



BIGBANK AS

Annual report

2008

# BIGBANK AS

## ANNUAL REPORT

<b>Company:</b>	BIGBANK AS (formerly Balti Investeeringute Grupi Pank AS, name change registered on 23 January 2009)
<b>Register:</b>	Commercial Register of the Republic of Estonia
<b>Registration number:</b>	10183757
<b>Date of entry:</b>	30 January 1997
<b>Address:</b>	Rüütli 23, 51006 Tartu, Estonia
<b>Telephone:</b>	3 727 377 570
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<b>E-mail:</b>	<a href="mailto:bigbank@bigbank.ee">bigbank@bigbank.ee</a>
<b>Website:</b>	<a href="http://www.bigbank.ee">www.bigbank.ee</a>
<b>Rating information:</b>	<i>Moody's Investors Service</i> Long-term deposit rating B1 Short-term deposit rating <i>not prime</i> Financial strength rating E+ Outlook negative
<b>Date of report:</b>	31 December 2008
<b>Beginning of financial year:</b>	1 January 2008
<b>End of financial year:</b>	31 December 2008
<b>Chairman of Management Board:</b>	Targo Raus
<b>Auditors:</b>	KPMG Baltics AS, audit firm entered in the list of auditors on 11 July 2001 under 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
<b>Reporting currency:</b>	Reporting currency is Euro and figures are presented in millions of currency units rounded to three digits after the decimal point.



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This annual report of BIGBANK AS contains a review of operations and consolidated financial statements that have been appended an auditor's report and a profit allocation proposal. The document contains 77 pages.

From 27 February 2009, *Annual report 2008* is available at the head office of BIGBANK AS at 23 Rütli 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](http://www.bigbank.ee).



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## REVIEW OF OPERATIONS

### DESCRIPTION OF THE GROUP

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

Company: AS Baltijas Izaugsmes Grupa  
Address: Citadelas 2, LV-1010 Riga, Latvia  
Registration number: 40003291179  
Register: Register of Enterprises of the Republic of Latvia  
Date of entry: 18 April 1996  
Core activity: provision of consumer finance in the Republic of Latvia  
Ownership interest: 100%

Company: OÜ Rütli Majad  
Address: Rütli 23, 51006 Tartu, Estonia  
Registration number: 10321320  
Register: Commercial Register of the Republic of Estonia  
Date of entry: 27 November 1997  
Core activity: Real estate management  
Ownership interest: 100%

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

### BUSINESS AND FINANCIAL REVIEW

During the reporting period, BIGBANK AS (also referred to as "BIGBANK" and the "Group") continued consolidating its positions in the Baltic consumer credit markets. Owing to adverse developments in the surrounding macroeconomic environment, growth rates remained considerably smaller than in 2007.

In November 2008, BIGBANK adopted trademark BIGBANK in Estonia and Latvia to consolidate the company's activities on all of its markets under one common trademark. In Lithuania, the Group used BIGBANK trademark since establishing operations in Lithuania in 2007. On 23 January, 2009 the Group's registered name was changed to BIGBANK AS (formerly Balti Investeeringute Grupi Pank AS). Changes to the official business names of the bank's Latvian and Lithuanian subsidiaries will be introduced in the near future in accordance with local regulations.

By the end of 2008, the consolidated loan portfolio stood at 146.316 million euros, Estonia accounting for 50.4%, Latvia for 40.2% and Lithuania for 9.4% of the total. The period's most significant growth was achieved in the Lithuanian market where the Group entered in autumn 2007. The Lithuanian loan portfolio expanded by an exceptional 250.8% or 9.888 million euros. In November 2008 the Group established a branch in Latvia. The branch operates in the Latvian consumer credit market along with the subsidiary.

In 2008 BIGBANK upheld its conservative liquidity management policy, increasing the volume of liquid assets to 30.639 million euros or 16.5% of total assets against 23.582 million euros and 14.1% at the end of 2007. During the year, BIGBANK redeemed bonds of 21.247 million euros and issued bonds of 13.396 million euros. All bond issues were aimed at the home market. Customer deposits grew vigorously – from 11,752 million euros at the end of 2007 to a solid 40.303 million euros.

At the year-end, the Group's liabilities comprised term deposits from customers (27.1%), international bonds (54.6%), domestic bonds (9.3%), subordinated bonds (7.4%), loans from credit institutions (0.6%) and other liabilities (1.0%).

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The Group sustained profitable performance – consolidated net profit for 2008 amounted to 9.252 million euros (2007: 11.330 million euros). Interest income rose to 43.860 million euros against 36.710 million euros for 2007. The growth in interest expense – from 9.552 million euros in 2007 to 15.872 million euros – is mainly attributable to substantially smaller volumes of financing at the beginning of 2007. At the end of 2008, the average cost of interest-bearing liabilities was 9.7% (2007: 10.2%).

The period saw growth in credit loss allowances. At the year-end, impairment allowances for loan and interest receivables totalled 13.471 million euros compared with 6.497 million euros at the end of 2007. Allowances have increased because of conservative measurement policies and a special collective allowance recognised at the end of the third quarter in connection with developments in the Latvian macroeconomic environment. Further information on credit loss allowances is presented in note 7. Although the proportion of loans more than 90 days in arrears increased (for further information refer to note 7), income from collection proceedings also grew significantly – from 3.373 million euros in 2007 to 8.246 million euros.

At the end of 2008, BIGBANK employed 512 people, including 237 in Estonia, 207 in Latvia, and 68 in Lithuania, and had 45 offices, including 22 in Estonia, 15 in Latvia and 8 in Lithuania.

The membership of the management board changed in December 2008 when Ingo Pöder became the fourth board member. The current members of the management board are Ingo Pöder, Veiko Kandla, Kaido Saar and Targo Raus (chairman). In 2008, the remuneration of the parent company's management and the supervisory boards, including relevant taxes, amounted to 0.223 million euros and 0.056 million euros respectively.

#### KEY PERFORMANCE INDICATORS

<b>Balance sheet indicators</b> (in millions of euros)	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
Total assets	185.908	166.961
Loans to customers	146.316	140.063
Due from the Central Bank and other banks	30.639	23.581
Debt securities issued (including subordinated debt)	106.090	113.799
Deposits from customers	40.303	11.752
Loans from banks	0.950	9.595
Equity	37.032	30.195
	<b>2008</b>	<b>2007</b>
<b>Income statement indicators</b> (in millions of euros)		
Interest income	43.860	36.710
Interest expense	15.872	9.552
Salaries and associated charges	7.193	4.528
Other operating expenses	7.901	7.490
Net impairment loss on loans and interest receivables	-9.234	-5.391
Profit for the period	9.252	11.330
	<b>2008</b>	<b>2007</b>
<b>For the period</b> (in millions of euros)		
Average equity	33.614	25.061
Average assets	176.434	122.179
Average interest-earning assets	170.835	118.202
Average interest-bearing liabilities	139.435	95.069
Total income	52.411	40.476

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<b>Ratios</b>	<b>2008</b>	<b>2007</b>
Return on equity (ROE)	27.5%	45.2%
Profit margin (PM)	17.7%	28.0%
Return on loans	35.6%	38.2%
Asset utilization ratio (AU)	29.7%	33.1%
Price difference (SPREAD)	14.3%	21.0%
Equity multiplier (EM)	5.3	4.9
Earnings per share (EPS)	115.656	141.624
Tier 1 capital ratio	22.1%	21.6%
Yield on interest-earning assets	25.7%	31.1%
Cost of interest-bearing liabilities	11.4%	10.1%

**Explanations:**

- Balance sheet 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 + extraordinary income gains/income on changes in the values of receivables and off-balance sheet 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 2008:**

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

The shares of 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 that provide for joint governance by means of agreed voting or otherwise restrict use of voting power.

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

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## GOVERNANCE OF THE COMPANY

The activity of BIGBANK AS is regulated, above all, by the Estonian Commercial Code, the Credit Institutions Act and the company's Articles of Association. The Articles of Association are amended in accordance with the provisions of the Commercial Code, the Credit Institutions Act and the company's 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 the powers of members of the management board are regulated by the Commercial Code, the Credit Institutions Act and the Articles of Association. Further information on governance is provided in the Corporate Governance Report.

## RATINGS

### Rating information

*Moody's Investors Service*  
Long-term deposit rating B1  
Short-term deposit rating *not prime*  
Financial strength rating E+  
Outlook negative

Ratings did not change during the year. Outlook was downgraded from stable to negative in the third quarter of 2008. This was not unexpected because international rating agencies had already downgraded the country ratings and outlooks of the Baltic countries.

## LITIGATIONS

At 31 December 2008, the parent company and the Group were not involved in any significant litigation.

## ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

### BALANCE SHEET INDICATORS

Total assets	<p>At the end of 2008, the Group's assets totalled 185.908 million euros, an 11.3% increase year-over-year.</p> <p>At the year-end, the loan portfolio accounted for 78.7% of total assets while monetary funds accounted for 16.5% and other assets (including property and equipment, intangible assets, other receivables, prepayments and other assets) contributed 4.8%.</p>
Monetary funds	<p>In connection with adverse changes in the macroeconomic environment the Group maintains high liquidity: at the end of 2008 liquid funds accounted for 16.5% of total assets (14.1% at the end of 2007).</p> <p>At the year-end, monetary funds totalled 30.639 million euros, including 21.137 million euros deposited with Eesti Pank (Bank of Estonia, the Central Bank). During the year, monetary funds increased by 29.9%.</p> <p>At the end of 2008 the mandatory reserve with Eesti Pank stood at 21.102 million euros compared with 17.612 million euros at the end of 2007. The mandatory reserve accounts for 15.0% of debt financing excluding liabilities to Estonian credit institutions.</p>
Loans to customers	<p>At the end of 2008, active loan contracts numbered 137.9 thousand, including 50.3 thousand in Estonia, 75.3 thousand in Latvia and 12.4 thousand in Lithuania, and the average loan amount was 1.085 thousand euros.</p> <p>At the year-end, client receivables totalled 146.316 million euros. The figure breaks down between geographical segments as follows:</p>

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- Estonia: 73.727 million euros (50.4%)
- Latvia: 58.759 million euros (40.2%)
- Lithuania 13.830 million euros (9.4%)

At 31 December 2008 loans to customers comprised:

- Loan receivables of 148.345 million euros. Loans to individuals account for 98.2% of the total loan portfolio.
- Interest receivables on loans of 11.936 million euros.
- Prepaid loan interest of 0.493 million euros.
- Specific and collective impairment allowances for loans and interest receivables of 13.471 million euros (consisting of an impairment allowance for loans of 11.311 million euros, an impairment allowance for interest of 1.594 million euros and a collective impairment allowance of 0.566 million euros).

At the end of 2008, impairment allowances accounted for 8.4% of gross loans to customers against 4.4% at the end of 2007. The rise is attributable to a decrease in new sales and the application of more conservative measurement principles along with higher impairment rates.

Further information on the valuation of loans and interest receivables is presented in note 7.

#### Overdue loans and impairment allowances

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

BIGBANK AS is currently the only bank in the region that focuses on the provision of consumer finance only. In line with the corporate strategy, at 31 December 2008 loans against income accounted for 76.6% of the loan portfolio compared with 72.5% at the end of 2007.

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

Debt collection proceedings have three phases – internal proceedings (the Group will send written and electronic reminders and may offer restructuring, etc), formal collection proceedings (conducted with the assistance of professional collection companies) and judicial and execution proceedings. A significant portion of non-performing loans is satisfied through execution proceedings (after a judgement or ruling by the court).

At the end of 2008, loans subject to execution proceedings accounted for 22% of all loans at least 90 days in arrears.



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In 2008 the Group recovered 28.221 million euros of loans at least 90 days in arrears (including principal, interest and other receivables). The figure includes receivables of 3.483 million euros sold to the collection company SIA Vidzemes Inkasso. Further information on the transaction is presented in note 8.

During the year loans of 1.507 million euros were considered fully impaired and written off the balance sheet compared with 0.200 million euros in 2007.

The Group's historical recovery rate for non-performing loans has been high and in clear correlation with the duration of the collection proceedings. For example, the Estonian portfolio indicates that if collection proceedings have lasted for at least two years (starting before 2007) only about 33% of the original balance of the non-performing loan is currently outstanding (on average). If proceedings have lasted for at least three years (starting before 2006), only about 5% of the original balance is still outstanding. As collection proceedings are ongoing, the estimated proportion of fully recovered loans is even higher.

Owing to the current economic situation, the Group expects growth in loan losses and has therefore increased the rates applied on establishing impairment allowances for homogeneous groups.

To mitigate the risks arising from settlement behaviour and cover potential credit losses, the Group has established impairment allowances, which at 31 December 2008 totalled 13.471 million euros or 8.4% of the loan portfolio (the corresponding figure for the end of 2007 was 4.4%). Impairment allowances are established on a conservative basis.

#### Liabilities

In 2008 BIGBANK's liabilities grew by 12.109 million euros or 8.9%.

The largest portion of debt finance, i.e. 95.074 million euros, was raised by issuing debt securities, which at the year-end accounted for 63.9% of consolidated liabilities. During the year, the balance of debt securities decreased by 7.851 million euros. The largest share of debt securities is made up of an international bond issue performed in 2007. The issue size was 82,750 million euros and redemption date is 31 March 2011. The annual interest rate of the bonds is 3 month Euribor plus 7.5%. Domestic bond issues totalled 13.799 million euros at the end of 2008.

At the year-end, the bonds' weighted average duration until maturity was 788 days and weighted average interest rate was 10.4% per year.

Term deposits from customers on the other hand increased substantially, amounting to 40.303 million euros or 27.1% of consolidated liabilities at the year-end. At the end of the previous year, term deposits totalled 11.752 million euros, accounting for 8.6% of consolidated liabilities. At 31 December 2008, the deposits' weighted average duration until maturity was 194 days and weighted average interest rate was 8.0% per year.

Amounts due to credit institutions decreased from 9.595 million euros at the end of 2007 to 0.950 million euros at the end of 2008.



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At the end of 2008 subordinated liabilities totalled 11.016 million euros compared with 10.873 million euros at the end of 2007.

For total liabilities, the weighted average duration until maturity at the year-end was 633 days and the weighted average interest rate was 9.7% per year.

**Equity** In 2008 consolidated equity grew by 22.6% to 37.032 million euros compared with 30.195 million euros at the end of 2007.

At the end of 2008, the Group's capital adequacy ratio was 19.3%, surpassing the required level (10%) significantly. At 31 December 2008, tier 1 and tier 2 capital totalled 44.389 million euros, accounting for 23.9% of total assets.

#### INCOME STATEMENT ITEMS

**Interest income** Interest income for 2008 amounted to 43.860 million euros, a 19.5% increase year-over-year. The yield on interest earning assets was 25.7% and the ratio of total income to interest-earning assets 29.7%.

**Interest expense** The growth in interest expense (from 9.552 million euros in 2007 to 15.872 million euros for 2008) is attributable to significantly smaller volumes of financing at the beginning of 2007. The average cost of financing did not change significantly in 2008. At the year-end the weighted average cost of debt financing was 9.7% compared with 10.2% at the end of 2007.

The ratio of interest expense to interest income was 36.2%.

**Other operating expenses** Other operating expenses increased to 7.901 million euros, 5.5% up on 2007, mainly on account of a rise in stamp duties paid to the state.

**Salaries** Salaries for 2008 totalled 5.427 million euros, a 58.0% increase year-over-year. Salaries grew on account of expansion and the opening of new offices in Latvia and Lithuania as well as a relatively low number of staff in the first half of 2007.

**Net impairment loss on loans and interest receivables** Impairment allowances for loan and interest receivables were increased by 9.234 million euros compared with 5.391 million euros in 2007. Impairment allowances are established on a conservative basis.

In connection with adverse changes in the macroeconomic environment in the fourth quarter of 2008, the Latvian subsidiary established a special collective impairment allowance of 0.566 million euros in addition to the individual impairment allowances established for loans and interest receivables in the ordinary course of business. The purpose of the collective allowance is to cover the potential negative impacts that the developments in the macroeconomic environment may have on the customers' settlement behaviour.

Further information on the valuation of receivables is presented in note 7.

**Other income and other expenses** Other income for 2008 amounted to 8.485 million euros, a 1.4-fold increase on 2007. The largest proportion of other income resulted from collection proceedings.

Other expenses (including contributions to the Guarantee Fund and supervision fees to the Financial Supervision Authority) totalled 0.417 million euros.

**Return on loans** In 2008 the average gross loan portfolio totalled 143.725 million euros. Interest income on the loan portfolio totalled 42.873 million euros and income from collection proceedings amounted to 8.246 million euros. The period's return on loans was 35.6%.



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Net profit

The Group ended 2008 with a consolidated net profit of 9.252 million euros, an 18.3% decrease compared with 2007. Although interest income increased, margins were affected by growth in interest expense and impairment allowances made for potential credit losses.



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## CORPORATE GOVERNANCE REPORT

The Corporate Governance Recommendations (CGR) promulgated by the Tallinn Stock Exchange are a set of guidelines and rules designed for listed companies. Adherence to CGR is not mandatory and each entity may exercise its discretion in deciding whether to observe the recommended practice and to disclose the extent of compliance in its corporate governance report. Listed companies have had to observe the "comply or explain" principle 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 includes 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 licence was obtained on 27 September 2005. BIGBANK AS specializes in the provision of small and consumer credit.

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

BIGBANK AS is a parent of a group consisting of BIGBANK AS and its wholly-owned subsidiaries AS Baltijas Izaugsmes Grupa and OÜ Rūūtli Majad. In addition, in 2007 a branch was opened in Lithuania and in 2008 in Latvia.

The Latvian and Lithuanian branches provide credit services similar to those of BIGBANK AS. Since the establishment of BIGBANK's branch in Latvia, AS Baltijas Izaugsmes Grupa has focused on managing the existing customer portfolio. BIGBANK AS and its Latvian branch also provide deposit services. The core activity of OÜ Rūūtli Majad is the management of real estate required for the parent's activity in Estonia.

The shares in BIGBANK AS are equally divided between two individuals:

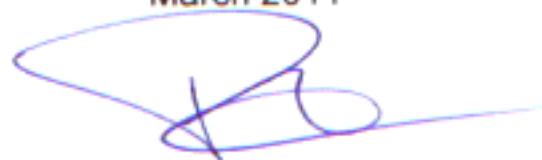
- Parvel Pruunsild 50%
- Vahur Voll 50%

At 31 December 2008 the following bonds issued by BIGBANK AS were listed on the Tallinn Stock Exchange:

- Bond issue – ISIN code EE3300095280, issue size 6.0 million Euros, redemption date 30 January 2009
- Bond issue – ISIN code EE3300096304, issue size 10.0 million Lithuanian Litas (2.896 million euros), redemption date 24 March 2009
- Bond issue – ISIN code EE3300098599, issue size 4.5 million Euros, redemption date 3 July 2009
- Bond issue – ISIN code EE3300086198, issue size 3.232 million euros, redemption date 17 November 2009, subordinated bonds
- Bond issue – ISIN code EE3300088004, issue size 4.340 million euros, redemption date 30 January 2014, subordinated bonds
- Bond issue – ISIN code EE3300081801, issue size 3.323 million euros, redemption date 26 April 2014, subordinated bonds

At 31 December 2008, the following bonds issued by BIGBANK AS were listed on the Stockholm Stock Exchange:

- Bond issue – ISIN code SE0001993148, issue size 82.75 million Euros, redemption date 31 March 2011



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#### GENERAL MEETING

The general meeting that convened on 3 April 2008, passed motions on the following agenda:

- Approval of the annual report for 2007
- Appointment of an auditor for the 2008 financial year
- Election of members of the supervisory board
- Allocation of profits

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

On 9 December 2008 the shareholders decided to change the name of the company from Balti Investeeringute Grupi Pank AS to BIGBANK AS. Relevant changes were made to the Articles of Association.

The name BIGBANK AS was officially registered on 23 January 2009.

BIGBANK AS does not comply with the provisions of CGR that suggest that 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 proposals of the supervisory board regarding agenda items should be published on the issuer's website (Article 1.2.4). In 2008, the general meeting was attended by all members of the management board but the auditor and the members of the supervisory board that are not shareholders were not present (Article 1.3.2). BIGBANK AS does not make participation in the general meeting possible by means of communication equipment (Article 1.3.3).

The above provisions are not applicable to an entity 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 for giving notice of the general meeting that is provided in Section 294 (1<sup>1</sup>) 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

On 12 December 2008 the supervisory board decided to appoint to the management board Ingo Pöder, effective from 18 December 2008. There were no other changes in the membership of the management board during the year. Consequently, the management board of BIGBANK AS has four members (according to the Articles of Association the number may range from 3 to 5):

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

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

The management board acts in the best interests of the company, the shareholders and the creditors and is guided by those interests in organising the company's risk management, internal audits and work procedure. Members of the parent company's management board supervise the subsidiaries' activities, participating in the work of the supervisory board of the Latvian subsidiary and the management board of the Estonian subsidiary (as members of the supervisory board and

  
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management board respectively). No conflicts of interest (as defined in Article 2.3.1 of CGR) were detected in the activity of members of the management board in 2008.

In 2008, BIGBANK AS did not comply with Article 2.2.7 of CGR, which provides that the benefits and bonus schemes of each member of the management board should be published on the corporate website and in the corporate governance report and the principles of remunerating management board members should be explained to the general meeting.

BIGBANK AS publishes the aggregate remuneration of members of the management board in its annual report. The figure for 2008 was 0.223 million euros including associated taxes. The requirement of disclosing the remuneration of each member of the management board is primarily aimed at informing the shareholders. In view of the shareholder structure of BIGBANK AS, the disclosure of this information in the company's annual report is not necessary. The principles of remunerating members of the management board were not explained at general meeting because shareholders are members of the supervisory board and consequently aware of those principles. For creditors, investors or other interested parties, on the other hand, detailed information about the distribution of remuneration among members of the management board is not relevant.

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

#### SUPERVISORY BOARD

The supervisory board of BIGBANK AS has five members (according to the Articles of Association the number may range from 5 to 7):

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

Under the Articles of Association, the powers of the members of the supervisory board are limited by the approval of the annual report by the general meeting. The current members of the supervisory board were elected by the general meeting on 3 April 2008 and in 2008 the membership of the supervisory board did not change.

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

In 2008, the remuneration of members of the supervisory board totalled 0.056 million euros. The company does not deem it necessary to provide more detailed information about the remuneration of the members of the supervisory board because the effect of the remuneration on the company's financial performance is not significant (CGR Article 3.2.5).

All members of the supervisory board attended more than half of the meetings held in 2008. As far as the company is aware, members of the supervisory board did not have any conflicts of interest (as defined in Article 3.3.2 of CGR) in 2008.

In 2008 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 related to a member of the management board except transactions related to the status of the member of the management board (signature of a 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 five members of the supervisory board of BIGBANK AS are shareholders (Parvel Pruunsild and Vahur Voll) who each hold 50% of the shares. Linda Terras is indirectly connected with BIGBANK AS through OÜ Edelatuulik Invest, which has deposit agreements with BIGBANK AS. At 31 December 2008, the total amount of the deposits was 0.448 million euros and the terms and conditions of the deposits did not differ from those offered to similar depositors. Other members of



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the supervisory board (Meelis Luht and Juhani Jaeger) have no connection with the company except for the remuneration received for their work on the board.

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

#### DISCLOSURE OF INFORMATION

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

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

In 2008 BIGBANK AS did not disclose its financial calendar because the regularity of reporting is specified in the Credit Institutions Act. The company issues quarterly reports within two months after the end of each quarter. Still, in 2009 the company will disclose the financial calendar as required by Article 5.2 of CGR.

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

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

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

#### REPORTING

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

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

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

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

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

#### 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

  
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created in the credit, sales and finance departments.

The internal audit department consists of four people and is accountable to the supervisory board that determines the department's audit plan. The department includes the internal auditors of the Latvian and Lithuanian branches.

The credit committee is composed on the basis of the supervisory and management boards and the executive management, and has five members. The credit committee decides the company's credit policy. In addition, the Group has country-specific credit committees.

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


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

#### STATEMENT

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



Targo Raus      Veiko Kandla      Kaiko Saar      Ingo Pöder



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Targo Raus  
Chairman of Management Board




## CONSOLIDATED FINANCIAL STATEMENTS

### STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management board acknowledges its responsibility for the preparation and fair presentation of the consolidated financial statements of BIGBANK AS as at and for the year ended 31 December 2008 set out on pages 18 to 74 of this report and confirms that to the best of its knowledge, information and belief:

- The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.
- The consolidated financial statements give a true and fair view of the financial position of and financial performance of BIGBANK AS Group.
- All significant events that occurred until the date on which the financial statements were authorised for issue (27 February 2009) have been properly recognised and disclosed.
- BIGBANK AS and its subsidiaries are going concerns.


	Date	Signature
Targo Raus Chairman of Management Board	27 February 2009	
Kaido Saar Member of Management Board	27 February 2009	
Veiko Kandla Member of Management Board	27 February 2009	
Ingo Pöder Member of Management Board	27 February 2009	

  
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## CONSOLIDATED BALANCE SHEET

(In millions of euros)


	Note	31.12.2008	31.12.2007 Restated
<b>Assets</b>			
Cash		-	-
Due from Central Bank	4	21.137	19.277
Due from banks	4	9.502	4.305
Loans to customers	5, 6, 7	146.316	140.063
Other receivables and prepayments	8	3.984	0.706
Intangible assets	9	0.399	0.500
Property and equipment	10	3.141	2.001
Other assets	11	1.429	0.109
<b>Total assets</b>		<b>185.908</b>	<b>166.961</b>
<b>Liabilities</b>			
Loans from banks	12	0.950	9.595
Deposits from customers	13	40.303	11.752
Other liabilities and deferred income	14	1.533	1.621
Debt securities issued	15	95.074	102.925
Subordinated liabilities	15	11.016	10.873
<b>Total liabilities</b>		<b>148.876</b>	<b>136.766</b>
<b>Equity</b>	35		
Share capital		5.113	5.113
Capital reserve		0.511	0.511
Translation reserve		-0.508	0.350
Earnings retained in prior periods		22.663	12.891
Profit for the period		9.252	11.330
<b>Total equity</b>		<b>37.032</b>	<b>30.195</b>
<b>Total liabilities and equity</b>		<b>185.908</b>	<b>166.961</b>

  
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Chairman of Management Board

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## CONSOLIDATED INCOME STATEMENT

(In millions of euros)	Note	2008	2007 Restated
Interest income	16	43.860	36.710
Interest expense	17	15.872	9.552
<b>Net interest income</b>		<b>27.988</b>	<b>27.158</b>
Net fees and commissions		-0.089	-0.017
Net gain / loss on financial transactions	18	-0.176	-0.235
Other income	19	8.485	3.477
<b>Total income</b>		<b>36.208</b>	<b>30.383</b>
Salaries and associated charges	20	7.193	4.528
Other operating expenses	20	7.901	7.490
Depreciation and amortisation expense	9, 10	0.651	0.371
Impairment losses on loans and receivables	7	9.234	5.391
Impairment losses on other assets	11	0.037	-
Other expenses	21	0.417	0.268
<b>Total expenses</b>		<b>25.433</b>	<b>18.048</b>
<b>Profit before income tax</b>		<b>10.775</b>	<b>12.335</b>
Income tax expense	28	1.523	1.005
<b>Profit for the period</b>		<b>9.252</b>	<b>11.330</b>
<b>Basic earnings per share (in euros)</b>	32	<b>116</b>	<b>142</b>
<b>Diluted earnings per share (in euros)</b>	32	<b>116</b>	<b>142</b>

  
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## CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions of euros)	Note	2008	2007 Restated
<b>Cash flows from operating activities</b>			
Interest received		36.817	29.800
Interest paid		-13.259	-8.582
Other operating expenses paid (including salaries and associated charges)		-15.487	-11.287
Other income received		6.766	2.766
Other expenses paid		-0.294	-0.448
Reversal of impairment losses on loans and receivables		0.052	0.010
Paid for other assets		-0.072	-
Loans granted		-56.841	-113.570
Repayment of loans granted		44.763	41.213
Change in mandatory reserve with Central Bank and related interest receivables		-3.473	-12.998
Proceeds from customer deposits		36.692	12.552
Paid on redemption of deposits		-10.087	-9.775
Income tax paid		-1.833	-0.562
Effect of changes in exchange rates		-0.088	-0.238
<b>Net cash from / used in operating activities</b>		<b>23.656</b>	<b>-71.119</b>
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment and intangible assets		-1.619	-1.020
Proceeds from sale of property and equipment		0.001	-
Purchase of securities		-	-1.831
Proceeds from redemption of securities		-	1.831
<b>Net cash used in investing activities</b>		<b>-1.618</b>	<b>-1.020</b>
<b>Cash flows from financing activities</b>			
Proceeds from debt securities issued		9.866	88.694
Paid on redemption of debt securities		-18.008	-17.152
Proceeds from subordinated debt securities issued		-	4.327
Paid on redemption of subordinated debt securities		-	-0.362
Proceeds from loans from banks		3.052	13.421
Repayment of loans from banks		-11.796	-14.004
Dividends paid	33	-1.534	-1.406
<b>Net cash used in / from financing activities</b>		<b>-18.420</b>	<b>73.518</b>
<b>Effect of exchange rate fluctuations</b>		<b>-0.046</b>	<b>0.150</b>
<b>Increase in cash and cash equivalents</b>		<b>3.572</b>	<b>1.529</b>
<b>Cash and cash equivalents at 1 January</b>		<b>5.970</b>	<b>4.440</b>
<b>Cash and cash equivalents at 31 December</b>	4	<b>9.542</b>	<b>5.969</b>


  
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(In millions of euros)

	2008	2007
<b>Share capital</b>		
Balance at beginning of period	5.113	5.113
<b>Balance at end of period</b>	<b>5.113</b>	<b>5.113</b>
<b>Reserves</b>		
<u>Statutory capital reserve</u>		
Balance at beginning of period	0.511	0.256
Transfer	-	0.255
<b>Balance at end of period</b>	<b>0.511</b>	<b>0.511</b>
<u>Translation reserve</u>		
Balance at beginning of period	0.350	0.027
Change	-0.858	0.323
<b>Balance at end of period</b>	<b>-0.508</b>	<b>0.350</b>
<b>Retained earnings</b>		
Balance at beginning of period	24.197	14.552
Profit for the period	9.252	11.330
Transfer to capital reserve	-	-0.255
Dividend distribution	-1.534	-1.406
<b>Balance at end of period</b>	<b>31.916</b>	<b>24.221</b>
<b>Total recognised income and expense</b>	<b>8.395</b>	<b>11.653</b>
<b>Total equity</b>	<b>37.032</b>	<b>30.195</b>

  
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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

BIGBANK AS is a company 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 2008 comprise BIGBANK AS (also referred to as the "parent company"), its subsidiaries AS Baltijas Izaugsmes Grupa and OÜ Rūtlī Majad and branches in Latvia and Lithuania (together referred to as the "Group").

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

The consolidated financial statements as at and for the year ended 31 December 2008 were signed by the management board on 27 February 2009.

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

### CHANGES IN PRESENTATION

For clearer presentation of the Group's financial position and financial performance, in 2008 some items in the balance sheet were reclassified and some lines in the income statement were renamed.

#### Consolidated balance sheet

Item	Change In millions of euros	Content	31 Dec 2007 Restated In millions of euros
Due from Central Bank	+0.047	Transfer of interest receivable on the mandatory reserve from other receivables	19.277
Loans to customers	+0.028	Transfer of contract fees receivable on loans (0.029 million euros) and related impairment allowances (-0.001 million euros) from other receivables	140.063
	-0.495	Transfer of prepaid loan interest and contract fees to the same class with related receivables	
Other receivables and prepayments	-0.075	Transfer of items according to their nature	0.706
Total assets	-0.495	Transfer of prepayments	166.961
Other liabilities and deferred income	-0.495	Transfer of prepayments	1.621
Total liabilities	-0.495	Transfer of prepayments	136.766
Total liabilities and equity	-0.495	Transfer of prepayments	166.961

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Consolidated income statement

Item	Change, In millions of euros	Content	2007 Restated, In millions of euros
Other operating expenses		Formerly <i>Administrative expenses</i>	
Salaries and associated charges	+0.080	Transfer of health costs and other fringe benefits to salaries and associated charges	4.528
Other expenses	-0.080	Transfer of health costs and other fringe benefits	0.267

Consolidated statement of cash flows

Item	Change, In millions of euros	Content	2007 Restated, In millions of euros
Change in mandatory reserve with Central Bank and related interest receivables		Formerly <i>Change in mandatory reserve with Central Bank</i>	
Change in mandatory reserve with Central Bank and related interest receivables	+0.035	Addition of change in interest receivable in connection with its inclusion in cash equivalents	-12.998
Net cash used in operating activities	+0.035	Addition of change in interest receivable in connection with its inclusion in cash equivalents	-71.119
Increase in cash and cash equivalents	+0.035	Inclusion of interest receivable in cash equivalents	1.529
Cash and cash equivalents at 1 January	+0.013	Inclusion of interest receivable in cash equivalents	4.440
Cash and cash equivalents at 31 December	+0.047	Inclusion of interest receivable in cash equivalents	5.969

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 and their interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC).

BASIS OF MEASUREMENT AND FUNCTIONAL AND PRESENTATION CURRENCY


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

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

  
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#### USE OF ESTIMATES AND JUDGEMENTS

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

The ongoing global financial crisis that emerged in 2007 has drained liquidity in the economy, making it increasingly difficult to raise funds in the capital markets. In addition, in the countries where the Group operates, the slump has spread to the real economy with all the consequences that have exerted and may continue to exert an adverse impact on the performance of companies operating in such an environment. In preparing these financial statements, management relied on its assessment of how the Estonian and the global economic environment may impact the Group's financial performance and financial position. Owing to the instability of the market situation, the effect of developments in the economic environment may differ materially from management's current estimates.

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.

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.

Management's judgements and estimates that have the most significant effect on the financial statements include allowances made for the impairment of loans (notes 2 and 7).

#### CONSOLIDATION

##### Subsidiaries

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

##### Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

#### FOREIGN CURRENCY

##### Foreign currency transactions

Transactions in foreign currencies are translated to Estonian kroons at the Eesti Pank (Bank of Estonia, the Central Bank) foreign exchanges rate ruling at the dates of the transactions. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Estonian kroons at the Eesti Pank foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

##### Financial statements of 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 goodwill and fair value adjustments arising on consolidation, are translated to Estonian kroons at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Estonian kroons using the average foreign exchange rates for the period. Foreign exchange differences arising on translating foreign operations are recognised directly in the *Translation reserve* in equity.

  
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### Offsetting

Financial assets and financial liabilities are set off and the net amount is presented in the balance sheet 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

In the balance sheet, *Cash* comprises notes and coins on hand. In the statement of cash flows, *Cash and cash equivalents* comprises cash on hand, balances on demand and overnight deposits with other credit institutions, and the balance on the correspondent account with Eesti Pank (Bank of Estonia, Central Bank) less the mandatory reserve. The statement of cash flows is prepared using the direct method.

In the balance sheet cash and cash equivalents are measured at their amortised cost.

#### Financial assets

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

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

#### Financial assets at fair value through profit or loss

Investments in debt securities and equity instruments are accounted for in accordance with the principles applicable to the category of financial instruments they belong to.

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

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

#### Loans and receivables

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

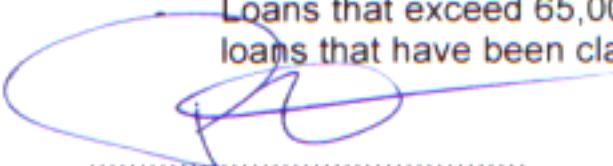
#### Impairment allowances for loans

Loans provided to customers are recognised in the balance sheet in *Loans to customers*.

Loans to customers are assessed for impairment and established impairment allowances on group and individual asset levels.

- An impairment allowance for a group of loans is found by multiplying the carrying value of the loans by the impairment rate assigned to the group. The impairment rate is determined based on the historical settlement characteristics of the group. Where reliable historical data is not available, projections and estimates are used. Interest and other receivables associated with the loans are applied the same impairment rate that is assigned to the group.
- The 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 in respect of which there is evidence of individual impairment are not included in homogeneous assessment groups. Instead, they are assessed individually.
- Impairment assessment on a specific asset level

Loans that exceed 65,000 Euros (i.e. 1,000,000 kroons or 45,000 Lats or 220,000 Litas) and loans that have been classified as non-performing are assessed for impairment on a specific

  
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- asset (individual) level.
- A specific impairment allowance is calculated as the difference between the nominal carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's effective interest rate. The cash flows of a loan that has been restructured due to settlement difficulties are discounted using the interest rate agreed between the parties prior to the restructuring.
  - Interest and other receivables associated with a loan assessed for impairment at a specific asset level are applied the same impairment rate that is assigned to the underlying loan.
  - 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.
    - When a loan is classified as non-performing, accrual-based calculation of interest is suspended.
    - 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 assessments. The same impairment rate is applied to any accruals related to the non-performing loans.
    - Non-performing loans which according to the Group's assessment cannot be recovered either in part or in full in the forthcoming financial year and whose precise recovery date cannot be estimated reliably are expensed in full as of the date the Group becomes aware of their non-recoverability.
    - A loan is written off the balance sheet when half a year has passed from the date the loan was expensed. When an irrecoverable item is recovered, the recovered amount is recognised in income. The provisions of this subsection apply also to loans that have been expensed under the assumption that it is not possible or financially expedient to adopt measures for their recovery.

Impairment losses, changes in impairment losses and reversals of impairment losses are recognised in the balance sheet 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, they 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 balance sheet.

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 income statement on a straight-line basis over the estimated useful lives 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:

  
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<b>Asset group</b>	<b>Useful life</b>
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 when circumstances arise that may have a significant impact on the useful life of an asset or asset group. The effect of changes in estimates is recognised in the current and subsequent periods.

#### INTANGIBLE ASSETS

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

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

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

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

#### IMPAIRMENT

At each balance sheet 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.

#### LEASES

A lease that transfers all significant risks and rewards of ownership to the lessee is classified as a finance lease. Other leases are classified as operating leases.

##### The Group as a lessor

Assets leased out under operating leases are carried in the balance sheet 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 which, after unsuccessful auctioning by bailiffs, has been transferred to the Group. Such assets are acquired on the basis of contracts of purchase and sale signed with bailiffs and the cost of an item equals the auction price of the asset or the outstanding balance of the loan.

Other assets are carried in the balance sheet at the lower of their cost and fair value less costs to sell. Other assets are written down when their cost exceeds their net realisable value. The cost of

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realised other assets is assigned using individual costing.

#### 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 balance sheet when it is discharged or cancelled or expires.

#### Debt securities issued and deposits

The principal of debt securities and deposits is measured 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 liabilities

Subordinated debt securities are recognised in the balance sheet in *Subordinated liabilities*. A liability is classified as a subordinated liability if on the winding up or bankruptcy of the credit institution the liability is to be satisfied after the justified claims of all other creditors have been satisfied.

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

#### INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the income statement using the effective interest rate method.

Interest income and 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 which are directly related to the transaction, including loan contract fees, arrangement fees, etc.

#### OTHER INCOME

Other income comprises:

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

#### EMPLOYEE BENEFITS

The Group records liabilities and costs related to employee bonus schemes on accrual basis in case those bonuses can be contractually claimed, are clearly fixed and are related to the previous accounting period.

#### CORPORATE INCOME TAX

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

BIGBANK AS (the parent company, Estonia) and OÜ Rütli Majad (Estonia) – 0%, SIA Baltijas Izaugsmes Grupa (Latvia) and Balti Investeeringute Grupi Pank AS Latvijas filiāle (the Latvian branch) – 15%, and Balti Investeeringute Grupi Pank AS filiālas (the Lithuanian branch) – 15%.

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

Foreign subsidiaries recognise deferred tax liabilities and assets using the balance sheet liability method, providing for 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 balance sheet in *Deferred income tax liability*. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

#### EARNINGS PER SHARE

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

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

#### SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing services or providing services within a particular economic environment that is subject to risks and rewards that are different from those of other segments. The Group's primary segment reporting format is geographical segments.

#### NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS NOT YET ADOPTED

To date, a number of new standards, amendments to standards and interpretations have been issued that are not yet effective [IAS 8.30(a)] but will be mandatory for the Group in annual periods beginning on or after 1 January 2009. The following is management's assessment of the impact these new standards, amendments and interpretations may have on the Group's consolidated financial statements in the period of initial application.

- Amendment to IFRS 2 Share-based Payment (effective for annual periods beginning on or after 1 January 2009)

The amendments to the Standard clarify the definition of vesting conditions and introduce the concept of non-vesting conditions. Non-vesting conditions are to be reflected at grant-date fair value and failure to meet non-vesting conditions will generally result in their treatment as a cancellation.

The amendments to IFRS 2 are not relevant to the Group's consolidated financial statements as the Group does not have any share-based compensation plans.


- Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009)

The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:

- All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
- Subsequent change in contingent consideration will be recognised in profit or loss.
- Transaction costs, other than share and debt issuance costs, will be expensed as incurred.

The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  
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As the revised Standard need not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009)

The Standard introduces the "management approach" to segment reporting and requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the Group's Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance.

Currently the Group presents segment information in respect of its geographical segments (see note 25). The Group is analysing what additional segment information to present. The Standard will have no effect on the Group's profit or loss or equity.

- Revised IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009)

The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement), or in two separate statements (a separate income statement followed by a statement of comprehensive income).

The Group is evaluating whether to present a single statement of comprehensive income, or two separate statements.

- Revised IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)

The revised Standard removes the option to expense borrowing costs and requires the capitalisation of borrowing costs that relate to qualifying assets (those that take a substantial period of time to get ready for use or sale).

The Group will apply revised IAS 23 to qualifying assets from which capitalisation of borrowing costs commences on or after 1 January 2009. Therefore, there will be no impact on prior periods in the Group's 2009 consolidated financial statements.

- Amendments to IAS 27, Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 January 2009)

The amendments remove the definition of "cost method" currently set out in IAS 27, and instead require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established.

In addition, the amendments provide guidance when the receipt of dividend income is deemed to be an indicator of impairment.

Amendments to IAS 27 are not relevant as these are the consolidated financial statements of the Group.

- Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009)

In the revised Standard the term minority interest has been replaced by non-controlling interest and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.

Revised IAS 27 is not relevant to the Group's operations as the Group does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

- Amendments to IAS 32 Financial Instruments: Presentation, and IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009)

  
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The amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions.

The amendments are not relevant to the Group's financial statements as none of the Group entities have in the past issued puttable instruments that would be affected by the amendments.

- Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 July 2009)

The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances.

The Group has not yet completed its analysis of the impact of the amendments to the Standard.

- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)

The Interpretation explains how entities that grant loyalty award credits to customers who buy their goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations.

The Group does not expect the Interpretation to have any impact on the consolidated financial statements.

- IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009)

IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

- the agreement meets the definition of a construction contract in accordance with IAS 11.3
- the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
- the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery).

IFRIC 15 is not relevant to the Group's operations as the Group does not provide real estate construction services or develop real estate for sale.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008)

The Interpretation explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation.

The Group has not yet completed its analysis of the impact of the new Interpretation.

- IFRIC 17 Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 15 July 2009)

The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend will be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable will be remeasured at each reporting date, with any



changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled, the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable will be recognised in profit or loss.

As the Interpretation is applicable only from the date of application, it will not affect the financial statements for periods prior to the date of adoption of the Interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.

## 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 the 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 the Group's mission and strategic objectives. Within the framework of the general principles, risk management is administered by the management board and the staff and units duly appointed by the management board.

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

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

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

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

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

### RISK MANAGEMENT PRINCIPLES

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

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

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

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

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

  
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Risk management is aimed at ensuring an optimum risk-benefit ratio while maintaining 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 following principles.

The concept of business responsibility is observed – each staff member is personally responsible for the quality of a product or the risk profile of 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 have yielded 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 its desired objectives.

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

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

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

#### CREDIT RISK

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

Risks related to the credit risk include:

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

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

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

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

- lending operations should generally be funded with operating cash flows; and
- in each customer relationship the risks that are taken have to be proportionate to associated benefits.

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

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

Risk-taking decisions are made collectively by the members of the credit committees and the persons authorised to adopt such decisions in keeping with the limits and restrictions set for them by the management board.

Credit decisions may be made only by persons or bodies whose relevant right is specified in the Credit Committee Rules of Procedure and the Procedure for the Review of Loan Applications and Adoption of Credit Decisions established by the supervisory board. Altogether, there are five levels of authority in the adoption of credit decisions. On the adoption of a credit decision, the functions of the decision-maker and the performer of the credit analysis have to be clearly segregated. Any exceptions require the approval of the supervisory board. Lending decisions are made by the underwriting department that is separate from the sales network and accountable to the credit function.

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

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

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

Evaluation of the counterparty's creditworthiness is an essential input for customer relationship management – the higher the customer's risk, the greater the focus on the customer's creditworthiness, i.e. credit analysis. In the event of a positive credit decision, the credit risk evaluation is used as an input for determining the interest rate of the contract.

The Group evaluates credit risk and determines the impairment of receivables by reference to clearly identifiable deficiencies, weaknesses, or early indications of problems revealed by the internal risk monitoring procedures or, if those do not exist, by reference to external developments or assessments that may have an adverse impact the customers' future solvency.

Clearly identifiable deficiencies and weaknesses that are presumed to refer to a decrease in the future cash flows expected to be derived from a receivable include the borrower's job loss, a material decline in income, a high debt burden, non-satisfactory performance of other obligations, realization of surety commitments, settlement defaults exceeding 90 days, existing major settlement failures and similar factors.

Early indications of problems are events whose occurrence will probably result in a decrease in the borrower's future cash flows. Such events include settlement defaults exceeding 30 days, non-performance of obligations under a credit or collateral agreement, the borrower's employment by a company operating in a sector strongly affected by economic recession, application for a change in settlement date or extension of loan term, taking of a fast or SMS loan, initiation of business recovery or bankruptcy procedures in respect of the borrower's employer or release of redundancy announcements by the borrower's employer.

External economic factors that influence credit risk include growth in unemployment, a decrease in available financing opportunities, a decline in real estate prices, an increase in the debt burden of individuals and companies, a rise in loan interest rates and the efficiency of judicial and law enforcement proceedings.

As a rule, the Group does not grant credit to persons whose characteristics include clearly identifiable deficiencies or weaknesses. If early indications of problems are identified, the Group

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limits credit risk by demanding additional collateral or reducing the loan amount.

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, interest on arrears, 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 interest on arrears, a credit loss is recognised and the loan is established an impairment allowance. The Group establishes special and general impairment allowances for individually measured loans and group-based impairment allowances for homogeneous loan groups. The Group establishes impairment allowances to cover the impairment risk. Impairment allowances are established to account for and measure the value of the loan portfolio as fairly and objectively as possible.

To reduce actual credit losses, the Group has established separate departments within the credit function that deal with the recovery of problem and off-balance sheet loans by applying various measures such as negotiating with customers or initiating enforcement, litigation or bankruptcy proceedings.

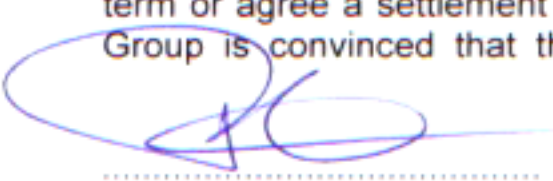
Another measure for controlling credit risk is dispersing exposures. At 31 December 2008 the average loan amount was 1,085 euros with 40 largest loans accounting for 3.0% of the total loan portfolio. The average loan amount is less than two months' average salary.

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

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

To obtain an overview of the exposures of the total loan portfolio, the credit risk analysis and monitoring department observes the development of the loan portfolio, prepares relevant reports and performs regular stress tests that focus on the effects that various possible although not highly probable events may have on the Group's capital adequacy. Such events include growth in settlement arrears due to adverse changes in the macroeconomic environment, specific developments and alterations in the dynamics of borrowing 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, provided the Group is convinced that the borrower has the intent and ability to discharge future contractual

  
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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.

To cover the risks related to settlement behaviour and potential loan losses, the Group has established impairment allowances, which at 31 December 2008 totalled 13.471 million euros or 8.4% of loans to customers. The allowances have been established on a conservative basis. The principles underlying the calculation of the allowances are described in greater 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. Major concentrations of exposures are avoided by providing mainly medium-sized and small loans. The Group may grant large loans if sufficient collateral is provided and other relevant conditions are met but the total liabilities of the borrower and the parties related to the borrower may not exceed, at any time, 10% of the Group's net own funds.

At 31 December 2008, the Group did not have any customers with 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
- Identifying customers using due procedure
- Determining the customers' reciprocal relations through relevant questionnaires and enquiries

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

#### 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, large loans have to be secured with physical collateral (real collateral provided under the law of property such as a mortgage on immovable property). Smaller loans may be secured with surety agreements or the borrower's cash flows or assets.
- 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 80% of the Group's loan portfolio is secured with collateral provided under the law of obligations.

  
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- Loans are granted in accordance with the limits established for the size of the loan and the ratio of the loan amount to the value of the collateral.
- The sufficiency and value of acceptable real or other collateral is determined on the basis of the asset's current value considering the changes in value that will occur over time. Where necessary, the value of collateral is determined with the assistance of qualified experts (e.g. real estate appraisers).
- The Group accepts as loan collateral only such immovable properties whose market value has been determined in a written valuation report by a real estate company with whom the Group has a corresponding agreement. Collateral risk is estimated by reference to the valuation report prepared by the real estate company and subjective valuation performed by the Group's staff.
- The agreements made with real estate companies regarding the valuation of assets provide for the real estate company's financial liability for incorrect appraisal.
- The Group accepts only liquid collateral located in an area with an active and transparent real estate market; such areas are determined in partnership with real estate companies and experts accepted by the Group. Acceptable real collaterals (collaterals under the law of property) include, above all, mortgages of the first ranking entered in the land register. This should ensure full satisfaction of the Group's claims when the market value of the collateral decreases.
- The property put up as collateral under the law of property has to be insured throughout the loan term with an insurance company accepted by the Group at least to the extent of the replacement cost of the property.

#### OTHER RISKS RELATED TO CREDIT RISK

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

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

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

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

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

The Group's core activity is provision of credit to individuals. As a rule, liquid funds are kept with

  
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Eesti Pank and commercial banks that operate in the Group's operating region. The Group does usually not take market or trading risks.

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

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

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

The loans issued by the Group are denominated in the currencies of the region in which the Group operates or in Euros. Information on the distribution of receivables by currency is presented in note 5. Currently, the Group issues only loans denominated in Euros.

The Group operates in countries whose currencies have relatively stable exchange rates. The Estonian kroon is pegged to the euro at a fixed exchange rate by law. The Lithuanian Litas and the Latvian Lats are the national currencies of EU member states whose exchange rates are fixed by the central banks of the respective countries and pegged to the euro. Exchange rate fluctuations are limited to a permissible fluctuation corridor established by law. The currencies are based on the euro. Additional information is provided in notes 24 and 33.

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 requirements.

#### LIQUIDITY AND FINANCING RISKS

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

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

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

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

Overall financing and liquidity risk management is the responsibility of the Group's management board. Direct financing and liquidity risk management is the responsibility of the Group's Director of Finance.

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

The following principles are applied:

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

  
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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 Eesti Pank and invested in money market and liquidity funds, term deposits and corporate bonds.
- The Group uses diversified sources of financing.

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

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

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

- Ratio of liquid assets to total assets – at least 5% of total assets
- Liquidity reserve – at least 5% of the loan portfolio
- Liquid assets (excluding the reserve with Eesti Pank) - at least equal to current and next month's portfolio growth and the current month's refinancing needs
- Ratio of equity to assets – at least 10% of total assets
- Ratio of loan portfolio to total assets – at most 90% of total assets
- Capital adequacy – at least 15% (the minimum regulatory requirement being 10%)

The Group disperses exposures to various financial instruments and the proportion of investors by applying the following principles:

- The proportion of one investor may ordinarily not exceed 15% of total financing.
- The proportion of one class of financial instruments may ordinarily not exceed 60% of total financing.

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

The Group maintains a liquidity reserve that is necessary and sufficient for sustaining its operation. As a rule, liquid assets are placed with Eesti Pank.

The Group's specialization on consumer credit (one business line) allows planning its asset volumes. The loan portfolio is well dispersed and, therefore, changes in the size of the portfolio can be easily planned and forecast. The Group does not have an obligation to issue new loans and the proportion of loans with unused credit limits is small.

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

The following financing sources are used:

- Equity
- Term deposits
- Bank loans
- Subordinated debt securities
- Debt securities

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

  
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financial institutions, etc).

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

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

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

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

To date the Group has obtained a significant proportion of its financing from growth in equity, which has been possible thanks to the generation of profit, and relative growth in equity has been comparable to growth in the loan portfolio. As a result, the Group has been able to maintain a high equity to assets ratio.

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

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

#### OPERATIONAL RISK

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

Operational risk entails the following risks:

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

  
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- Information technology risk is the possibility or probability that the Group's information technology systems will not function, will function inadequately, will be unusable or will be used inadequately or wrongly.
- Procedural risk is the possibility or probability that the rules of procedure implemented by the Group are inadequate, are not applied or are applied defectively.

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

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

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

Operational and associated risks are controlled and coordinated at Group level. Overall management of operational and associated risks is the responsibility of the Group's management. Direct management of organizational 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 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 that in their entirety do not exceed the threshold for significant loss.

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

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

  
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policies, effective internal regulations and controls, insurance, and sufficient operating income.

Adherence to internal rules and regulations is strictly controlled.

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

Legal risk is managed using the following principles:

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

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

Reputation risk management is based on the following principles:


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

Security risk is managed by applying the following principles:

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

Information technology risk is managed using the following principles:

- The Group has adopted IT rules that regulate, among other things, preparing and using disaster recovery plans, making backup copies, applying access controls to workstations and servers and tracking and recording operations and changes.
- Application and software should be developed and modified in accordance with relevant development plans that are fully documented and devised in partnership with the users.

  
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- Any application used by the Group has to be fully tested and properly installed and implemented. Access to applications has to be clearly defined and duly restricted.

Personnel risk management is based on the following principles:

- Employees are recruited in accordance with the recruitment principles established by the Group's management.
- New employees are assigned an adequate trial period and their background is checked before the signature of the contract.
- Employees have detailed job descriptions that outline their duties and responsibilities and applicable reporting and communication systems.
- The professional competencies of the credit department are evaluated on a regular basis.
- The Group trains its staff in the performance of their professional duties and responsibilities and knowledge of applicable regulations and policies.
- When temporary employees are hired, their authority is duly restricted and additional controls are implemented to ensure adherence to applicable rules and regulations.
- Remuneration levels have to reflect the skills and competencies required and the remuneration system has to foster the behaviours desired by the Group.
- Remuneration is determined considering the risk of losing the key staff and the risks inherent in personnel turnover.
- People employed in sensitive positions are required to take at least two consecutive weeks of leave every year.
- The Group has adopted rules that regulate conflicts of interest, ethical standards, the confidentiality of customer information, and sales practices and their suitability.

Control and management risk is managed using the following principles:

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

Regulatory risk is managed by applying the following principles:

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

Procedural risk management is based on the following principles:

- The Group's day-to-day operations are regulated by sufficient rules and routines established by the management board.
- Transactions and operations are checked after their recording by persons independent of the

  
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performers of the transactions or operations.

- Any deviations from the terms and conditions of the model agreement form have to be agreed with the lawyers of the legal and product departments and registered in the credit decision.

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

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

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

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

The Group determines capital requirements that are sufficient for covering unanticipated operational losses using a standardized approach that corresponds to the recommendations of the Basel II 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 (the regulatory requirement is at least 10%). At 31 December 2008, the capital adequacy ratio was 19.32%, surpassing the required level almost two-fold.

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

The group's capital structure changes on account of internally generated capital.

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

#### RATIOS

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

The main prudential ratios include:

- Minimum amount of own funds
  - BIGBANK's own funds comprise of equity and subordinated debt securities.
  - BIGBANK observes the requirements established for the minimum amount of own funds and the reciprocal proportions of own funds.

  
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- BIGBANK's own funds are described in note 35 and note 15 (subordinated debt securities).
- Capital adequacy
  - At 31 December 2008, BIGBANK's capital adequacy ratio (Basel II) was 19.32%, surpassing the mandatory level of 10% almost two-fold. At 31 December 2007, the capital adequacy ratio calculated in line with Basel II was 18.96%.
  - BIGBANK has set itself the target of maintaining its capital adequacy ratio in the next few years at above 15%.
- Limitations on concentration of exposures
  - BIGBANK's loan portfolio comprises of small loans and the concentration of exposures is very low.
  - At 31 December 2008 and 31 December 2007, the Group did not have any high risk customers whose liability would have accounted for more than 10% of the Group's net own funds.
  - At 31 December 2008, the average loan amount was 1,085 euros (31 December 2007: 1,288 euros).
  - The largest exposure to a single customer amounted to 0.369 million euros (31 December 2007: 0.358 million euros) accounting for 0.2% of the loan portfolio (31 December 2007: 0.3%). At 31 December 2008, 40 largest loans accounted for 3.0% of the loan portfolio (31 December 2007: 3.9%).
  - The largest risk exposure connected with other receivables accounts for 7.8% of the Group's net own funds, amounting to 3.483 million euros (see note 8).
- Limitations on participation in companies (BIGBANK AS does not have any shareholdings outside its consolidation group).

In accordance with effective legislation, BIGBANK AS maintains a mandatory reserve with Eesti Pank. The size of the mandatory reserve is 15% of the Group's debt financing less liabilities to Estonian credit institutions.

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



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CAPITAL ADEQUACY

(In millions of euros)	31 Dec 2008	31 Dec 2007
Share capital	5.113	5.113
Reserves established from profit (capital reserve)	0.511	0.511
Earnings retained in prior periods	22.663	12.891
Translation reserve	-0.508	0.350
Intangible assets	-0.399	-0.500
Profit for the period	9.252	11.330
<b>Tier 1 capital</b>	<b>36.633</b>	<b>29.695</b>
Subordinated liabilities	7.758	7.647
<b>Tier 2 capital</b>	<b>7.758</b>	<b>7.647</b>
<b>Tier 3 capital</b>	<b>-</b>	<b>-</b>
<b>Total capital used to determine capital adequacy</b>	<b>44.391</b>	<b>37.343</b>
<b>Capital requirements</b>	<b>-</b>	<b>-</b>
Claims on central governments and central banks, standardized approach	0.423	0.386
<i>Including BIGBANK AS</i>	0.423	0.386
<i>Including AS Baltijas Izaugsmes Grupa</i>	-	-
Claims on companies, standardized approach	0.114	0.323
<i>Including BIGBANK AS</i>	0.114	0.323
<i>Including AS Baltijas Izaugsmes Grupa</i>	-	-
Retail claims, standardized approach	6.157	7.190
<i>Including BIGBANK AS</i>	3.651	3.871
<i>Including AS Baltijas Izaugsmes Grupa</i>	2.507	3.320
Claims secured by real estate, standardized approach	0.522	0.997
<i>Including BIGBANK AS</i>	0.477	0.839
<i>Including AS Baltijas Izaugsmes Grupa</i>	0.045	0.159
Past due loans and similar claims, standardized approach	6.891	3.559
<i>Including BIGBANK AS</i>	3.999	2.230
<i>Including AS Baltijas Izaugsmes Grupa</i>	2.892	1.329
Short-term claims on credit institutions, investment firms and other companies, standardized approach	0.475	0.215
<i>Including BIGBANK AS</i>	0.229	0.121
<i>Including AS Baltijas Izaugsmes Grupa</i>	0.246	0.094
Other assets, standardized approach	2.000	1.065
<i>Including BIGBANK AS</i>	0.957	0.618
<i>Including AS Baltijas Izaugsmes Grupa</i>	0.851	0.364
<b>Total capital requirement for credit risk and counterparty risk</b>	<b>16.582</b>	<b>13.735</b>
<b>Capital requirement for foreign exchange risk</b>	<b>3.622</b>	<b>4.083</b>
<b>Capital requirement for operational risk , basic indicator approach</b>	<b>2.768</b>	<b>1.877</b>
Total capital requirement for operational risk	2.768	1.877
<b>Total capital requirements</b>	<b>22.972</b>	<b>19.694</b>
<b>Capital adequacy</b>	<b>19.32%</b>	<b>18.96%</b>

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From 1 January 2008 capital adequacy has to be determined in accordance with the capital adequacy rules of the Basel II Capital Accord. Comparative data on 2007 has been adjusted accordingly.

Capital adequacy rules apply to BIGBANK AS Group. 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-in share capital
- Reserves and capital reserve formed on the basis of 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

In calculating Tier 1 capital, the following is deducted:

- Intangible assets

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

According to Section 74 of the Credit Institutions Act, subordinated 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.

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

The Group has no Tier 3 capital.

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

### NOTE 3. INTERNAL CONTROL SYSTEM

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

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

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

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**NOTE 4. DUE FROM CENTRAL BANK AND CASH AND CASH EQUIVALENTS**

(In millions of euros)

<b>Due from Central Bank</b>	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
Mandatory reserve	21.097	17.612
Surplus on the mandatory reserve with Central Bank	0.005	1.617
Interest due from Central Bank	0.035	0.047
<b>Total</b>	<b>21.137</b>	<b>19.277</b>

(In millions of euros)

<b>Cash and cash equivalents</b>	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
Cash	-	-
Demand and overnight deposits with banks	9.502	4.305
Surplus on the mandatory reserve with Central Bank	0.005	1.617
Interest due from Central Bank	0.035	0.047
<b>Total</b>	<b>9.542</b>	<b>5.969</b>

The mandatory reserve with Central Bank amounts to 15.0% of debt financing, less liabilities to local credit institutions. The mandatory reserve is calculated on the basis of the balance sheet as of the end of the month before last. The required level has to be complied with as a monthly average. There are no restrictions on using the reserve during the month.

**NOTE 5. LOANS TO CUSTOMERS**

(In millions of euros)

	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
Loans to customers	148.345	139.105
Impairment allowance for loans	-11.877	-5.726
Interest receivable from customers	11.936	7.951
Interest prepaid by customers	-0.493	-0.495
Impairment allowance for interest receivables	-1.594	-0.772
<b>Total receivables from customers</b>	<b>146.316</b>	<b>140.063</b>

**Loans by loan type**

(In millions of euros)

	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
Loans against income	113.591	100.844
Surety loans	22.236	21.403
Loans secured with real estate	9.643	13.842
Credit lines to companies	2.875	3.016
<b>Total loan receivables</b>	<b>148.345</b>	<b>139.105</b>

**Loans by currency**

(In millions of euros)

	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
EEK	49.601	77.588
EUR	65.561	14.803
LTL	5.357	3.894
LVL	27.825	42.820
<b>Total receivables from customers</b>	<b>148.345</b>	<b>139.105</b>

  
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**NOTE 6. PAST DUE LOANS**

(In millions of euros)	31 Dec 2008	31 Dec 2007
Up to 30 days	0.452	0.798
31 - 60 days	0.531	0.953
61-90 days	1.008	0.800
Over 90 days	56.807	25.686
<b>Total</b>	<b>58.799</b>	<b>28.237</b>

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 interest receivable, and any collateral claims resulting from the settlement delay.

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

**NOTE 7. IMPAIRMENT ALLOWANCES FOR LOANS AND INTEREST RECEIVABLES**

(In millions of euros)

**Change in impairment allowances for loans and interest receivables**

	31 Dec 2008	31 Dec 2007
<b>Balance at beginning of period</b>	<b>-6.497</b>	<b>-1.379</b>
Items written off the balance sheet	1.507	0.203
Increase/decrease in allowances	-8.522	-5.321
Effect of movements in exchange rates	0.041	-
<b>Balance at end of period</b>	<b>-13.471</b>	<b>-6.497</b>

<b>Impairment losses on loans and associated receivables</b>	<b>2008</b>	<b>2007</b>
Recovery of loans written off the balance sheet	0.060	0.007
Impairment losses on loans and interest receivables*	-8.592	-4.950
Impairment losses on other receivables*	-0.702	-0.448
<b>Total</b>	<b>-9.234</b>	<b>-5.391</b>

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

BIGBANK AS is currently the only bank in the region that focuses on the provision of consumer finance only. The changes occurring in the macroeconomic environment of the Baltic countries in 2008 have triggered several changes in the Group's credit risk measurement policies.

At the end of 2007 the Group tightened credit rules, establishing stricter requirements to income and lowering the maximum loan amount. Owing to those restrictions and deceleration in the growth of the consumer credit market, the volume of loans issued in 2008 remained considerably smaller than in 2007.

Stricter credit policy has improved the customers' settlement behaviour.

By the end of 2008, the proportion of loans against income had risen to 76.36% compared with 72.48% at the end of 2007.

Since 2007 and 2008 the Group has been issuing loans denominated in Euros. Previously loans were granted in local currencies.

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

- The Group mainly provides loans to individuals (at 31 December 2008: 98.2% of the loan portfolio). The financial 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 sophisticated and effective collection proceedings such as Estonia or the Baltic countries as a whole, recovery of the overdue debts of individuals is a matter of the right time horizon rather than potential non-recovery.
- Loans are granted under carefully drafted legal agreements and collection proceedings are performed in full compliance with regulations. According to the Group's assessment the Estonian, Latvian and Lithuanian legislation and legal practice do currently not involve any features that might exert a negative impact on the recovery of receivables.
- The group uses proactive and efficient recovery proceedings.
- The loans granted by the Group are below average: the average outstanding loan balance does not exceed two-fold average monthly salary. Smaller receivables are generally easier to recover even under the circumstances of strong economic downturn because the borrower's settlement power is not hindered by the scarcity of (re)financing opportunities and the receivables can usually be settled with regular monthly income.
- The Group's loan portfolio is well dispersed – at 31 December 2008 the average loan amount was 1,085 euros and 40 largest loans accounted for 3.0% of total loans.

The collection of non-performing consumer loans may differ 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 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, the Estonian loan portfolio indicates that if collection proceedings have lasted for at least two years (starting before 2007) only about 33% of the original balance of the non-performing loan is currently outstanding. If proceedings have lasted for at least three years (starting before 2006), only about 5% of the original balance is still outstanding. As collection proceedings are ongoing, the proportion of fully recovered loans may be even higher.

In 2008 the Group continued updating and improving the principles underlying the valuation of loans and establishment of relevant impairment allowances.

To mitigate the risks arising from settlement behaviour and potential loan losses, the Group has established allowances which at 31 December 2008 totalled 13.471 million euros or 8.4% of the loan portfolio. Impairment allowances are established on a conservative basis.

Loans and associated receivables are assessed for impairment and established impairment allowances both in groups and individually.

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 balance sheet 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. In 2008, the collective impairment rates of loan groups were increased by 20% in view of the deterioration of the economic environment and its anticipated impact on the size of loan losses. At the end of 2008 the rates ranged from 0.12% to 4%, depending on the loan product.

Individually assessed loans include performing loans that exceed 65,000 Euros, non-performing loans, and loans with other indications of impairment, such as counterparty's significant financial difficulty or significant breach of the loan agreement; probability of 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

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settlement difficulties, and similar features that may indicate impairment.

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

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

### Impairment allowances by groups


(In millions of euros)

2008	Loans to customers	Impairment allowance for loans	Interest receivable	Impairment allowance for loan interest	Total impairment allowance
Homogeneous groups	88.083	0.716	2.904	0.025	0.741
Individually assessed items	60.262	10.595	9.033	1.569	12.164
Collective assessment	-	0.566	-	-	0.566
<b>Total</b>	<b>148.345</b>	<b>11.877</b>	<b>11.936</b>	<b>1.594</b>	<b>13.471</b>

In 2008 cash flow forecasts were influenced by three main factors:

- The proportion of non-performing loans whose recovery was in the execution phase rose to 22%. In the execution phase, receipts on non-performing loans increase considerably.
- According to the Group's assessment, the length of execution proceedings has increased due to adverse changes in the macroeconomic environment.
- In 2008 the Group wrote off the balance sheet (recognised as an expense) a substantially larger amount of loan receivables than in previous periods. Items written off totalled 1.507 million euros compared with 0.203 million euros in 2007.

Due to the combined influence of the above factors, the impairment rate for individually assessed loans did not change significantly.

  
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**NOTE 8. OTHER RECEIVABLES AND PREPAYMENTS**

(In millions of euros)

<b>Other receivables and prepayments</b>	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
Other receivables	3.682	0.523
Prepayments	0.302	0.183
<b>Total</b>	<b>3.984</b>	<b>0.706</b>

(In millions of euros)


<b>Other receivables</b>	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
Interest on arrears and penalty payments receivable	0.004	0.055
Commissions and fees receivable	0.007	0.005
Collection fees and other charges receivable	0.867	0.517
Guarantee and deposit payments made	0.075	-
Miscellaneous receivables	3.506	0.026
Impairment allowance for other receivables	-0.777	-0.080
<b>Total</b>	<b>3.682</b>	<b>0.523</b>


In 2008 the Group began working with the Latvian collection company SIA Vidzemes Inkasso to whom it sold receivables of 3.483 million euros. The amount due for the transaction will be settled according to the collection of the receivables but no later than within 6 years (in equal instalments). The principal receivable is increased by participation in the profit earned on the amounts collected by the collection company in excess of the principal receivable (on a customer-by-customer basis). The receivable is secured with a commercial pledge of the company's assets (including receivables sold).

The Group did not earn book profit on the transaction – the sales price of the receivables was their gross amount. At the same time, the carrying amount of the receivable from SIA Vidzemes Inkasso was discounted at the rate equal to the pre-transaction impairment rate applied to the loans sold through the transaction. The year-end carrying amount of the receivable was 2.850 million euros.

(In millions of euros)

<b>Prepayments</b>	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
Prepaid taxes	0.129	-
Miscellaneous prepayments	0.173	0.183
<b>Total</b>	<b>0.302</b>	<b>0.183</b>

  
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**NOTE 9. INTANGIBLE ASSETS**

(In millions of euros)


	31 Dec 2008	31 Dec 2007
<b>Purchased software licences</b>		
<b>Cost at beginning of period</b>	<b>0.660</b>	<b>0.454</b>
Purchases	0.040	0.198
Write-off	-	-
Sales	-	-
Effect of changes in exchange rates	-	-
<b>Cost at end of period</b>	<b>0.700</b>	<b>0.652</b>
<b>Amortisation at beginning of period</b>	<b>-0.161</b>	<b>-0.046</b>
Amortisation charge for the period	-0.130	-0.117
Write-off	-	-
<b>Amortisation at end of period</b>	<b>-0.291</b>	<b>-0.163</b>
<b>Carrying amount at beginning of period</b>	<b>0.500</b>	<b>0.408</b>
<b>Carrying amount at end of period</b>	<b>0.399</b>	<b>0.500</b>

**NOTE 10. PROPERTY AND EQUIPMENT**

**31 Dec 2008**

(In millions of euros)

	Land and buildings	Other items of property and equipment	Total
<b>Cost at beginning of period</b>	<b>1.292</b>	<b>1.389</b>	<b>2.681</b>
Purchases	1.144	0.523	1.667
Sales	-	-0.003	-0.003
Write-off	-	-0.025	-0.025
Effect of changes in exchange rates	-	-0.006	-0.006
<b>Cost at end of period</b>	<b>2.436</b>	<b>1.878</b>	<b>4.314</b>
<b>Depreciation at beginning of period</b>	<b>-0.240</b>	<b>-0.440</b>	<b>-0.680</b>
Depreciation charge for the period	-0.075	-0.445	-0.520
Sales	-	-	-
Write-off	-	0.025	0.025
Effect of changes in exchange rates	-	0.002	0.002
<b>Depreciation at end of period</b>	<b>-0.315</b>	<b>-0.858</b>	<b>-1.173</b>
<b>Carrying amount at beginning of period</b>	<b>1.052</b>	<b>0.949</b>	<b>2.001</b>
<b>Carrying amount at end of period</b>	<b>2.121</b>	<b>1.020</b>	<b>3.141</b>

  
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**31 Dec 2007**

(In millions of euros)

	Land and buildings	Other items of property and equipment	Total
<b>Cost at beginning of period</b>	<b>0.908</b>	<b>0.611</b>	<b>1.519</b>
Purchases	-	0.758	0.758
Write-off	-	-0.012	-0.012
Effect of changes in exchange rates	-	-	-
Other adjustments	-0.022	0.032	0.010
Reclassification	0.406	-	0.406
<b>Cost at end of period</b>	<b>1.292</b>	<b>1.389</b>	<b>2.681</b>
<b>Depreciation at beginning of period</b>	<b>-0.147</b>	<b>-0.217</b>	<b>-0.364</b>
Depreciation charge for the period	-0.033	-0.220	-0.253
Depreciation of write-offs	-	0.010	0.010
Effect of changes in exchange rates	-	-	-
Other adjustments	0.004	-0.013	-0.009
Reclassification	-0.064	-	-0.064
<b>Depreciation at end of period</b>	<b>-0.240</b>	<b>-0.440</b>	<b>-0.680</b>
<b>Carrying amount at beginning of period</b>	<b>0.762</b>	<b>0.394</b>	<b>1.158</b>
<b>Carrying amount at end of period</b>	<b>1.052</b>	<b>0.949</b>	<b>2.001</b>

**NOTE 11. OTHER ASSETS**

(In millions of euros)

	31 Dec 2008	31 Dec 2007
Collateral acquired	1.429	0.109
<b>Total</b>	<b>1.429</b>	<b>0.109</b>

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


Other assets include plots, houses and apartments. In the current macroeconomic situation, realisation of collateral may be an extended process. However, the proportion of loans secured with real estate is decreasing. If at the beginning of 2008 loans secured with real estate accounted for 11.9% of the Group's loan portfolio, then at the end of 2008 the figure was 8.3%. Since the assets were mainly acquired in 2008, they are expected to be realised in 2009 and 2010.

In 2008, impairment losses on other assets totalled 0.038 million euros.

**NOTE 12. LOANS FROM BANKS**

(In millions of euros)	31 Dec 2008			31 Dec 2007		
	Current	Non-current	Total	Current	Non-current	Total
Danske Bank A/S Estonian branch	-	-	-	9.546	-	9.546
AS SEB Pank	-	-	-	0.049	-	0.049
AS Hansapank	0.231	0.719	0.950	-	-	-
<b>Total</b>	<b>0.231</b>	<b>0.719</b>	<b>0.950</b>	<b>9.595</b>	<b>-</b>	<b>9.595</b>

At 31 December 2008, the interest rate of the long-term loan from Hansapank was 1.95% + 6 month EURIBOR.

  
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**NOTE 13. DEPOSITS FROM CUSTOMERS**

(In millions of euros)

	31 Dec 2008	31 Dec 2007
Term deposits	40.303	11.752
Term deposits by customer type		
Individuals	34.559	5.768
Legal persons	5.744	5.984
Term deposits by currency		
EEK	32.751	10.094
EUR	7.432	1.658
LVL	0.120	-
Term deposits by maturity		
Maturing within 6 months	20.292	5.376
Maturing between 6 and 12 months	17.966	4.573
Maturing between 12 and 18 months	1.248	0.436
Maturing between 18 and 24 months	0.293	0.924
Maturing in over 24 months	0.504	0.443
Average deposit amount	0.007	0.009
Weighted average interest rate	8.00%	6.00%
Weighted average duration until maturity (months)	6.347	8.032
Weighted average total contract term (months)	12.571	12.613

INTEREST RATES OF DEPOSITS OFFERED TO CUSTOMERS AT 31 DECEMBER 2008:

Offered deposit interest rates depend on deposit term, currency and amount. Interest rates range from 5.95% to 12.70% per year. The lowest interest rates are offered for short term euro deposits and the highest rates for longer term Latvian Lats deposits. Deposit terms range from 1 month to 5 years.


**NOTE 14. OTHER LIABILITIES AND DEFERRED INCOME**

(In millions of euros)

<b>Other liabilities</b>	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
Payable to suppliers	0.340	0.387
Payable to employees	0.245	0.262
Taxes payable	0.644	0.910
Other payables	0.134	0.053
<b>Total</b>	<b>1.363</b>	<b>1.612</b>

(In millions of euros)

<b>Deferred income</b>	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
Prepayments from customers	0.170	0.009
<b>Total</b>	<b>0.170</b>	<b>0.009</b>
<b>Total other liabilities and deferred income</b>	<b>1.533</b>	<b>1.621</b>

  
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**NOTE 15. DEBT SECURITIES AND SUBORDINATED DEBT SECURITIES ISSUED**

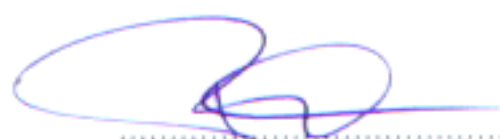
ISSUED BONDS

(millions of euros)	31.12.2008	31.12.2007
<b>Balance of bonds issued</b>	<b>95.074</b>	<b>102.925</b>
<b>Bonds by holder type</b>		
Individuals	4.583	5.109
Legal persons	90.491	97.816
<b>Bonds by currency</b>		
EEK	0.200	15.293
EUR	91.708	81.188
LTL	3.166	-
LVL	-	6.444
<b>Bonds by maturity</b>		
Bonds redeemable within 6 months	9.706	15.198
Bonds redeemable between 6 and 12 months	4.091	6.367
Bonds redeemable between 12 and 18 months	-	0.158
Bonds redeemable between 18 and 24 months	-	-
Bonds redeemable in over 24 months	81.277	81.202

SUBORDINATED BONDS

(millions of euros)	31.12.2008	31.12.2007
<b>Balance of subordinated bonds issued</b>	<b>11.016</b>	<b>10.873</b>
<b>Bonds by holder type</b>		
Individuals	0.285	0.280
Legal persons	10.731	10.593
<b>Bonds by currency</b>		
EEK	11.016	10.873
EUR	-	-
LTL	-	-
LVL	-	-
<b>Bonds by maturity</b>		
Bonds redeemable within 6 months	-	-
Bonds redeemable between 6 and 12 months	3.258	-
Bonds redeemable between 12 and 18 months	-	-
Bonds redeemable between 18 and 24 months	-	3.226
Bonds redeemable in over 24 months	7.758	7.647

Debt securities are issued in placements arranged for institutional investors. Since 2006, small customers are offered term deposits in place of bonds.

  
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**NOTE 16. INTEREST INCOME**

(In millions of euros)	2008	2007
Interest income on loans to customers	42.874	35.968
Interest income on deposits	0.986	0.696
Interest income on debt and other fixed income securities	-	0.046
<b>Total</b>	<b>43.860</b>	<b>36.710</b>

**NOTE 17. INTEREST EXPENSE**

(In millions of euros)	2008	2007
Interest expense on debt securities	13.632	8.384
Interest expense on deposits	1.903	0.559
Interest expense on bank loans	0.337	0.596
Interest expense on other loans	-	0.013
<b>Total</b>	<b>15.872</b>	<b>9.552</b>

**NOTE 18. NET GAIN/LOSS ON FINANCIAL TRANSACTIONS**

(In millions of euros)	2008	2007
Foreign exchange losses	0.227	0.512
Foreign exchange gains	0.051	0.277
<b>Total</b>	<b>-0.176</b>	<b>-0.235</b>

**NOTE 19. OTHER INCOME**

(In millions of euros)	2008	2007
Income from collection proceedings	8.246	3.372
Income from early redemption of bonds	0.175	-
Miscellaneous income	0.064	0.105
<b>Total</b>	<b>8.485</b>	<b>3.477</b>

**NOTE 20. SALARIES AND OTHER OPERATING EXPENSES**

**Salaries and associated charges**

(In millions of euros)	2008	2007
Salaries	5.428	3.434
Social security and unemployment insurance charges on salaries	1.580	1.011
Employee health costs and fringe benefits with associated taxes	0.185	0.083
<b>Total</b>	<b>7.193</b>	<b>4.528</b>

**Other operating expenses**

(In millions of euros)	2008	2007
Marketing expenses	2.271	3.992
Stamp duties	1.419	0.331
Rental expenses	0.990	0.437
Other services	0.476	0.236
Telephone and similar expenses	0.454	0.344
Postal supplies and charges	0.342	0.081

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Office expenses	0.225	0.301
Training expenses	0.212	0.155
Car costs	0.138	0.064
Assets of insignificant value	0.131	0.107
Collection and intermediation fees	0.125	0.074
Repair and renovation expenses	0.100	0.127
Miscellaneous operating expenses	1.018	1.241
<b>Total</b>	<b>7.901</b>	<b>7.490</b>

**NOTE 21. OTHER EXPENSES**

(In millions of euros)	<b>2008</b>	<b>2007</b>
Supervision fee to the Financial Supervision Authority	0.065	0.007
Representation cost	0.048	0.028
Contributions to the Guarantee Fund	0.032	0.039
Donations	0.001	-
Miscellaneous expenses	0.271	0.194
<b>Total</b>	<b>0.417</b>	<b>0.268</b>

**NOTE 22. OPERATING LEASES**

THE GROUP AS A LESSOR

Operating leases

The Group leases out office premises in its office building at Rütli 21 in Tartu. In the balance sheet the premises are classified as items of property and equipment.

<b>Lease income</b> (In millions of euros)	<b>2008</b>	<b>2007</b>
Operating lease income of the period	0.005	0.027
Operating lease rentals receivable in subsequent periods		
Within 1 year	0.004	0.005
Between 1 and 5 years	-	0.004

THE GROUP AS A LESSEE


Operating leases

The Group uses the following assets under operating leases:

- Cars: expiry dates of contracts fall between 2010 and 2013; at 31 December 2008 there were 10 effective leases.

<b>Lease expenses</b> (In millions of euros)	<b>2008</b>	<b>2007</b>
Operating lease expense of the period	0.049	0.040
Non-cancellable operating lease rentals payable in subsequent periods		
Within 1 year	0.037	0.031
Between 1 and 5 years	0.080	0.077

- Office premises: expiry dates of contracts fall between 2009 and 2014; at 31 December 2008 there were 48 effective leases.

  
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<b>Lease expenses</b> (In millions of euros)	<b>2008</b>	<b>2007</b>
Operating lease expense of the period	1.208	0.741
Non-cancellable operating lease rentals payable in subsequent periods		
Within 1 year	1.127	0.976
Between 1 and 5 years	1.373	2.501

**NOTE 23. ASSETS AND LIABILITIES BY REMAINING MATURITY**

(In millions of euros)

<b>31 December 2008</b>	<b>Past due</b>	<b>Less than 1 month</b>	<b>1 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and due from Central Bank and other banks	-	30.639	-	-	-	30.639
Loans to customers	57.558	3.150	20.028	40.172	25.409	146.316
Including loan portfolio	47.709	3.150	20.028	40.172	25.409	136.467
Including net interest receivables	9.849	-	-	-	-	9.849
<b>Total</b>	<b>57.558</b>	<b>33.789</b>	<b>20.028</b>	<b>40.172</b>	<b>25.409</b>	<b>176.955</b>
<b>Liabilities</b>						
Loans from banks	-	0.023	0.208	0.719	-	0.950
Including linked to 6m Euribor	-	0.023	0.208	0.719	-	0.950
Debt securities issued, including subordinated	0.042	6.404	10.609	81.277	7.758	106.090
Including linked to 3m Euribor	-	-	-	81.277	7.758	89.035
Including linked to 6m Euribor	-	-	3.258	-	-	3.258
Deposits from customers	0.061	1.093	37.104	2.045	-	40.303
<b>Total liabilities</b>	<b>0.103</b>	<b>7.520</b>	<b>47.921</b>	<b>84.041</b>	<b>7.758</b>	<b>147.343</b>
<b>31 December 2007</b>						
	<b>Past due</b>	<b>Less than 1 month</b>	<b>1 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and due from Central Bank and other banks	-	23.582	-	-	-	23.582
Loans to customers	31.279	3.061	23.928	48.331	33.464	140.063
Including loan portfolio	24.595	3.061	23.928	48.331	33.464	133.379
Including net interest receivables	6.683	-	-	-	-	6.683
<b>Total</b>	<b>31.279</b>	<b>26.643</b>	<b>23.928</b>	<b>48.331</b>	<b>33.464</b>	<b>163.644</b>
<b>Liabilities</b>						
Loans from banks	-	0.003	9.592	-	-	9.595
Including linked to 6m Euribor	-	-	9.547	-	-	9.547
Debt securities issued, including subordinated	0.076	3.239	18.251	84.581	7.652	113.798
Including linked to 3m Euribor	-	-	6.069	81.188	7.652	94.909
Including linked to 6m Euribor	-	-	-	3.235	-	3.235
Deposits from customers	-	2.427	7.522	1.803	-	11.752
<b>Total liabilities</b>	<b>0.076</b>	<b>5.669</b>	<b>35.364</b>	<b>86.384</b>	<b>7.652</b>	<b>135.146</b>

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.

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**NOTE 24. NET CURRENCY POSITIONS**

(In millions of euros)

**31 Dec 2008**

	Balance sheet position		Off-balance sheet position		Net position
	Assets	Liabilities	Assets	Liabilities	
EEK	77.556	45.313	-	0.019	32.223
EUR	67.309	99.140	-	-	-31.831
LVL	34.768	1.173	-	-	33.595
LTL	5.865	3.250	-	-	2.615
SEK	0.012	-	-	-	0.012

(In millions of euros)

**31 Dec 2007**

	Balance sheet position		Off-balance sheet position		Net position
	Assets	Liabilities	Assets	Liabilities	
EEK	102.185	38.783	-	0.183	63.219
EUR	15.515	90.734	-	-	-75.219
LVL	45.544	7.519	-	-	38.025
LTL	4.213	0.225	-	-	3.988

The loans issued by the Group are denominated in the currency of the relevant region or in euro. Currently, loans are only issued in Euros and the proportion of loans denominated in euro has grown significantly.

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

**NOTE 25. SEGMENT REPORTING**

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

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

GEOGRAPHICAL SEGMENTS, INCOME STATEMENT INDICATORS

<b>2008</b>	<b>Estonia</b>	<b>Latvia</b>	<b>Lithuania</b>	<b>Eliminations</b>	<b>Consolidated</b>
(In millions of euros)					
<b>External revenue</b>					
Interest income	21.877	18.481	3.502	-	43.860
Other income	4.040	3.892	0.553	-	8.485
<b>Total external revenue</b>	<b>25.917</b>	<b>22.372</b>	<b>4.056</b>	<b>-</b>	<b>52.345</b>
<b>Inter-segment revenue</b>	<b>9.174</b>	<b>-</b>	<b>-</b>	<b>-9.174</b>	<b>-</b>
<b>Total revenue</b>	<b>35.090</b>	<b>22.372</b>	<b>4.056</b>	<b>-9.174</b>	<b>52.345</b>
<b>External expenses</b>					
Interest expense	15.866	0.001	-	-	15.866
Inter-segment interest expense	-	6.425	1.220	-7.645	-
<b>Total interest expense</b>	<b>15.866</b>	<b>6.426</b>	<b>1.220</b>	<b>-7.645</b>	<b>15.866</b>
Net gain/loss on financial transactions	-0.108	-0.045	-0.016	-0.007	-0.176
Depreciation and amortisation expense	0.437	0.175	0.039	-	0.651
Impairment losses	-3.776	-4.779	-0.679	-	-9.234
Profit/loss before income tax	7.796	4.678	-0.163	-1.536	10.775
Income tax expense	-	1.523	-	-	1.523
<b>Profit/loss for the period</b>	<b>7.796</b>	<b>3.155</b>	<b>-0.163</b>	<b>-1.536</b>	<b>9.252</b>

  
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2007	Estonia	Latvia	Lithuania	Eliminations	Consolidated
(In millions of euros)					
<b>External revenue</b>					
Interest income	22.763	13.731	0.216	-	36.710
Other income	2.395	1.082	-	-	3.477
<b>Total external revenue</b>	<b>25.158</b>	<b>14.813</b>	<b>0.216</b>	-	<b>40.187</b>
<b>Inter-segment revenue</b>	<b>5.045</b>	-	-	<b>-5.045</b>	-
<b>Total revenue</b>	<b>30.203</b>	<b>14.813</b>	<b>0.216</b>	<b>-5.045</b>	<b>40.187</b>
<b>External expenses</b>					
Interest expense	9.537	0.015	-	-	9.552
Inter-segment interest expense	-	3.560	0.070	-3.630	-
<b>Total interest expense</b>	<b>9.537</b>	<b>3.575</b>	<b>0.070</b>	<b>-3.630</b>	<b>9.552</b>
Net gain/loss on financial transactions	-0.003	-0.213	-0.008	-0.011	-0.235
Depreciation and amortisation expense	0.285	0.086	-	-	0.371
Impairment losses	-2.692	-2.670	-0.029	-	-5.391
Profit/loss before income tax	10.917	4.028	-1.198	-1.412	12.335
Income tax expense	-	1.005	-	-	1.005
<b>Profit/loss for the period</b>	<b>10.917</b>	<b>3.023</b>	<b>-1.198</b>	<b>-1.412</b>	<b>11.330</b>

GEOGRAPHICAL SEGMENTS, BALANCE SHEET INDICATORS

31 Dec 2008	Estonia	Latvia	Lithuania	Eliminations	Consolidated
(In millions of euros)					
Cash and bank accounts	25.289	5.016	0.334	-	30.639
Loans to customers	150.810	58.759	13.830	-77.083	146.316
Including loans	151.153	60.416	13.859	-77.083	148.345
Including impairment allowances for loans	-5.420	-5.839	-0.618	-	-11.877
Including interest receivables	5.846	4.938	0.659	-	11.443
Including impairment allowances for interest receivables	-0.768	-0.756	-0.070	-	-1.594
Other receivables and prepayments	0.754	3.041	0.190	-0.001	3.984
Property and equipment and intangible assets	2.972	0.429	0.139	-	3.540
Other assets	1.038	0.391	-	-	1.429
<b>Total segment assets</b>	<b>180.863</b>	<b>67.636</b>	<b>14.493</b>	<b>-77.084</b>	<b>185.908</b>
Loans from banks	0.950	60.903	15.770	-76.673	0.950
Deposits from customers	40.065	0.238	-	-	40.303
Other liabilities and deferred income	0.397	1.052	0.084	-0.001	1.532
Debt securities issued including subordinated debt securities	106.090	-	-	-	106.090
<b>Total segment liabilities</b>	<b>147.502</b>	<b>62.193</b>	<b>15.853</b>	<b>-76.673</b>	<b>148.876</b>
Equity	33.360	5.444	-1.361	-0.411	37.032

  
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31 Dec 2007 (In millions of euros)	Estonia	Latvia	Lithuania	Eliminations	Consolidated
Cash and bank accounts	21.605	1.873	0.104	-	23.582
Loans to customers	138.544	57.431	3.942	-59.854	140.063
Including loans	137.420	57.644	3.894	-59.854	139.105
Including impairment allowances for loans	-3.147	-2.551	-0.029	-	-5.726
Including interest receivables	4.665	2,714	0.077	-	7.455
Including impairment allowances for interest receivables	-0.395	-0.376	0.000	-	-0.772
Other receivables and prepayments	0.528	0.139	0.039	-	0.706
Property and equipment and intangible assets	1.923	0.463	0.115	-	2.501
Other assets	-	0.109	-	-	0.109
<b>Total segment assets</b>	<b>162.600</b>	<b>60.015</b>	<b>4.200</b>	<b>-59.854</b>	<b>166.961</b>
Loans from banks	9.595	55.077	5.185	-60.262	9.595
Deposits from customers	11.752	-	-	-	11.752
Other liabilities and deferred income	0.355	1.053	0.212	-	1.621
Debt securities issued including subordinated debt securities	113.798	-	-	-	113.798
<b>Total segment liabilities</b>	<b>135.501</b>	<b>56.130</b>	<b>5.398</b>	<b>-59.816</b>	<b>136.766</b>
Equity	27.098	3.886	-1.198	0.409	30.195

#### NOTE 26. ASSETS PLEDGED AS COLLATERAL

- The parent company's movable property is subject to a commercial pledge of 1.598 million euros to secure liabilities to Danske Bank AS Estonian branch (formerly AS Sampo Pank).
- The Group's immovable property at R  tli 21/23 in Tartu is subject to a second-ranking mortgage of 0.671 million euros to secure liabilities to Danske Bank AS Estonian branch (formerly AS Sampo Pank).
- The Group's immovable property at R  tli 21/23 in Tartu is subject to a first-ranking mortgage of 0,282 million euros to secure liabilities to AS SEB Liising.
- An apartment ownership at Tartu mnt 18 in Tallinn is subject to a mortgage of 0.601 million euros to secure liabilities to AS Hansapank.
- Apartment ownerships at Tartu mnt 18 in Tallinn are subject to a mortgage of 0.895 million euros to secure liabilities to AS Hansapank.

#### NOTE 27. CONTINGENT LIABILITIES

Contingent liabilities include letters of guarantee issued by Danske Bank AS Estonian branch (formerly AS Sampo Pank) to ensure meeting of commitments under lease contracts between the Group's parent company and the recipients of the guarantees. The total guaranteed amount is 0.003 million euros. The letters of guarantee expire before or on 7 January 2009.

At 31 December 2008, the unused portions of credit lines totalled 0.019 million euros (31 December 2007: 0.183 million euros).

#### NOTE 28. INCOME TAX EXPENSE

(In millions of euros)	31 Dec 2008	31 Dec 2007
Income tax expense	1.523	1.005
<b>Total</b>	<b>1.523</b>	<b>1.005</b>

The above income tax expense has been calculated on the net profit earned in Latvia in 2007 and 2008. In accordance with the Estonian Income Tax Act, in 2008 profit distributions, including dividend distributions, were subject to income tax at the rate of 21/79. Income tax is paid in addition to the dividend distribution. The income tax payable on dividends may be reduced by 21/79 of the

  
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dividends received from subsidiaries and associates.

### Unrecognised deferred tax assets

(In millions of euros)	31 Dec 2008	31 Dec 2007
Deferred tax assets have not been recognised for the following items		
Deductible temporary differences	1.116	0.421
Tax losses	0.203	0.165
<b>Total</b>	<b>1.319</b>	<b>0.586</b>

The income tax assets have not been recognised because according to management's estimates they cannot be utilised in the foreseeable future.

### Changes in unrecognised deferred tax assets

(In millions of euros)	31 Dec 2008	Change 2008	31 Dec 2007	Change 2007	31 Dec 2006
Deductible temporary differences	1.116	0.695	0.421	0.394	0.027
Tax losses	0.203	0.038	0.165	0.165	-
<b>Total</b>	<b>1.319</b>	<b>0.733</b>	<b>0.586</b>	<b>0.559</b>	<b>0.027</b>

### Relationship between accounting profit and income tax expense

(In millions of euros)	2008	2007
Group's profit before income tax	10.775	12.335
Tax rate applicable to the parent company: 0%	-	-
Effect of tax rates in foreign jurisdictions	1.523	1.005
Recognised change in deferred income tax	-	-
Income tax expense for the period	1.523	1.005

### NOTE 29. CONTINGENT INCOME TAX LIABILITY

At 31 December 2008, the Group's undistributed profits totalled 31.915 million euros.

The income tax liability that would arise if all of the profits were distributed as dividends amounts to 6.702 million euros and the maximum amount that could be distributed as the net dividend is 25.213 million euros.

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 2009 cannot exceed the total distributable profits as of 31 December 2008.

### NOTE 30. EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date, BIGBANK AS has acquired subordinated bonds previously issued by it. The redemption date of the bonds was 30 January 2014 and total nominal value 3.707 million euros. At the same time BIGBANK AS has issued additional subordinated bonds of 4.000 million Euros that are redeemable on 1 October 2015.

The transactions were part of a larger transaction by which BIGBANK AS acquired bonds of 10.000 million Euros issued by it and issued new bonds in the same amount.

The transaction does not have a significant impact on the company's future financial performance and the volume of Tier 2 capital will not change significantly (will increase by 0.293 million euros).

### NOTE 31. RELATED PARTY DISCLOSURES

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

  
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- the shareholders of BIGBANK AS;
- members of Group companies' management and supervisory boards
- close family members of the above
- companies related to the above, except where they cannot exert significant influence on the Group's business decisions.

In 2008, the remuneration and associated taxes of members of the Group's management and supervisory boards totalled 0.223 million euros and 0.056 million euros respectively.

In 2008 OÜ Edelatuulik Invest, a company in which Member of the Supervisory Board of BIGBANK AS Linda Terras is a shareholder, entered into term deposit agreements with BIGBANK. At 31 December 2008, the deposit balances totalled 0.448 million euros and interest accrued but not paid on the deposits amounted to 0.006 million euros. The interest rates of the deposits did not differ from the ones offered to other customers depositing similar amounts at the time.

The shareholders of the Group are minority shareholders in a Latvian collection company SIA Vidzemes Inkasso (respectively 20% and 20%). The Group shareholders do not hold control and do not participate in the management bodies of SIA Vidzemes Inkasso. Information on the transactions conducted between the Group and SIA Vidzemes Inkasso is provided in Note 8.

#### NOTE 32. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair values of the assets and liabilities reported in the consolidated balance sheet as of 31 December 2008 do not differ significantly from their carrying amounts. The fair values of publicly traded debt securities issued by BIGBANK AS have been measured without considering the prices of relevant market transactions because the volumes and number of the transactions were not sufficient to provide a reasonable basis for this.

#### Financial assets at 31 December 2008

(In millions of euros)	Carrying amount	Fair value
Due from Central Bank	21.137	21.137
Due from banks	9.502	9.502
Loans to customers	146.316	146.316
Other receivables and prepayments	3.984	3.984
<b>Total</b>	<b>180.939</b>	<b>180.939</b>

#### Financial assets at 31 December 2007

(In millions of euros)	Carrying amount	Fair value
Cash	-	-
Due from Central Bank	19.277	19.277
Due from banks	4.305	4.305
Loans to customers	140.063	140.063
Other receivables and prepayments	0.707	0.707
<b>Total</b>	<b>164.351</b>	<b>164.351</b>

Financial liabilities at 31 December 2008	Carrying amount	Fair value
Loans from banks	0.950	0.950
Deposits from customers	40.303	40.303
Other liabilities and deferred income	1.533	1.533
Debt securities issued	95.074	95.074
Subordinated liabilities	11.016	11.016
<b>Total</b>	<b>148.876</b>	<b>148.876</b>

  
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Financial liabilities at 31 December 2007	Carrying amount	Fair value
Loans from banks	9.595	9.595
Deposits from customers	11.752	11.752
Other liabilities and deferred income	1.621	1.621
Debt securities issued	102.925	102.925
Subordinated liabilities	10.873	10.873
<b>Total</b>	<b>136.766</b>	<b>136.766</b>

### NOTE 33. SENSITIVITY ANALYSIS

#### INTEREST RATE RISK

The Group mitigates interest rate risk on loans granted by fixing the interest rate in the loan agreement. The Group manages interest rate risk by charging a higher rate of return on loans granted. Part of the Group's liabilities has fixed interest rates and part is linked to Euribor.

The following table provides an overview of the effect of changes in Euribor on the Group's interest expense assuming that the volume and structure of liabilities remain constant (as at the end of 2008).

(In millions of euros)	Amount	Including fixed interest rate	Including linked to Euribor	Change in case of 1% rise in Euribor	Change in case of 1% decrease in Euribor
Loans from banks	0.950	-	0.950	-0.010	0.010
Debt securities issued, including subordinated	106.090	92.293	13.797	-0.138	0.138
Deposits from customers	40.303	40.303	-	-	-
<b>Total</b>	<b>147.343</b>	<b>132.596</b>	<b>14.747</b>	<b>-0.148</b>	<b>0.148</b>

#### CURRENCY RISK

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

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

The following table provides an overview of the impact of a possible devaluation. The analysis does not take into account indirect impacts and the contractual protection against devaluation.

(In millions of euros)	Exposure	Change 10%	
		Monetary impact	Percentage of equity
EEK	32.223	3.222	8.7%
LVL	33.595	3.360	9.1%
LTL	2.615	0.261	0.7%
SEK	0.012	0.001	0.0%
<b>Total</b>	<b>68.445</b>	<b>6.844</b>	<b>18.5%</b>



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**NOTE 34. EARNINGS PER SHARE**

(In millions of euros)	2008	2007
<b>Net profit for the period</b>	9.252	11.330
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
<b>Earnings per share (in euros)</b>	116	142

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

**NOTE 35. EQUITY**

SHARE CAPITAL

BIGBANK AS is a limited liability company, whose minimum and maximum authorised share capital amount to 5.113 million euros and 15.339 million euros respectively. Share capital is made up of ordinary shares with a par value of one thousand kroons each. Each share carries one vote at meetings of the company, allowing the shareholder to participate in the management of the company, the distribution of profits and the distribution of residual assets on the dissolution of the company

STATUTORY CAPITAL RESERVE

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

TRANSLATION RESERVE

The 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 2008, the Group's unrestricted equity amounted to 31.915 million euros (31 December 2007: 24.221 million euros).

DIVIDENDS

In 2007 and 2008 the company made the following dividend distributions:

- 2007: 17.576 euros per share, i.e. 1.406 million euros in aggregate
- 2008: 19.173 euros per share, i.e. 1.534 million euros in aggregate

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

CHANGES IN PRESENTATION

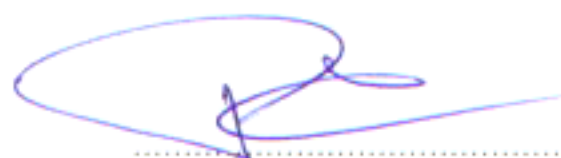
For clearer presentation of the parent company's financial position and financial performance, in 2008 some items in the balance sheet were reclassified and some lines in the income statement were renamed.

Parent company's unconsolidated balance sheet

Item	Change In millions of euros	Content	31 Dec 2007 Restated In millions of euros
Due from Central Bank	+0.048	Transfer of interest receivable on the mandatory reserve from other receivables	19.277
Loans to customers	+0.028	Transfer of contract fees receivable on loans (0.029 million euros) and related impairment allowances (-0.001 million euros) from other receivables	137.697
	-0.166	Transfer of prepaid loan interest and contract fees to the same class with related receivables	
Other receivables and prepayments	-0.076	Transfer of items according to their nature	0.556
Investments in subsidiaries		Former line title <i>Securities</i>	
Total assets	-0.166	Transfer of prepayments	161.762
Other liabilities and deferred income	-0.166	Transfer of prepayments	0.505
Total liabilities	-0.166	Transfer of prepayments	135.650
Total liabilities and equity	-0.166	Transfer of prepayments	161.762

Parent company's unconsolidated income statement

Item	Change, In millions of euros	Content	2007 Restated, In millions of euros
Dividend income		Former line title <i>Income on financial investments</i>	
Other operating expenses		Former line title <i>Administrative expenses</i>	
Salaries and associated charges	+0.075	Transfer of health costs and other fringe benefits to salaries and associated charges	2.904
Other expenses	-0.075	Transfer of health costs and other fringe benefits	0.082

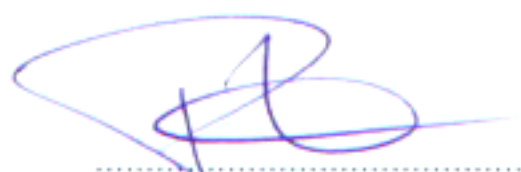
  
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Parent company's unconsolidated statement of cash flows

Item	Change, In millions of euros	Content	2007 Restated, In millions of euros
Change in mandatory reserve with Central Bank and related interest receivables		Former line title <i>Change in mandatory reserve with Central Bank</i>	
Change in mandatory reserve with Central Bank and related interest receivables	+0.035	Addition of change in interest receivables in connection with its inclusion in cash equivalents	-12.998
Net cash used in operating activities	+0.035	Addition of change in interest receivable in connection with its inclusion in cash equivalents	-75.030
Decrease in cash and cash equivalents	+0.035	Inclusion of interest receivable in cash equivalents	-0.195
Cash and cash equivalents at beginning of period	+0.012	Inclusion of interest receivable in cash equivalents	4.266
Cash and cash equivalents at end of period	+0.047	Inclusion of interest receivable in cash equivalents	4.036

  
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PARENT COMPANY'S UNCONSOLIDATED BALANCE SHEET

<b>As at 31 December</b>	<b>2008</b>	<b>2007</b>
(In millions of euros)		<b>Restated</b>
<b>Assets</b>		
Cash	-	-
Due from Central Bank	21.137	19.277
Due from banks	4.578	2.419
Loans to customers	149.570	137.697
Other receivables and prepayments	0.938	0.556
Investments in subsidiaries	0.606	0.606
Intangible assets	0.379	0.483
Property and equipment	1.076	0.724
Other assets	1.038	-
<b>Total assets</b>	<b>179.322</b>	<b>161.762</b>
<b>Liabilities</b>		
Loans from banks	-	9.595
Deposits from customers	40.303	11.752
Other liabilities and deferred income	0.813	0.505
Debt securities issued	95.074	102.925
Subordinated liabilities	11.016	10.873
<b>Total liabilities</b>	<b>147.206</b>	<b>135.650</b>
<b>Equity</b>		
Share capital	5.113	5.113
Capital reserve	0.511	0.511
Earnings retained in prior periods	18.954	10.715
Profit for the period	7.538	9.773
<b>Total equity</b>	<b>32.116</b>	<b>26.112</b>
<b>Total liabilities and equity</b>	<b>179.322</b>	<b>161.762</b>

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PARENT COMPANY'S UNCONSOLIDATED INCOME STATEMENT

(In millions of euros)

	<b>2008</b>	<b>2007 Restated</b>
Interest income	31.842	26.541
Interest expense	15.809	9.532
<b>Net interest income</b>	<b>16.033</b>	<b>17.009</b>
Dividend income	1.532	1.412
Net fees and commissions	-0.072	-0.014
Net gain/loss on financial transactions	-0.127	-0.011
Other income	4.586	2.361
<b>Total income</b>	<b>21.952</b>	<b>20.757</b>
Salaries and associated charges	4.364	2.904
Other operating expenses	4.942	5.019
Depreciation and amortisation expense	0.420	0.260
Impairment losses on loans and receivables	4.459	2.720
Impairment losses on other assets	0.038	-
Other expenses	0.191	0.082
<b>Total expenses</b>	<b>14.414</b>	<b>10.985</b>
<b>Profit for the period</b>	<b>7.538</b>	<b>9.772</b>

  
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PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF CASH FLOWS

(In millions of euros)

	<b>2008</b>	<b>2007 Restated</b>
<b>Cash flows from operating activities</b>		
Interest received	21.837	18.470
Interest paid	-13.201	-8.567
Other operating expenses paid (including salaries and associated charges)	-9.472	-7.688
Other income received	2.927	1.689
Other expenses paid	-0.276	-0.266
Reversal of impairment losses on loans and receivables	0.052	0.010
Paid for other assets	-0.072	-
Loans granted	-38.274	-96.495
Repayment of loans granted	32.053	28.063
Change in mandatory reserve with Central Bank and related interest receivables	-3.473	-12.998
Proceeds from customer deposits	36.692	12.552
Paid on redemption of deposits	-10.087	-9.775
Effect of changes in exchange rates	-0.042	-0.025
<b>Net cash from / used in operating activities</b>	<b>18.664</b>	<b>-75.030</b>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment and intangible assets	-0.348	-0.643
Proceeds from sale of property and equipment	0.011	-
Purchase of securities	-	-1.831
Proceeds from redemption of securities	-	1.831
Dividends received	1.523	1.423
<b>Net cash from investing activities</b>	<b>1.186</b>	<b>0.780</b>
<b>Cash flows from financing activities</b>		
Proceeds from debt securities issued	9.866	88.694
Paid on redemption of debt securities	-18.008	-17.152
Proceeds from subordinated debt securities issued	-	4.327
Paid on redemption of subordinated debt securities	-	-0.362
Proceeds from loans from banks	1.917	13.421
Repayment of loans from banks	-11.553	-13.467
Dividends paid	-1.534	-1.406
<b>Net cash used in / from financing activities</b>	<b>-19.312</b>	<b>74.055</b>
<b>Effect of exchange rate fluctuations</b>	<b>-0.003</b>	
<b>Increase / decrease in cash and cash equivalents</b>	<b>0.535</b>	<b>-0.195</b>
<b>Cash and cash equivalents at 1 January</b>	<b>4.083</b>	<b>4.278</b>
<b>Cash and cash equivalents at 31 December</b>	<b>4.618</b>	<b>4.083</b>



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	31 Dec 2008	31 Dec 2007
Cash	-	-
Demand and overnight deposits with banks	4.578	2.419
Surplus on mandatory reserve with Central Bank	0.005	1.617
Interest receivable from Central Bank	0.035	0.047
<b>Total</b>	<b>4.618</b>	<b>4.083</b>



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PARENT COMPANY'S UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In millions of euros)

**31 Dec 2008**

**31 Dec 2007**

**Share capital**

Balance at beginning of period	5.113	5.113
<b>Balance at end of period</b>	<b>5.113</b>	<b>5.113</b>

**Reserves**

Statutory capital reserve

Balance at beginning of period	0.511	0.256
Transfer	-	0.255
<b>Balance at end of period</b>	<b>0.511</b>	<b>0.511</b>

**Retained earnings**

Balance at beginning of period	20.488	12.377
Profit for the period	7.538	9.772
Transfer to capital reserve	-	-0.255
Dividend distribution	-1.534	-1.406
<b>Balance at end of period</b>	<b>26.492</b>	<b>20.488</b>

<b>Total equity</b>	<b>32.116</b>	<b>26.112</b>
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## SIGNATURES

The management board has prepared the review of operations and the consolidated financial statements as at and for the year ended 31 December 2008.

The supervisory board has reviewed the annual report, including the review of operations and the consolidated financial statements which have been appended an auditor's report, and has approved it for presentation to the shareholders' general meeting.

	Date	Signature
Targo Raus Chairman of Management Board	27.02.2009	
Kaido Saar Member of Management Board	27.02.2009	
Veiko Kandla Member of Management Board	27.02.2009	
Ingo Pöder Member of Management Board	27.02.2009	
Parvel Pruunsild Chairman of Supervisory Board	27.02.2009	
Vahur Voll Member of Supervisory Board	27.02.2009	
Juhani Jaeger Member of Supervisory Board	27.02.2009	
Meelis Luht Member of Supervisory Board	27.02.2009	
Linda Terras Member of Supervisory Board	27.02.2009	



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Targo Raus  
Juhatusesimees





**KPMG Baltics AS**  
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Estonia

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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 (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 19 to 74.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of BIGBANK AS, 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.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 to the financial statements, where management have described the areas in the financial statements where significant estimates have been made, and in particular, in respect of the impairment allowances on loans. Management have indicated that their estimate of the level of impairment allowance set aside for loans has been made after their assessment of the current economic conditions in the countries in which Group operates. Owing to the instability of the market situation, the effect of developments in the economic environment may differ materially from management's current estimates.

Tallinn, 27 February 2009

KPMG Baltics AS

Andres Root  
*Authorized Public Accountant*

Eero Kaup  
*Authorized Public Accountant*



## PROFIT ALLOCATION PROPOSAL


The consolidated retained earnings of BIGBANK AS:

Earnings retained in prior periods, at 31 December 2008	22.663 million euros
Net profit for 2008	9.252 million euros
<hr/> Total retained earnings	<hr/> 31.915 million euros

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

1. Dividend distribution (up to 15.18 euros per share)	Up to 1.214 million euros
2. Retained earnings after allocations	30.701 million kroons

			
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Targo Raus	Kaido Saar	Veiko Kandla	Ingo Pöder
Chairman of Management Board	Member of Management Board	Member of Management Board	Member of Management Board

  
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Targo Raus  
Chairman of Management Board