Consolidated Annual Report

SMS Laen AS

Beginning of financial year:	1 January 2009
End of financial year:	31 December 2009
Registry code:	11215314
Address:	Narva mnt. 9 a 10117, Tallinn Estonia
Telephone:	+372 6 440 467
Fax:	+372 6 531 173
E-mail:	info@smslaen.ee
Web page:	www.smslaen.ee
Main activities:	EMTAK 64929 (Other lending activity, except for pawn shops)

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General information

Business name	SMS Laen AS
Address	Narva mnt 9 a 10117 Tallinn Estonia
Registration code	11215314
Registration date	02 May 2006
Telephone	+372 6 440 467
Fax	+372 6 531 173
E-mail	info@smslaen.ee
Web page	www.smslaen.ee
Main activity	EMTAK 64929 (Other lending activity, except for pawn shops)

Management Board

Member of the Management Board	Aaro Sosaar
Members of the Supervisory Board	Aivar Riimets Aare Sosaar Veiko Väli
Auditors	Ernst & Young Baltic AS

CONSOLIDATED MANAGEMENT REPORT

Structure of the Consolidation Group

Company name	Address	Registration code	Register	Registration date	Main activity	Partici-pating interest
SMS Aizdevumi SIA	Ganibu dambis 24A-505.kab., Riga LV-1005, Latvia	40103184219	Latvian business register	5 August 2008	Financing activities	100%

SMS Laen AS sold its 100% subsidiary **Perelaen OÜ** in December 2009 as part of a structural correction. Perelaen had ceased business activity relative to SMS Laen.

SMS Aizdevumi SIA is registered in Latvia. SMS Aizdevumi SIA priority is financing of private persons in Latvia. Its business plan and procedures are similar to operations in Estonia.

Members of the Board and Supervisory Board

Members of the Management Board: Aaro Sosaar

Members of the Supervisory Board: Aivar Riimets, Aare Sosaar, Veiko Väli.

In 2009, the payments to the members of the Management Board with taxes formed 2 352 thousand kroons and to the members of the supervisory board 2 784 thousand kroons.

Shareholders as at 31 December 2009

Baltic Capital Partners OÜ 500 000 shares, participating interest of 100%

Business overview

SMS Laen is the Estonia's leading flexible personal loan provider to private persons. Our services are used by approximately 70 thousand registered users, out of which are over 50 thousand active clients, as of 31 December 2009.

SMS Laen launched services in Estonia in 2006 and rapidly became one of Estonia's most innovative credit companies. SMS Laen managed to transform the Estonian credit market by providing customers with more speed, convenience and flexibility, in servicing short term loans, than banks. Our services can be used all over the country by using internet, or if already a client, by just using a mobile phone. We also co-operate with R Kiosk to serve customers who prefer face-to-face attendance when applying for a loan.

As of the end of the year 2008 SMS Laen AS employed 21 persons.

Our services

The Company provides unsecured loans between EEK 1 thousand and EEK 30 thousand to qualifying customers, with repayments between fifteen days to one year. We allow applicants to choose how much money they want to borrow and how long do they need it, suiting our customers' needs with unique simplicity and flexibility.

SMS Laen has developed a sophisticated risk and decision making procedure and application approval process that allows us to make objective and responsible decisions quickly 24 hours a day. All applicants have to provide us with information including their financial situation and education and when necessary, proving their income with a bank statement. Although we check our clients' background and solvency criteria thoroughly, in order to manage risk, our sophisticated technology makes it easy and hassle-free. Loyal customers who pay us promptly are offered a wider product selection.

Our mission, vision and values

Our aim is to offer our customers a high level of customer service and provide financial products that respond to our customers needs whenever our customers are in need of a short term cash. SMS Laen is constantly evolving and its activities are based on the vision to be the most reliable and innovative provider of financial services. Our mission is to help people in their search for fast and most efficient financial solutions.

Our mission and vision are supported by our main values:

Customer orientation – we care about our customers and work constantly towards knowing and fulfilling their needs. We present our customers with full information for making decisions that are most suitable for them.

Innovativeness – our world-class technology always complies with the changing needs of the customers and enables us to offer the best financial solutions and follow the highest security requirements.

Sense of responsibility – we care about the customers and offer all services with the sense of responsibility.

Significant milestones since 2006 and outlook.

2006

- In October, 10 thousand persons were registered in SMS Laen's database.
- In August, private seed financing
- In August, SMS Laen started its operations.

2007

- Share capital increased to EEK 10 million (EUR 640 thousand)
- In September, SMS Laen attracted debt capital in the amount of EUR 2 million from Baltic investors by successful placement of unsecured debt notes, arranged by Parex banka.

- The number of registered persons reached 44 thousand as of the end of the financial year.
- SMS Laen ended the first full year of its operating activity showing significant development and improvement of IT system and customer servicing.

2008

- In January, new paragraphs in the Money laundering and Terrorist Financing Prevention Act came into force, obliging all financial services companies to primary identify (meet face-to-face) new clients when starting a business relation.
- In August, SMS Laen started co-operation with Estonian Post to primary identify new clients.
- In September, SMS Laen refinanced its EUR 2 million debt notes by private placement of unsecured debt notes in the amount of EUR 2.67 million arranged by Parex banka.
- In October, SMS Laen started co-operation with R Kiosk Estonia to primary identify new clients and accept loan applications.
- In October, SMS Laen widened its product selection providing more flexible and attractive terms.
- In October, share capital increase to EEK 21.1 million (EUR 1.35 million).
- In November, new paragraphs in the Advertising Law came into force, obliging all credit providing companies to show APR when advertising a specific credit product and/or suggest customers to advise with an expert before making a loan decision.
- The number of registered persons reached 60 thousand as of the end of the financial year.

2009

- In May, new paragraphs in General Principles of the Civil Code Act and Law of Obligations Act came into force, obliging financial services providers to imply, among other things, “know you customer” conception.
- In September, SMS Laen refinanced its EUR 2.67 million debt notes by private placement of unsecured debt notes in the amount of EUR 1.7 million.
- In October, SMS Laen issued bonds in the amount of EUR 1.1 million to Baltic Capital Partners, its 100% shareholder, to refinance debt and debt notes.
- In December, Share capital increased to EEK 50 million (EUR 3.2 million) through a capitalisation issue.
- The number of registered persons reached approximately 70 thousand as of the end of the financial year.

Outlook

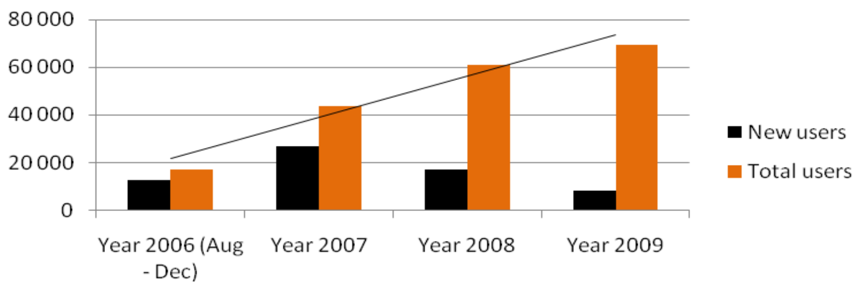
- International expansion to Europe.
- Introduction to new complementary services to SMS Laen's wide customer database.
- Improvements to loan product range.

Strategic targets

The company's strategy is to move from a strong local market leader in offering flexible short-term loans in Estonia to a sharp international financial services provider. The company's track record in running efficient business in Estonia has been and still is best in class. We would like to leverage on that experience and continue to provide good quality services in selected countries.

Our goal is to create a stronger and more profitable business by applying similar marketing, technological and debt managing techniques that have worked successfully in Estonia, with quickly adapting to the local environment. Going forward we are committed to offer our customers a good quality service that are fast, reliable and simple.

New and total registered users



- At the end of December 2009 total registered users reached over 69 thousand.
- The management estimates that the maximum number of users attractable from the Estonian market is around 70 thousand.

Financial highlights in 2009.

Profit and interest income

- Profit before loan impairment charges amounted to EEK 49.7m, an increase of 34 per cent compared with 2008 (EEK 37.0m).
- Net profit amounted to EEK 17.0m, a decrease of 33 per cent compared with 2008 (EEK 25.2m).
- Interest income increased 8% to EEK 97.2m in 2009, compared with EEK 90.4m in 2008.

Expenses

- Interest expense on loans and issued notes amounted to EEK 14.8m, an increase of 78 per cent compared with 2008 (EEK 8.3m)
- Operating expenses have decreased by 62 per cent from EEK 31.8m in 2008 to EEK 19.9m in 2009.
- Wages and salaries have decreased by 16 per cent from EEK 13.2m in 2008 to EEK 11.9m in 2009.

Loan impairment charges

- Accrued loan impairment charges have increased by EEK 29.1m to a total of EEK 50.6m.
- Loan impairment charges increased by 274 per cent, from EEK 11.9m in 2008 to EEK 32.6m in 2009.

Main economic indicators and ratios:
(in thousands kroons)

Balance sheet indicators (at 31 December)	**2009**	**2008**
Total assets	148 244	130 073
Loans to customers	158 826	127 901
Allowance for doubtful receivables	-50 593	-21 507
Debt issued	40 372	42 124
Other borrowings	30 569	22 524
Equity	74 033	56 956

Income statement indicators (per annum)	**2009**	**2008**
Interest income	97 198	90 415
Interest expense	-14 830	-8 259
Net interest income	82 368	82 156
Personnel expenses	-11 881	-13 199
Other operating expenses	-19 925	-31 775
Loan impairment charges	-32 616	-11 872
Profit for the year	17 077	25 186

Financial ratios	2009	2008
Return on equity (ROE)	23%	44%
Profit margin (PM)	18%	28%
Asset utilisation (AU)	65%	69%
Equity multiplier (EM)	2	2,3
Interest income ratio	68%	64%
Interest charges ratio	21%	12%

Explanation of financial ratios:

- Return on equity (ROE) – net income expressed as a percentage of owners equity
- Profit margin (PM) – ratio of profitability against total revenue
- Asset utilisation (AU) – ratio of total revenue against overall assets
- Equity multiplier (EM) – overall assets ratio against equity capital
- Interest income ratio – interest income ratio against interest bearing assets
- Interest charges ratio – interest charges ratio against interest bearing liabilities

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Aaro Sosaar

Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT REPRESENTATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

We hereby take responsibility for the preparation of the consolidated financial statements and confirm that:

1. the accounting principles used in preparing the financial statements are in compliance with the International Financial Reporting Standards as adopted by the European Union;

2. the consolidated financial statements give a true and fair view of the financial position of the Group, as well as the results of its operations and cash flows;

3. the Group and the parent company are able to continue as a going concern.

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Aaro Sosaar
Member of the Management Board

31 March 2009

For identification purposes only
ERNST & YOUNG
05.04.2010

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT
(per annum, in thousands kroons)

	2009	2008	Note
Interest income	97 198	90 415	2
Interest expense	-14 830	-8 259	2
Net interest income	**82 368**	**82 156**	
Loan impairment charges	-32 616	-11 872	2
Other operating income	219	215	3
Other operating expenses	-19 925	-31 775	3
Wages and salaries	-11 881	-13 199	
Depreciation, amortisation and impairments	-457	-339	7
Operating profit	**17 708**	**25 186**	
Financial expenses	-631	-	11
Profit before income tax	17 077	25 186	
Profit for the year	**17 077**	**25 186**	
Other comprehensive income	-	-	
Total comprehensive income for the year	**17 077**	**25 186**	

For identification purposes only
ERNST & YOUNG
05.04.2010

CONSOLIDATED BALANCE SHEET

(at 31 December, in thousands kroons)

	2009	2008	Note
Assets			
Cash	6 025	89	4
Loans to customers	108 233	106 394	5
Other loans	32 508	21 618	6
Prepayments	173	232	6
Equipment and other	406	584	7
Intangible assets	899	1 156	7
Total assets	**148 244**	**130 073**	
Liabilities and Equity			
Borrowings	70 941	67 146	8
Payables and prepayments	3 270	5 971	9
Total liabilities	**74 211**	**73 117**	
Equity			
Issued capital	50 000	21 111	10
Share premium	-	8 478	
Treasury shares	-	-9 589	10
Mandatory reserve	2 000	1 050	
Retained earnings	22 033	35 906	
Total equity	**74 033**	**56 956**	
Total equity and liabilities	**148 244**	**130 073**	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(per annum, in thousands kroons)

	Issued capital	Share premium	Treasury shares	Mandatory reserve	Retained earnings	Total
As at 31 December 2007	**10 000**	**-**	**-**	**100**	**11 670**	**21 770**
Issue of share capital	11 111	8 478	-	-	-	19 589
Purchase of treasury shares	-	-	-9 589	-	-	-9 589
Transfers to mandatory reserve	-	-	-	950	-950	-
Total comprehensive income	-	-	-	-	25 186	25 186
As at 31 December 2008	**21 111**	**8 478**	**-9 589**	**1 050**	**35 906**	**56 956**
Issue of share capital	30 000	-	-	-	-30 000	-
Cancellation of treasury shares	-1 111	-8 478	9 589	-	-	-
Transfers to mandatory reserve	-	-	-	950	-950	-
Total comprehensive income	-	-	-	-	17 077	17 077
As at 31 December 2009	**50 000**	**-**	**-**	**2 000**	**22 033**	**74 033**

Additional information about changes in equity is presented in Note 10.

CONSOLIDATED CASH FLOW STATEMENT
(per annum, in thousands kroons)

	2009	2008	Note
Operating activities			
Profit for the year	17 077	25 186	
Adjustment to net profit	11 755	6 178	12
Change in operating assets	-1 514	-40 704	
thereof loans to customers	*-1 839*	*-42 034*	5
thereof other receivables and prepayments	*325*	*1 330*	12
Change in operating liabilities	-2701	1 885	9
Net cash flow from operating activities	**24 617**	**-7 455**	
Investing activities			
Purchase of equipment and intangibles	-23	-1 429	7
Other loans issued	-13 930	-13 646	14
Repayment of other loans issued	5 731	4 600	12
Interest received on other loans	575	708	12
Total cash flow from investing activities	**-7 647**	**-9 767**	
Financing activities			
Proceeds from debt issued and other borrowed funds	53 514	58 000	8
Repayment of debt issued and other borrowed funds	-47 578	-32 496	8
Change in bank overdraft	-2 498	-332	8
Interest paid	-14 472	-9 302	2,12
Purchase of treasury shares	-	-9 589	10
Total cash flow from financing activities	**-11 034**	**16 281**	
Total cash flow	**5 936**	**-941**	
Cash and cash equivalents at 01 January	**89**	**1 030**	
Change in cash and cash equivalents	5 936	-941	
Cash and cash equivalents at 31 December	**6 025**	**89**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of preparation

General information

The consolidated financial statements of SMS Laen AS (hereinafter also the "Parent company") and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, on a historical cost basis. The financial statements have been prepared in thousands of Estonian kroons except when otherwise indicated.

The Group comprises of SMS Laen AS (Parent company) and its subsidiary SMS Aizdevumi SIA.

The registered office of the Parent company is located at Narva rd. 9a, 10117, Tallinn, Estonia

The main activity of the Group is the provision of unsecured loans.

New IFRS Standards adopted during the financial year but not yet effective

In the opinion of the Management of the Group the new or revised IFRS standards as adopted by the EU and their interpretations issued by the time of preparing the current consolidated financial statements, but not effective yet, and not applied early by the Group, do not have any significant effect on the value of the assets and liabilities of the Group as of 31 December 2009, or is expected to have an effect on any future periods. These standards and interpretations will be applied starting from their effective date and are as follows:

Adoption of new and/or changed IFRSs and IFRIC interpretations

- IFRS 8 *Operating Segments;*
- Amendment to IAS 1 *Presentation of Financial Statements;*
- Amendment to IAS 23 *Borrowing Costs;*
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to IFRS 2 *Share-based Payment;*
- Amendments to IFRS 7 *Financial Instruments: Disclosures;*
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation;
- Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* – Embedded derivatives;
- IFRIC 13 *Customer Loyalty Programmes;*
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;*
- IFRIC 15 *Agreement for the Construction of Real Estate;*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation;*
- Improvements to IFRS (issued in 2008 and effective on 1 January 2009).

Basis of consolidation

The consolidated financial statements comprise the financial indicators of the Group, consolidated on a line-by-line basis. Subsidiaries are consolidated from the date on which significant influence is transferred to the Group, and cease to be consolidated from the date on which the significant influence is transferred out of the Group.

A subsidiary is a company controlled by the parent company. Control means the ability to determine the subsidiary's financial and operating principles either by a shareholding, under a contract or through other means. As a rule, control is presumed to exist if the parent company directly and/or indirectly (through other subsidiaries) holds over a half of the voting shares of the subsidiaries.

The accounting principles applied by the subsidiary upon preparation of the financial statements are the same principles applied by the parent company. Any receivables, liabilities, income, expenses, cash flow and unrealized profit and loss arising from transactions between the parent company and its subsidiaries have been fully eliminated in the consolidated financial statements.

<u>Accounting for investments in subsidiaries in the parent company's separate balance sheet</u>

In the parent company's separate balance sheet, investments in subsidiaries have been accounted for on a historical cost basis. This means that the investment is initially recognized at acquisition cost, consisting of the fair value of the payable amount, adjusted thereafter by the impairment losses arising from the decrease in the value of the investment. The carrying values of investments will be reviewed when certain events or changes in circumstances indicate the carrying value may not be recoverable.
The Group determines at each balance sheet date whether there is any objective evidence that the investment in the subsidiary is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount (higher of the two: fair value less costs to sell and value in use) of the subsidiary and its carrying value and recognizes the amount in the income statement.

Dividends paid by the subsidiary are recorded when the parent company's right to receive the dividends (as financial income) is established, except for the portion of dividends payable at the expense of available shareholders' equity generated by the subsidiary before the group acquires the company. The respective portion of the dividends is recorded as a reduction of the investment.

A. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. If the receipt of the consideration is deferred, revenue is recognized at the present value of the consideration receivable.

<u>Interest income</u>

For all financial instruments measured at amortized cost interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

<u>Other revenue</u>

Revenue from services is recorded upon rendering of the service.

<u>Dividends</u>

Dividend revenue is recognised when the Group's right to receive the payment is established.

B. Cash and cash equivalents

For the purposes of the cash flow statement, cash equivalents are short-term (with a maturity up to 3 months from the date of acquisition) highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in market value, incl. cash in hand, current accounts at the bank, term deposits with an original maturity of three months or less and shares in money market funds.

C. Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below. The Group only has loans and receivables and no other type of financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment is based on delinquency in interest or principal payments or other relevant factors.

The write-down of financial assets related to operating activities is charged to expenses in the income statement. The write-down of financial assets measured at cost will not be subject to later reversal.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

De-recognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized:

- where the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset,
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

D. Foreign currency transactions

The functional currency of the Parent company is Estonian kroon, which is also the presentation currency for the Group's consolidated and the Parent's separate financial statements; all other currencies are considered to be foreign currencies. All foreign currency transactions are recorded on the basis of the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date.

E. Equipment and other

PPE are recorded at cost, consisting of the purchase price and expenditures directly related to the acquisition. Following initial recognition, an item of PPE is carried in the balance sheet at its cost, less accumulated depreciation and any accumulated impairment losses.
Depreciation of PPE is calculated on a straight-line basis. Depreciation rates are determined for each PPE item individually, depending on its useful life. The following annual depreciation rates apply for PPE groups:

Machinery and equipment	10-35 %
Other equipment; fixtures, fittings and tools	20-35 %

PPE is derecognised upon transfer of the asset, or if the group can expect no financial benefits from use or disposal of the asset. Any profits and losses arising from de-recognition of PPE are charged to "Other income" or "Other expenses" in the income statement of the period when the PPE were derecognised.

F. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

G. Financial liabilities

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder. Such instruments include amounts other borrowings and debt securities issued. Financial liabilities are initially recognised at their fair value less directly attributable transaction costs.

After initial recognition, financial liabilities are subsequently measured at their amortised cost by using the effective interest rate method. Gains and losses are in profit or loss when the liabilities are derecognised as well as through the amortisation process. The Group only has financial liabilities recorded at amortised cost.

H. Corporate income tax

The Parent and Estonian subsidiaries

Pursuant to the Income Tax Act, Estonian companies are not subjected to pay income tax on the profit, but all dividends paid by the company are subject to income tax. Starting from 1 January 2009 the income tax rate is 21/79 from net dividends. Since income tax is paid on dividends rather than profit, there are no temporary differences between the tax bases and carrying values of assets and liabilities that may give rise to deferred income tax assets and liabilities.

The Group's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet. The maximum amount of potential tax liability has been disclosed in Note 10.

Income tax from payment of dividends is recognised as an expense in the income statement at the moment of announcing the dividends.

Subsidiaries registered abroad

In accordance with income tax acts, the company's net profit, adjusted by temporary and permanent differences stipulated in the income tax act, are subject to income tax in Latvia (tax rate 15%). Deferred income tax is recorded using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized only when it is probable that profit will be available in the future against which the deferred tax assets can be utilized.

Income tax to be paid is reported under current liabilities and deferred tax liabilities under non-current liabilities.

I. Mandatory reserve

Pursuant to the Commercial Code of the Republic of Estonia and the articles of association of the Parent, at least 5% of the net profit attributable to the shareholders of the Parent must be transferred to the mandatory legal reserve each financial year, until the reserve amounts to at least 10% of the share capital. The mandatory legal reserve cannot be paid out as dividends, but it can be used for covering losses, if the losses cannot be covered from the free shareholder's equity. Mandatory legal reserve can also be used for increasing the share capital of the company.

J. Significant accounting estimates and assumptions used in the preparation of financial statements

The preparation of the Group's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, at the reporting date. The significant areas of estimation used in the preparation of these financial statements relate to impairment of loan receivables. See Note 5 for further details.

K. Events after the balance sheet date

Material circumstances that have an effect on the valuation of assets and liabilities and became evident between the balance sheet date and the date of preparing the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements. Subsequent events that have not been taken into consideration when valuing the assets and liabilities but have a material effect on the result of the next financial year, are disclosed in the financial statements.

Note 2. Interest income and expense and loan impairment charges

(per annum, in thousands kroons)

Interest income by geographical area:	**2009**	**2008**
Estonia (100%)	97 198	90 415

Interest income by fields of activity:	**2009**	**2008**
Other lending activity, except for pawn shops [1]	97 198	90 415

Interest income by type:	**2009**	**2008**
Loans to customers	61 336	77 115
thereof interest income accrued on impaired receivables	*56 058*	*65 808*
Notes receivable from loans to customers sold to collection agency (Note 5,14)	6 399	10 847
thereof interest income accrued on impaired receivables	*6 399*	-
Interest income from court orders [2]	25 177	-
thereof interest income accrued on impaired receivables	*25 177*	-
Overnight deposits	23	33
Other	4 263	2 420
Total	**97 198**	**90 415**

Interest expense by type:	**2009**	**2008**
Bank overdrafts	-107	-364
Debt issued	-9 349	-6 098
Other borrowings (Note 8)	-5 374	-1 797
Total	**-14 830**	**-8 259**

[1] The classification corresponds to EMTAK code 64929 of Republic of Estonia.

[2] Interest income from court orders includes recognition of previously off-balance sheet interest receivables from loans to customers. These receivables were recognised by the Group only after the Group had received court orders which show that the Group is entitled to the notes receivable (Note 5).

Loan impairment charges and amounts written off:	**2009**	**2008**
Loan impairment charges	-29 788	-8707
Amounts written off [1]	-2 828	-7 729
Other adjustments [2]	-	4 564
Total	**-32 616**	**-11 872**

[1] Amounts written off relate to loan receivables that were considered to be not recoverable at any time in the future and were written off from the balance sheet.

[2] Other adjustments relate to impaired receivables in 2007 which were reclassified in 2008 as not recoverable and were written off.

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Customer lending	**Total lending**
At 1 January 2009	**21 507**	**21 507**
Charge for the year to loans to customers	1 961	1 961
Charge for the year to notes receivable to collection agency	19 649	19 649
Charge for the year to court ordered notes receivable	10 304	10 304
Amounts written off	-2 828	-2 828
At 31 December 2009	**50 593**	**50 593**

	Consumer lending	**Total lending**
At 1 January 2008	**17 364**	**17 364**
Charge for the year to loans to customers	11 872	11 872
Amounts written off	-7 729	-7 729
At 31 December 2008	**21 507**	**21 507**

Note 3. Other operating income and expenses
(per annum, in thousands kroons)

Other income	**2009**	**2008**
Other income	182	-
SMS services	37	215
Total	**219**	**215**

Expenses	**2009**	**2008**
Rental charges and administrative expenses	-1 256	-1 561
Value added tax expense	-3 149	-4 960
Professional and legal fees	-3 137	-5 326
IT expenses	-1 555	-1 843
Loan collection expenses	-725	-1 954
Credit inspection expense	-411	-270
Marketing and advertisements	-7 667	-12 819
Bank charges	-246	-529
Customer identification	-1 645	-515
Royalties	-	-760
Other expenses	-134	-1 238
Total	**-19 925**	**-31 775**

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Note 4. Cash and cash equivalents

(at 31 December, in thousands kroons)	2009	2008
Cash balance	68	-
Balance on bank accounts	5 957	89
Total	**6 025**	**89**

Note 5. Loans to customers

(at 31 December, in thousands kroons)	2009	2008
Loans to customers [1]	61 172	95 783
Notes receivable from collection agency [2] (Note 14)	49 266	32 118
Notes receivable from court orders [3]	48 388	-
Loan impairment allowance (Note 2)	-50 593	-21 507
Total	**108 233**	**106 394**

[1] All loans to customers are unsecured loans to private individuals in Estonia ranging from 3 thousand to 30 thousand kroons. Loans to customers are all deemed to have similar risk characteristics.

[2] Notes receivable from the collection agency comprise of loans to customers that have been sold to a collection agency. In 2009 the Group sold to the collection agency loans to customers with a carrying value of 16 461 thousand kroons (2008: 38 123 kroons). In 2009 the Group has collected of the notes receivable 7 286 thousand kroons (2008:7 580 thousand kroons). The outstanding notes receivable to the collection agency earns an interest of 20% per annum. As at 31 December 2009 the unsettled interest balance on the notes receivable was 7 973 thousand kroons (2008: 1574 thousand). Loans to customers that were sold to a collection agency were all loans substantially in breach of the loan repayment terms.

[3] As at 31 December 2009 receivables 48 388 thousand kroons (2008: 0) out of loans to customers are based on court rulings in favour of the Group and are being collected by court bailiffs. Due to the fact that loans to customers collected by court bailiffs have better repayment characteristics, the Group has recognised 25 177 thousand kroons (2008: 0) of additional receivables in its balance sheet that had been previously accounted for off-balance sheet. These additional receivables comprise mainly of accrued interest on loans to customers that were in breach of their loan contracts. According to the court rulings the Group is entitled to these receivables (Note 2).

Note 6. Other lending and prepayments

(at 31 December, in thousands kroons)	2009	2008
Other lending (Note 14)	20 500	21 343
Accounts receivable	8	28
Other receivables (Note 11, 14)	12 000	247
Total	**32 508**	**21 618**

	2009	2008
Prepaid expenses	173	232
Total	**173**	**232**

Note 7. Equipment and intangible assets

(per annum, in thousands kroons)

	Intangible assets	Equipment and other	Total fixed assets
Net book value at 31 December 2007	**300**	**350**	**650**
Additions	984	445	1 429
Depreciation charge for a year	-128	-211	-339
Net book value at 31 December 2008	**1 156**	**584**	**1 740**
Additions	-	23	23
Depreciation charge for a year	-256	-201	-457
Net book value at 31 December 2009	**899**	**406**	**1 305**

At 31 December 2009	Intangible assets	Equipment and other	Total fixed assets
Acquisition cost	1 284	992	2 274
Accumulated depreciation	-384	-586	-970
At 31 December 2008			
Acquisition cost	1 284	969	2 253
Accumulated depreciation	-128	-385	-513

Note 8. Borrowings

(at 31 December, in thousands kroons)	2009	2008
Bank overdraft [1]	-	2 498
Debt issued [2]	40 372	42 124
Other borrowings [3]	30 569	22 524
Total	**70 941**	**67 146**

[1] The Group had an overdraft agreement with a bank for 2 500 thousand kroons at 31 December 2008 that ended in April 2009. The annual interest rate on the overdraft balance was 18%. The overdraft was secured with sureties.

[2] In September 2009 SMS Laen redeemed bonds issued in September 2008 for 41 776 thousand kroons and issued 26 599 thousand kroons (1 700 thousand euro's) of short-term bonds. The aforementioned bonds were issued with a term of 9 months with an annual interest of 30%, interest payable quarterly. The unsettled interest liability as at 31 December 2009 was 417 thousand kroons (2008: 348 thousand kroons). In October 2009 SMS Laen issued long-term bonds for 15 762 thousand kroons , which included an unsettled interest liability conversion of 313 thousand kroons. Long-term bonds were issued with a term of 18 months and with an annual interest of 20%, interest's payable quarterly. The unsettled interest liability at 31 December 2009 is 96 thousand kroons (2008: 0 kroons).

[3] Other borrowings include 8 050 thousand kroons of funds borrowed from related parties (2008: 7 000 thousand kroons), from which 800 thousand is due in 2010 and 7 250 is due in 2011 (2008: 7 000 was due in 2010). The unsetteled interest liability at 31 December 2009 is 193 thousand kroons (2008: 0 kroons).
22 326 thousand kroons of funds are borrowed from various entities. In 2009 the Group borrowed additionally 10 102 thousand kroons (2008: 15 527 thousand) and repaid outstanding borrowed funds worth of 3 300 kroons (2008: 11 140 thousand). Additionally, loan terms were extended for 13 474 thousand kroons worth of borrowings (2008: 6 300 thousand kroons).

Note 9. Payables and prepayments

(at 31 December, in thousands kroons)	2009	2008
Prepayments received	80	216
Accounts payable	760	3 990
Employee-related liabilities	2 177	1 260
Tax liabilities	253	505
Total	**3 270**	**5 971**

Note 10. Owner's equity

As at 31 December 2008, the Group's share capital was divided into 211 111 shares with a nominal value of 100 kroons (all shares were of the same type, issued and subscribed for by 31 December 2008).
In 2008, the share capital was increased by 111 111 shares. 11 111 shares were paid for by a non-monetary contribution – conversion of a loan in the amount of 9 589 thousand kroons into 1 111 thousand kroons of share capital and 8 478 thousand kroons of share premium. In 2008 the Group purchased 11 111 thousand own shares.
In 2009, the shares owned by the Group, includingthe share premium of 8 478 thousand kroons were cancelled. As a result of that the share capital was decreased by 11 111 shares.
In 2009 the share capital of the Group was increased by 300 000 shares with a nominal value of 100 kroons. The shares were paid for by a conversion of retained earnings into share capital.

Potential corporate income tax liability
As at 31 December 2009, the Group retained earnings were 24 471 thousand kroons (as at 31 December 2008: 35 906 thousand kroons). The maximum possible corporate income tax liability related to the disbursement of the whole retained earnings balance as dividends is 5 139 thousand kroons (2008: 7 540 thousand kroons). Thus, the Group can pay dividends in the total amount of 19 332 thousand kroons (2008: 28 366 thousand kroons) in net dividends. The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid and the related total income tax expenses would not exceed the distributable profit as at 31 December 2009.

Note 11. Subsidiaries

Name of the company	Country of Incorporation	Ownership % 2009	Ownership % 2008
SMS Aizdevumi SIA	Latvia	100	100
Perelaen OÜ	Estonia	0	100

As at 16 December 2009 SMS Laen AS transferred 100% of its holdings in Perelaen OÜ for 12 000 thousand kroons to a related party (Please see note 14 for further details).

Note 12. Additional information to consolidated cash flow statement
(in thousands kroons)

Adjustment of net profit (per annum):

	2009	2008
Depreciation	457	339
Interest expense (Note 2)	14 830	8 259
Interest income on other loans	-4 163	-2 420
Loss from sale of subsidiary	631	-
Total	**11 755**	**6 178**

Other receivables and prepayments at 31 December:

	2009	2008
Other receivables	8	274
Prepaid expenses and prepayments	173	232
Total	**181**	**506**

Interest receivable related to investing activities at 31 December:

	2009	2008
Interest receivable (Note 14)	1 508	1 797
Total	**1 508**	**1 797**

Interest payable related to financing activities at 31 December:

	2009	2008
Interest payable on other borrowings (Note 8)	706	348
Total	**706**	**348**

Interest received, interest paid

	2009	2008
Interest received on loans to customers	48 550	66 721
Interest received on other loans (Note 14)	575	708
Interest paid (Note 8)	14 472	9 302

Note 13. Maturity analysis of assets and liabilities

(in thousands kroons)

The table below shows analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See Note 15 for the Group's contractual undiscounted repayment obligations.

At 31 December 2009:

	On demand	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Subtotal less than 12 months	Over 1 year	Total
Assets								
Cash	6 025	-	-	-	-	6 025	-	6 025
Loans to customers	-	9 175	12 950	9 700	11 400	43 225	65 008	108 233
Other loan receivables	-	8	12 000	-	-	12 008	20 500	32 508
Prepayments	-	173	-	-	-	173	-	173
Equipment and other	-	-	-	-	405	405	-	405
Intangible assets	-	-	-	-	-	-	900	900
Total	**6 025**	**9 356**	**24 950**	**9 700**	**11 805**	**61 836**	**86 408**	**148 244**
Liabilities								
Borrowings	-	6 501	16 016	800	4 057	27 374	43 567	70 941
Payables and prepayments	-	2 120	1 150	-	-	3 270	-	3 270
Total	**-**	**8 621**	**17 166**	**800**	**4 057**	**30 644**	**43 567**	**74 211**
Net	**6 025**	**735**	**7 784**	**8 900**	**7 748**	**31 192**	**45 279**	**76 471**

At 31 December 2008:

	On demand	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Subtotal less than 12 months	Over 1 year	Total
Assets								
Cash	89	-	-	-	-	89	-	89
Loans to customers	-	24 853	23 328	5 420	34 955	88 556	17 838	106 394
Other loan receivables	-	274	480	6 484	14 380	21 618	-	21 618
Prepayments	-	232	-	-	-	232	-	232
Equipment and other	-	-	-	-	584	584	-	584
Intangible assets	-	-	-	-	-	-	1 156	1 156
Total	**89**	**25 359**	**23 808**	**11 904**	**49 919**	**111 079**	**18 994**	**130 073**
Liabilities								
Borrowings	-	5 348	2 502	50 502	1 778	60 130	7 016	67 146
Payables and prepayments	-	5 971	-	-	-	5 971	-	5 971
Total	**-**	**11 319**	**2 502**	**50 502**	**1 778**	**66 101**	**7 016**	**73 117**
Net	**89**	**14 040**	**21 306**	**-38 598**	**48 141**	**44 978**	**11 978**	**56 956**

Note 14. Related party disclosures
(in thousands kroons)

For the purpose of these consolidated financial statements related parties comprise of:
a) Shareholder's with significant influence over the Group and companies controlled by them
b) Management Board, their close relatives and companies controlled by them

Purchases from related parties:	**2009**	**2008**
Companies controlled by shareholders with significant influence over the Group	4 258	8 074

In 2009 the Group purchased from related parties legal and loan collection services (2008: legal, IT and loan collection services).

Sales to related parties:

	2009	**2008**
Companies controlled by shareholders with significant influence over the Group	16 461	38 123

Sales to related parties in 2009 comprise of the sale of loan receivables to the collection agency for 16 461 thousand kroons (2008: 38 123 thousand). See Note 5.

Amounts owed to related parties:

	2009	**2008**
Companies controlled by shareholders with significant influence over the Group	23 812	17 953

Amounts owed to related parties include 15 762 thousand kroons (2008: 10 953 thousand) of debt issued by companies controlled by shareholders with significant influence over the Group and other borrowings 8 050 thousand kroons (2008: 7 000 thousand) from companies controlled by shareholders with significant influence over the Group. Debt issued carries an annual interest rate of 20% and has an unsettled interest balance at 31 December 2009 of 96 thousand kroons (2008: 0), other borrowings have an annual interest rate of 16 % and the unsettled interest balance at 31 december 2009 was 193 thousand kroons (2008: 0).

Amounts owed by related parties:

	2009	**2008**
Companies controlled by shareholders with significant influence over the Group	81 766	51 886

Amounts owed by related parties as at 31 December 2009 comprise of:

- 18 992 thousand kroons (2008: 19 768) of borrowings to companies related to the shareholders with significant influence over the Group, those borrowings have an annual interest rate of 16 % (2008: 16% - 20%) and an unsettled interest balance was 1 508 thousand kroons (2008: 1 798).

- A notes receivable from the collection agency of 49 266 thousand kroons (2008: 32 118). In 2009 loan receivables were sold to the collection agency with a carrying value of 16 461 thousand kroons (2008: 38 123).

- In December 2009 the Group sold its holdings in Perelaen OÜ to a company related to the shareholders with significant influence over the Group. The outstanding receivable arising from the transfer of holdings in Perelaen OÜ as at 31 December 2009 is 12 000 thousand kroons.

Changes in amounts owed to related parties at 31 December:

	Loans outstanding at 31 December 2008	Loan repayments during the year	Loans issued during the year	Loans outstanding at 31 December 2009
Companies controlled by shareholders with significant influence over the Group	**17 953**	-	5 859	**23 812**

	Loans outstanding at 31 December 2007	Loan repayments during the year	Loans issued during the year	Loans outstanding at 31 December 2008
Companies controlled by shareholders with significant influence over the Group	**21 047**	20 547	17 453	**17 953**

Changes in amounts owed by related parties at 31 December:

	Loans outstanding at 31 December 2008	Loan repayments during the year	Loans issued during the year	Loans outstanding at 31 December 2009
Companies controlled by shareholders with significant influence over the Group	**51 886**	13 017[1]	42 897[2]	**81 766**

	Loans outstanding at 31 December 2007	Loan repayments during the year	Loans issued during the year	Loans outstanding at 31 December 2008
Companies controlled by shareholders with significant influence over the Group	**10 587**	12 872[1]	54 171[2]	**51 886**

[1] Loan repayments in 2009 comprise of repayment of other issued loans for 5 731 thousand kroons (2008: 5 292 thousand) and 7 286 (2008: 7 580 thousand) thousand kroons repaid by collection agency.

[2] Loans issued include 13 930 thousand kroons of other issued loans (2008: 16 048 thousand) and the sale of loan receivables to the collection agency for 16 146 thousand kroons (2008: 38 123 thousand). Loan issued to related parties matures in 12 months (2008: 9 to 18 months) with interest rate of 16% (2008: 20%). Interest income on loans to related parties in 2009 was 4 263 thousand kroons (2008: 2 420 thousand) and outstanding interest receivable from related parties at 31 December 2009 was 1 508 thousand kroons (31 December 2008: 1 797). No impairment charge was recorded on loans to related parties as of 31 December 2009 (31 December 2008: 0). Loans issued in 2009 also includes a claim of 12 000 thousand kroons from sale of subsidiary to Companies controlled by shareholders with significant influence over the Group.

Management remunerations

	2009	2008
Fees to Members of the Management Board	2 352	1 796
Fees to Members of the Supervisory Board	2 784	1 513
Total	**5 136**	**3 309**

Note 15. Financial risk management

(in thousands kroons)

Risk Identification

The Group follows requirements and procedures in its activities and risk management developed by the Management board and Supervisory board of the Group according to the legislation of the Republic of Estonia, other instructions issued by regulative organs as well as good practice. The Risk Management System of the Group is centralized which ensures implementation of uniform risk management principles as well as fast and efficient reaction to market changes. Elaboration and development of risk management methodology principles lies upon the management of the enterprise.

For risk identification the Group:

- ensures established modern risk sensitive methods for evaluating and managing all significant risks that enables to find balanced compromise between revenues and risks;
- considers the risk amount related to main business activities and their possible influence over the overall financial state of the whole Group;
- monitors the compliance of risk evaluation and management procedures with the changing conditions and inspects the necessity for their changing;
- ensures established procedures and limits for risk evaluation and management for development and launching of new products;
- monitors that the structure and the total amount of risks will not compromise the Group stability.

The main risks involved in the business activities of the Group are as follows:

- Credit risk;
- Liquidity risk;
- Interest rate risk;
- Operational risk.

Credit Risk

Credit risk is the risk that counterparty will not meet its obligations under a loan contract and the Group will incur a loss as a result of that. The Group manages and controls credit risk by setting limits on the maximum exposures for individual counterparties. As loans to customers range between 1 thousand kroons and 30 thousand kroons, the Group has a large number of customers with relatively small single payments. The maximum total credit risk, a highly theoretical figure, as at 31 December 2009 was 158 826 thousand kroons (31 December 2008: 128 014 thousand kroons)

The Group optimizes the capacity and structure of the loan portfolio based on risk-spreading. The limitations to the loan portfolio and term structure are monitored by the Group's Management. All Group's loans to customers are involved in credit evaluation, but as the average loan maturity is 90 days and maximum loan amount at 30 thousand kroons, no specific credit risk rating is assigned to each counterparty. The Group closely monitors its loan portfolio to provide early identification of possible changes in the creditworthiness of counterparties and regularly performs stress-tests and scenario analysis of credit risk to evaluate the quality of its loan portfolio and sensitiveness to changes in the overall economical conditions.

Loan characteristics at 31 December:

	Neither past due nor impaired 2009	Past due but not impaired 2009	Past due or impaired 2009	Total 2009
Loans to customers	7 929	4 299	48 944	61 172
Loan receivables sold to collection agency (Note 14)	-	-	49 266	49 266
Court ordered receivables (Note 5)	-	-	48 388	48 388
Total	**7 929**	**4 299**	**146 598**	**158 826**

Loan characteristics at 31 December:

	Neither past due nor impaired 2008	Past due but not impaired 2008	Past due or impaired 2008	Total 2008
Loans to customers	53 170	1 632	40 981	95 783
Loan receivables sold to collection agency (Note 14)	32 118	-	-	32 118
Total	**85 288**	**1 623**	**40 981**	**127 901**

Fair value of assets and liabilities

According to the Management Board, the carrying amount of the Group's financial assets and liabilities is a reasonable approximation of fair value. Fair value has been determined based on of the discounted cash flow method.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The liquidity risk of SMS Laen is influenced by the following factors:

- ensuring sustainable liquidity reserve for meeting short-term requirements of the customers;
- Access to capital markets;
- Terms and quality of assets and liabilities.

Maintaining adequate structure of assets and liabilities as well as planning of short- and long-term liquidity is the task of the Group's Management Board. The Group's Management Board has implemented a model considering the base of resources involved in investment resource planning. The main liquidity proportions as well as proportions of fixed-term assets and liabilities are fixed within the model frame.

According to stress tests conducted by the Management, the Group is able to continue as a going concern until the level of delinquent loans (loans that are not paid back on time) remains below 75 % of the outstanding loan portfolio. The average figure of loans not paid back on time in 2009 was 28% (2008: 27%), well below the border-case scenario of 75%.

The table below summarises the maturity of the Group's financial liabilities based on contractual undiscounted repayment obligations:

At 31 December 2009:

	On demand	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Subtotal less than 12 months	Over 1 year	Total
Liabilities								
Debt issued, borrowings	193	1 013	30 452	500	14 771	46 929	24 012	70 941
Total	**193**	**1 013**	**30 452**	**500**	**14 771**	**46 929**	**24 012**	**70 941**

At 31 December 2008:

	On demand	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Subtotal less than 12 months	Over 1 year	Total
Liabilities								
Debt issued, borrowings	-	8 317	5 819	53 819	3 031	70 986	7 016	78 002
Total	**-**	**8 317**	**5 819**	**53 819**	**3 031**	**70 986**	**7 016**	**78 002**

Interest risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rate. As of 31 December 2009 (31 December 2008) the Group had no floating interest rate loans.

Operational Risks

Operational risk reflects possible factors impairing normal business activities of the Group or causing damage in some other way – for instance, disturbances in information systems, shortcomings in internal procedures, incompetence and mistakes of personnel, frauds, natural disasters.
The Group has internal procedure rules with the objective to minimize operational and other risks that might emerge due to interruptions or crisis. The procedure rules state which actions are to be taken and by whom to normalize the working processes and how and by whom the working processes are to be restored if necessary.

Information technology risk is the risk impairing the Group activities that might occur due to technical failures and connection of local computer networks to the global network and increasing the possibility of confidential information being obtained by third unauthorized parties. The possible disturbances or interruptions in computer- and communication systems are risks to be taken seriously. During insurance of reliability and soundness of the information system it is of utmost importance that the supporting and backup systems developed considering the system interruptions as well as damage or permanent damage to software, hardware, files or documentation are regularly updated and periodically checked as well as access to the hard- and software of the system as well as information in the system is granted only to authorized persons.

Activity risk is the risk that emerges from incompetent procedure rules. It is possible, during the Group activity, that deliberate or unintentional mistakes are made in calculations and reporting that disfigure the real financial status or outcome of the Group. For most effective avoidance of errors, procedural rules are drawn by the Group that adequately describe all Group operations. Initiation, granting (deciding), fulfillment and monitoring of transactions as well as book-keeping and registration is divided between different departments/employees. This ensures the possibility to conduct independent checking and limits the possibility of occurrence of deliberate or unintentional mistakes.

Personnel risk is the risk related to loyalty, competence and suitability of employees to perform their duties. For avoiding possible damages, only persons with proper education and suitable experience are hired. The Group has laid down employment principles and training programs, criteria for qualification assessment (including attestation system) and sustainability of management. Upon evaluation of personnel risk, the Management Board evaluates adequacy of personnel procedures and personnel management.

Legal risk arises from null and void transactions and wrong evaluation of circumstances bearing legal meaning. The Group's legal department participates in procedures bearing legal meaning, development of customer contracts for the Group's customer and business relations as well as monitors their compliance to the law. Standard contracts have been developed for offering Group's usual services. Terms and conditions of non-standard transactions are agreed with lawyers.

System security risk**.** The utilized security systems, rules and procedures ensure preservation of Group's assets and avoid access of unauthorized persons to the Group's assets, documentation and electronic communications systems.

Prevention of money laundering**.** The Group has laid down procedures for prevention of money laundering and terrorism and considers training of its employees on prevention of money laundering and terrorism to be of utmost importance.

Reporting. The Group has a reporting system for operational risks, loss events and incidents.

Note 16. Capital Management

The primary objective of the Group's capital management is to maximize equity productivity and prevent risks that could endanger equity preservation. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders.

Note 17. Parent company's separate income statement
(per annum, in thousands kroons)

The Parent's separate financial statements (Note 17 to Note 20) have been prepared in all material respects in accordance with the requirements of the Estonian generally accepted accounting principles and are included here in accordance with the Estonian Accounting Act. They do not constitute the Parent's separate financial statements as defined in IAS 27 consolidated and Separate Financial Statements.

	2009	**2008**
Interest income	94 548	88 108
Interest expense	-14 830	-8 259
Net interest income	**79 754**	**79 849**
Loan impairment charges	-32 100	-11 033
Other operating income	219	215
Other operating expenses	-19 916	-30 692
Wages and salaries	-11 069	-13 199
Depreciation, amortisation and impairments	-457	-339
Operating profit	**16 431**	**24 801**
Financial income	2 000	-
Profit before income tax	18 431	24 801
Profit for the year	**18 431**	**24 801**
Other comprehensive income	**-**	**-**
Total comprehensive income for the year	**18 431**	**24 801**

Note 18. Parent company's separate balance sheet
(at 31 December, in thousands kroons)

	2009	2008
Assets		
Cash	5 959	22
Loans to customers	108 233	105 859
Other lending	32 530	10 734
Prepayments	173	232
Investments in subsidiaries	44	10 044
Equipment and other	406	584
Intangible assets	899	1 156
Total assets	**148 244**	**128 631**
Liabilities and Equity		
Borrowings	70 941	66 822
Payables and prepayments	3 270	6 207
Total liabilities	**74 211**	**73 029**
Equity		
Issued capital	50 000	21 111
Share premium	-	8 478
Treasury shares	-	-9 589
Mandatory reserve	2 000	1 000
Retained earnings	22 033	34 602
Total equity	**74 033**	**55 602**
Total equity and liabilities	**148 244**	**128 631**

Note 19. Parent company's separate statement of changes in equity
(per annum, in thousands kroons)

	Issued capital	Share premium	Treasury shares	Mandatory reserve	Retained earnings	Total
As at 31 December 2007	**10 000**	**0**	**0**	**100**	**10 701**	**20 801**
Issue of capital	11 111	8 478	-	-	-	19 589
Purchase of treasury shares	-	-	-9 589	-	-	-9 589
Transfers to mandatory reserve	-	-	-	900	-900	-
Total comprehensive income	-	-	-	-	24 801	24 801
As at 31 December 2008	**21 111**	**8 478**	**-9 589**	**1 000**	**34 602**	**55 602**
Issue of capital	30 000	-	-	-	-30 000	-
Cancellation of treasury shares	-1 111	-8 478	9 589	-	-	-
Transfers to mandatory reserve	-	-	-	1 000	-1 000	-
Total comprehensive income	-	-	-	-	18 431	18 431
As at 31 December 2009	**50 000**	**-**	**-**	**2 000**	**22 033**	**74 033**

The parent's adjusted equity as at 31 December is the following:	**2009**	**2008**
Non-consolidated equity of the parent	74 033	55 602
Carrying value of subsidiaries in separate balance sheet of the parent	-44	-8 690
Value of subsidiaries under the equity method of accounting	44	10 044
Total	**74 033**	**56 956**

Note 20. Parent company's separate cash flow statement
(per annum, in thousand kroons)

	2009	2008
Operating activities		
Net profit	18 431	24 801
Adjustment to net profit	13 638	8 261
thereof depreciation	*457*	*339*
thereof interest income on other loans	*-1 649*	*8 259*
thereof interest expense	*14 830*	*-337*
Change in operating assets	-4 279	-42 599
thereof loans to customers	*-2 374*	*-42 514*
thereof other receivables and prepayments	*-1 905*	*-85*
Change in operating liabilities	-2 613	1 232
Total cash flow from operating activities	**25 177**	**-8 305**
Investing activities		
Purchase of equipment and intangibles	-23	-1 429
Purchase of subsidiaries	-	-44
Other lending's	-12 438	-12 013
Repayment of other lent loans	3 781	3 159
Interest received	474	338
Total cash flow from investing activities	**- 8206**	**-9 989**
Financing activities		
Proceeds from debt issued and other borrowed funds	53 514	58 000
Repayment of debt issued and other borrowed funds	-47 578	-32 493
Change in bank overdraft	-2 498	-332
Interest paid	-14 472	-8 259
Total cash flow from financing activities	**-11 034**	**17 327**
Total cash flow	**5 937**	**-967**
Cash and cash equivalents at 01 January	**22**	**989**
Change in cash and cash equivalents	5 937	-967
Cash and cash equivalents at 31 December	**5 959**	**22**

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS SMS Laen

We have audited the consolidated financial statements of AS SMS Laen, which comprise the statement of financial position as at 31 December 2009, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The audited financial statements, which we have identified on the accompanying pages, are enclosed with the current report.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The financial information of AS SMS Laen as a parent company in Note 17 to 20 is presented because it is required by the Estonian Accounting Act and is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. Such financial information has been subject to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is prepared in all material respects in accordance with the requirements of the Estonian generally accepted accounting principles and in relation to the consolidated financial statements taken as a whole.

Tallinn, 5 April 2010

Ivar Kiigemägi
Ernst & Young Baltic AS

PROFIT ALLOCATION PROPOSAL

The Management Board of SMS Laen AS proposes to the General Shareholders' Meeting to allocate the profit as follows:

1. Transfer to mandatory reserve: 3 000 000 kroons
2. Transfer to retained earnings: 15 431 000 kroons

____
Aaro Sosaar
Member of the Management Board

SIGNATURES TO THE ANNUAL REPORT

We hereby confirm the correctness of information presented in the Annual Report 2009 of consolidated group of SMS Laen AS:

Management Board of SMS Laen AS:

Member of the Management Board Aaro Sosaar _______________

The Supervisory Board of SMS Laen AS has recognised the Annual Report prepared by the Management Board, and the Auditor's Report, and approved the Profit Allocation Proposal, as submitted by the Management Board, with its resolution on 31 March 2009.

Supervisory Board of AS SMS Laen:

Member of the Supervisory Board Aare Sosaar _______________

Member of the Supervisory Board Aivar Riimets _______________

Member of the Supervisory Board Veiko Väli _______________

Aruande elektroonilised kinnitused

SMS Laen AS (registrikood: 11251314) 01.01.2009 - 31.12.2009 majandusaasta aruande andmete õigsust on elektrooniliselt kinnitanud:

Kinnitaja nimi	Kinnitaja roll	Kinnituse andmise aeg
Aaro Sosaar	Juhatuse liige	30.06.2010

Müügitulu jaotus tegevusalade lõikes

Tegevusala	EMTAK kood	Müügitulu (EEK)	Müügitulu %	Põhitegevusala
Muu laenuandmine, v.a pandimajad	**64929**	**97198000**	**100.00%**	**Jah**

Sidevahendid

Liik	Sisu
Telefon	**+372 6440467**
E-posti aadress	**aaro@smslaen.ee**