BIGBANK AS

Annual report

2010

BIGBANK AS

ANNUAL REPORT

Company name:	BIGBANK AS
Registry:	Commercial Register of the Republic of Estonia
Registration number:	10183757
Date of entry:	30 January 1997
Address:	Rüütli 23, 51006 Tartu, Estonia
Telephone:	3 727 377 570
Fax:	3 727 377 582
E-mail:	bigbank@bigbank.ee
Corporate website:	www.bigbank.ee
Date of report:	31 December 2010
Beginning of financial year:	1 January 2010
End of financial year:	31 December 2010
Chairman of the Management Board:	Targo Raus
Auditors:	KPMG Baltics OÜ, 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:	The reporting currency is the Estonian kroon and numerical data is 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 auditors' report and a profit allocation proposal. The document contains 68 pages.

From 28 February 2011 *Annual report 2010* 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 group includes four 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
Business line:	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
Business line:	Real estate management
Ownership interest:	100%

Company name:	OÜ Kaupmehe Järelmaks
Address and domicile:	Rüütli 23, 51006 Tartu, Estonia
Registration number:	11906650
Registry:	Commercial Register of the Republic of Estonia
Date of entry:	10 March 2010
Business line:	Provision of consumer loans
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
Business line:	Provision of debt collection services
Ownership interest:	100%

Subsidiaries of OÜ Balti Võlgade Sissenõudmise Keskus:

Company name:	SIA Baltijas Parādu Piedziņas Centrs
Address and domicile:	Brīvības iela 151, LV-1012 Riga, Latvia
Registration number:	40103305206

Registry:	Register of Enterprises of the Republic of Latvia
Date of entry:	7 July 2010
Business line:	Provision of debt collection services
Ownership interest:	100%

Company name:	UAB Baltijos Skolų Išieškojimo Centras
Address and domicile:	Jogailos 4, Vilnius 01116, Lithuania
Registration number:	302534867
Registry:	Register of Enterprises of the Republic of Lithuania
Date of entry:	6 August 2010
Business line:	Provision of debt collection services
Ownership interest:	100%

In addition, BIGBANK AS has a branch in Lithuania (registered in 2007), a branch in Latvia (registered in 2008) and a branch in Finland (registered in 2009). At the end of 2010 BIGBANK AS established a branch in Spain.

BUSINESS AND FINANCIAL REVIEW

In 2010, BIGBANK AS (also referred to in this report as “BIGBANK” or “the Group”) continued generating a profit and restored growth in its loan portfolio.

The key theme of 2010 was expansion of foreign operations, both in the area of loans and deposits. BIGBANK started offering loans in Finland at the beginning of 2010 and by the year-end the Finnish loan portfolio had grown to 193.700 million kroons. Raising deposits from foreign markets, particularly Germany but also Finland and Austria, also developed at a rapid pace.

In 2010 BIGBANK renewed its product portfolio, supplementing its offering with consumer loans with involuntary unemployment insurance and credit products offered via retailers. In addition, the Group renewed the products aimed at its business customers, which currently comprise credit lines, operating loans and bank guarantees.

At the end of fiscal 2010, the consolidated loan portfolio stood at 2,156.849 million kroons, a 5.0% increase year-over-year, Estonia accounting for 43.7%, Latvia for 35.3%, Lithuania for 12.0% and Finland for 9.0% of the total.

In 2010, BIGBANK maintained a conservative liquidity management policy. At the year-end, the Group’s liquid funds (amounts due from banks and held-to-maturity financial assets) totalled 888.553 million kroons i.e. 27.4% of total assets compared with 551.113 million kroons and 19.8% at the end of fiscal 2009. During the year, BIGBANK used its free funds for reducing its debt – in May the Group recalled early an entire international bond issue whose nominal value at the date of early redemption was 432.941 million kroons and in August BIGBANK redeemed before maturity a subordinated bond issue of 62.586 million kroons. In addition, during the year bonds of 93.880 million kroons were redeemed at maturity.

In 2010 no new bond issues were arranged. Instead, the Group focused on obtaining financing by issuing deposits in different markets. During the year deposits were raised from five markets – Estonia, Latvia, Finland, Germany and Austria, and by the year-end customer deposits totalled 2,407.157 million kroons compared with 1,173.213 million kroons at the end of 2009.

At the end of 2010, the Group's liabilities totalled 2,500.216 million kroons (at the end of 2009: 2,107.610 million kroons) consisting of term deposits from customers (96.3%), subordinated bonds (2.3%), loans from credit institutions (0.3%) and other liabilities (1.1%).

The Group sustained profitable performance – consolidated net profit for 2010 amounted to 82.320 million kroons compared with 117.066 million kroons in 2009. Interest income for the year was 487.766 million kroons against 583.373 million kroons for 2009 while interest expense decreased to 127.219 million kroons (2009: 198.643 million kroons). At the end of 2010, the average cost of interest-bearing liabilities was 4.2% (at the end of 2009: 7.7%).

Bad debt allowances continued growing. At the year-end, impairment allowances for loan and interest receivables totalled 511.995 million kroons compared with 409.015 million kroons at the end of 2009. Total impairment allowances increased to 541.923 million kroons (including impairment allowances for loan receivables of 434.977 million kroons, impairment allowances for interest receivables of 77.018 million kroons, impairment allowances for other customer receivables of 14.643 million kroons and impairment allowances for other assets of 15.285 million kroons). On the other hand, the portfolio of receivables overdue for more than 90 days decreased by 28.288 million kroons, i.e. 3.2%. Settlement behaviour has been improving since the second quarter of 2010 in Estonia as well as in Latvia and Lithuania.

The network of the Group's branch offices remained stable in 2010 – the number of Baltic offices remained the same and a new branch office was opened in Finland. Altogether, at the year-end the Group had 28 branch offices of which 10 were in Estonia, 7 in Latvia, 10 in Lithuania and 1 was in Finland.

At the end of 2010 BIGBANK employed 477 people: 241 in Estonia, 149 in Latvia, 77 in Lithuania and 10 in Finland (at the end of 2009: 394 people). During the year the headcount rose by 83, i.e. 21.1%. New people were hired for developing operations in new markets, particularly Finland.

In 2010 the supervisory board of BIGBANK AS did not change. Members of the supervisory board are Raul Eamets, Vahur Voll, Juhani Jaeger, Meelis Luht, Linda Terras and Parvel Pruunsild (chairman).

In March 2010 the supervisory board appointed Ruslan Mahhov, the Chief Financial Officer of BIGBANK AS, as a new member of the management board. The management board has now five members: Ingo Põder, Veiko Kandla, Kaido Saar, Ruslan Mahhov and Targo Raus (chairman). In 2010, the remuneration of the parent company's management board and supervisory board, including relevant taxes, amounted to 4.172 million kroons and 0.963 million kroons respectively.

KEY PERFORMANCE INDICATORS

Financial position indicators (in millions of kroons)	**31 Dec 2010**	**31 Dec 2009**
Total assets	3,245.015	2,785.168
Loans to customers	2,156.849	2,053.582
Including loan portfolio	2,354.700	2,226.537
Including interest receivable	324.960	242.401
Including prepaid interest	-10.816	-6.341
Including impairment allowances	-511.995	-409.015
Including impairment allowances for loans	*-420.438*	*-305.865*
Including impairment allowances for interest receivables	*-77.018*	*-66.186*
Including additional impairment allowances	*-14.539*	*-36.964*
Deposits from customers	2,407.157	1,173.213
Bonds issued	0.173	780.184
Subordinated bonds issued	57.160	122.269
Equity	744.799	677.558

Financial performance indicators (in millions of kroons)	**2010**	**2009**
Interest income	487.766	583.373
Interest expense	127.219	198.643
Salaries and associated charges	96.261	91.802
Other operating expenses	78.634	74.275
Net impairment loss on loans and interest receivables	-149.505	-239.873
Profit for the period	82.320	117.066

For the period (in millions of kroons)	**2010**	**2009**
Average equity	711.179	628.492
Average assets	3,015.092	2,849.209
Average interest-earning assets	3,021.405	2,788.751
Average interest-bearing liabilities	2,235.611	2,160.697
Total income	579.729	769.695

Ratios	**2010**	**2009**
Return on equity (ROE)	11.58%	18.63%
Profit margin (PM)	14.20%	15.21%
Return on loans	24.65%	30.77%
Asset utilization ratio (AU)	19.23%	27.02%
Price difference (SPREAD)	10.45%	11.73%
Equity multiplier (EM)	4.24	4.53
Earnings per share (EPS)	1,029.002	1,463.325
Tier 1 capital ratio	27.63%	28.70%
Yield on interest-earning assets	16.14%	20.92%
Cost of interest-bearing liabilities	5.69%	9.19%

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 2010:

Shareholder	Personal ID number	Address	Number of shares	Ownership interest
Parvel Pruunsild (Chairman of the Supervisory Board)	36906162723	Jõgevamaa, Estonia	40,000	50.0%
Vahur Voll (Member of the 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 AS 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 procedure provided in 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 of BIGBANK. Further information on governance is provided in the Corporate Governance Report section of the Review of Operations.

LITIGATIONS

At 31 December 2010, 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 2010, BIGBANK's consolidated assets totalled 3,245.015 million kroons, 16.5% up on the end of 2009.

At the year-end, the loan portfolio accounted for 66.5% of total assets while the proportion of liquid assets was 27.4% and that of other assets (including property and equipment, intangible assets, other receivables and prepayments, deferred tax assets, and other assets) was 6.1%.

Liquid assets

The Group has maintained a high proportion of liquid assets. At the end of 2010 liquid assets accounted for 27.4% of total assets compared with 19.8% at the end of 2009.

At the end of 2010, the Group's monetary assets totalled 689.568 million kroons including amounts due from central banks of 259.905 million kroons. During the year, monetary assets grew by 25.1%.

Held-to-maturity financial assets totalled 198.985 million kroons at the year-end.

Loans to customers (customer receivables)

At the end of 2010, BIGBANK had 111 thousand active loan agreements, comprising 36 thousand in Estonia, 56 thousand in Latvia, 14 thousand in Lithuania and 5 thousand in Finland, and the average outstanding loan receivable amounted to 22 thousand kroons.

At the year-end, loans to customers totalled 2,156.849 million kroons with the following geographical distribution:

- Estonia 943.161 million kroons (43.7%)
- Latvia 762.460 million kroons (35.3%)
- Lithuania 257.864 million kroons (12.0%)
- Finland 193.364 million kroons (9.0%).

At 31 December 2010, loans to customers comprised:

- loan receivables of 2,354.700 million kroons with loans to individuals accounting for 97.3% of the total;
- interest receivable on the loans of 314.144 million kroons; and
- specific and collective impairment allowances for loans and interest receivables of 511.995 million kroons (consisting of an impairment allowance for loans of 420.438 million kroons, an impairment allowance for interest receivables of 77.018 million kroons and an additional impairment allowance of 14.539 million kroons).

At the end of 2010, impairment allowances accounted for 19.2% of gross loans to customers against 16.6% at the end of 2009.

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 an 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 whose core business is provision of consumer credit. In line with the corporate strategy, at 31 December 2010 loans against income accounted for 74.6% of the loan portfolio compared with 75.9% at the end of 2009.

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 enforcement proceedings.

Debt recovery proceedings have three phases – internal proceedings (the Group sends written and electronic reminders and may offer restructuring, etc), formal collection proceedings (conducted with the assistance of professional debt collection companies) and judicial and enforcement proceedings. A significant proportion of non-performing loans is satisfied through enforcement proceedings (after a judgement or ruling by the court). In contrast to previous years, debt can now be restructured in all phases of the recovery proceedings. Where possible, the Group prefers the more cost efficient and less time-consuming collection proceedings to the judicial and enforcement proceedings.

At the end of 2010, loans subject to enforcement accounted for 38% of all loans at least 90 days in arrears.

During the year, loans of 48.088 million kroons were considered fully impaired and were written off the statement of financial position compared with 42.153 million kroons in 2009.

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 where enforcement proceedings commenced at least two years ago, settlements made to date account for 87% of the balance originally transferred for enforcement. In the case of loans where enforcement proceedings commenced at least three years ago, amounts recovered to date are at least equal to the balance originally transferred for enforcement. 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 to cover potential credit losses, the Group has established impairment allowances, which at 31 December 2010 totalled 511.995 million kroons or 21.7% of the loan portfolio, i.e. loans excluding interest receivables and impairment allowances (the corresponding figure for the end of 2009 was 18.4%). Impairment allowances are established on a conservative basis.

Liabilities

In 2010, BIGBANK's liabilities grew by 18.6%, i.e. by 392.606 million kroons.

At the end of 2010, 96.3% of the Group's liabilities consisted of term deposits from customers. In 2010, customers' term deposits grew by 1,233.944 million kroons to 2,407.157 million kroons. At the end of 2009, customers' term deposits totalled 1,173.213 million kroons, accounting for 55.7% of total liabilities. At 31 December 2010, term deposits' weighted average duration until maturity was 15.3 months and weighted average interest rate was 4.2% per year (at the end of 2009: 9.9 months and 6.9%).

During the year, loans from credit institutions decreased to 7.711 million kroons (at the end of 2009: 11.270 million kroons).

At the end of 2010, subordinated bonds totalled 57.160 million kroons compared with 122.269 million kroons at the end of 2009.

	For total liabilities, the year-end weighted average duration until maturity was 15.9 months and the weighted average interest rate was 4.2% per year (at the end of 2009: 14.3 months and 7.7%).
Equity	In 2010, the Group's equity grew by 9.9% to 744.799 million kroons compared with 677.558 million kroons at the end of 2009.
	At the end of 2010, the Group's capital adequacy ratio was 22.4%, significantly exceeding the requirement (10%). At 31 December 2010, tier 1 and tier 2 capital totalled 760.226 million kroons, accounting for 23.4% of total assets.

FINANCIAL PERFORMANCE INDICATORS

Interest income	Interest income for 2010 amounted to 487.766 million kroons, a 16.4% decrease year-over-year. The yield on interest earning assets (ratio of interest income to interest earning assets) was 16.1% and the ratio of total income to total assets was 19.2%.
Interest expense	In the reporting period interest expense decreased from 198.643 million kroons for 2009 to 127.219 million kroons for 2010, i.e. by 71.424 million kroons. The decline is attributable to growth in the proportion of customer deposits in total liabilities and a decrease in the interest rates of deposits.
	During the year, the average cost of financing dropped. At the year-end, the weighted average cost of debt financing was 4.2% compared with 7.7% at the end of 2009. The interest expense to interest income ratio for 2010 was 26.1%
Other operating expenses	The Group's other operating expenses for 2010 totalled 78.634 million kroons.
Salaries and associated charges	In 2010, salaries and associated charges totalled 96.261 million kroons, a 4.9% increase year-over-year. Salary expenses grew mainly because the Group had to hire additional staff for developing its foreign operations.
Net impairment loss on loans and interest receivables	Impairment allowances for loan and interest receivables were increased by 102.980 million kroons compared with 198,234 million kroons in 2009. Impairment allowances are made on a conservative basis.
Other income and other expenses	Other income for 2010 amounted to 90.462 million kroons, a 50.3% decline compared with 2009. The largest proportion of other income resulted from debt recovery proceedings that contributed 88.606 million kroons. Other income has decreased significantly compared with 2009 because other income for 2009 included exceptional income of 53.747 million kroons from bond repurchase transactions.
	Other expenses for 2010 totalled 32.409 million kroons.
Return on the loan portfolio	In 2010, the average value of the gross loan portfolio was 2,302.000 million kroons. Interest income on the loan portfolio amounted to 478.790 million kroons and income from debt recovery proceedings was 88.606 million kroons. The period's return on the loan portfolio was 24.7%.
Net profit	The Group ended 2010 with a consolidated net profit of 82.320 million kroons, a 29.7% decrease compared with 2009. The decline in profit is attributable to a decrease in interest income on loans, continuously large write-down expenses and the absence of any exceptional income.

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 offering term deposits and small and consumer loans.

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, OÜ Balti Võlgade Sissenõudmise Keskus and OÜ Kaupmehe Järelmaks, and BIGBANK AS’ registered branches in Lithuania (established in 2007), Latvia (established in 2008) and Finland (established in 2009). In addition, in 2010 BIGBANK AS established a branch in Spain.

The company’s Latvian, Lithuanian and Finnish branches provide credit services similar to those of BIGBANK AS in the Latvian, Lithuanian and Finnish markets respectively. Since the establishment of BIGBANK’s branch in Latvia, AS Baltijas Izaugsmes Grupa has focused on managing the Group’s Latvian customer portfolio. The parent company and its Latvian and Finnish branches offer also deposit services. The core activity of OÜ Rüütli Majad is management of the real estate used by the parent company in Estonia. OÜ Balti Võlgade Sissenõudmise Keskus supports the parent in debt recovery operations and OÜ Kaupmehe Järelmaks offers hire purchase services. In addition, BIGBANK AS offers cross-border deposit services in Germany and Austria.

The shares in BIGBANK AS are held by two individuals:

- Parvel Pruunsild 50%
- Vahur Voll 50%

GENERAL MEETING

The general meeting that convened on 9 March 2010, passed motions on the following agenda:

- Approval of the annual report for 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 2010, 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). In addition, BIGBANK AS does not make observing 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 2010, the composition of the management board changed. The management board of BIGBANK AS has now five 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
- Ruslan Mahhov – Member

The activities of the management board are governed, among other legislation, by the Credit Institutions Act that provides specific requirements to members of the management board and the organisation of the internal audit, risk management and reporting functions as well as guidance on how to behave in a conflict of interest and how to avoid violating the prohibition on competition. 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 boards of OÜ Rüütli Majad and OÜ Kaupmehe Järelmaks (as members of the supervisory and management boards respectively). No conflicts of interest (as defined in CGR Article 2.3.1) were detected in the activity of the members of the management board in 2010.

In 2010, 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 at 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 2010 was 4.172 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, detailed 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 some cases a management board member's service contract has not been signed by the chairman of the supervisory board but by another member of the supervisory board that has been authorised to do so by the supervisory board (CGR Article 2.2.1).

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 with the approval of the annual report by the general meeting. The current members of the supervisory board were elected at the annual general meeting held on 9 March 2010.

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

In 2010, the remuneration of members of the supervisory board totalled 0.963 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 at least half of the meetings held in 2010. As far as the company is aware, members of the supervisory board did not have any conflicts of interest (as defined in CGR Article 3.3.2) in 2010.

In 2010, 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 board member's 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 a deposit agreement with BIGBANK AS. The terms of the agreement do 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 corporate 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 2010, 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. Disclosure of the term for publishing a notice of calling a general meeting is not relevant in view of the small number of shareholders.

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 OÜ that has audited BIGBANK AS since 2000. In 2010, 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. Nor do members of the supervisory board sign the annual report. The position of the supervisory board is presented in the supervisory board's written report on the company's annual report.

The supervisory board does not fully comply with Articles 6.1.1 and 6.2.1 of CGR that regulate notifying and informing 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 has a staff of three and, as a Group-wide unit, is accountable to the supervisory board that determines the department's audit plan. The department includes also 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 five 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.

The company has not created a separate audit committee. The members of the supervisory board are experienced specialists who are well informed about the development and operation of the company and can rely on the support of the internal audit unit. They are sufficiently qualified in the areas of accounting, auditing, risk management, internal control and internal auditing, supervision and budgeting as well as legal compliance and can therefore carry out the responsibilities of the audit committee within a sufficient scope. In addition, at least two members of the supervisory board are experts in accounting, finance or law. In addition, the supervisory board includes the company's shareholders and is thus even more tightly connected with the company.

STATEMENT

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

[signed digitally]	[signed digitally]	[signed digitally]	[signed digitally]	[signed digitally]
Targo Raus	Kaido Saar	Veiko Kandla	Ingo Põder	Ruslan Mahhov
Chairman of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December (In millions of kroons)	**Note**	**2010**	**2009**
Assets			
Due from central banks	4	259.905	477.516
Due from banks	4	429.663	73.597
Loans to customers	5, 6, 7	2,156.849	2,053.582
Held-to-maturity financial assets	8	198.985	-
Other receivables and prepayments	9	88.368	80.403
Deferred tax assets	28	25.046	21.675
Intangible assets	10	11.097	4.457
Property and equipment	11	41.162	41.429
Other assets	12	33.940	32.509
Total assets		**3,245.015**	**2,785.168**
Liabilities			
Loans from banks	13	7.711	11.270
Deposits from customers	14	2,407.157	1,173.213
Other liabilities and deferred income	15	28.015	20.674
Bonds issued	16	0.173	780.184
Subordinated bonds	16	57.160	122.269
Total liabilities		**2,500.216**	**2,107.610**
Equity	34		
Share capital		80.000	80.000
Capital reserve		8.000	8.000
Foreign currency translation reserve		-7.957	-7.878
Earnings retained in prior periods		582.436	480.370
Profit for the period		82.320	117.066
Total equity		**744.799**	**677.558**
Total liabilities and equity		**3,245.015**	**2,785.168**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In millions of kroons)	Note	2010	2009 Restated
Interest income	17	487.766	583.373
Interest expense	18	127.219	198.643
Net interest income		**360.547**	**384.730**
Net fees and commissions		-1.398	-1.723
Net loss on financial transactions	19	-1.162	-1.772
Other income	20	90.462	181.978
Total income		**448.449**	**563.213**
Salaries and associated charges	21	96.261	91.802
Other operating expenses	21	78.634	74.275
Depreciation and amortisation expense	10,11	9.382	11.090
Impairment losses on loans and receivables	7	149.505	239.873
Impairment losses on other assets	12	-	16.883
Other expenses	22	32.409	23.016
Total expenses		**366.191**	**456.939**
Profit before income tax		**82.258**	**106.274**
Income tax expense	28	-0.062	-10.792
Profit for the year		**82.320**	**117.066**
Foreign currency translation differences for foreign operations		-0.079	0.067
Other comprehensive income / expense for the year		**-0.079**	**0.067**
Total comprehensive income for the year		**82.241**	**117.133**

Basic earnings per share (in kroons)	**33**	**1,029**	**1,463**
Diluted earnings per share (in kroons)	**33**	**1,029**	**1,463**

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions of kroons)	Note	2010	2009 Restated
Cash flows from operating activities			
Interest received		341.869	405.810
Interest paid		-83.086	-187.070
Other operating expenses paid		-191.047	-191.443
Other income received		98.239	107.779
Other expenses paid		-32.423	-20.957
Recoveries of receivables previously written off		3.717	2.740
Received for other assets		2.085	0.741
Paid for other assets		-1.046	-1.845
Loans granted		-429.913	-197.983
Repayment of loans granted		318.207	384.474
Change in mandatory reserves with central banks and related interest receivables		153.400	-2.158
Proceeds from customer deposits		1,908.258	909.155
Paid on redemption of deposits		-715.630	-380.970
Income tax paid		-4.349	-32.512
Effect of changes in exchange rates		-1.805	-1.449
Net cash from operating activities		**1,366.476**	**794.312**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets		-13.021	-3.227
Proceeds from sale of property and equipment		0.001	0.061
Acquisition of financial assets		-222.422	-
Proceeds from redemption of financial instruments		26.534	-
Net cash used in investing activities		**-208.908**	**-3.166**
Cash flows from financing activities			
Paid on redemption of bonds		-782.870	-681.994
Paid on redemption of subordinated bonds		-64.662	-18.360
Repayment of loans from banks		-3.552	-3.552
Dividends paid	34	-15.000	-19.000
Net cash used in financing activities		**-866.084**	**-722.906**
Effect of exchange rate fluctuations		**0.378**	**1.267**
Increase in cash and cash equivalents		**291.862**	**69.507**
Cash and cash equivalents at 1 January		**218.805**	**149.298**
Cash and cash equivalents at 31 December	4	**510.667**	**218.805**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In millions of kroons)	2010	2009
Share capital		
Balance at 1 January	80.000	80.000
Balance at 31 December	**80.000**	**80.000**
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	-7.878	-7.945
Other comprehensive income / expense for the year	-0.079	0.067
Balance at 31 December	**-7.957**	**-7.878**
Retained earnings		
Balance at 1 January	597.436	499.370
Profit for the year	82.320	117.066
Dividends paid	-15.000	-19.000
Balance at 31 December	**664.756**	**597.436**
Total equity at 31 December	**744.799**	**677.558**

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. The consolidated financial statements as at and for the year ended 31 December 2010 comprise BIGBANK AS (also referred to as the "parent company"), its Latvian, Lithuanian and Finnish branches and its subsidiaries AS Baltijas Izaugsmes Grupa, OÜ Rüütli Majad, OÜ Balti Võlgade Sissenõudmise Keskus and OÜ Kaupmehe Järelmaks and the subsidiaries of OÜ Balti Võlgade Sissenõudmise Keskus - SIA Baltijas Parādu Piedziņas Centrs and UAB Baltijos Skolų Išieškojimo Centras (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 2010 were signed by the management board on 28 February 2011.

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

CHANGES IN THE PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In order to provide a better overview of the financial performance of the Group and the parent company, in 2010 some items of income and expense were reclassified in the statements of comprehensive income and cash flows. As a result, the comparative data on 2009 presented in these financial statements has been restated accordingly:

(In millions of kroons)

Line item in consolidated statement of comprehensive income	Change	Restated 2009
Other income	-0.039	181.978
Salaries and associated charges	+0.185	91.802
Other operating expenses	-20.905	74.275
Other expenses	+20.681	23.016

(In millions of kroons)

Line item in consolidated statement of cash flows	Change	Restated 2009
Interest received	+0.601	405.810
Other operating expenses paid	+18.349	-191.443
Other income received	-2.888	107.779
Other expenses paid	-17.045	-20.957
Recoveries of receivables previously written off	+0.431	2.740
Paid on redemption of bonds	+0.552	-681.994

(In millions of kroons)

Line item in parent company's statement of comprehensive income	Change	Restated 2009
Other income	-0.039	124.298
Salaries and associated charges	-0.117	72.423
Other operating expenses	-10.177	65.519
Other expenses	+10.255	12.052

(In millions of kroons)

Line item in parent company's statement of cash flows	**Change**	**Restated 2009**
Interest received	+0.081	294.031
Other operating expenses paid	+5.215	-146.729
Other income received	-0.081	50.319
Other expenses paid	-5.767	-9.411
Paid on redemption of bonds	+0.552	-681.994

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

USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRSs as adopted by the EU 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.

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

Branches

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

Subsidiaries

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

Transactions eliminated on consolidation

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

A transaction in foreign currency is recorded in the functional currency by applying the exchange rate quoted by the central bank at the date of the transaction. In the statement of financial position, assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional at the central bank exchange rates ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on retranslation 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, including fair value adjustments, have been translated to Estonian kroons at foreign exchange rates ruling at the reporting date. Each Group entity determines its own functional currency and records items in its financial statements using that functional currency. The revenues and expenses of foreign operations have been translated to Estonian kroons using the average foreign exchange rates for the period. Exchange differences arising on translating foreign operations have been 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 balances on the correspondent accounts with the central banks less the mandatory reserves plus the interest receivable on the mandatory reserves. The statement of cash flows is prepared using the direct method.

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 and other receivables. The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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

Financial assets at fair value through profit or loss

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

Instruments acquired for trading purposes are recognised at their fair values. A gain or loss on an instrument that is held for trading is recognised in profit or loss.

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

Held-to-maturity financial assets

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

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

Loans and receivables

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

Impairment provisions and allowances for loans

Loans to customers are recognised in the statement of financial position in *Loans to customers*. Loans to customers are assessed for impairment and provided for at both a specific asset and a collective level. If necessary, additional 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 twice a year by the Group's credit committee by reference to the historical amounts of losses incurred and the customers' settlement behaviour indicators.

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

Additional 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 and when they do not qualify for assessment on a specific asset level.

An impairment allowance for a group of loans is found by multiplying the carrying value of the loans by the impairment rate assigned to the group. The impairment rate is determined based on the historical settlement characteristics (loss experience) of the group. Where sufficiently reliable historical data is not available, projections and estimates are used. The historical settlement behaviour indicators of different groups are evaluated by reference to regular statistical surveys. Interest and other receivables associated with a loan are applied the same impairment rate that is assigned to the underlying loan.

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

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

Impairment assessment on a specific asset level

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

- receivables from companies;
- receivables that exceed 65,000 euros (45,000 lats or 220,000 litas);
- non-performing receivables; and
- receivables in the case of which the probability of recovery has decreased because based on objective evidence it may be assumed that the customer will not be able to settle its financial obligations (principal and interest liabilities and fees payable) in full and the situation cannot be resolved in a satisfactory manner.

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

Loans that exceed 65,000 euros (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 and 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.

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

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 quarters 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 INTEREST EXPENSE

Interest income and interest 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; and
- dividend income (in the parent's financial statements) that is recognised when the right to receive payment is established

OTHER EXPENSES

Other expenses consist of:

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

EMPLOYEE BENEFITS

Short-term employee benefits are measured in an undiscounted amount and they are recognised as an expense when the service has been rendered by the employee. 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 the reporting period, the earnings of Group entities were subject to the following tax rates:

BIGBANK AS (the parent company, Estonia), OÜ Rüütli Majad (a subsidiary, Estonia), OÜ Balti Võlgade Sissenõudmise Keskus (a subsidiary, Estonia) and OÜ Kaupmehe Järelmaks (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%; SIA Baltijas Parādu Piedziņas Centrs (a subsidiary of OÜ Balti Võlgade Sissenõudmise Keskus, Latvia) – 15%; UAB Baltijos Skolų Išieškojimo Centras (a subsidiary OÜ Balti Võlgade Sissenõudmise Keskus, Lithuania) – 15%.

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 accordance with the effective Estonian Income Tax Act, only this portion of profit that is distributed as dividends is subject to income tax. Tax is calculated as 21/79 of the amount distributed as the net dividend (21% of the gross distribution). 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.

The information presented in note 33 in current annual report is voluntary as the Group is not listed in a stock exchange.

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 and revised standards and interpretations have been published that are effective for annual periods beginning after 31 December 2010 and have therefore not been applied in preparing these consolidated financial statements. According to management's estimates, none of these will have a material effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments.* If adopted by the EU, the new standard will become mandatory for the Group's consolidated financial statements for 2013 and could change the classification and measurement of its financial instruments. The Group does not plan to adopt this standard early and the extent of its impact has not yet been determined.

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

Under the management board, there are a number of committees, which have decision-making authority in respect of different types of risk. The credit committee and the 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. The risk management function is responsible for designing and developing policies for managing, controlling and coordinating risks and risk management principles and methods, making recommendations to the management board regarding risk management and control and preparing relevant reports.

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

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

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

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 proprietary 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. The Group does not take any unmanageable or unlimited risks. The Group observes the principle that the risk assessment function has to be independent and segregated from the business functions.

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

CREDIT RISK

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

Risks related to credit risk include:

- concentration risk - the risk of being significantly exposed to a single counterparty or related counterparties or counterparties that are influenced by the same risk factor;
- country risk - the risk arising from the economic, political or social environment in the counterparty's domicile; and
- 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 the policies and rules adopted by the Group.

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

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

- lending operations have to be conducted in accordance with the credit policy;
- lending has to be based on an analysis;
- lending has to correspond to the customer's settlement capability;
- in each customer relationship the risks have to be proportionate to associated benefits;
- lending has to correspond to the Group's profit targets.

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

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

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

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

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

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

Credit risk management is based on a thorough evaluation of the counterparty's creditworthiness. Each credit decision made by the Group is based on a prior credit analysis. On conducting 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.

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

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

After 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 collective impairment allowances for homogeneous loan groups. The Group establishes impairment allowances to cover the impairment risk. Impairment allowances are established to account for and measure the value of the loan portfolio as fairly and objectively as possible.

To reduce actual credit losses, the Group has established a separate department within the credit function that deals with 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 2010, the average loan amount was 22 thousand kroons and the 40 largest loan receivables accounted for 3.4% of the total loan portfolio.

The Group mainly 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, Finland, Latvia and Lithuania, recovery of the overdue debts of individuals is a matter of the right time horizon rather than potential non-recovery

In July 2010 the Group launched a new product in the Estonian market – loans to small and medium-sized enterprises. At 31 December 2010 the business credit offering comprised three products: operating loans, credit lines and bank guarantees. At the year-end, the proportion of the products in the Group's loan portfolio was not significant. The average loan or guarantee limit was 0.6 million kroons and the customers' settlement behaviour was good.

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

To obtain an overview of the exposures of the total loan portfolio, the credit risk analysis and monitoring department observes the development of the loan portfolio, prepares relevant reports and conducts regular stress tests that focus on the effects that various possible though not highly probable events may have on the Group's financial performance and capital. Such 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 2010 totalled 511.995 million kroons or 23.7% of loans to customers (loan and interest receivables less impairment allowances). The allowances are 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.

CONCENTRATION RISK

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

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

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

At 31 December 2010, the Group did not have any customers with a high-risk concentration, i.e. customers whose liability would have exceeded 10% of the Group's net own funds.

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

- focusing on serving individuals and small and medium-sized enterprises;
- identifying customers using due procedure;
- determining the customers' reciprocal relations through relevant questionnaires and enquiries; and
- monitoring the concentration of its credit risk exposure to any single factor and limiting, where necessary, exposure to any customer group that is related to or impacted by that factor.

COLLATERAL RISK

Collateral risk is the risk arising from the type, value, form, and 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, larger loans have to be secured with physical collateral (real collateral provided under the law of property such as a mortgage on immovable property). Smaller loans may be secured with surety agreements or the borrower's cash flows or assets. In 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 by the Group, taking into account the size of the loan and the ratio of the loan amount to the value of the collateral;
- The sufficiency and value of acceptable real or other collateral is determined based on the asset's current value considering the changes in value that will occur over time. Where necessary, the value of collateral is determined with the assistance of qualified experts (e.g. real estate appraisers).
- The Group accepts as loan collateral only such immovable properties whose market value has been determined in a written valuation report issued by a real estate company with whom the Group has a corresponding agreement. Collateral risk is estimated by reference to the valuation report prepared by the real estate company and subjective valuation performed by the Group's staff.
- The agreements made with real estate companies regarding the valuation of assets set out the real estate company's proprietary 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 mostly to individuals residing in a country where the Group operates that have regular income in that country.
- 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 credit risk inherent in financing the consumption of individuals may be 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 or euro.

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

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

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

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

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 rate of return that exceeds the average market interest rate for the loan. The Group performs regular stress tests to evaluate its interest rate risk.

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

The Group operates in countries whose currencies have stable exchange rates or that use euro as a means of payment. The Lithuanian litas and the Latvian lats are the national currencies of EU member states whose exchange rates are fixed by the central banks of the respective countries and are pegged to the euro. Exchange rate fluctuations are limited to a permissible fluctuation corridor established by law. Open currency positions are presented 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 the necessary financing for the Group's operations at a specific point in time.

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

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

The main body that manages financing and liquidity risks is ALCO. ALCO has the authority to deal with the following issues:

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

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 chief financial officer.

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

The following principles are applied:

- The objective of liquidity risk management is to ensure that the Group will always have sufficient funds for its operation, both in the short- and long-term perspective, and to ensure that the Group can meet its existing commitments both under normal and stressed circumstances.
- The guiding principle in liquidity planning is that no claim against the Group, which will or may fall due, considering all available sources of funding and possibilities for limiting 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 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.

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

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

The Group's specialization in one business line allows controlling changes in 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.

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 inappropriately.

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

The purpose of operational risk management is to achieve the lowest possible risk level while applying economically efficient risk management principles. The Group does not take unmanageable or unlimited risks regardless of 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 offering 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, above all, sufficient operating income.

Adherence to internal rules and regulations is strictly controlled.

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

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

The loan portfolio is 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 in a small number of products whose risks can be easily recognised and detected because of historical experience and suitable operating routines.

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

The Group determines the capital requirements that are sufficient for covering unanticipated operational losses using a standardized approach that corresponds to the 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 in 2010. At 31 December 2010, the capital adequacy ratio was 22.4%, exceeding the required level more than two-fold.

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

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

The 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).

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

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

GROUP CAPITAL ADEQUACY

(In millions of kroons)	31 Dec 2010	31 Dec 2009
Paid-up share capital	80.000	80.000
Reserves established from profit (capital reserve)	8.000	8.000
Earnings retained in prior periods	582.436	480.370
Foreign currency translation reserve	-7.957	-7.878
Intangible assets	-11.097	-4.457
Profit for the period	82,320	117.066
Planned dividends	-12.517	-15.000
Profit for the period included into the calculation	69.803	102.066
Tier 1 capital	**721.185**	**658.101**
Subordinated liabilities	57.160	122.269
Including subordinated liabilities included into the calculation	39.041	115.263
Tier 2 capital	**39.041**	**115.263**
Deductions	**-**	**-**
Total capital used to determine capital adequacy	**760.226**	**773.364**
Capital requirements		
Claims on central governments and central banks, standardized approach	17.739	9.905
Claims on credit institutions and investment firms, standardized approach	28.221	4.753
Claims on companies, standardized approach	5.138	1.477
Retail claims, standardized approach	94.749	80.452
Claims secured by real estate, standardized approach	12.696	12.861
Claims in arrears, standardized approach	83.596	102.132
Other assets, standardized approach	18.852	17.619
Total capital requirement for credit risk and counterparty risk	**260.991**	**229.200**
Capital requirement for foreign exchange risk	**16.196**	**10.623**
Capital requirement for operational risk, standardized approach	**61.948**	**52.726**
Total capital requirements	**339.135**	**292.549**
Capital adequacy	**22.417%**	**26.435%**

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

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

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

Subordinated liabilities with unspecified and fixed terms with a residual maturity of less than five years are shown at reduced value in accordance with Section 74^1(7) of the Credit Institutions Act (during five years from the residual maturity the original sum is reduced by 20% a year, i.e. by 5% 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 and operational risk have been determined using the standardized approach and the basic indicator approach respectively.

In determining the capital requirement for foreign exchange risk for 2010, the Group has taken into account the exposures covered by the devaluation clause (see note 25).

NOTE 3. INTERNAL CONTROL SYSTEM

The internal control system of BIGBANK AS covers all levels of the Group's management and operations. In addition to constantly functioning controls, internal control is exercised by the supervisory and management boards and an independent internal audit 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 and limits established by the supervisory and management boards as well as other standards 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 BANKS AND CASH EQUIVALENTS

Due from central banks

(In millions of kroons)	Estonia	Latvia	Lithuania	Finland	31 Dec 2010 Total
Mandatory reserves	163.636	13.908	-	1.357	**178.901**
Surplus on the mandatory reserves with central banks	80.969	-	-	-	**80.969**
Interest due from central banks	0.035	-	-	-	**0.035**
Total due from central banks	**244.640**	**13.908**	**-**	**1.357**	**259.905**

(In millions of kroons)	Estonia	Latvia	Lithuania	Finland	31 Dec 2009 Total
Mandatory reserves	320.470	11.839	-	-	**332.309**
Surplus on the mandatory reserves with central banks	145.140	-	-	-	**145.140**
Interest due from central banks	0.067	-	-	-	**0.067**
Total due from central banks	**465.677**	**11.839**	**-**	**-**	**477.516**

Due from banks

(In millions of kroons)	Estonia	Latvia	Lithuania	Finland	31 Dec 2010 Total
Due from banks	319.411	65.098	24.521	19.890	**428.920**
Interest due from banks	0.640	0.099	0.004	-	**0.743**
Total due from banks	**320.051**	**65.197**	**24.525**	**19.890**	**429.663**

(In millions of kroons)	Estonia	Latvia	Lithuania	Finland	31 Dec 2009 Total
Due from banks	18.420	30.971	6.313	17.881	**73.585**
Interest due from banks	-	0.009	-	0.003	**0.012**
Total due from banks	**18.420**	**30.980**	**6.313**	**17.884**	**73.597**

Cash equivalents

(In millions of kroons)	31 Dec 2010	31 Dec 2009
Demand and overnight deposits with credit institutions	52.074	49.894
Term deposits with credit institutions	377.589	23.704
Surplus on the mandatory reserves with central banks	80.969	145.140
Interest due from central banks	0.035	0.067
Total cash equivalents	**510.667**	**218.805**

NOTE 5. LOANS TO CUSTOMERS

In the following tables, receivables are measured at their amortised cost.

(In millions of kroons)	Estonia	Latvia	Lithuania	Finland	31 Dec 2010
Loan receivables from customers	1,023.819	861.401	275.780	193.700	**2,354.700**
Impairment allowance for loans	-179.722	-195.072	-41.429	-4.215	**-420.438**
Interest receivables from customers	129.493	150.343	30.273	4.035	**314.144**
Impairment allowance for interest receivables	-30.429	-40.194	-6.239	-0.156	**-77.018**
Additional impairment allowance	-	-14.018	-0.521	-	**-14.539**
Total loans to customers incl. interest and allowances	**943.161**	**762.460**	**257.864**	**193.364**	**2,156.849**

(In millions of kroons)	Estonia	Latvia	Lithuania	Finland	31 Dec 2009
Loan receivables from customers	1,058.652	903.751	264.134	-	**2,226.537**
Impairment allowance for loans	-151.777	-130.025	-24.063	-	**-305.865**
Interest receivables from customers	103.659	114.190	18.211	-	**236.060**
Impairment allowance for interest receivables	-30.151	-31.937	-4.098	-	**-66.186**
Additional impairment allowance	-13.600	-22.843	-0.521	-	**-36.964**
Total loans to customers incl. interest and allowances	**966.783**	**833.136**	**253.663**	**-**	**2,053.582**

Loans by type

(In millions of kroons)	31 Dec 2010	31 Dec 2009
Loans against income	1,755.940	1,690.967
Surety loans	301.524	320.404
Loans secured with real estate	219.805	215.166
Loan with insurance cover	77.431	-
Total loan receivables	**2,354.700**	**2,226.537**

Loans by currency specified in the loan agreement

(In millions of kroons)	31 Dec 2010	31 Dec 2009
EEK	363.621	474.882
EUR	1,684.258	1,400.129
LTL	44.034	52.575
LVL	262.787	298.951
Total loan receivables	**2,354.700**	**2,226.537**

Ageing analysis (In millions of kroons)	up to 30 days*	31-60 days	61-90 days	over 90 days	31 Dec 2010 Total
Loans against income					
Loan portfolio	870.669	57.136	30.050	798.085	**1 755.940**
Impairment allowance	59.114	6.054	4.148	296.594	**365.910**
Surety loans					
Loan portfolio	174.788	11.138	5.264	110.334	**301.524**
Impairment allowance	13.564	1.360	0.618	35.284	**50.826**
Loans secured with real estate					
Loan portfolio	148.585	7.727	5.028	58.465	**219.805**
Impairment allowance	3.091	0.183	0.181	13.254	**16.709**
Loans with insurance cover					
Loan portfolio	74.746	1.166	0.422	1.097	**77.431**
Impairment allowance	1.264	0.028	0.007	0.233	**1.532**

(In millions of kroons)	up to 30 days*	31-60 days	61-90 days	over 90 days	31 Dec 2009 Total
Loans against income					
Loan portfolio	736.643	71.858	72.674	809.792	**1 690.967**
Impairment allowance	38.304	3.948	5.008	227.075	**274.335**
Surety loans					
Loan portfolio	166.524	15.024	15.105	123.751	**320.404**
Impairment allowance	8.883	0.970	1.015	31.699	**42.567**
Loans secured with real estate					
Loan portfolio	131.723	9.505	6.602	67.336	**215.166**
Impairment allowance	5.884	0.887	0.479	18.677	**25.927**

*Including not overdue.

NOTE 6. PAST DUE LOANS

Past due loans (In millions of kroons)	Estonia	Latvia	Lithuania	31 Dec 2010 Finland
Up to 30 days	9.346	7.415	1.723	0.695
31 - 60 days	10.356	9.026	0.842	0.394
61-90 days	5.270	7.466	0.960	2.387
Over 90 days	355.013	410.444	72.262	6.765
Total past due loans	**379.985**	**434.351**	**75.787**	**10.241**

(In millions of kroons)	Estonia	Latvia	Lithuania	31 Dec 2009 Finland
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 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 accrued interest, and any collateral claims resulting from the settlement delay.

Owing to the nature of the loans (as a rule, the loans are backed with the customer's regular income), amounts due under cancelled agreements are satisfied over an extended period in small instalments, not in a lump sum raised by the 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 enforcement or other recovery proceedings.

NOTE 7. IMPAIRMENT ALLOWANCES FOR LOANS AND INTEREST RECEIVABLES

Change in impairment allowances for loans and interest receivables

(In millions of kroons)	**31 Dec 2010**	**31 Dec 2009**
Balance at beginning of period	**-409.015**	**-210.781**
Items written off the statement of financial position	48.088	42.153
Increase in allowances	-150.989	-241.045
Effect of movements in exchange rates	-0.079	0.658
Balance at end of period	**-511.995**	**-409.015**

Impairment losses on loans and associated receivables

(In millions of kroons)	**2010**	**2009**
Recovery of loans and interest written off the statement of financial position	3.078	2.279
Impairment losses on loans and interest receivables*	-150.989	-241.046
Impairment losses on other associated receivables*	-1.594	-1.106
Total impairment losses	**-149.505**	**-239.873**

* 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. In 2010 the macroeconomic environment of the Baltic countries improved, which is why the prospects of positive developments in both consumer behaviour and employment improved as well. However, despite a more favourable macroeconomic environment, the Group assessed its credit risk and estimated improvements in the customers' settlement behaviour on a conservative basis.

For measurement and write-down (creation of impairment allowances), receivables are reviewed either individually or in groups.

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.

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 remaining nominal carrying value of the loan and the present value of its expected future cash flows discounted at the effective interest rate. Cash flows are forecast taking into account the phase of the recovery proceedings and its estimated duration.

At 31 December 2010, additional impairment allowances established for mitigating hard-to-estimate risks associated with settlement behaviour and to cover unexpected loan losses totalled 14.539 million kroons. The allowances were established on a conservative basis.

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

- The Group mainly provides loans to individuals (at 31 December 2010: approx. 97.3% of the loan portfolio). The solvency of individuals may deteriorate temporarily but it does not usually disappear completely (except in the event of death, permanent incapacity for work, etc). In a legal system that provides for reliable and effective collection proceedings such as the Baltic countries and Finland, recovery of the overdue debts of individuals is a matter of the right time horizon rather than potential non-recovery.
- Loans are granted under carefully drafted legal agreements and recovery proceedings are performed in full compliance with applicable regulations. According to the Group's assessment, the Estonian, Latvian, Lithuanian and Finnish legislation and legal practice do currently not include any features that might exert a significant negative impact on the recovery of receivables.
- The Group applies proactive and flexible debt management and effective recovery proceedings.
- 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 Group's receivables can usually be settled with regular monthly income.
- The Group's loan portfolio is well dispersed – at 31 December 2010, the average loan amount was 22 thousand kroons and 40 largest loan receivables accounted for 3.4% of the total loan portfolio.

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 where enforcement proceedings commenced at least two years ago, settlements made to date account for 87% of the loan balance originally transferred for enforcement. In the case of loans where enforcement proceedings commenced 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 2010 totalled 511.995 million kroons or 21.7% of the loan portfolio, i.e. loans excluding interest receivables and impairment allowances (the corresponding figures for the end of 2009 were 409.015 million kroons and 18.4%). Impairment allowances for loans and associated accruals are established on a conservative basis.

Impairment allowances by loan groups

(In millions of kroons)	Loans to customers	Impairment allowance for loans	Loan interest receivable	Impairment allowance for loan interest	31 Dec 2010 Total impairment allowances
Homogeneous groups	1,045.703	20.189	89.408	8.373	28.562
Individually assessed items	1,308.997	400.249	235.552	68.645	468.894
Additional assessment	-	14.539	-	-	14.539
Total	**2,354.700**	**434.977**	**324.960**	**77.018**	**511.995**

(In millions of kroons)	Loans to customers	Impairment allowance for loans	Loan interest receivable	Impairment allowance for loan interest	31 Dec 2009 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
Additional assessment	-	36.964	-	-	36.964
Total	**2,226.537**	**342.829**	**242.401**	**66.186**	**409.015**

In 2010, the cash flows related to loan agreements were influenced by four main factors:

- In connection with the customers' improved settlement power and readiness to settle, the proportion of receivables from customers making regular payments increased across the loan portfolio and all phases of recovery (including receivables in the judicial and enforcement phase). The size of the average receipt decreased slightly but total receipts on the past due portfolio and the ratio of receipts to the size of the portfolio grew from month to month.
- In 2010, the proportion of non-performing loans that were in the enforcement phase was 40%. In the enforcement phase, receipts on non-performing loans increase considerably.
- Similarly to the previous year, realisation of loan collateral through enforcement proceedings was time-consuming but the realisable value of collateral stabilised and in some regions even increased.
- In 2010, the volume of loan receivables written off the statement of financial position remained stable. The Group wrote off loan receivables of 48.088 million kroons (2009: 42.153 million kroons)

Due to the combined effect of the above factors, in 2010 the impairment rate for individually assessed loans rose moderately in Estonia, Latvia and Lithuania.

NOTE 8. HELD-TO-MATURITY FINANCIAL ASSETS

(In millions of kroons)	31 Dec 2010	31 Dec 2009
Acquisition cost of the debt securities portfolio	195.881	-
Accrued interest	3.104	-
Total held-to-maturity financial assets	**198.985**	**-**

(In millions of kroons)	31 Dec 2010	31 Dec 2009
Total debt securities portfolio	**198.985**	**-**
Distribution by issuer		
Including debt securities of credit institutions	28.492	-
Including government bonds	170.493	-
Distribution by currency		
Including EUR	127.231	-
Including LTL	71.754	-

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

NOTE 9. OTHER RECEIVABLES AND PREPAYMENTS

(In millions of kroons)

Other receivables and prepayments	31 Dec 2010	31 Dec 2009
Other receivables	56.751	55.145
Prepayments	31.617	25.258
Total other receivables and prepayments	**88.368**	**80.403**

(In millions of kroons)

Other receivables	31 Dec 2010	31 Dec 2009
Late payment interest and penalty payments receivable	0.806	1.264
Commissions and fees receivable	0.399	0.077
Collection fees and other charges receivable	25.439	18.120
Guarantee and deposit payments made	1.124	1.095
Miscellaneous receivables	43.626	47.787
Impairment allowance for other receivables	-14.643	-13.198
Total other receivables	**56.751**	**55.145**

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 receivables was their gross amount. 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 items sold. The amount due for the transaction is to be settled in line with actual collections from customers but not later than within seven years. 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 2010 and 2009 the Group did not earn any profit on the transaction. In 2010, the Group collected 4.274 million kroons (2009: 6.691 million kroons). At the end of 2010 the gross amount of the receivables reported in *Miscellaneous receivables* was 43.455 million kroons (2009: 47.737 million kroons) and the book value was 35.560 million kroons (2009: 39.064 million kroons).

(In millions of kroons)

Prepayments	31 Dec 2010	31 Dec 2009
Prepaid taxes	24.550	22.039
Other prepayments	7.067	3.219
Total prepayments	**31.617**	**25.258**

NOTE 10. INTANGIBLE ASSETS

(In millions of kroons)	31 Dec 2010	31 Dec 2009
Purchased software licences		
Cost at beginning of period	**10.984**	**10.790**
Purchases	8.913	0.513
Write-off	-	-0.318
Reclassification	-0.325	-
Effect of changes in exchange rates	-	-0.001
Cost at end of period	**19.572**	**10.984**
Amortisation at beginning of period	**-6.527**	**-4.550**
Amortisation charge for the period	-2.104	-1.978
Write-off	-	0.001
Reclassification	0.156	-
Amortisation at end of period	**-8.475**	**-6.527**
Carrying amount at beginning of period	**4.457**	**6.240**
Carrying amount at end of period	**11.097**	**4.457**

NOTE 11. PROPERTY AND EQUIPMENT

31 Dec 2010

(In millions of kroons)	Land and buildings	Other items	Total
Cost at beginning of period	**38.127**	**27.668**	**65.795**
Purchases	-	5.539	5.539
Improvement	1.110	-	1.110
Sales	-	-0.601	-0.601
Write-off	-	-1.460	-1.460
Reclassification	-	0.325	0.325
Effect of changes in exchange rates	-	-0.002	-0.002
Cost at end of period	**39.237**	**31.469**	**70.706**
Depreciation at beginning of period	**-6.171**	**-18.195**	**-24.366**
Depreciation charge for the period	-1.262	-6.016	-7.278
Sales	-	0.847	0.847
Write-off	-	1.404	1.404
Reclassification	-	-0.156	-0.156
Effect of changes in exchange rates	-	0.005	0.005
Depreciation at end of period	**-7.433**	**-22.111**	**-29.544**
Carrying amount at beginning of period	**31.956**	**9.473**	**41.429**
Carrying amount at end of period	**31.804**	**9.358**	**41.162**

31 Dec 2009

(In millions of kroons)	Land and buildings	Other items	Total
Cost at beginning of period	**38.127**	**27.216**	**65.343**
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**	**27.668**	**65.795**

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31 Dec 2009 (In millions of kroons)	Land and buildings	Other items	Total
Depreciation at beginning of period	**-4.922**	**-11.284**	**-16.206**
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**	**-18.195**	**-24.366**
Carrying amount at beginning of period	**33.205**	**15.932**	**49.137**
Carrying amount at end of period	**31.956**	**9.473**	**41.429**

NOTE 12. OTHER ASSETS

(In millions of kroons)	31 Dec 2010	31 Dec 2009
Collateral acquired	49.225	48.278
Impairment allowance	-15.285	-15.769
Total other assets	**33.940**	**32.509**

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

Other assets include plots of land, houses and apartments. In the current macroeconomic situation, realisation of collateral may be an extended process. In 2010, the proportion of loans secured with real estate decreased slightly, equalling 9.3% at the year-end (2009: 9.7%).

In 2009, acquired collateral was written down by 16.883 million kroons. In 2010, no additional write-downs were performed.

NOTE 13. LOANS FROM BANKS

	31 Dec 2010			31 Dec 2009		
(In millions of kroons)	Current	Non-current	Total	Current	Non-current	Total
AS Swedbank	3.567	4.144	**7.711**	3.574	7.696	**11.270**
Total	**3.567**	**4.144**	**7.711**	**3.574**	**7.696**	**11.270**

The interest rates of loans taken by the Group as at 31 December 2010:

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

NOTE 14. DEPOSITS FROM CUSTOMERS

(In millions of kroons)	31 Dec 2010	31 Dec 2009
Term deposits	2,407.157	1,173.213
Term deposits by customer type		
Individuals	2,282.871	1,076.484
Legal persons	124.286	96.729
Term deposits by currency		
EEK	799.478	779.348
EUR	1,560.448	383.639
LVL	47.231	10.226

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(In millions of kroons)	31 Dec 2010	31 Dec 2009
Term deposits by maturity		
Maturing within 6 months	933.633	480.266
Maturing between 6 and 12 months	616.147	504.139
Maturing between 12 and 18 months	141.787	67.463
Maturing between 18 and 24 months	134.824	49.486
Maturing in over 24 months	580.766	71.859
Average deposit amount	0.199	0.152
Weighted average interest rate	4.16%	6.93%
Weighted average duration until maturity (months)	15.317	9.920
Weighted average total contract term (months)	22.174	14.613

ANNUAL INTEREST RATES OF DEPOSITS OFFERED TO CUSTOMERS AS AT 31 DECEMBER 2010

Offered deposit interest rates depend on the country as well as the deposit term, currency, and amount and the interest payment method. Interest rates range from 0.90% to 6.00% per year. The lowest interest rates are offered for short-term deposits with monthly interest payments and the highest rates for longer-term deposits where interest is paid out on maturity. Deposit terms range from 1 month to 10 years. The deposits offered by the Estonian company and the Finnish branch have the maximum term of 5 years.

NOTE 15. OTHER LIABILITIES AND DEFERRED INCOME

(In millions of kroons)

Other liabilities	31 Dec 2010	31 Dec 2009
Payables to suppliers	6.633	2.944
Payables to employees	3.172	3.123
Taxes payable (income tax, social tax, value added tax)	7.897	4.080
Other payables	2.954	2.182
Total other liabilities	**20.656**	**12.329**

Deferred income	31 Dec 2010	31 Dec 2009
Prepayments from customers	7.359	8.345
Total deferred income	**7.359**	**8.345**
Total other liabilities and deferred income	**28.015**	**20.674**

NOTE 16. BONDS AND SUBORDINATED BONDS ISSUED

(In millions of kroons)	Bonds		Subordinated bonds	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Balance of bonds	**0.173**	**780.184**	**57.160**	**122.269**
Bonds by holder type				
Individuals	0.173	7.067	18.839	4.042
Legal persons	-	773.117	38.321	118.227
Bonds by currency				
EEK	0.173	0.648	57.160	59.720
EUR	-	779.536	-	62.549

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(In millions of kroons)	Bonds		Subordinated bonds	
	31 Dec 2010	**31 Dec 2009**	**31 Dec 2010**	**31 Dec 2009**
Bonds by maturity				
6 months or less	0.173	78.867	-	-
6 to 12 months	-	15.641	-	-
12 to 18 months	-	685.676	-	-
18 to 24 months	-	-	57.160	122.269

At 31 December 2010, the interest rates of bonds were as follows:
Bond 26 April 2014: 6% plus 3 month EURIBOR; Bond 30 January 2014: 7% plus 3 month EURIBOR

NOTE 17. INTEREST INCOME

(In millions of kroons)	**2010**	**2009**
Interest income on loans to customers	478.790	574.831
Interest income on deposits	5.794	8.542
Interest income on held-to-maturity financial assets	3.182	-
Total interest income	**487.766**	**583.373**

NOTE 18. INTEREST EXPENSE

(In millions of kroons)	**2010**	**2009**
Interest expense on bonds	27.810	142.671
Interest expense on deposits	99.126	55.414
Interest expense on bank loans	0.283	0.558
Total interest expense	**127.219**	**198.643**

NOTE 19. NET LOSS ON FINANCIAL TRANSACTIONS

(In millions of kroons)	**2010**	**2009**
Foreign exchange losses	2.664	6.115
Foreign exchange gains	1.502	4.343
Net loss on financial transactions	**-1.162**	**-1.772**

NOTE 20. OTHER INCOME

(In millions of kroons)	**2010**	**2009**
Income from debt collection proceedings	88.606	124.740
Income from early redemption of bonds	-	53.747
Miscellaneous income	1.856	3.491
Total other income	**90.462**	**181.978**

NOTE 21. SALARIES AND OTHER OPERATING EXPENSES

Salaries and associated charges

(In millions of kroons)	**2010**	**2009**
Salaries including associated taxes	92.574	90.056
Lease of labour	2.655	0.287
Employee health costs and fringe benefits including associated taxes	1.032	1.459
Total salaries and associated charges	**96.261**	**91.802**

Other operating expenses

(In millions of kroons)	2010	2009
Marketing expenses	33.721	25.428
Office, rental and similar expenses	21.923	25.702
Other services	4.386	4.923
Telephone and other communications expenses	5.127	6.466
Postal supplies and charges	4.050	4.641
Personnel-related expenses	1.802	0.537
Training expenses	1.856	0.989
Car costs	2.098	1.850
Miscellaneous operating expenses	3.671	3.739
Total other operating expenses	**78.634**	**74.275**

NOTE 22. OTHER EXPENSES

(In millions of kroons)	2010	2009
Expenses related to enforcement proceedings	19.463	19.502
Legal regulation charges	2.685	1.108
Expenses from assets held for sale	0.913	0.047
Expenses from early redemption of bonds	5.546	-
Miscellaneous expenses	3.802	2.359
Total other expenses	**32.409**	**23.016**

NOTE 23. OPERATING LEASES

THE GROUP AS A LESSOR

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

Operating lease income (In millions of kroons)	2010	2009
Operating lease income of the reporting period	0.150	0.148
Operating lease rentals receivable in subsequent periods		
Within 1 year	0.096	0.173
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 2011 and 2015; at 31 December 2010, there were 10 effective leases.

Operating lease expenses on cars (In millions of kroons)	2010	2009
Operating lease expense of the period	0.619	0.636
Non-cancellable operating lease rentals payable in subsequent periods		
Within 1 year	0.531	0.582
Between 1 and 5 years	0.553	1.537

- Office premises: leases expire between 2011 and 2015; at 31 December 2010, there were 35 effective leases.

Operating lease expenses on office premises (In millions of kroons)	**2010**	**2009**
Operating lease expense of the reporting period	13.703	16.974
Non-cancellable operating lease rentals payable in subsequent periods		
Within 1 year	11.754	13.049
Between 1 and 5 years	47.115	36.267

NOTE 24. FINANCIAL ASSETS AND LIABILITIES BY REMAINING MATURITY

(In millions of kroons)

31 Dec 2010	**Past due**	**Less than 1 month**	**1 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Assets						
Due from banks and central banks	-	689.568	-	-	-	**689.568**
Loans to customers	808.407	31.460	312.100	577.237	427.645	2,156.849
Including loan portfolio	571.281	31.460	312.100	577.237	427.645	**1,919.723**
Including net interest receivables	237.126	-	-	-	-	**237.126**
Held-to-maturity financial assets	-	11.771	187.214	-	-	**198.985**
Total assets	**808.407**	**732.799**	**499.314**	**577.237**	**427.645**	**3,045.402**
Liabilities						
Loans from banks	-	0.311	3.256	4.144	-	**7.711**
Including linked to 6 month EURIBOR	-	0.311	3.256	4.144	-	**7.711**
Bonds issued (including subordinated bonds)	-	0.173	-	57.160	-	**57.333**
Including linked to 3 month EURIBOR	-	-	-	57.160	-	**57.160**
Deposits from customers	-	224.015	1,331.285	847.286	4.571	**2,407.157**
Total liabilities	-	**224.499**	**1,334.541**	**908.590**	**4.571**	**2,472.201**
Open position	**808.407**	**508.300**	**-835.227**	**-331.353**	**423.074**	**573.201**

(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						
Due from banks and 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**

Continues on the next page

(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**

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. At the end of 2010 the lowest interest rate for loans granted was 12.2% per year.

NOTE 25. NET CURRENCY POSITIONS

31 Dec 2010

(In millions of kroons)	**Position in the statement of financial position**		**Position off the statement of financial position**		**Net position**
	Assets	**Liabilities**	**Assets**	**Liabilities**	
EEK	646.980	866.109	-	-	-219.129
EUR	2,368.664	1,577.792	-	5.241	785.631
LVL	118.020	54.735	-	-	63.285
LTL	100.243	1.557	-	-	98.686
SEK	-	-	-	-	-
GBP	0.011	0.024	-	-	-0.013

31 Dec 2009

(In millions of kroons)	**Position in the statement of financial position**		**Position off the statement of financial position**		**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	112.886	15.131	-	-	97.755
LTL	9.681	1.213	-	-	8.468
SEK	0.004	-	-	-	0.004
GBP	-	-	-	-	-

The loans issued by the Group are denominated in the currency of the operating region or in euros. Currently, loans are issued in euros only and the proportion of loans denominated in euros grew throughout 2010.

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 same proportions of contractual liabilities throughout the loan term.

NOTE 26. ASSETS PLEDGED AS COLLATERAL

- The Group's immovable property at Rüütli 21/23 in Tartu is encumbered with a second-ranking mortgage of 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 encumbered with 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 encumbered with a mortgage of 9.400 million kroons to secure liabilities to AS Swedbank.
- Apartment ownerships at Tartu mnt 18 in Tallinn are encumbered with a mortgage of 14.000 million kroons to secure liabilities to AS Swedbank.

NOTE 27. CONTINGENT LIABILITIES

At 31 December 2010, the unused portions of the Group's credit lines totalled 4.223 million kroons (31 December 2009: 0.271 million kroons).

At 31 December 2010, the Group had guarantees of 18.778 million kroons (31 December 2009: 17.760 million kroons).

NOTE 28. INCOME TAX EXPENSE

(In millions of kroons)	31 Dec 2010	31 Dec 2009
Current income tax expense*	3.282	10.999
Change in deferred income tax**	-3.344	-21.791
Total income tax expense	**-0.062**	**-10.792**

* Current tax expense has been calculated on the net profit earned in Latvia in 2010 and 2009. In accordance with the Estonian Income Tax Act, in 2010 profit distributions, including dividend distributions, were subject to income tax calculated as 21/79 of the net distribution. Income tax is paid in addition to the dividend distribution. The income tax payable on dividends may be reduced by 21/79 of the dividends received from subsidiaries and branches.

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

At the end of 2010 the business of the Latvian subsidiary was transferred to the Latvian branch. Due to the disappearance of the tax base, the above tax asset was derecognised.

From the end of 2010, deferred tax assets are recognised for the difference in the value of receivables in the statement of financial position of the Latvian branch and the Group's consolidated statement of financial position.

Recognised deferred tax assets

(In millions of kroons)	31 Dec 2010	31 Dec 2009
Deductible temporary differences	25.046	21.675
Total deferred tax assets	**25.046**	**21.675**

Recognised deferred tax assets are attributable to:

(In millions of kroons)	31 Dec 2010	31 Dec 2009
Loans to customers	25.046	21.659
Property and equipment	-	-0.079
Other liabilities (vacation pay liabilities)	-	0.095

Total recognised deferred tax assets	**25.046**	**21.675**

Unrecognised deferred tax assets

(In millions of kroons)	**31 Dec 2010**	**31 Dec 2009**
Deductible temporary differences	-0.026	-0.096
Tax losses	3.253	1.747
Total unrecognised deferred tax assets	**3.227**	**1.651**

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

Changes in unrecognised deferred income tax assets over time

(In millions of kroons)	**31 Dec 2010**	**Change 2010**	**31 Dec 2009**	**Change 2009**	**31Dec 2008**
Deductible temporary differences	-0.026	0.070	-0.096	-17.558	17.462
Tax losses	3.253	1.506	1.747	-1.430	3.177
Total unrecognised deferred income tax assets	**3.227**	**1.576**	**1.651**	**-18.988**	**20.639**

Reconciliation of accounting profit and income tax expense

(In millions of kroons)	**2010**	**2009**
Consolidated profit before tax	82.258	106.274
The parent company's domestic tax rate 0%	-	-
Effect of tax rates in foreign jurisdictions	3.282	10.999
Change in recognised deferred income tax	-3.344	-21.791
Income tax expense for the period	-0.062	-10.792

NOTE 29. CONTINGENT INCOME TAX LIABILITY

At 31 December 2010, the Group's undistributed profits (earnings retained in prior periods and profit for the period) totalled 664.756 million kroons.

The maximum income tax liability that could arise if all of the profits were distributed as dividends amounts to 139.599 million kroons and the maximum amount that could be distributed as the net dividend is 525.157 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 2011 cannot exceed the total distributable profits as of 31 December 2010.

NOTE 30. RELATED PARTIES

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

- 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.

The remuneration of the members of the Group's management and supervisory boards for 2010 including relevant taxes amounted to 4.172 million kroons (2009: 5.600 million kroons) and 0.963 million kroons (2009: 0.941 million kroons) respectively.

In 2010 OÜ Edelatuulik Invest, a company in which Linda Terras, a member of the supervisory board of BIGBANK AS, is a shareholder, entered into a term deposit agreement with BIGBANK AS. At 31 December 2010, the deposit balance was 7.000 million kroons and interest accrued but not paid on the deposit amounted to 0.439 million kroons. Total interest accrued on the deposits of OÜ Edelatuulik in 2010 amounted to 0.488 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 9.

NOTE 31. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair values of the assets and liabilities reported in the consolidated statement of financial position as of 31 December 2010 do not differ significantly from their carrying amounts. The fair values of held-to-maturity financial assets have been determined by reference to their market value at 31 December 2010.The fair values of bonds issued by BIGBANK AS have been measured without considering the prices of relevant market transactions because the volumes and number of the transactions were not sufficient to provide a reasonable basis for this.

(In millions of kroons)

Financial assets as at 31 December 2010	Carrying amount	Fair value
Due from central banks	259.905	259.905
Due from banks	429.663	429.663
Loans to customers	2,156.849	2,156.849
Held-to-maturity financial assets	198.985	198.336
Other receivables (note 9)	56.751	56.751
Total financial assets	**3,102.153**	**3,101.504**

(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 9)	55.145	55.145
Total financial assets	**2,659.840**	**2,659.840**

(In millions of kroons)

Financial liabilities at 31 December 2010	Carrying amount	Fair value
Loans from banks	7.711	7.711
Deposits from customers	2,407.157	2,407.157
Other liabilities and deferred income (note 15)	16.946	16.946
Bonds issued	0.173	0.173
Subordinated bonds	57.160	57.160
Total financial liabilities	**2,489.147**	**2,489.147**

(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 (note 15)	13.471	13.471
Bonds issued	780.184	780.184
Subordinated bonds	122.269	122.269
Total financial liabilities	**2,100.407**	**2,100.407**

NOTE 32. SENSITIVITY ANALYSIS

INTEREST RATE RISK

The Group's interest earning-assets have fixed interest rates. Only 2.6% of the Group's interest-bearing liabilities are linked to EURIBOR and affected by changes in EURIBOR. The Group considers the impact of changes in EURIBOR on its profit and equity insignificant. Therefore, these financial statements do not include a sensitivity analysis for interest rate risk.

CURRENCY RISK

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

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

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

			31 Dec 2010
(In million of kroons)	**Exposure**	**Change 10%**	
		Monetary impact	**Percentage of equity**
LVL*	63.286	6.329	0.8%
LTL*	98.687	9.869	1.3%
SEK	-	-	0.0%
GBP	0.013	0.001	0.0%
Total	**161.986**	**16.199**	**2.1%**

			31 Dec 2009
(In million of kroons)	**Exposure**	**Change 10%**	
		Monetary impact	**Percentage of equity**
LVL*	97.755	9.776	1.4%
LTL*	8.468	0.847	0.1%
SEK	0.004	-	0.0%
GBP	-	-	0.0%
Total	**106.227**	**10.623**	**1.5%**

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

NOTE 33. EARNINGS PER SHARE

	2010	2009
Net profit for the period (in millions of kroons)	82.320	117.066
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)	1,029	1,463

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, granting the shareholder the right to participate in the management of the company, the distribution of profits and the distribution of residual assets on the dissolution of the company.

STATUTORY CAPITAL RESERVE
The capital reserve has been established in accordance with the Estonian Commercial Code. Under the latter, the capital reserve is established using annual net profit transfers. Each year, 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 for covering losses and increasing share capital. The capital reserve may not be used for making distributions to shareholders.

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

UNRESTRICTED EQUITY
At 31 December 2010, the Group's unrestricted equity amounted to 664.756 million kroons (31 December 2009: 597.436 million kroons).

DIVIDENDS
In 2009 and 2010, the company made the following dividend distributions:

- 2009: 237.500 kroons per share, i.e. 19.000 million kroons in aggregate
- 2010: 187.500 kroons per share, i.e. 15.000 million kroons in aggregate

NOTE 35. EVENTS AFTER THE REPORTING DATE

In January 2011, the Spanish branch of BIGBANK AS commenced its operations.

Starting from 1st of January 2011 Estonian Republic is part of the Eurozone and Estonian kroon (EEK) has been replaced with euro (EUR). Consequently, starting from the aforementioned date the Company converted its book keeping into euros, and in year 2011 and following years annual reports will be composed in euros.

Data for comparison will be converted with the official exchange rate 15,6466 EEK/EUR.

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

STATEMENT OF FINANCIAL POSITION

(In millions of kroons)	31 Dec 2010	31 Dec 2009
ASSETS		
Due from central banks	259.905	477.516
Due from banks	366.716	47.427
Loans to customers	2,310.657	1,573.923
Receivables from subsidiaries	1,148.687	1,049.607
Held-to-maturity financial assets	198.985	-
Other receivables and prepayments	69.636	21.449
Investments in subsidiaries	9.562	9.522
Intangible assets	11.097	4.184
Property and equipment	11.840	11.389
Other assets	24.195	23.214
TOTAL ASSETS	**4,411.280**	**3,218.231**
LIABILITIES		
Deposits from customers	2,407.156	1,173.213
Deposits from subsidiaries	610.686	493.695
Other liabilities and deferred income	575.177	17.017
Bonds issued	0.173	780.184
Subordinated bonds	59.775	122.269
TOTAL LIABILITIES	**3,652.967**	**2,586.378**
EQUITY		
Share capital	80.000	80.000
Statutory capital reserve	8.000	8.000
Earnings retained in prior periods	528.853	395.509
Profit for the period	141.460	148.344
TOTAL EQUITY	**758.313**	**631.853**
TOTAL LIABILITIES AND EQUITY	**4,411.280**	**3,218.231**

STATEMENT OF COMPREHENSIVE INCOME

(In millions of kroons)	2010	2009 Restated
Interest income	528.028	538.263
Interest expense	166.401	219.833
Net interest income	**361.627**	**318.430**
Dividend income	49.236	81.235
Net fees and commissions	-1.317	-1.333
Net loss on financial transactions	-0.488	-0.891
Other income	62.732	124.298
Total income	**471.790**	**521.739**
Salaries and associated charges	84.547	72.423
Other operating expenses	78.096	65.519
Depreciation and amortisation expense	7.323	8.759
Impairment losses on loans and receivables	129.737	201.236
Impairment losses on other assets	-	13.406
Other expenses	28.681	12.052
Total expenses	**328.384**	**373.395**
Profit before income tax	**143.406**	**148.344**
Income tax expense	1.946	-
Profit for the year	**141.460**	**148.344**

STATEMENT OF CASH FLOWS

(In millions of kroons)	2010	2009 Restated
Cash flows from operating activities		
Interest received	306.440	294.031
Interest paid	-89.546	-186.466
Other operating expenses paid	-169.246	-146.729
Other income received	49.124	50.319
Other expenses paid	-27.995	-9.411
Recoveries of receivables previously written off	3.423	2.024
Received for other assets	2.085	0.741
Paid for other assets	-1.046	-1.845
Loans granted	-497.195	-507.067
Repayment of loans granted	267.424	270.943
Change in mandatory reserves with central banks and related interest receivables	153.400	-2.158
Proceeds from customer deposits	1,987.274	1,083.733
Paid on redemption of deposits	-715.630	-380.970
Effect of changes in exchange rates	-0.618	-0.168
Net cash from operating activities	**1,267.894**	**466.977**
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-11.305	-7.030
Proceeds from sale of property and equipment	0.001	0.061
Paid for investment in a subsidiary	-0.040	-0.040
Dividends received	49.447	80.666
Acquisition of financial assets	-222.421	-
Proceeds from redemption of financial instruments	26.534	-
Net cash used in / from investing activities	**-157.784**	**73.657**
Cash flows from financing activities		
Paid on redemption of bonds	-782.870	-681.994
Paid on redemption of subordinated bonds	-62.586	-18.360
Proceeds from loans from companies	44.221	330.490
Repayment of loans from companies	-38.790	-31.432
Dividends paid	-15.000	-19.000
Net cash used in financing activities	**-855.025**	**-420.296**
Effect of exchange rate fluctuations	**-**	**0.046**
Increase in cash and cash equivalents	**255.085**	**120.384**
Cash and cash equivalents at 1 January	**192.635**	**72.251**
Cash and cash equivalents at 31 December	**447.720**	**192.635**

	31 Dec 2010	31 Dec 2009
Demand and overnight deposits with banks	44.998	39.229
Term deposits with banks	321.718	8.198
Surplus on mandatory reserves with central banks	80.969	145.140
Interest receivable on mandatory reserves with central banks	0.035	0.068
Total	**447.720**	**192.635**

Statement of changes in equity

(In millions of kroons)	31 Dec 2010	31 Dec 2009
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	543.853	414.509
Profit for the year	141.460	148.344
Dividends paid	-15.000	-19.000
Balance at 31 December	**670.313**	**543.853**
Total equity at 31 December	**758.313**	**631.853**

(In millions of kroons)	31 Dec 2010	31 Dec 2009
Unconsolidated equity at end of period	**758.313**	**631.853**
Investments in subsidiaries:		
Carrying value	9.562	9.522
Carrying value under the equity method	4.005	63.105
Adjusted unconsolidated equity at end of period	**752.756**	**685.436**

SIGNATURES

The management board has prepared the Group's review of operations and the consolidated financial statements for 2010.

	Date	Signature
Targo Raus Chairman of the Management Board	28 February 2011	[signed digitally]
Kaido Saar Member of the Management Board	28 February 2011	[signed digitally]
Veiko Kandla Member of the Management Board	28 February 2011	[signed digitally]
Ingo Põder Member of the Management Board	28 February 2011	[signed digitally]
Ruslan Mahhov Member of the Management Board	28 February 2011	[signed digitally]

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of BIGBANK AS

We have audited the accompanying consolidated financial statements of BIGBANK AS, which comprise the consolidated statement of financial position as at 31 December 2010, 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 65.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of BIGBANK AS as of 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 28 February 2011

KPMG Baltics OÜ
Licence No 17
Narva mnt 5, Tallinn

Andres Root
Authorized Public Accountant

PROFIT ALLOCATION PROPOSAL

The consolidated retained earnings of BIGBANK AS comprise of:

Earnings retained in prior periods as at 31 December 2010	582.436 million kroons
Net profit for 2010	82.320 million kroons
Total retained earnings	664.756 million kroons

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

1. Dividend distribution (up to 156.463 kroons per share)	Up to 12.517 million kroons
2. Retained earnings after allocations	652.239 million kroons

[signed digitally]	[signed digitally]	[signed digitally]	[signed digitally]	[signed digitally]
Targo Raus	Kaido Saar	Veiko Kandla	Ingo Põder	Ruslan Mahhov
Chairman of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board