and collective level. If necessary, general provisions or allowances are made for covering the negative impacts of adverse changes in the economic environment and their estimation or forecasting errors as well as other exceptional circumstances.

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

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

General provisions and allowances are made on the occurrence of exceptional circumstances as and when necessary and respective decisions are made by the Group's management board.

Impairment assessment at a collective level

Homogeneous receivables of insignificant individual value are grouped when their historical settlement trends and collateral are similar.

An impairment allowance for a group of loans is found by multiplying the carrying value of the loans by the impairment rate assigned to the group. The impairment rate is determined based on the historical settlement characteristics of the group. Where sufficiently reliable historical data is not available, projections and estimates are used. Interest and other receivables associated with the loans are applied the same impairment rate that is assigned to the group.

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

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

Impairment assessment on a specific asset level

Loans that exceed 65,000 euros (i.e., 1,000,000 kroons or 45,000 lats or 220,000 litas), loans that have been classified as non-performing, and loans in respect of which there is other evidence of impairment are assessed for impairment on a specific asset (individual) level.

A specific impairment allowance is calculated as the difference between the nominal carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's effective interest rate. The cash flows of a loan that has been restructured due to settlement difficulties are discounted using the interest rate agreed between the parties prior to the restructuring.

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

Loans that exceed 65,000 euros (i.e., 1,000,000 kroons or 45,000 lats or 220,000 litas) and loans that have been classified as non-performing are assessed for impairment on a quarterly basis. Other individually assessed items are reassessed once per calendar month.

Non-performing loans

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

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

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

When a loan receivable is written off the statement of financial position, the carrying amount of the loan portfolio and the allowance for impairment are reduced by the appropriate amount. Recoveries of items written off the statement of financial position are accounted for off the statement of financial position; any subsequently recovered amounts are recognised as income.

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

PROPERTY AND EQUIPMENT

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

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

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

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life of each part of an item of property and equipment. Depreciation commences as of the acquisition of the item.

Land is not depreciated. The estimated useful lives are as follows:

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

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

INTANGIBLE ASSETS

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

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

Intangible assets are amortised over their estimated useful lives within 5 years at an annual rate of 20%.

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

IMPAIRMENT

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

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

For information on the impairment of financial assets, please refer to note 1 *Financial instruments.*

LEASES

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

The Group as a lessor

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

The Group as a lessee

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

OTHER ASSETS

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

Other assets are carried in the statement of financial position at the lower of cost and fair value less costs to sell. Other assets are written down when their cost exceeds their net realisable value. The amount of the write-down is determined as the difference between the carrying amount and fair value of an item. Where necessary, the fair value of an asset is determined using the assistance of qualified experts who form their opinion based on the actual prices of transactions conducted with similar assets during two months preceding the valuation. In the case of real estate, the actual transaction price is adjusted for the specific features of the asset by applying a suitable adjustment factor.

When the new fair value of an item exceeds the previous carrying amount, the previously determined write-down is reduced. However, the new fair value of an asset cannot exceed its acquisition cost.

FINANCIAL LIABILITIES

Financial liabilities comprise deposits from customers, liabilities arising from securities, accrued expenses and other liabilities.

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

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

Bonds issued and deposits

The principal of bonds and deposits is measured and recognised in the statement of financial position at its amortised cost using the effective interest rate method. Interest is calculated on a daily basis based on the actual number of days per year.

Subordinated bonds

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

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

INTEREST INCOME AND EXPENSE

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

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

OTHER INCOME

Other income comprises:

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

EMPLOYEE BENEFITS

The Group recognises liabilities and costs related to employee bonus schemes on an accrual basis if the bonuses can be contractually claimed, are clearly fixed, and are related to the prior accounting period.

CORPORATE INCOME TAX

In 2009, the earnings of Group entities were subject to the following tax rates:

BIGBANK AS (the parent company, Estonia), OÜ Rüütli Majad (a subsidiary, Estonia) and OÜ Balti Võlgade Sissenõudmise Keskus (a subsidiary, Estonia) – 0%; AS Baltijas Izaugsmes Grupa (a subsidiary, Latvia) and BIGBANK AS Latvijas filiale (a branch, Latvia) – 15%; BIGBANK AS filialas (a branch, Lithuania) - 15%; BIGBANK AS Suomen sivuliike (a branch, Finland) - 26%.

In 2008, the earnings of Group entities were subject to the following tax rates:

BIGBANK AS (the parent company, Estonia), OÜ Rüütli Majad (a subsidiary, Estonia) – 0%; AS Baltijas Izaugsmes Grupa (a subsidiary, Latvia) and BIGBANK AS Latvijas filiale (a branch, Latvia) – 15%; BIGBANK AS filialas (a branch, Lithuania) - 15%

In accordance with the effective Estonian Income Tax Act, only this portion of profit that is distributed as dividends is subject to income tax. The tax rate is a ratio of 21/79 of the amount distributed as the net dividend. The income tax payable on dividends is recognised as the income tax expense of the period in which the dividends are declared, irrespective of when the dividends are ultimately distributed.

Foreign subsidiaries recognise deferred tax liabilities and assets in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In the consolidated financial statements, deferred tax liabilities are recognised in the statement of financial position in *Deferred income tax liabilities*. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

EARNINGS PER SHARE

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

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

SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance and for which financial information is available. Segment results that are reported to the Group's management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED AND THEREFORE NOT APPLIED ON THE PREPARATION OF THESE FINANCIAL STATEMENTS

To date, a number of new standards, amendments to standards and interpretations have been published that are not yet effective for the year ended 31 December 2009, and have therefore not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial statements of the Group, except for *Eligible Hedged Items − Amendment to IAS 39 Financial Instruments: Recognition and Measurement*, which clarifies the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment, which becomes mandatory for the Group's 2010 consolidated financial statements, is not expected to have a significant impact on the consolidated financial statements.

NOTE 2. RISK MANAGEMENT

RISK MANAGEMENT STRATEGY

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

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

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

Risk management organisation and system

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

The management board is responsible for developing, establishing and applying the main risk management, control and coordination policies and deciding risk limits. Under the management board, there are a number of committees, which deal with specific types of risk. The credit committee and the assets and liabilities committee play a significant role in managing risks, approving risk procedures, monitoring the overall risk level, and deciding and monitoring the risk limits.

Risk management is an independent management function. The risks of all Group entities are controlled at Group level.

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

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

Adherence to general risk management principles, policies, methods and procedures as well as the application of relevant controls is overseen by the Group's internal audit unit.

RISK MANAGEMENT PRINCIPLES

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

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

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

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

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

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

The Group considers all risks it will or may encounter in its operation. All significant risks that may affect the Group's operation are identified, evaluated, analysed and reported.

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

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

Risks are controlled by dual supervision and the segregation of duties. A reliable treatment of risks is ensured by applying uniform evaluation principles and recognised quantification techniques.

Risks are identified before any business decision is adopted. Risks are taken only in areas that are familiar and where the Group has had positive experience and certain success.

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

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

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

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

CREDIT RISK

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

Risks related to the credit risk include:

- Concentration risk - the risk of being significantly exposed to a single counterparty or related counterparties or counterparties that are influenced by the same risk factor
- Settlement risk - the risk that a counterparty residing in a foreign country cannot discharge its obligations owing to restrictions imposed on international transfers by the laws of its domicile
- Country risk - the risk arising from the economic, political or social environment in the counterparty's domicile
- Collateral risk - the risk associated with the type, value, form and realisation procedure of the asset pledged as collateral for a transaction

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

Overall credit risk management is the responsibility of the Group's management board, the Group's credit committee and the credit committees established in Group entities' domiciles. In daily operations, credit risk management is the responsibility of credit managers and the staff or units assigned to credit control.

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

- Lending operations should generally be funded with operating cash flows
- In each customer relationship the risks have to be proportionate to associated benefits
- Each customer must have strong credit history

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

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

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

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

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

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

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

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

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

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

The management board organises the monitoring of both individual loans and the overall loan portfolio on an ongoing basis. On monitoring individual loans, the Group reviews throughout the loan term how the borrower discharges the obligations (settlement, insurance, and mortgaging obligations, etc.) taken under the loan and collateral agreements. On monitoring the overall loan portfolio, the Group reviews the amounts of loans granted in terms of the total amount and individual loan products, the number of loans granted in terms of the total amount and individual loan products, the terms of loans granted in terms of the total amount and individual loan products, loan repayments (including principal, interest, late payment interest, and other charges) and the maturity structure of the loan portfolio and the debtors' liabilities. The Group uses the information thus obtained for classifying loans, determining the carrying amount of receivables and making management decisions

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

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

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

Another measure for controlling credit risk is dispersing exposures. The average loan amount is determined as the two-fold average monthly salary. At 31 December 2009, the average loan amount was 22 thousand kroons with the 40 largest loans accounting for 3.0% of the total loan portfolio.

The Group provides loans to individuals. Although the solvency of individuals may deteriorate temporarily it does not usually disappear completely. In an environment characterised by a low overall debt burden and a legal system that provides for sophisticated and effective collection proceedings such as Estonia or the Baltic countries as a whole, recovery of the overdue debts of individuals is a matter of the right time horizon rather than potential non-recovery.

The size of the loan portfolio is limited on two levels. First, by determining the ratio of the loan portfolio to total assets and, secondly, by assigning limits to the total size of the loan portfolio.

To obtain an overview of the exposures of the total loan portfolio, the credit risk analysis and monitoring department observes the development of the loan portfolio, prepares relevant reports and conducts regular stress tests that focus on the effects that various possible although not highly probable events may have on the Group's capital adequacy. Such events include growth in settlement arrears due to adverse changes in the macroeconomic environment, specific developments and changes in the dynamics of settlement defaults.

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

The Group makes provisions for the impairment of loans. To cover the risks related to settlement behaviour and potential loan losses, the Group has established impairment allowances, which at 31 December 2009 totalled 409.015 million kroons or 19.9% of loans to customers. The allowances have been established on a conservative basis. The principles underlying the calculation of the allowances are described in detail in note 1 and further information on impairment allowances for loans to customers is presented in note 7.

<u>CONCENTRATION RISK</u>

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

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

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

At 31 December 2009, the Group did not have any customers with a high-risk concentration, i.e., customers whose liability would have exceeded 10% of the Group's net own funds.

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

- Focusing on serving individuals
- Identifying customers using due procedure
- Determining the customers' reciprocal relations through relevant questionnaires and enquiries

The Group monitors the concentration of its credit risk exposure to any single factor and limits, where necessary, its exposure to any customer group that is related to or impacted by that factor.

<u>COLLATERAL RISK</u>

Collateral risk is the risk arising from the type, value, form, and realisation procedure of the asset pledged as collateral for a transaction.

The Group consciously limits its collateral risk, assuming that its lending policies and volumes mitigate credit risk more effectively than the receipt of the collateral and the cash flows arising from the latter.

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

Collateral risk is managed using the following principles:

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

OTHER RISKS RELATED TO CREDIT RISK

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

- Country risk is the risk arising from the economic, political or social environment in the counterparty's domicile. The Group controls country risk by monitoring the size of the subsidiaries' and branches' portfolios. The main control technique is providing credit to individuals residing in the country where the Group operates that have regular income in the country of the Group's domicile.
- Business risk or strategic risk is the risk arising from inadequate operating decisions, deficient execution of operating decisions, changes in the operating environment or customer behaviour, or incompatible responses to technological advances. The Group is aware that the rapid growth of recent years will increase its future credit risk significantly

and that the risks of financing the consumption of individuals are influenced by changes in the economic cycle that may lower the Group's profitability. The risk is mitigated by selecting a payment size that is appropriate for the customer.

Market risk

Market risk is exposure to changes in market values. The main market risks that impact the Group are currency risk and interest rate risk. The Group's exposure to market risks arises from positions that are affected by changes in a market's risk factors. The factors are interest rates and foreign exchange rates.

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

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

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

Management of the subsidiaries' currency and interest rate risks is organized by the Group. Overall currency and interest rate risk management is the responsibility of the Group's management board. Direct currency and interest rate risk management is the responsibility of the Group's director of finance.

The Group's core activity is provision of credit to individuals. As a rule, liquid funds are kept with the central banks and commercial banks that operate in the Group's operating region. The Group does usually not take market or trading risks.

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

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

The Group avoids interest rate risk on loans granted by fixing the interest rate in the loan agreement. The Group protects itself against interest rate risk by charging a higher rate of return on loans granted. The Group performs regular stress tests to evaluate its interest rate risk. Further information on the evaluation of interest rate risk is presented in note 23.

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

The Group operates in countries whose currencies have stable exchange rates or that use euro as a means of payment. The Estonian kroon is pegged to the euro at a fixed exchange rate by law. The Lithuanian litas and the Latvian lats are the national currencies of EU member states whose exchange rates are fixed by the central banks of the respective countries and are pegged to the euro. Exchange rate fluctuations are limited to a permissible fluctuation corridor established by law. Information on currency exposures is provided in note 24.

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

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

LIQUIDITY AND FINANCING RISKS

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

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

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

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

The overall financing and liquidity risk management is the responsibility of the Group's management board. Direct financing and liquidity risk management is the responsibility of the Group's director of finance.

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

The following principles are applied:

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

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

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

Financing and liquidity risks are managed by applying the following limits:

- Ratio of liquid assets to total assets – at least 5% of total assets
- Liquidity reserve – at least 5% of the loan portfolio
- Liquid assets (excluding the reserves with the central banks) - at least equal to current and next month's portfolio growth and the current month's refinancing needs
- Ratio of equity to assets – at least 10% of total assets
- Ratio of loan portfolio to total assets – at most 90% of total assets
- Capital adequacy – 10%
- The proportion of one investor may not exceed 15% of total financing
- The proportion of one class of financing sources may not exceed 60% of total financing
- Within a 6 or 12-month period liabilities may not account for more than 50% of receivables

Subsidiaries and branches are set subsidiary limits that correspond to the Group's overall limits.

The Group maintains a liquidity reserve that is necessary and sufficient for sustaining its operations. As a rule, liquid assets are placed with the central banks.

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

If the Group has more free funds than necessary for meeting the mandatory reserve requirements, the funds may be placed in money market and liquidity funds that can be released within 24 hours.

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

The Group controls financing and liquidity risks by adjusting (limiting and reducing) the proportion of the loan portfolio. Where prompt response is necessary, the Group restricts the issuance of new loans. Should it appear that the Group is not capable of funding its ordinary operations to the required extent, issuance of loans will be reduced to the extent that receipts on previously issued credit will cover the Group's existing financial obligations.

The Group uses mainly the following financing sources:

- Equity
- Term deposits
- Bank loans
- Subordinated instruments
- Bonds

The Group disperses its financing sources and liabilities by diversifying the sources in terms of financing providers and instruments (individuals, companies, institutional investors, large investors, financial institutions, etc).

The Group is aware that a significant proportion of the funds raised in the market is trust-sensitive and with a high repayment concentration.

The volume of small deposits grows relatively steadily. Accordingly, deposits may be used to raise funds in the short-term perspective. In the long term, however, deposit financing is influenced by the interest rate policy, changes in the bank's reliability and promotional activities.

The Group deems it necessary to maintain a presence in international markets because the size of the Estonian debt securities market does not allow raising funds for the Group's long-term development.

The Group optimizes its capital structure and long-term financing by using subordinated debt instruments.

The Group considers it important that a significant proportion of financing has been raised from growth in equity through the generation of profit, and relative growth in equity has been comparable to the growth in the loan portfolio. As a result, equity to assets ratio has not decreased significantly.

The Group expects to mitigate its financing risk by applying the following measures:

- Actively attracting deposits
- Dispersing deposits by maturity
- Dispersing deposits geographically
- Limiting bond issues to series

OPERATIONAL RISK

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

Operational risk entails the following risks:

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

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

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

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

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

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

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

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

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

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

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

The Group insures itself against risks with low probability but a potentially severe financial impact (natural disasters, fires, etc).

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

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

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

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

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

The Group has reporting systems in place for selecting a treatment for and registering loss events and threats and accounting for and analysing risk indicators.

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

Adherence to internal rules and regulations is strictly controlled.

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

Legal risk is managed using the following principles:

- Legal services are provided by the Group's legal department, which consists of qualified legal professionals, and the Group's lawyers.
- The Group's service agreements are based on model forms prepared by the Group's legal department and approved by the Group's management board. The forms are regularly reviewed and updated.
- The Group checks compliance with effective operating regulations and requirements using regular independent testing.
- Where necessary, the Group requests legal opinions from recognised law offices and notaries.

Strategic risk management is based on the principle that business goals and targets are fixed on the approval of the annual budget. Achievement of goals and targets is regularly measured and, where necessary, adjustments are made to the budget.

Reputation risk management is based on the following principles:

- The Group's reputation is an important asset.
- Reputation building begins from customer service.
- The Group takes public opinion seriously.
- The Group values the confidentiality of customer information.

Security risk is managed by applying the following principles:

- The security of assets has to be maintained to the extent required by the Group for sustaining normal and uninterrupted operation and achieving its business goals and targets under the most probable threats.
- Physical security is ensured by establishing relevant rules and implementing relevant means. Security measures have to be economically practicable and their intruding impact on the operation of the Group and the activities of the staff should be as limited as possible.
- Resources are reviewed on a regular basis.
- User rights to assets are granted in line with professional needs.
- Each asset is in the possession of an individual user that is responsible for it. People whose responsibilities include proprietary liability for the safekeeping of certain assets sign relevant agreements upon appointment to such a position.
- Resources and use of resources are protected by applying generally accepted security measures.
- Customers and partners are identified every time.
- The Group's employees are trained to detect potential fraud, using, among other methods, the assistance of appropriately qualified specialists
- Services are paid for using non-cash methods.

Information technology risk is managed using the following principles:

- The Group has adopted IT rules that regulate, among other things, preparing and using disaster recovery plans, making backup copies, applying access controls to workstations and servers and tracking and recording operations and changes.
- Application and software should be developed and modified in accordance with relevant development plans that are fully documented and devised in partnership with the users.
- Any application used by the Group has to be fully tested and properly installed and implemented. Access to applications has to be clearly defined and duly restricted.

Personnel risk management is based on the following principles:

- Employees are recruited in accordance with the recruitment principles established by the Group's management.
- New employees are assigned an adequate trial period and their background is checked before the signature of the contract.
- Employees have detailed job descriptions that outline their duties and responsibilities and applicable reporting and communication systems.
- The professional competencies of the credit department are evaluated on a regular basis.
- The Group trains its staff in the performance of their professional duties and responsibilities and knowledge of applicable regulations and policies.
- When temporary employees are hired, their powers are duly restricted and additional controls are implemented to ensure adherence to applicable rules and regulations.
- Remuneration levels have to reflect the required skills and competencies and the remuneration system has to foster the behaviours desired by the Group.

- Remuneration is determined considering the risk of losing the key staff and the risks inherent in personnel turnover.
- People employed in sensitive positions are required to take at least two consecutive weeks of leave every year.
- The Group has adopted rules that regulate conflicts of interest, ethical standards, the confidentiality of customer information, and sales practices and their suitability.

Control and management risk is managed using the following principles:

- The Group has established rules that provide measures for responding to violations and breaches of different degree and specify the regulations that have to be observed in the event of continuing or increasing violation of legislation or internal rules.
- The Group has defined its structural units and employee positions and roles.
- The Group has determined the key personnel and their roles. Changes in the key personnel are communicated to all significant counterparties.
- No person should be able or allowed to perform a transaction from beginning to end. Internal rules segregate duties and responsibilities between persons and functions so that performance and control are clearly separated. The risks arising from human error and fraud are mitigated by applying the duality principle whereby transactions and operations have to be accepted by at least two independent employees.
- Employees may accept obligations on behalf of the Group only within the limits established by the management board.
- All main business processes require the approval of at least two employees or units.
- The Group has established a framework for limits.

Regulatory risk is managed by applying the following principles:

- The Group avoids regulatory risk.
- Changes in the regulatory environment are anticipated and recognised in advance. Their impact is assessed and, where necessary, preparations are made for the implementation of new regulation.

Procedural risk management is based on the following principles:

- The Group's day-to-day operations are regulated by sufficient rules and routines established by the Group's management board.
- Transactions and operations are checked after their recording by persons independent of the performers of the transactions or operations.
- Any deviations from the terms and conditions of the model agreement form have to be agreed with the lawyers of the Group's legal department and registered in the credit decision.

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

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

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

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

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

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

CAPITAL MANAGEMENT

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

The Group has set itself the target of maintaining at least a 15% capital adequacy ratio both at the level of the Group and the parent company. At 31 December 2009, the capital adequacy ratio was 26.4%, exceeding the required level almost two-fold.

The maximum dividend distribution amounts to 15% of the company's profit for a financial year.

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

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

RATIOS

BIGBANK observes the prudential ratios provided in the Credit Institutions Act and other relevant legislation. The Group has not been issued any precepts or notices and has not been subjected to any correctional procedures by persons exercising state supervision over its activity. BIGBANK has not been penalized for non- or defective compliance with prudential ratios and persons exercising state supervision have not executed any proceedings in order to determine the circumstances of BIGBANK's non- or defective compliance with prudential ratios.

The main prudential ratios include:

- Minimum amount of own funds
  - BIGBANK's own funds comprise of equity and subordinated bonds.
  - BIGBANK observes the requirements established for the minimum amount of own funds and the reciprocal proportions of own funds.
  - BIGBANK's own funds are described in note 34 and note 15 (subordinated bonds).
- Capital adequacy
  - At 31 December 2009, BIGBANK's capital adequacy ratio (Basel II) was 26.4%, exceeding the mandatory level of 10% more than two-fold. At 31 December 2008, the capital adequacy ratio calculated in line with Basel II was 19.3%.
  - BIGBANK has set itself the target of maintaining its capital adequacy ratio in the next few years significantly above the mandatory level.
- Limitations on concentration of exposures
  - BIGBANK's loan portfolio comprises of small loans and the concentration of exposures is very low.
  - At 31 December 2009 and 31 December 2008, the Group did not have any high risk customers whose liability would have accounted for more than 10% of the Group's net own funds.
  - At 31 December 2009, the average loan amount was 22,000 kroons (31 December

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2008: 16,980 kroons).

- The largest exposure to a single customer amounted to 5.453 million kroons (31 December 2008: 5.778 million kroons) accounting for 0.2% of the loan portfolio (31 December 2008: 0.2%). At 31 December 2009, 40 largest loans accounted for 3.0% of the loan portfolio (31 December 2008: 3.0%).
- The largest risk exposure connected with other receivables accounts for 6.2% of the Group's net own funds, amounting to 47.737 million kroons (2008: 7.8% and 54.494 million kroons respectively) (see note 8).

- Limitations on participation in companies (BIGBANK AS does not have any shareholdings outside its consolidation group).

In accordance with effective legislation, BIGBANK AS maintains mandatory reserves with the central banks. The size of the mandatory reserve is 15% of the Group's debt financing, less liabilities to local credit institutions.

The size of the mandatory reserve is determined monthly. The requirement for the next month is calculated by reference to the balance of liabilities at the end of the previous month (the month preceding the current one). The reserve requirement has to be complied with as a monthly average. There are no restrictions on using the reserve during the month. Further information on the mandatory reserve is provided in note 4.

CAPITAL ADEQUACY

(In millions of kroons)	31 Dec 2009	31 Dec 2008
Paid-up share capital	80.000	80.000
Reserves established from profit (capital reserve)	8.000	8.000
Earnings retained in prior periods	480.370	354.600
Foreign currency translation reserve	-7.878	-7.945
Intangible assets	-4.457	-6.240
Profit for the period	102.066	144.770
Tier 1 capital	**658.101**	**573.185**
Subordinated liabilities	115.263	121.381
Tier 2 capital	**115.263**	**121.381**
Deductions	**-**	**-**
Total capital used to determine capital adequacy	**773.364**	**694.566**
Capital requirements		
Claims on central governments and central banks, standardized approach	9.905	6.614
Claims on credit institutions and investment firms, standardized approach	4.754	7.434
Claims on companies, standardized approach	1.477	1.782
Retail claims, standardized approach	80.452	96.341
Claims secured by real estate, standardized approach	12.861	8.171
Claims in arrears, standardized approach	102.132	107.824
Other assets, standardized approach	17.619	31.288
Total capital requirement for credit risk and counterparty risk	**229.200**	**259.454**
Capital requirement for foreign exchange risk	**10.623**	**56.675**
Capital requirement for operational risk, basic indicator approach	-	43.307
Capital requirement for operational risk, standardized approach	**52.726**	**-**
Total capital requirements	**292.549**	**359.436**
Capital adequacy	**26.44%**	**19.32%**

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

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

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

- Paid-up share capital
- Reserves and capital reserve formed based on the law and the articles of association using profit
- Audited profits retained in prior periods
- Profit for the current year that has been checked by the credit institution's auditor, less the amount set aside for a dividend distribution

In calculating Tier 1 capital, the following is deducted:

- Intangible assets

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

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

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

Subordinated debt with unspecified and fixed terms with residual maturity of less than five years shall be shown at reduced value in accordance with subsection 74^1(7) of the Credit Institutions Act (during five years as from the residual maturity the initial sum shall be reduced by 20 per cent a year, i.e. by 5 per cent after every three months).

BIGBANK has obtained permission from the Financial Supervision Authority to include its subordinated bonds in Tier 2 capital.

The Group has no Tier 3 capital.

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

In determining the capital requirement for foreign exchange risk for 2009, the Group has taken into account the exposures covered by the devaluation clause (see notes 24 and 32).

NOTE 3. INTERNAL CONTROL SYSTEM

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

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

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

NOTE 4. DUE FROM CENTRAL BANKS AND CASH EQUIVALENTS

(In million of kroons)

Due from central banks	**31 Dec 2009**	**31 Dec 2008**
Mandatory reserves	332.308	330.094
Surplus on the mandatory reserves with central banks	145.140	0.076
Interest due from central banks	0.068	0.550
Total due from central banks	**477.516**	**330.720**

(In millions of kroons)

Cash equivalents	**31 Dec 2009**	**31 Dec 2008**
Demand and overnight deposits with credit institutions	49.893	148.672
Term deposits with credit institutions	23.704	-
Surplus on the mandatory reserves with central banks	145.140	0.076
Interest due from central banks	0.068	0.550
Total cash equivalents	**218.805**	**149.298**

The mandatory reserves with central banks have to amount to 15.0% of debt financing, less liabilities to local credit institutions. The mandatory reserves are calculated based on the statement of financial position as of the end of the month before last. The required level has to be complied with as a monthly average. There are no restrictions on using the reserves during the month.

NOTE 5. LOANS TO CUSTOMERS

(In millions of kroons)	31 Dec 2009	31 Dec 2008
Loan receivables from customers	2,226.537	2,321.090
Impairment allowance for loans	-305.865	-176.981
Interest receivables from customers	236.060	183.472
Impairment allowance for interest receivables	-66.186	-24.940
Additional impairment allowance	-36.964	-8.860
Total loans to customers including interest and allowances	**2,053.582**	**2,293.781**

Loans by loan type

(In millions of kroons)	31 Dec 2009	31 Dec 2008
Loans against income	1,690.967	1,777.312
Surety loans	320.404	347.911
Loans secured with real estate	215.166	195.867
Total loan receivables	**2,226.537**	**2,321.090**

The above receivables are measured at amortised cost.

Loans by currency specified in the loan agreement

(In millions of kroons)	31 Dec 2009	31 Dec 2008
EEK	474.882	776.093
EUR	1,400.129	1,025.804
LTL	52.575	83.819
LVL	298.951	435.374
Total loan receivables	**2,226.537**	**2,321.090**

Ageing analysis

(In millions of kroons)					31.12.2009
	up to 30 days*	31-60 days	61-90 days	over 90 days	Total
Loans against income					
Loan portfolio	736.643	71.858	72.674	809.792	**1,690.967**
Impairment allowance	27.272	2.937	4.034	210.987	**245.230**
Additional impairment allowance	11.032	1.011	0.974	16.088	**29.105**
Surety loans					
Loan portfolio	166.524	15.024	15.105	123.751	**320.404**
Impairment allowance	6.309	0.767	0.796	29.643	**37.515**
Additional impairment allowance	2.574	0.203	0.219	2.056	**5.052**
Loan secured with real estate					
Loan portfolio	131.723	9.505	6.602	67.336	**215.166**
Impairment allowance	4.139	0.730	0.386	17.865	**23.120**
Additional impairment allowance	1.745	0.157	0.093	0.812	**2.807**

*Including loans not past due.

(In millions of kroons)	up to 30 days	31-60 days	61-90 days	over 90 days	31.12.2008 Total
Loans against income					
Loan portfolio	938.001	89.985	49.753	699.573	**1,777.312**
Impairment allowance	9.006	1.036	1.657	130.937	**142.636**
Additional impairment allowance	4.223	0.424	0.240	2.855	**7.742**
Surety loans					
Loan portfolio	193.043	21.906	10.657	122.305	**347.911**
Impairment allowance	1.020	0.195	0.216	21.271	**22.702**
Additional impairment allowance	0.465	0.062	0.025	0.264	**0.816**
Loan secured with real estate					
Loan portfolio	80.768	15.241	4.623	95.235	**195.867**
Impairment allowance	0.368	0.245	0.025	11.005	**11.643**
Additional impairment allowance	0.071	0.003	0.005	0.223	**0.302**

NOTE 6. PAST DUE LOANS

Past due loans (In millions of kroons)	**Estonia**	**Latvia**	**31 Dec 2009** **Lithuania**
Up to 30 days	1.290	0.652	0.298
31 - 60 days	1.459	0.884	0.263
61-90 days	1.571	1.202	0.184
Over 90 days	395.327	410.693	66.752
Total past due loans	**399.647**	**413.431**	**67.497**

Past due loans (In millions of kroons)	**Estonia**	**Latvia**	**31 Dec 2008** **Lithuania**
Up to 30 days	3.704	2.774	0.594
31 - 60 days	4.916	2.631	0.765
61-90 days	6.734	7.847	1.190
Over 90 days	461.306	386.282	41.255
Total past due loans	**476.660**	**399.534**	**43.804**

Past due loans in the table above comprise overdue loan principal. In accordance with the terms of the loan agreements, the Group may cancel the agreement unilaterally if at least three scheduled payments are in arrears. When an agreement is cancelled, the customer has to settle the outstanding loan principal, any interest receivable, and any collateral claims resulting from the settlement delay.

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

NOTE 7. IMPAIRMENT ALLOWANCES FOR LOANS AND INTEREST RECEIVABLES

(In millions of kroons)	31 Dec 2009	31 Dec 2008
Change in impairment allowances for loans and interest receivables		
Balance at beginning of period	**-210.781**	**-101.663**
Items written off the statement of financial position	42.153	23.578
Increase/decrease in allowances	-241.045	-133.334
Effect of movements in exchange rates	0.658	0.638
Balance at end of period	**-409.015**	**-210.781**

Impairment losses on loans and associated receivables

	2009	2008
Recovery of loans and interest written off the statement of financial position	2.279	0.944
Impairment losses on loans and interest receivables*	-241.045	-134.440
Impairment losses on other associated receivables*	-1.107	-10.981
Total impairment losses	**-239.873**	**-144.477**

* The rates used for establishing impairment allowances for interest and other associated receivables are equal to those applied to underlying loans.

BIGBANK AS is currently the only bank in the region that focuses on the provision of consumer finance only. Major changes that occurred in the macroeconomic environment of the Baltic countries in 2009 have prompted several changes to the Group's credit risk assessment policy.

In connection with the adoption of an updated policy for the evaluation of the credit risk of new loan applications, the settlement behaviour and risk status of new loans have improved considerably in all the Group's markets, i.e., Estonia, Latvia and Lithuania. As a result, the growth in past due loans from the new portfolio has decelerated. Moreover, the settlement behaviour of loans issued before 2009 has also proven better than projected.

Depending on their nature, loans and associated receivables are established either specific (individual) or collective (group-level) impairment allowances.

The impairment rate for a group of homogeneous loans approximates the maximum loss rate expected from the group (calculated as the ratio of loans written off the statement of financial position to the loans issued in the respective product group during the period, adjusted for subsequent recoveries). The same rate is applied to any accruals associated with the loans belonging to the group. From 2009, loan groups include higher-risk groups whose impairment rate is determined based on the probability of the debtors' insolvency and the impairment rate assigned to non-performing loans. Such groups include agreements that have been granted a grace period (repayment holiday) of a certain duration or have been restructured.

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

A loan is classified as non-performing when the Group has exercised its right to cancel the loan agreement unilaterally. Regardless of cancellation, a loan is classified as non-performing when the borrower is at least ninety (90) days in arrears.

Upon individual assessment, impairment is determined as the difference between the nominal carrying value of the loan and the present value of its expected future cash flows discounted at the effective interest rate. Cash flows are forecast taking into account the phase of the recovery proceedings and its estimated duration.

To mitigate hard-to-estimate risks associated with settlement behaviour and to cover unexpected loan losses, in 2009 the Group established general impairment allowances, which at 31 December 2009 totalled 13.600 million kroons in Estonia, 22.843 million kroons in Latvia, and 0.521 million kroons in Lithuania. The allowances were established on a conservative basis. In 2008, the Group established general impairment allowances in Latvia, which at 31 December 2008 totalled 8.860 million kroons.

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

- The Group mainly provides loans to individuals (at 31 December 2009: approx. 98.6% of the loan portfolio). The solvency of individuals may deteriorate temporarily but it does not usually disappear completely (except in the event of death, permanent incapacity for work, etc). In a legal system that provides for reliable and effective collection proceedings such as Estonia or the Baltic countries as a whole, recovery of the overdue debts of individuals is a matter of the right time horizon rather than potential non-recovery.
- Loans are granted under carefully drafted legal agreements and recovery proceedings are performed in full compliance with applicable regulations. According to the Group's assessment, the Estonian, Latvian and Lithuanian legislation and legal practice do currently not involve any features that might exert a significant negative impact on the recovery of receivables.
- The Group applies proactive, flexible and effective debt management and recovery policies.
- The loans granted by the Group are below average: the average outstanding loan balance does not exceed the two-fold average monthly salary. Smaller receivables are generally easier to recover even under the circumstances of a severe economic downturn because the borrower's settlement power is not hindered by the scarcity of (re)financing opportunities and the receivables can usually be settled with regular monthly income.
- The Group's loan portfolio is well dispersed – at 31 December 2009, the average loan amount was 22 thousand kroons and 40 largest loans accounted for 3.0% of total loans.

The collection of non-performing consumer loans that are not secured with a mortgage differs significantly from the recovery of mortgage-backed loans because consumer loans that are in arrears are usually not settled in a lump sum but in instalments over an extended period. If payments are collected and transferred by a bailiff, the Group classifies the loan as non-performing despite the positive cash flow. As a result, the duration of the collection proceedings causes cumulative growth in the proportion of non-performing loans although the settlement behaviour need not deteriorate. Nor does a longer collection period usually refer to significant changes in the originally planned profitability of the loan because in addition to the loan amount the customer has to settle any collateral claims arising from the collection proceedings.

The Group's historical recovery rate for non-performing loans has been high and in direct correlation with the duration of collection proceedings. For example (based on the Estonian portfolio), in the case of loans whose execution proceedings were instigated at least two years ago, settlements made to date account for 77% of the loan balance originally transferred for execution. In the case of loans whose execution proceedings were instigated at least three years ago, amounts recovered to date are at least equal to the loan balance originally transferred for execution. However, in the case of those loans, proceedings will continue for the recovery of collateral claims until all claims have been satisfied.

To mitigate credit risk and cover potential credit losses, the Group has established impairment allowances, which at 31 December 2009 totalled 409.015 million kroons or 16.6% of loan and interest receivables (the corresponding figures for the end of 2008 were 210.781 million kroons and 8.4%). Impairment allowances for loans and associated receivables are established on a conservative basis.

Impairment allowances by loan groups

(In millions of kroons)					**31 Dec 2009**
2009	**Loans to customers**	**Impairment allowance for loans**	**Loan interest receivable**	**Impairment allowance for loan interest**	**Total impairment allowances**
Homogeneous groups	1,145.349	31.713	81.720	25.050	56.763
Individually assessed items	1,081.188	274.152	160.681	41.136	315.288
Collective assessment	-	36.964	-	-	36.964
Total	**2,226.537**	**342.829**	**242.401**	**66.186**	**409.015**

In 2009, cash flow forecasts were influenced by four main factors:

- Owing to growing unemployment and a fall in private incomes, the proportion of loans with a period of grace or other concessions has increased; as a result, repayment periods have lengthened.
- During the year, the proportion of non-performing loans that were in the execution phase rose to 40%. In the execution phase, receipts on non-performing loans increase considerably.
- Compared with 2008, realisation of loan collateral through execution proceedings has become more time-consuming and the realisable value of the collateral has decreased. The Group has made additional impairment allowances for potential losses that may be incurred due to the decline in the value of loan collateral and the extension of the realisation period.
- In 2009, the Group wrote off the statement of financial position (recognised as an expense) a larger amount of loan receivables than in the previous periods. Items written off in 2009 totalled 42.153 million kroons compared with 23.578 million kroons in 2008.

Due to the combined influence of the above factors, in 2009 the impairment rate for individually assessed loans rose in all of the Group's markets, i.e., in Estonia, Latvia and Lithuania.

NOTE 8. OTHER RECEIVABLES AND PREPAYMENTS

(In millions of kroons)

Other receivables and prepayments	**31 Dec 2009**	**31 Dec 2008**
Other receivables	55.145	57.604
Prepayments	25.258	4.733
Total other receivables and prepayments	**80.403**	**62.337**

(In millions of kroons)

Other receivables	**31 Dec 2009**	**31 Dec 2008**
Late payment interest and penalty payments receivable	1.264	0.060
Commissions and fees receivable	0.077	0.104
Collection fees and other charges receivable	18.120	13.559
Guarantee and deposit payments made	1.095	1.179
Miscellaneous receivables	47.787	54.860
Impairment allowance for other receivables	-13.198	-12.158
Total other receivables	**55.145**	**57.604**

In 2008, the Group began working with the Latvian debt collection company SIA Vidzemes Inkasso to whom it sold receivables of 54.494 million kroons. The sales price of the transaction was the gross amount of the receivables. At the same time, the carrying value of the receivable from SIA Vidzemes Inkasso was discounted at the rate equal to the pre-transaction impairment rate applied to the loans sold. At 31 December 2008, the carrying amount of the receivable was 44.591 million kroons

The amount due for the transaction is to be settled in line with actual collections from customers but not later than within seven years (in equal instalments). The principal receivable is increased by participation in the profit earned on the amounts collected by the collection company in excess of the principal receivable (on a customer-by-customer basis).

In 2009, the Group did not earn any profit on the transaction. During the period, the Group collected 6.691 million kroons. At the end of 2009 the gross amount of the receivables is 47.737 million kroons, and the carrying amount is 39.064 million kroons.

(In millions of kroons)

Prepayments	**31 Dec 2009**	**31 Dec 2008**
Prepaid taxes	22.039	2.025
Other prepayments	3.219	2.708
Total prepayments	**25.258**	**4.733**

NOTE 9. INTANGIBLE ASSETS

(In millions of kroons)	**31 Dec 2009**	**31 Dec 2008**
Purchased software licences		
Cost at beginning of period	**10.790**	**10.332**
Purchases	0.513	0.345
Write-off	-0.318	-
Sales	-	-0.158
Effect of changes in exchange rates	-0.001	-0.005
Prepayments for intangible assets	-	0.276
Cost at end of period	**10.984**	**10.790**
Amortisation at beginning of period	**-4.550**	**-2.516**
Amortisation charge for the period	-1.978	-2.037
Write-off	0.001	-
Effect of changes in exchange rates	-	0.003
Amortisation at end of period	**-6.527**	**-4.550**
Carrying amount at beginning of period	**6.240**	**7.816**
Carrying amount at end of period	**4.457**	**6.240**

NOTE 10. PROPERTY AND EQUIPMENT

31 Dec 2009

(In millions of kroons)	**Land and buildings**	**Other items**	**Total**
Cost at beginning of period	**38.127**	**29.372**	**67.499**
Purchases	-	1.543	1.543
Sales	-	-0.778	-0.778
Write-off	-	-0.295	-0.295
Effect of changes in exchange rates	-	-0.018	-0.018
Cost at end of period	**38.127**	**29.824**	**67.951**

(In millions of kroons)	Land and buildings	Other items	Total
Depreciation at beginning of period	**-4.922**	**-13.440**	**-18.362**
Depreciation charge for the period	-1.249	-7.802	-9.051
Write-off	-	0.887	0.887
Effect of changes in exchange rates	-	0.004	0.004
Depreciation at end of period	**-6.171**	**-20.351**	**-26.522**
Carrying amount at beginning of period	**33.205**	**15.932**	**49.137**
Carrying amount at end of period	**31.956**	**9.473**	**41.429**

31 Dec 2008 (In millions of kroons)	Land and buildings	Other items	Total
Cost at beginning of period	**20.221**	**21.720**	**41.941**
Purchases	17.906	8.186	26.092
Sales	-	-0.045	-0.045
Write-off	-	-0.391	-0.391
Effect of changes in exchange rates	-	-0.099	-0.099
Cost at end of period	**38.127**	**29.372**	**67.499**
Depreciation at beginning of period	**-3.749**	**-6.886**	**-10.635**
Depreciation charge for the period	-1.173	-6.975	-8.148
Sales	-	0.004	0.004
Write-off	-	0.391	0.391
Effect of changes in exchange rates	-	0.026	0.026
Depreciation at end of period	**-4.922**	**-13.440**	**-18.362**
Carrying amount at beginning of period	**16.472**	**14.834**	**31.306**
Carrying amount at end of period	**33.205**	**15.932**	**49.137**

NOTE 11. OTHER ASSETS

(In millions of kroons)	31 Dec 2009	31 Dec 2008
Collateral acquired	32.509	22.363
Total other assets	**32.509**	**22.363**

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

Other assets include plots, houses and apartments. In the current macroeconomic situation, realisation of collateral may be an extended process. In 2009, the proportion of loans secured with real estate increased from 8.3% measured at the end of 2008 to 9.7%.

In 2009, acquired collateral was written down by 16.883 million kroons (2008: 0.589 million kroons).

NOTE 12. LOANS FROM BANKS

	31 Dec 2009			31 Dec 2008		
(In millions of kroons)	Current	Non-current	Total	Current	Non-current	Total
AS Swedbank	3.574	7.696	**11.270**	3.619	11.248	**14.867**
Total loans from banks	**3.574**	**7.696**	**11.270**	**3.619**	**11.248**	**14.867**

The interest rates of loans taken by the Group as at 31 December 2009:

- A long-term bank loan from Swedbank AS: interest rate 1.95% plus 6 month EURIBOR

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NOTE 13. DEPOSITS FROM CUSTOMERS

(In millions of kroons)	31 Dec 2009	31 Dec 2008
Term deposits	1,173.213	630.612
Term deposits by customer type		
Individuals	1,076.484	540.724
Legal persons	96.729	89.888
Term deposits by currency		
EEK	779.348	512.437
EUR	383.639	116.278
LVL	10.226	1.897
Term deposits by maturity		
Maturing within 6 months	480,266	317,501
Maturing between 6 and 12 months	504,139	281,114
Maturing between 12 and 18 months	67,463	19,524
Maturing between 18 and 24 months	49,486	4,583
Maturing in over 24 months	71,859	7,890
Average deposit amount	0.152	0.105
Weighted average interest rate	6.93%	8.00%
Weighted average duration until maturity (months)	9.920	6.347
Weighted average total contract term (months)	14.613	12.571

ANNUAL INTEREST RATES OF DEPOSITS OFFERED TO CUSTOMERS AS AT 31 DECEMBER 2009:

Offered deposit interest rates depend on the country as well as the deposit term, currency and amount. Interest rates range from 1.20% to 12.60% per year. The lowest interest rates are offered for short-term euro deposits and the highest rates for longer-term Latvian lats (LVL) deposits. Deposit terms range from 1 month to 5 years.

NOTE 14. OTHER LIABILITIES AND DEFERRED INCOME

(In millions of kroons)

Other liabilities	**31 Dec 2009**	**31 Dec 2008**
Payables to suppliers	2.944	5.322
Payables to employees	3.123	3.838
Taxes payable	4.080	10.072
Other payables	2.182	2.086
Total other liabilities	**12.329**	**21.318**

Deferred income	**31 Dec 2009**	**31 Dec 2008**
Prepayments from customers	8.345	7.079
Total deferred income	**8.345**	**7.079**
Total other liabilities and deferred income	**20.674**	**28.397**

NOTE 15. BONDS AND SUBORDINATED BONDS ISSUED

Bonds issued		
(In millions of kroons)	**31 Dec 2009**	**31 Dec 2008**
Balance of bonds	**780.184**	**1,487.592**
Bonds by holder type		
Individuals	7.067	71.708
Legal persons	773.117	1,415.884
Bonds by currency		
EEK	0.648	3.131
EUR	779.536	1,434.926
LTL	-	49.535
Bonds by maturity		
Bonds redeemable within 6 months	78.867	151.866
Bonds redeemable between 6 and 12 months	15.641	64.016
Bonds redeemable between 12 and 18 months	685.676	-
Bonds redeemable between 18 and 24 months	-	1,271.710

Subordinated bonds issued		
(In millions of kroons)	**31 Dec 2009**	**31 Dec 2008**
Balance of subordinated bonds	**122.269**	**172.357**
Subordinated bonds by holder type		
Individuals	4.042	4.455
Legal persons	118.227	167.902
Subordinated bonds by currency		
EEK	59.720	172.357
EUR	62.549	-
Subordinated bonds by maturity		
Redeemable between 6 and 12 months	-	50.976
Redeemable in over 24 months	122.269	121.381

Bonds are issued in placements arranged for institutional investors.

At 31 December 2009, the interest rates of bonds were as follows:

Bond 31 March 2011: 7.5% plus 3 month EURIBOR; Bond 26 April 2014: 6% plus 3 months EURIBOR; Bond 30 January 2014: 7% plus 3 month EURIBOR; Bond 1 October 2015: 12.5%; Bond 1 April 2010: 10.5%; Bond 1 October 2010: 12.5%.

NOTE 16. INTEREST INCOME

(In millions of kroons)	**2009**	**2008**
Interest income on loans to customers	574.831	670.823
Interest income on deposits	8.542	15.432
Total interest income	**583.373**	**686.255**

NOTE 17. INTEREST EXPENSE

(In millions of kroons)	**2009**	**2008**
Interest expense on bonds	142.671	213.290
Interest expense on deposits	55.414	29.770
Interest expense on bank loans	0.558	5.282
Total interest expense	**198.643**	**248.342**

NOTE 18. NET GAIN/LOSS ON FINANCIAL TRANSACTIONS

(In millions of kroons)	2009	2008
Foreign exchange losses	6.115	3.541
Foreign exchange gains	4.343	0.792
Net loss on financial transactions	**-1.772**	**-2.749**

NOTE 19. OTHER INCOME

(In millions of kroons)	2009	2008
Income from debt collection proceedings	124.938	129.017
Income from early redemption of bonds	53.747	2.747
Miscellaneous income	3.332	1.001
Total other income	**182.017**	**132.765**

NOTE 20. SALARIES AND OTHER OPERATING EXPENSES

Salaries and associated charges

(In millions of kroons)	2009	2008
Salaries	69.212	84.920
Social security and unemployment insurance charges on salaries	20.844	24.727
Employee health costs and fringe benefits with associated taxes	1.561	2.896
Total salaries and associated charges	**91.617**	**112.543**

Other operating expenses

(In millions of kroons)	2009	2008
Marketing expenses	24.281	35.531
Stamp duties	11.268	22.206
Rental expenses	16.975	15.491
Other services	6.676	7.456
Telephone and similar expenses	6.817	7.106
Postal supplies and charges	4.641	5.345
Office expenses	2.102	3.527
Training expenses	0.748	3.313
Car costs	1.685	2.159
Assets of insignificant value	0.647	2.045
Collection and intermediation fees	5.337	1.964
Repair and renovation expenses	0.654	1.558
Miscellaneous operating expenses	13.349	15.926
Total other operating expenses	**95.180**	**123.627**

NOTE 21. OTHER EXPENSES

(In millions of kroons)	2009	2008
Supervision fee to the Financial Supervision Authority	1.083	1.016
Representation costs	0.585	0.751
Contributions to the Guarantee Fund	0.022	0.502
Donations	-	0.016
Miscellaneous expenses	0.645	4.244
Total other expenses	**2.335**	**6.529**

NOTE 22. OPERATING LEASES

THE GROUP AS A LESSOR

The Group leases out office premises in its office building at Rüütli 21 in Tartu. In the statement of financial position, the premises are classified as items of property and equipment.

Operating lease income (In millions of kroons)	**2009**	**2008**
Operating lease income of the period	0.148	0.076
Operating lease rentals receivable in subsequent periods		
Within 1 year	0.173	0.069
Between 1 and 5 years	0.309	-

THE GROUP AS A LESSEE

The Group uses the following assets under operating leases:

- Cars: leases expire between 2010 and 2013; at 31 December 2009, there were 10 effective leases

Operating lease expenses on cars (In millions of kroons)	**2009**	**2008**
Operating lease expense of the period	0.636	0.771
Non-cancellable operating lease rentals payable in subsequent periods		
Within 1 year	0.582	0.585
Between 1 and 5 years	1.537	1.250

- Office premises: leases expire between 2010 and 2014; at 31 December 2009, there were 33 effective leases.

Operating lease expenses on office premises (In millions of kroons)	**2009**	**2008**
Operating lease expense of the period	16.974	18.895
Non-cancellable operating lease rentals payable in subsequent periods		
Within 1 year	13.049	17.633
Between 1 and 5 years	36.267	21.486

NOTE 23. ASSETS AND LIABILITIES BY REMAINING MATURITY

(In millions of kroons)

31 Dec 2009	**Past due**	**Less than 1 month**	**1 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and due from central banks	-	551,113	-	-	-	**551,113**
Loans to customers	795,225	31,049	249,492	459,766	518,050	**2 053,582**
Including loan portfolio	625,351	31,049	249,492	459,766	518,050	**1 883,708**
Including net interest receivables	169,874	-	-	-	-	**169,874**
Total assets	**795,225**	**582,162**	**249,492**	**459,766**	**518,050**	**2 604,695**

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(In millions of kroons)

31 Dec 2009	**Past due**	**Less than 1 month**	**1 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Liabilities						
Loans from banks	0,022	0,296	3,256	7,696	-	**11,270**
Including linked to 6 month EURIBOR	0,022	0,296	3,256	7,696	-	**11,270**
Bonds issued (including subordinated bonds)	0,648	-	93,860	745,396	62,549	**902,453**
Including linked to 3 month EURIBOR	-	-	-	745,396	-	**745,396**
Including linked to 12 month EURIBOR	-	-	93,860	-	62,549	**156,409**
Deposits from customers	-	83,270	901,135	187,131	1,677	**1 173,213**
Total liabilities	**0,670**	**83,566**	**998,251**	**940,223**	**64,226**	**2 086,936**
Open position	**794,555**	**498,596**	**-748,759**	**-480,457**	**453,824**	**517,759**

(In millions of kroons)

31 Dec 2008	**Past due**	**Less than 1 month**	**1 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and due from central banks	-	479.392	-	-	-	**479.392**
Loans to customers	900.591	49.289	313.364	628.551	397.560	**2,289.355**
Including loan portfolio	746.486	49.289	313.364	628.551	397.560	**2,135.250**
Including net interest receivables	154.105	-	-	-	-	**154.105**
Total assets	**900.591**	**528.681**	**313.364**	**628.551**	**397.560**	**2,768.747**
Liabilities						
Loans from banks	-	0.363	3.256	11.248	-	**14.867**
Including linked to 6 month EURIBOR	-	0.363	3.256	11.248	-	**14.867**
Bonds issued (including subordinated bonds)	0.660	100.195	166.003	1,271.710	121.381	**1,659.949**
Including linked to 3 month EURIBOR	-	-	-	1,271.710	121.381	**1,393.091**
Including linked to 6 month EURIBOR	-	-	50.975	-	-	**50.975**
Deposits from customers	0.960	17.097	580.557	31.998	-	**630.612**
Total liabilities	**1.620**	**117.655**	**749.816**	**1,314.956**	**121.381**	**2,305.428**
Open position	**898.972**	**411.025**	**-436.452**	**-686.404**	**276.178**	**463.319**

The Group mitigates the interest rate risk of loans granted by fixing the rate in the loan agreement. The Group protects itself against interest rate risk by charging a higher rate of return on loans granted. Part of the Group's liabilities is linked to EURIBOR.

NOTE 24. NET CURRENCY POSITIONS

(In millions of kroons)	Position in the statement of financial position		Position off the statement of financial position		31 Dec 2009 Net position
	Assets	Liabilities	Assets	Liabilities	
EEK	945.599	846.741	-	-	98.858
EUR	1,412.530	1,244.700	-	0.271	167.559
LVL	*366.902*	*15.131*	-	-	*351.771*
*Including LVL**	*254.016*	-	-	-	
LVL adjusted	112.886	15.131	-	-	97.755
LTL	*55.852*	*1.213*	-	-	*54.639*
*Including LTL**	*46.171*	-	-	-	
LTL adjusted	9.681	1.213	-	-	8.468
SEK	0.004	-	-	-	0.004

(In millions of kroons)	Position in the statement of financial position		Position off the statement of financial position		31 Dec 2008 Net position
	Assets	Liabilities	Assets	Liabilities	
EEK	1,213.483	709,000	-	0.302	504.181
EUR	1,053.153	1,551.203	-	-	-498.050
LVL	544.006	18.351	-	-	525.655
LTL	91.760	50.845	-	-	40.915
SEK	0.182	-	-	-	0.182

The loans issued by the Group are denominated in the currency of the relevant region or in euros. Currently, loans are only issued in euros and the proportion of loans denominated in euros grew throughout 2009.

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

* Agreements providing that if the national currency is devalued, any amounts to be repaid or paid under them will be adjusted to the extent of the devaluation. Taking into account the LVL positions that are protected by the above devaluation clause, the Group's actual LVL net position would be 97.755 million kroons and the actual LTL position would be 8.468 million kroons.

NOTE 25. SEGMENT REPORTING

Based on the Group's internal management structure, segment reporting is presented in respect of geographical segments. The Group does not have different business segments.

In presenting information by geographical segments, segment revenue, expenses, assets and liabilities are based on their geographical location.

GEOGRAPHICAL SEGMENTS, STATEMENT OF COMPREHENSIVE INCOME INDICATORS

2009 (In millions of kroons)	**Estonia**	**Latvia**	**Lithuania**	**Other**	**Elimina-tions**	**Consoli-dated**
External income						
Interest income	265.646	239.317	78.407	0.003	-	583.373
Net fees and commissions	-0.944	-0.423	-0.353	-0.003	-	-1.723
Other income	95.949	65.100	20.968	-	-	182.017
Total external income	**360.651**	**303.994**	**99.022**	**-**	**-**	**763.667**
Inter-segment income	**223.117**	**2.899**	**-**	**-**	**-226.016**	**-**

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2009 (In millions of kroons)	**Estonia**	**Latvia**	**Lithuania**	**Other**	**Elimina-tions**	**Consoli-dated**
Net gain/loss on financial transactions	-0.960	-1.299	-0.008	-0.001	0.496	-1.772
Interest expense						
External interest expense	194.736	2.689	-	1.218	-	198.643
Inter-segment interest expense	2.949	112.070	29.389	0.007	-144.415	-
Total interest expense	**197.685**	**114.759**	**29.389**	**1.225**	**-144.415**	**198.643**
Net income	**385.123**	**190.835**	**69.625**	**-1.226**	**-81.105**	**563.252**
Salaries and associated charges	92.085	61.351	30.026	3.335	-	186.797
Depreciation and amortisation expense	6.820	3.459	0.811	-	-	11.090
Impairment losses on loans, receivables and other assets	-145.563	-92.407	-18.786	-	-	-256.756
Other expenses	1.424	0.783	0.099	0.029	-	2.335
Profit / loss before tax	**139.231**	**32.835**	**19.903**	**-4.590**	**-81.105**	**106.274**
Income tax expense	-	10.999	-	-	-	10.999
Change in deferred tax	-	21.791	-	-	-	21.791
Profit / loss for the year	**139.231**	**43.627**	**19.903**	**-4.590**	**-81.105**	**117.066**

2008 (In millions of kroons)	**Estonia**	**Latvia**	**Lithuania**	**Other**	**Eliminat-ions**	**Consoli-dated**
External income						
Interest income	342.298	289.163	54.794	-	-	686.255
Other income	63.210	60.889	8.666	-	-	132.765
Total external income	**405.508**	**350.052**	**63.460**	**-**	**-**	**819.020**
Inter-segment income	**143.539**	**-**	**-**	**-**	**-143.539**	**-**
Net fees and commissions	-0.848	-0.259	-0.280	-	-	-1.387
Total income	**548.199**	**349.793**	**63.180**	**-**	**-143.539**	**817.633**
Interest expense						
Interest expense	248.217	0.009	-	0.116	-	248.342
Inter-segment interest expense	-	100.530	19.083	-	-119.613	-
Total interest expense	**248.217**	**100.539**	**19.083**	**0.116**	**-119.613**	**248.342**
Net gain/loss on financial transactions	-1.697	-0.695	-0.251	-	-0.106	-2.749
Total net income	**298.285**	**248.559**	**19.083**	**-0.116**	**-24.032**	**566.542**
Salaries and associated charges	107.150	94.338	34.682	-	-	236.170
Depreciation and amortisation expense	6.834	2.738	0.610	-	-	10.182
Impairment losses on loans, receivables and other assets	-59.660	-74.782	-10.624	-	-	-145.066
Other expenses	2.539	3.510	0.480	-	-	6.529
Profit / loss before tax	**122.102**	**73.191**	**-27.313**	**-0.116**	**-24.032**	**168.595**
Income tax expense	-	23.825	-	-	-	23.825
Profit / loss for the year	**122.102**	**49.366**	**-2.550**	**-0.116**	**-24.032**	**144.770**

GEOGRAPHICAL SEGMENTS, STATEMENT OF FINANCIAL POSITION INDICATORS

31 Dec 2009 (In millions of kroons)	Estonia	Latvia	Lithuania	Other	Elimina-tions	Consoli-dated
Cash and due from banks	484.096	42.820	6.313	17.884	-	551.113
Including from central banks	465.677	11.839	-	-	-	477.516
Inter-segment cash and due from banks	-	175.784	10.037	-	-185.821	-
Loans to customers	966.783	833.136	253.663	-	-	2,053.582
Including loans	1,058.652	903.751	264.134	-	-	2,226.537
Including impairment allowances for loans	-165.377	-152.868	-24.584	-	-	-342.829
Including interest receivables	103.659	114.190	18.211	-	-	236.060
Including impairment allowances for interest receivables	-30.151	-31.937	-4.098	-	-	-66.186
Inter-segment loans to customers	1,312.934	-	-	-	-1,312.934	-
Other receivables and prepayments	15.950	60.168	4.452	0.054	-0.221	80.403
Deferred income tax assets	-	21.675	-	-	-	21.675
Property and equipment and intangible assets	40.722	3.568	1.543	0.053	-	45.886
Other assets	23.214	9.295	-	-	-	32.509
Total segment assets	**2,843.699**	**1,146.446**	**276.008**	**17.991**	**-1,498.976**	**2,785.168**
Loans from banks	21.307	1,029.588	273.953	0.476	-1,314.054	11.270
Deposits from customers	1,187.575	61.410	-	101.718	-177.490	1,173.213
Other liabilities and deferred income	10.167	6.939	3.408	0.381	-0.221	20.674
Bonds issued including subordinated bonds	902.453	-	-	-	-	902.453
Total segment liabilities	**2,121.502**	**1,097.937**	**277.361**	**102.575**	**-1,491.765**	**2,107.610**
Equity	**649.184**	**48.508**	**-1.353**	**-4.591**	**-14.190**	**677.558**

31 Dec 2008	**Estonia**	**Latvia**	**Lithuania**	**Other**	**Elimina-tions**	**Consoli-dated**
(In millions of kroons)						
Cash and due from banks	395.681	78.478	5.233	-	-	479.392
Including from central banks	330.720	-	-	-	-	330.720
Loans to customers	1,154.621	922.272	216.888	-	-	2,293.781
Including loans	1,158.937	945.310	216.843	-	-	2,321.090
Including impairment allowances for loans	-84.810	-91.363	-9.668	-	-	-185.841
Including interest receivables	92.514	80.148	10.810	-	-	183.472
Including impairment allowances for interest receivables	-12.020	-11.823	-1.097	-	-	-24.940
Inter-segment loans to customers	1,206.094	-	-	-	-1,206.094	-
Other receivables and prepayments	11.796	47.582	2.970	-	-0.011	62.337
Property and equipment and intangible assets	46.494	6.715	2.168	-	-	55.377
Other assets	16.240	6.123	-	-	-	22.363
Total segment assets	**2,830.926**	**1,061.170**	**227.259**	**-**	**-1,206.105**	**2,913.250**
Loans from banks	14.867	952.922	246.744	-	-1,199.666	14.867
Deposits from customers	618.075	3.729	-	8.808	-	630.612
Other liabilities and deferred income	7.253	19.346	1.809	-	-0.011	28.397
Bonds issued including subordinated bonds	1,659.949	-	-	-	-	1,659.949
Total segment liabilities	**2,300.144**	**975.997**	**248.553**	**8.808**	**-1,199.677**	**2,333.825**
Equity	**522.090**	**85.173**	**-21.294**	**-0.116**	**-6.428**	**579.425**

NOTE 26. ASSETS PLEDGED AS COLLATERAL

- The Group's immovable property at Rüütli 21/23 in Tartu is subject to a second-ranking mortgage of 10.500 million kroons to secure liabilities to Danske Bank AS Estonian branch (formerly AS Sampo Pank).
- The Group's immovable property at Rüütli 21/23 in Tartu is subject to a first-ranking mortgage of 4.420 million kroons to secure liabilities to AS SEB Liising.
- An apartment ownership at Tartu mnt 18 in Tallinn is subject to a mortgage of 9.400 million kroons to secure liabilities to AS Swedbank.
- Apartment ownerships at Tartu mnt 18 in Tallinn are subject to a mortgage of 14.000 million kroons to secure liabilities to AS Swedbank.

NOTE 27. CONTINGENT LIABILITIES

Contingent liabilities include a letter of guarantee issued to ensure meeting commitments under a loan agreement concluded between BIGBANK AS' subsidiary OÜ Rüütli Majad and AS Swedbank, The guaranteed amount is 17.760 million kroons.

At 31 December 2009, the unused portions of the Group's credit lines totalled 0.271 million kroons (31 December 2008: 0.302 million kroons).

NOTE 28. INCOME TAX EXPENSE

(In millions of kroons)	**31 Dec 2009**	**31 Dec 2008**
Current income tax expense*	10.999	23.825
Change in deferred income tax**	-21.791	-
Total income tax expense	**-10.792**	**23.825**

* The current income tax expense has been calculated on the net profit earned in Latvia in 2009 and 2008. In accordance with the Estonian Income Tax Act, in 2009 profit distributions, including dividend distributions, were subject to income tax at the rate of 21/79. Income tax is paid in addition to the dividend distribution. The income tax payable on dividends may be reduced by 21/79 of the dividends received from subsidiaries and associates.

** From 2009, the deferred income tax receivable of the Latvian subsidiary is recognised in the consolidated statement of financial position as a deferred tax asset and in the consolidated statement of comprehensive income within income tax expense as a change in deferred income tax.

Recognised deferred tax assets

(In millions of kroons)	**31 Dec 2009**	**31 Dec 2008**
Deductible temporary differences	21.675	-
Total	**21.675**	**-**

At 31 December 2009, the deferred tax assets from deductible temporary differences comprised an allowance for impairment losses on loans of 21.659 million kroons, a vacation pay liability of 0.095 million kroons and a difference between the depreciation reported for financial accounting and tax purposes of -0.079 million kroons.

Unrecognised deferred tax assets

(In millions of kroons)	**31 Dec 2009**	**31 Dec 2008**
Deductible temporary differences	-0.096	17.462
Tax losses	1.747	3.177
Total	**1.651**	**20.639**

The income tax assets from the operation of the Lithuanian and Latvian branches have not been recognised because according to management's estimates they cannot be utilised in the foreseeable future.

Change in unrecognised deferred income tax assets over time

(In millions of kroons)	**31 Dec 2009**	**Change 2009**	**31 Dec 2008**	**Change 2008**	**31 Dec 2007**
Deductible temporary differences	-0.096	-17.558	17.462	10.876	6.586
Tax losses	1.747	-1.430	3.177	0.592	2.585
Total	**1.651**	**-18.988**	**20.639**	**11.468**	**9.171**

Relationship between the accounting profit and income tax expense

(In millions of kroons)	**2009**	**2008**
Group's profit before tax	106.274	168.595
Tax rate applicable to the parent company: 0%	-	-
Effect of tax rates in foreign jurisdictions	10.999	23.825
Recognised change in deferred income tax	-21.791	-
Income tax expense for the period	-10.792	23.825

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NOTE 29. CONTINGENT INCOME TAX LIABILITY

At 31 December 2009, the Group's undistributed profits totalled 597.436 million kroons

The maximum income tax liability that could arise if all of the profits were distributed as dividends amounts to 125.462 million kroons and the maximum amount that could be distributed as the net dividend is 471.974 million kroons.

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the dividend tax expense reported in the income statement for 2010 cannot exceed the total distributable profits as of 31 December 2009.

NOTE 30. RELATED PARTIES

Parties are related if one controls the other or exerts significant influence on the other's business decisions. Related parties include:

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

In 2009, the remuneration of members of the Group's management and supervisory boards including taxes totalled 5.600 million kroons and 0.941 million kroons respectively.

In 2009, OÜ Edelatuulik Invest, a company in which Linda Terras, a member of the supervisory board of BIGBANK AS, is a shareholder, entered into term deposit agreements with BIGBANK AS. At 31 December 2009, the deposit balances totalled 7.0 million kroons and interest accrued but not paid on the deposits amounted to 0.580 million kroons. The interest rates of the deposits did not differ from the ones offered to other customers depositing similar amounts at the time.

The Group's shareholders are minority shareholders in the Latvian collection company SIA Vidzemes Inkasso (holding a 20% interest each). The Group's shareholders do not control SIA Vidzemes Inkasso and do not participate in the governing bodies of SIA Vidzemes Inkasso. Further information on transactions conducted between the Group and SIA Vidzemes Inkasso is presented in note 8.

NOTE 31. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair values of the assets and liabilities reported in the consolidated statement of financial position as of 31 December 2009 do not differ significantly from their carrying amounts. The fair values of publicly traded debt securities issued by BIGBANK AS have been measured without considering the prices of relevant market transactions because the volumes and number of the transactions were not sufficient to provide a reasonable basis for this.

(In millions of kroons)

Financial assets as at 31 December 2009	**Carrying amount**	**Fair value**
Due from central banks	477.516	477.516
Due from banks	73.597	73.597
Loans to customers	2,053.582	2,053.582
Other receivables (Note 8)	55.145	55.145
Total financial assets	**2,659.840**	**2,659.840**

Financial assets as at 31 December 2008	**Carrying amount**	**Fair value**
Due from central banks	330.720	330.720
Due from banks	148.672	148.672
Loans to customers	2,289.355	2,289.355
Other receivables (Note 8)	57.604	57.604
Total financial assets	**2,826.351**	**2,826.351**

(In millions of kroons)

Financial liabilities at 31 December 2009	Carrying amount	Fair value
Loans from banks	11.270	11.270
Deposits from customers	1,173.213	1,173.213
Other liabilities and deferred income	20.674	20.674
Bonds issued	780.184	780.184
Subordinated bonds	122.269	122.269
Total	**2,107.610**	**2,107.610**

Financial liabilities at 31 December 2008	Carrying amount	Fair value
Loans from banks	14.867	14.867
Deposits from customers	630.612	630.612
Other liabilities and deferred income	28.397	28.397
Bonds issued	1,487.592	1,487.592
Subordinated bonds	172.357	172.357
Total	**2,333.825**	**2,333.825**

NOTE 32. SENSITIVITY ANALYSIS

INTEREST RATE RISK

Part of the Group's liabilities has fixed interest rates and part is linked to EURIBOR.

The following table provides an overview of the effect of changes in EURIBOR on the Group's profit and equity assuming that the volume and structure of liabilities remain constant (as at the end of 2009).

					31 Dec 2009
(In millions of kroons)	**Amount**	**Including fixed interest rate**	**Including linked to EURIBOR**	**Change upon 1% rise in EURIBOR**	**Change upon 1% decrease in EURIBOR**
Loans from banks	11.248	-	11.248	-0.113	0.113
Bonds issued, including subordinated	901.473	0.563	900.910	-7.445	5.271
Deposits from customers	1,144.392	1,144.392	-	-	-
Total	**2,057.113**	**1,144.955**	**912.158**	**-7.558**	**5.384**

CURRENCY RISK

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

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

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

(In millions of kroons)	**Exposure**	**Change 10%**	**31 Dec 2009**
		Monetary impact	**Percentage of equity**
EEK	98.858	9.886	1.5%
LVL*	97.755	9.776	1.4%
LTL*	8.468	0.847	0.1%
SEK	0.004	-	0.0%
Total	**205.085**	**20.509**	**3.0%**

* The LVL and LTL exposures have been adjusted for the assets protected by the devaluation clause (see note 24).

NOTE 33. EARNINGS PER SHARE

	2009	**2008**
Net profit for the period (in millions of kroons)	117.066	144.770
Number of shares at beginning of period	80,000	80,000
Number of shares at end of period	80,000	80,000
Weighted average number of ordinary shares outstanding	80,000	80,000
Earnings per share (in kroons)	1,463	1,810

The Group does not have any potential dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

NOTE 34. EQUITY

SHARE CAPITAL

BIGBANK AS is a limited liability company, whose minimum and maximum authorised share capital amount to 80.000 million kroons and 240.000 million kroons respectively. Share capital is made up of ordinary shares with a par value of one thousand kroons each. Each share carries one vote at meetings of the company, allowing the shareholder to participate in the management of the company, the distribution of profits and the distribution of residual assets on the dissolution of the company.

STATUTORY CAPITAL RESERVE

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

FOREIGN CURRENCY TRANSLATION RESERVE

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

UNRESTRICTED EQUITY

At 31 December 2009, the Group's unrestricted equity amounted to 597.436 million kroons (31 December 2008: 499.370 million kroons).

DIVIDENDS

In 2008 and 2009, the company made the following dividend distributions:

- 2008: 300.000 kroons per share, i.e., 24.000 million kroons in aggregate
- 2009: 237.500 kroons per share, i.e., 19.000 million kroons in aggregate

NOTE 35. EVENTS AFTER THE REPORTING DATE

After the reporting date, BIGBANK has acquired international bonds previously issued by it on the Stockholm Stock Exchange. The redemption date of the repurchased bonds was March 2011 and total nominal value was 245.182 million kroons. In addition, BIGBANK has acquired domestic bonds issued by it on the Tallinn Stock Exchange. The redemption dates of the repurchased bonds were in 2010 and total nominal value was 45.735 million kroons.

NOTE 36. THE PARENT COMPANY'S UNCONSOLIDATED PRIMARY FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at 31 December (In millions of kroons)	**2009**	**2008**
ASSETS		
Due from central banks	477.516	330.720
Due from banks	47.427	71.625
Loans to customers	1,573.923	1,381.140
Receivables from subsidiaries	1,049.607	960.683
Other receivables and prepayments	21.449	14.681
Investments in subsidiaries	9.522	9.482
Intangible assets	4.184	5.924
Property and equipment	11.389	16.842
Other assets	23.214	16.241
TOTAL ASSETS	**3,218.231**	**2,807.338**
LIABILITIES		
Deposits from customers	1,666.908	630.612
Other liabilities and deferred income	17.017	14.268
Bonds issued	780.184	1,487.592
Subordinated bonds	122.269	172.357
TOTAL LIABILITIES	**2,586.378**	**2,304.829**
EQUITY		
Share capital	80.000	80.000
Capital reserve	8.000	8.000
Earnings retained in prior periods	395.509	296.562
Profit for the period	148.344	117.947
TOTAL EQUITY	**631.853**	**502.509**
TOTAL LIABILITIES AND EQUITY	**3,218.231**	**2,807.338**

STATEMENT OF COMPREHENSIVE INCOME

(In millions of kroons)	**2009**	**2008**
Interest income	538.263	498.214
Interest expense	219.833	247.362
Net interest income	**318.430**	**250.852**
Dividend income	81.235	23.970
Net fees and commissions	-1.333	-1.128
Net gain / loss on financial transactions	-0.891	-1.980
Other income	124.337	71.756
Total income	**521.778**	**343.470**
Salaries and associated charges	72.540	68.270
Other operating expenses	75.696	77.328
Depreciation and amortisation expense	8.759	6.572
Impairment losses on loans and receivables	201.236	69.776
Impairment losses on other assets	13.406	0.589
Other expenses	1.797	2.988
Total expenses	**373.434**	**225.523**
Profit for the year	**148.344**	**117.947**

STATEMENT OF CASH FLOWS

(In millions of kroons)	2009	2008
Cash flows from operating activities		
Interest received	293.950	341.664
Interest paid	-186.466	-206.549
Other operating expenses paid	-151.944	-148.200
Other income received	50.400	45.793
Other expenses paid	-3.644	-4.312
Recoveries of receivables previously written off	2.024	0.808
Received for other assets	0.741	-
Paid for other assets	-1.845	-1.130
Loans granted	-507.067	-598.855
Repayment of loans granted	270.943	501.516
Change in mandatory reserves with central banks and related interest receivables	-2.158	-54.332
Proceeds from customer deposits	1,083.733	574.108
Paid on redemption of deposits	-380.970	-157.825
Effect of changes in exchange rates	-0.168	-0.656
Net cash from operating activities	**467.529**	**292.030**
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-7.030	-5.441
Proceeds from sale of property and equipment	0.061	0.171
Paid for investment in a subsidiary	-0.040	-
Dividends received	80.666	23.831
Net cash from investing activities	**73.657**	**18.561**
Cash flows from financing activities		
Proceeds from bonds issued	-	154.363
Paid on redemption of bonds	-682.546	-281.771
Paid on redemption of subordinated bonds	-18.360	-
Proceeds from loans from banks	-	30.000
Repayment of loans from banks	-	-180.764
Proceeds from loans from companies	330.490	-
Repayment of loans from companies	-31.432	-
Dividends paid	-19.000	-24.000
Net cash used in financing activities	**-420.848**	**-302.172**
Effect of exchange rate fluctuations	**0.046**	**-0.067**
Increase in cash and cash equivalents	**120.384**	**8.352**
Cash and cash equivalents at 1 January	**72.251**	**63.899**
Cash and cash equivalents at 31 December	**192.635**	**72.251**

	31 Dec 2009	31 Dec 2008
Demand and overnight deposits with banks	39.229	71.625
Term deposits with banks	8.198	-
Surplus on mandatory reserves with central banks	145.140	0.076
Interest receivable from central banks	0.068	0.550
Total	**192.635**	**72.251**

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STATEMENT OF CHANGES IN EQUITY

(In millions of kroons)	2009	2008
Share capital		
Balance at 1 January	80.000	80.000
Balance at 31 December	**80.000**	**80.000**
Reserves – statutory capital reserve		
Balance at 1 January	8.000	8.000
Balance at 31 December	**8.000**	**8.000**
Retained earnings		
Balance at 1 January	414.509	320.562
Profit for the year	148.344	117.947
Dividends paid	-19.000	-24.000
Balance at 31 December	**543.853**	**414.509**
Total equity at 31 December	**631.853**	**502.509**

SIGNATURES

The management board has prepared the Group's review of operations and the consolidated financial statements for 2009.

	Date	Signature
Targo Raus Chairman of Management Board	26.02.2010	
Kaido Saar Member of Management Board	26.02.2010	
Veiko Kandla Member of Management Board	26.02.2010	
Ingo Põder Member of Management Board	26.02.2010	

KPMG Baltics AS
Narva mnt 5
Tallinn 10117
Estonia

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of BIGBANK AS

We have audited the accompanying consolidated financial statements of BIGBANK AS and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 18 to 70.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 26 February 2010

KPMG Baltics AS

Andres Root
Partner

Eero Kaup
Authorized Public Accountant

PROFIT ALLOCATION PROPOSAL

The consolidated retained earnings of BIGBANK AS:

Earnings retained in prior periods as at 31 December 2009	480.370 million kroons
Net profit for 2009	117.066 million kroons
Total retained earnings	597.436 million kroons

The management board proposes that the general meeting allocate the retained earnings as follows:

1. Dividend distribution (up to 187.5 kroons per share)	Up to 15.000 million kroons
2. Retained earnings after allocations	582.436 million kroons

Targo Raus
Chairman of
Management Board

Kaido Saar
Member of
Management Board

Veiko Kandla
Member of
Management Board

Ingo Põder
Member of
Management Board