BIG
KIIREIM TEE RAHANI

BALTI INVESTEERINGUTE GRUPI PANK AS

Annual report

2007

BALTI INVESTEERINGUTE GRUPI PANK AS

ANNUAL REPORT

Business name:	Balti Investeeringute Grupi Pank AS
Register:	Commercial Register of the Republic of Estonia
Registration number:	10183757
Date of entry:	30 January 1997
Address:	Rüütli 23, 51006 Tartu, Estonia
Telephone:	+372 737 7570
Fax:	+372 737 7582
E-mail:	big@big.ee
Website:	www.big.ee
Rating information:	*Moody's Investors Service* Long-term deposit rating B1 Short-term deposit rating *not prime* Financial strength rating E+ Outlook stable
Date of report:	31 December 2007
Beginning of financial year:	1 January 2007
End of financial year:	31 December 2007
Chairman of Management Board:	Targo Raus
Auditors:	KPMG Baltics AS, audit firm, entered in the list of auditors on 11 July 2001 under no. 17, Narva mnt 5 Tallinn 10117 Registration number 10096082 Auditors responsible for the engagement: Taivo Epner, authorised public accountant since 7 December 1992 Eero Kaup, authorised public accountant since 10 December 1998

Targo Raus
Chairman of Management Board

This annual report contains a review of operations and consolidated annual financial statements which have been appended an auditor's report and a profit allocation proposal. The presentation currency is the Estonian kroon and figures are presented in millions of Estonian kroons. The document has 62 pages.

From 29 February 2008, this *Annual report 2007* of Balti Investeeringute Grupi Pank AS is available at the entity's head office at 23 Rüütli in Tartu and all other offices.

The annual report is also available on the website of Balti Investeeringute Grupi Pank AS at www.big.ee.

Targo Raus
Chairman of Management Board

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REVIEW OF OPERATIONS

DESCRIPTION OF THE GROUP

The group and consolidation group of Balti Investeeringute Grupi Pank include two subsidiaries:

Business name:	AS Baltijas Izaugsmes Grupa
Location:	Citadelas 2, LV-1010 Riga, Latvia
Registration number:	40003291179
Register:	Register of Enterprises of the Republic of Latvia
Date of entry:	18 April1996
Core activity:	provision of consumer finance to individuals in the Republic of Latvia
Ownership interest:	100%

Business name:	OÜ Rüütli Majad
Location:	Rüütli 23, 51006 Tartu
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, Balti Investeeringute Grupi Pank AS has a branch in Lithuania which was entered in the Lithuanian Company Register in the third quarter of 2007.

There were no other changes in the structure of Balti Investeeringute Grupi Pank AS Group in 2007.

BUSINESS AND FINANCIAL REVIEW

In 2007, Balti Investeeringute Grupi Pank AS (hereinafter also "BIG" or the "Group") sustained rapid growth and development. For the first time, operating volumes outside Estonia (number of customers, loan portfolio) surpassed corresponding parent company figures. Milestones of the period included penetration of the Lithuanian market, entry to international financial markets, receipt of a credit rating, substantial growth in operating volumes and continuing streamlining and enhancement of internal processes.

On 27 August 2007, BIG opened a branch in Lithuania. Credit services were launched in September and by the year-end the Lithuanian loan portfolio had grown to 60.935 million kroons, the number of customers exceeding 2,800. At the end of 2007, our Lithuanian operations comprised 4 sales offices with 44 staff. We are pleased to report that the first months' performance was highly satisfactory – all targets for the Lithuanian market were either achieved or surpassed.

The past financial year was also the first in which BIG issued debt securities (bonds of 1.3 billion kroons) in an international market. The bonds are listed on the Stockholm Stock Exchange. The issue allowed raising sufficient funds for sustaining the Group's growth and extending the term of financing (the planned maturity date of the bonds is 31 March 2011). Bond issues were also arranged in the local market.

In November 2007, the rating agency *Moody's Investors Service* awarded BIG a credit rating of B1. The Group decided to apply for a rating in order to broaden its creditor base and improve its recognition in the international financial markets.

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In 2007, BIG's consolidated loan portfolio expanded by an exceptional 115% to 2,176.515 million kroons, the year-end number of customers exceeding 98 thousand. The consolidated balance sheet grew by an impressive 116% to 2,620.126 million kroons.

A lot of effort was put in enhancing the internal processes. The Group continued developing its information systems, created a Risk Manager's position, appointed specialists to the Asset/Liability Management Committee and otherwise improved its management and control systems.

At 31 December 2007, BIG employed 494 people including 247 in Estonia, 203 in Latvia, and 44 in Lithuania. During the year, the office network grew from 24 to 38 offices, the closing figure breaking down between countries as follows: Estonia 20, Latvia 14 and Lithuania 4.

On 1 August 2007, management board membership changed as Head of Sales and Marketing Kaido Saar ascended to the board. The current members of the management board are Veiko Kandla, Kaido Saar and Targo Raus.

In 2007, the remuneration of the members of the management and supervisory boards including relevant taxes amounted to 3.5 million kroons and 0.9 million kroons respectively.

KEY PERFORMANCE INDICATORS

Balance sheet figures (in millions of kroons)	**31 Dec 2007**	**31 Dec 2006**
Total assets	2,620.126	1,210.997
Loans to customers	2,198.821	1,035.223
Including impairment allowances	101.636	21.582
Due from the Central Bank and banks	368.224	140.914
Debt securities issued (including subordinated debt securities)	1,780.557	596.902
Deposits from customers	183.876	128.362
Loans from banks	150.136	159.250
Equity	472.449	311.803

Income statement figures (in millions of kroons)	**2007**	**2006**
Interest income	574.381	280.921
Interest expense	149.451	27.488
Salaries	69.596	31.977
Administrative expenses	117.199	39.801
Net impairment loss on loans and interest receivables	-84.348	-15.338
Profit for the period	177.275	173.829

For the period (in millions of kroons)		
Average equity	392.126	228.437
Average assets	1,915.562	886.189
Average interest-earning assets	1,849.083	842.503
Average interest-bearing liabilities	1,487.505	639.086
Total income	633.316	306.991

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Ratios	**2007**	**2006**
Return on equity (ROE)	45.21%	76.10%
Profit margin (PM)	27.99%	56.62%
Asset utilization ratio (AU)	33.06%	34.64%
Price difference (SPREAD)	21.02%	29.04%
Equity multiplier (EM)	4.89	3.88
Earnings per share (EPS)	2,215.938	2,172.863
Yield on interest-earning assets	31.06%	33.34%
Cost of interest-bearing liabilities	10.05%	4.30%

Balance sheet ratios are calculated using the arithmetic means of the preceding and reporting periods' closing figures. Income statement ratios are calculated using the figures for the reporting period.

Underlying formulas:

- Return on equity (ROE) – profit to equity
- Profit margin (PM) – profit to total income
- Asset utilization ratio (AU) – total income to total assets
- Price difference (SPREAD) – yield on interest-earning assets less cost of interest bearing liabilities
- Equity multiplier (EM) – total assets to total equity
- Earnings per share (EPS) – profit to the period's average number of shares
- Total income comprises interest income; fee and commission income; gains/income on financial transactions; other operating income; extraordinary income; gains/income on changes in the values of investment property, property and equipment and intangible assets; and gains/income on changes in the values of receivables and off-balance sheet liabilities.
- Yield on interest-earning assets – interest income to interest-earning assets
- Cost of interest-bearing liabilities – interest expense to interest-bearing liabilities

SHAREHOLDERS AT 31 DECEMBER 2007:

Shareholder	**Personal ID number**	**Address**	**Number of shares**	**Interest**
Parvel Pruunsild (Chairman of Supervisory Board)	36906162723	Jõgevamaa, Estonia	40,000	50%
Vahur Voll (Member of Supervisory Board)	37011262727	Tallinn, Estonia	40,000	50%

The shares in Balti Investeeringute Grupi Pank AS have been registered with the Estonian Central Depository for Securities. Use of the voting power carried by the shares has not been restricted.

The entity is not aware of any shareholder agreements which provide for a joint governance policy by means of agreed voting or otherwise restrict use of the voting power.

Except for the shares, BIG has not issued any securities that grant control of the entity.

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GOVERNANCE OF THE ENTITY

The activities of Balti Investeeringute Grupi Pank AS are mainly regulated by the Estonian Commercial Code, the Credit Institutions Act, and the entity's Articles of Association. The Articles of Association are amended pursuant to the procedure provided in the Commercial Code, the Credit Institutions Act and the entity's own Articles of Association.

In accordance with the Estonian Commercial Code, the Credit Institutions Act and the Articles of Association, the governing bodies of the entity are the shareholders' general meeting, the supervisory board and the management board. The election, resignation, removal and powers of members of the management board are regulated by the Estonian Commercial Code, the Credit Institutions Act and the Articles of Association. Further information on governance is provided in note 1 to the review of operations.

RATINGS

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

LITIGATIONS

At 31 December 2007, the parent company and the Group were not involved in any significant litigation.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

Financial position

Assets

At the end of 2007, the Group's assets totalled 2,620 million kroons, a 2.2-fold improvement year-over-year.

At 31 December, the net loan portfolio accounted for 79% of total assets, while monetary funds and other assets (including impairment allowances, property and equipment, intangible assets, other receivables and prepayments) contributed 14% and 7% respectively.

Monetary funds

At the end of 2007, monetary funds (amounts due from the Central Bank and other banks) totalled 368 million kroons, up 161% year-over-year, including funds with the Central Bank of 301 million kroons. At the year-end, the mandatory reserve with the Central Bank stood at 275.569 million kroons against 71.646 million kroons at the end of 2006. The mandatory reserve accounts for 15% of liabilities except for liabilities to Estonian credit institutions.

Loan portfolio

The loan portfolio continued growing throughout 2007 – the net loan portfolio expanding by 1,095 million kroons to 2,087 million kroons.

The loan portfolio broke down as follows:

Estonia 1,213.989 million kroons (55.8%)

Latvia 901.591 million kroons (41.4%)

Lithuania 60.935 million kroons (2.8%).

At the end of 2007, the number of active loan agreements was 109 thousand, including 46 thousand in Estonia, 60 thousand in Latvia and 3 thousand in Lithuania. At the year-end, the average loan amount was 20 thousand kroons.

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Overdue loans and impairment allowances

Balti Investeeringute Grupi Pank AS is the only bank in the region that is focused on the provision of consumer finance only. In line with the corporate strategy, at 31 December 2007 loans against income accounted for 72.5% of the loan portfolio compared with 57.8% at the end of 2006.

The past years' changes in the structure of the loan portfolio have not caused any major changes in the customers' settlement behaviour – the proportion of non-performing loans to the total number of loans issued per month has remained stable or even declined. However, the collection of non-performing consumer loans differs significantly from the collection of loans secured with physical collateral (e.g. mortgage of real estate).

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 smaller 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 serviced through execution proceedings.

Overdue loans comprise overdue loan principal. Under the terms of the loan agreement signed with the customer, the Group may terminate 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 balance, any accrued interest, and any collateral claims resulting from the settlement delay.

At 31 December 2007, loans overdue for more than 180 days totalled 305 million kroons. The proportion of loans overdue for more than 180 days under which payments had been made during the preceding 6 months was 63 million kroons, i.e. 20.6%. Not all loans overdue for more than 180 days have reached the ruling stage. Accordingly, in a later stage, the volume of loans serviced through execution proceedings will increase even further.

The Group's historical recovery rate for non-performing loans is extremely high and in clear correlation with the duration of the collection proceedings. For example, in the case of loans whose collection proceedings had lasted for at least two years, only about one tenth of the initial balance was still outstanding at 31 December 2007. As the collection proceedings have not been completed, the expected proportion of fully recovered loans is even higher. The Group's strong track record in this area is supported by two significant risk management measures:

- BIG grants loans to individuals. Although the solvency of individuals may deteriorate temporarily it does not usually disappear completely. In an environment characterised by a low overall debt burden and a legal system that provides for sophisticated and effective collection proceedings such as Estonia or the Baltic countries, recovery of the overdue debts of individuals is a matter of the right time horizon rather than potential non-recovery.
- BIG's loan portfolio is well dispersed – at 31 December 2007 the average loan amount was 20 thousand kroons while 40 largest loans accounted for 3.86% of the total loan portfolio.

To hedge the risks arising from customers' settlement behaviour and to cover potential credit losses, the Group has made appropriate allowances for impairment which at 31 December 2007 totalled 102.916 million kroons, i.e. 4.7% of the loan portfolio. The allowances have been made on a conservative basis.

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Liabilities

In 2007, BIG's liabilities grew 2.4 times. The largest portion of external finance, i.e. 1,598 million kroons, was raised by issuing debt securities which at the year-end accounted for 74% of consolidated liabilities. The growth in debt financing results from bond issues arranged for institutional investors.

In the framework of a bond program aimed at international markets, the Group arranged three issues with a total volume of 1,294 million kroons (82.7 million euros). The redemption date of the bonds is 31 March 2011. The securities were issued in euros and carry quarterly coupon payments. Annual yield is 3 months' EURIBOR + 7.5%. The Group has an option for early redemption from the second year onwards.

The above issues were the first in which the Group raised funds in an international debt securities market. The purpose was to obtain long-term financing for expansion and to extend the term of financing.

Transfer of the bonds is not restricted by the law, BIG's Articles of Association or issue terms. Nor do the bonds set any mandatory terms for the holder. BIG is not aware of any agreements between bondholders which might restrict the transfer of the bonds and has not entered into any agreements with bondholders which might restrict the transfer of the bonds.

Term deposits from customers increased substantially, amounting to 181 million kroons at the year-end, up 43% on 2006.

At the end of 2007, amounts due to credit institutions totalled 150 million kroons, accounting for 7% of consolidated liabilities.

Subordinated liabilities amounted to 170 million kroons, i.e. 7.9% of total liabilities.

Equity

The Group's year-end equity amounted to 472 million kroons, a 52% improvement on the 312 million kroons measured at the end of 2006. The Group's capital adequacy ratio was 20.5%, surpassing the required level (10%) more than two-fold. At 31 December 2007, tier 1 and tier 2 capital totalled 584.29 million kroons, accounting for 22.3% of the balance sheet total.

Results of operation

Interest income

Interest income for 2007 rose to 574.381 million kroons, more than two-fold growth on the prior year. The yield on interest earning assets was 31.06% and the ratio of total income to interest-earning assets 34.25%.

Interest expense

Interest expense increased from 27.488 million kroons for 2006 to 149.451 million kroons on account of significant growth in debt financing (instigated by growth in the loan portfolio, transfers to the reserve with Central Bank and the need to maintain sufficient liquid funds). The rise in debt financing may also be attributed to changes in markets – if previously funds were raised mainly in the Estonian financial market, then in 2007 the Group entered international markets.

In 2007, international markets were highly volatile and influenced by their assessment of the Baltic macroeconomic environment and the banking sector in general. Due to the combined effect of the above factors, the growth in debt financing was accompanied by a rise in the cost of financing. We expect the cost of financing to decline in subsequent periods (thanks to continuing growth in operating volumes, the Group's better recognition in financial markets, and a credit rating).

The ratio of interest expense to interest income was 26%.

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Administrative expenses

Administrative expenses for 2007 increased to 117.199 million kroons, mostly in connection with the penetration of the Lithuanian market and significant expansion in the development and control functions.

Gross salaries for 2007 totalled 69.596 million kroons.

Net impairment loss on loans and interest receivables

The allowance for impairment of loans and interest receivables was increased by 84.348 million kroons against 15.338 for 2006. Allowances for impairment are made on a conservative basis.

Other operating income and expenses

Other operating income for 2007 amounted to 54.412 million kroons, a 2.1-fold rise year-over-year. The largest item was income from collection proceedings.

Other operating expenses (including contributions to the Deposit Guarantee Fund, health care expenses and fringe benefit charges) totalled 5.442 million kroons.

Profit

Balti Investeeringute Grupi Pank AS ended 2007 with a consolidated profit of 177.275 million kroons, a 2% improvement on 2006. The period's profitability was affected by notable growth in interest expense, an increase in impairment allowances for loans, and investments made and expenses incurred in connection with launch of operations in the Lithuanian market.

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NOTE 1. CORPORATE GOVERNANCE REPORT FOR 2007

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 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.

BIG 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 BIG and the provisions of CGR which are not complied with together with relevant explanations. The majority of provisions that are not complied with concern BIG's shareholder structure and related issues.

Balti Investeeringute Grupi Pank AS

Balti Investeeringute Grupi Pank AS was established on 22 September 1992. A credit institution licence was obtained on 27 September 2005. BIG specializes in the provision of consumer credit.

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

Balti Investeeringute Grupi Pank AS is a parent of a group consisting of Balti Investeeringute Grupi Pank AS and its wholly-owned subsidiaries AS Baltijas Izaugsmes Grupa and OÜ Rüütli Majad. In addition, in 2007 a branch was opened in Lithuania. AS Baltijas Izaugsmes Grupa provides services similar to those of the parent in the Latvian consumer credit market and the Lithuanian branch provides similar services in the Lithuanian consumer credit market. The core activity of OÜ Rüütli Majad is management of real estate required for BIG's operation in the Estonian market.

The shares in BIG are equally divided between two individuals:

- Parvel Pruunsild 50%
- Vahur Voll 50%

The following bonds issued by BIG are listed on the Tallinn Stock Exchange:

- Bond issue - ISIN code EE3300082940, short name BIGB046008A, issue size 78.551 million Estonian kroons, redemption date 15 June 2008.
- Bond issue - ISIN code EE3300086271, short name BIGB072508AB, issue size 4.1 million Latvian lats, redemption date 23 May 2008.

The following bonds issued by BIG are listed on the Stockholm Stock Exchange:

- Bond issue - ISIN code SE0001993148, issue size 82.75 million euros, redemption date 31 March 2011.

General meeting

The annual general meeting which convened on 16 April 2007, passed motions on the following agenda items:

- Approval of the annual report for 2006
- Appointment of an auditor for the 2007 financial year
- Election of members to the supervisory board

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

On 8 May 2007, an extraordinary general meeting resolved to amend the entity's Articles of Association and approved the Corporate Governance Recommendations in line with the

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requirements of the Tallinn Stock Exchange. A general meeting which convened on 30 May 2007 made additional amendments to the Articles of Association. The amendments were of a technical nature and instigated by the need to bring the Articles of Association up to date with effective legislation. The revised Articles of Association were registered at the Commercial Register on 28 June 2007. The current Articles of Association are available on BIG's corporate website at www.big.ee and on the website of the Tallinn Stock Exchange at www.hex.ee.

BIG does not comply with the provisions of CGR which suggest that the 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 website (Article 1.2.3) and the proposals of the supervisory board regarding agenda items should be published on the website (Article 1.2.4). In 2007, BIG did not comply with this part of Article 1.3.1 which provides that the chairman of the supervisory board should not be elected to chair the general meeting. Nor was the general meeting attended by all members of the management board, the auditor and the members of the supervisory board who are not shareholders (Article 1.3.2). BIG does not make participation in the general meeting possible by means of communication equipment (Article 1.3.3) and does not discuss the allocation of profit as a separate agenda item (Article 1.3.4).

The above provisions are not appropriate for an entity that has only two shareholders. Investors are notified of a general meeting and the resolutions adopted using the stock exchange information system.

Management board

The management board of Balti Investeeringute Grupi Pank AS has three members (according to the Articles of Association the number may range from 3 to 5):

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

On 17 July 2007, the supervisory board resolved to appoint to the management board Head of Sales and Marketing Kaido Saar, effective from 1 August 2007. The former member of the management board Eero Varkki continues as the entity's Head of Management Accounting

The activities of the management board are regulated, among other things, by the Credit Institutions Act which imposes requirements on members of the management board and the arrangement of the internal audit, risk management and reporting functions. The election of members of the management board has to be agreed with the Financial Supervision Authority. Pursuant to the Commercial Code and the entity's Articles of Association, the entity may be represented by each member of the management board acting alone.

The management board acts in the best interests of the entity, the shareholders and the creditors and is guided by those interests in arranging the entity's risk management, internal audits and work procedure. Members of the management board exercise control over the subsidiaries' activities (as chairmen and members of the subsidiaries' supervisory boards).

In 2007, BIG did not comply with Article 2.2.7 of CGR, which provides that the benefits and bonus schemes of a member of the management board should be published on the website and in the corporate governance report and the principles of remunerating members of the management board should be explained to the general meeting.

BIG has regularly published the aggregate remuneration of members of the management board in its annual report. The figure for 2007 was 3.544 million kroons including relevant taxes. The information cannot be presented in greater detail owing to the confidentiality of the service agreements.

Supervisory board

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

- Parvel Pruunsild – Chairman
- Vahur Voll – Member

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- 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 16 April 2007 and in 2007 the membership of the supervisory board did not change.

The activities of the supervisory board are regulated, among other things, by the Credit Institutions Act which imposes requirements on the 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 election of members of the supervisory board has to be agreed with the Financial Supervision Authority.

In 2007, the remuneration of members of the supervisory board totalled 0.883 million kroons. The entity does not deem it necessary to provide more detailed information on the remuneration of members of the supervisory board because the effect of the remuneration on the entity's financial performance is not significant (CGR Article 3.2.5).

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 BIG's supervisory board are shareholders (Parvel Pruunsild and Vahur Voll) who each hold 50% of the entity's shares. Linda Terras is indirectly connected with BIG through OÜ Edelatuulik Invest which has entered into deposit agreements with BIG. At 31 December 2007, the total amount of the deposits was 6 million kroons and the terms and conditions of the deposits did not differ from those offered to similar depositors. Other members of the supervisory board (Meelis Luht and Juhani Jaeger) have no connection with the entity except for the remuneration received for their work on the board.

Disclosure of information
In accordance with the rules of the Tallinn Stock Exchange, BIG first publishes all significant and price sensitive information through 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 made available on the entity's website (CGR Article 5.6).

BIG does not deem it necessary to publish information on 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).

Reporting
BIG does not observe this part of CGR Article 6.1.1 which provides that the auditor should attend the meeting of the supervisory board which reviews the annual report. Cooperation between the supervisory and management boards is close and the boards discuss, among other things, matters arising in connection with the audit. Moreover, in 2007 also quarterly reports were audited which ensured tight cooperation 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. 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.

In 2007, auditors of the entity were Taivo Epner and Eero Kaup from KPMG. Quarterly and semi-annual reports were audited also by Maret Tambek. CGR Article 6.2.3 provides that auditors should be rotated every five years. KPMG has been the entity's auditor since the year 2000. In 2007, the audit manager changed. Currently the audit manager is Eero Kaup.

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

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Control functions

In addition to management, financial accounting, and supervision reporting systems and risk management procedures in place, the entity has established an internal audit department, a credit committee, an Asset/Liability Management Committee (ALCO) and an IT committee. In 2007, several additional controllers' positions were created in the credit, sales and financial departments.

The internal audit department has a staff of two and is accountable to the supervisory board which determines the department's audit plan.

The credit committee has been composed on the basis of the supervisory and management boards and the executive management, and has five members. The credit committee adopts the entity's credit policy and approves major loans.

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 Group's IT strategy; approving IT action plans and projects and monitoring their implementation; establishing priorities; approving the IT budget; and coordinating the Group's IT and business functions.

STATEMENT

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

Targo Raus　　Veiko Kandla　　Kaido Saar

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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 Balti Investeeringute Grupi Pank AS as at and for the year ended 31 December 2007 set out on pages 16 to 60 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 results of operation of Balti Investeeringute Grupi Pank AS Group.
- All significant events that occurred until the date on which the financial statements were authorised for issue (29 February 2008) have been properly recognised and disclosed.
- Balti Investeeringute Grupi Pank AS and its subsidiaries are going concerns.

	Date	Signature
Targo Raus Chairman of Management Board	29 February 2008	
Kaido Saar Member of Management Board	29 February 2008	
Veiko Kandla Member of Management Board	29 February 2008	

Initialled for identification purposes only
Date 29.02.2008
KPMG, Tallinn

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CONSOLIDATED BALANCE SHEET

As at 31 December (In millions of kroons)	Note	2007	2006
Assets			
Cash		0.007	0.005
Due from Central Bank	4	300.873	96.186
Due from banks		67.351	44.728
Loans to customers	5, 6, 7	2,198.821	1,035.223
Other receivables and prepayments	8	12.235	5.022
Investment property	9	-	5.358
Intangible assets	10	7.816	6.388
Property and equipment	11	31.306	18.087
Other assets		1.717	-
Total assets		**2,620.126**	**1,210.997**
Liabilities			
Loans from banks	12	150.136	159.250
Deposits from customers	13	183.876	128.362
Other liabilities and deferred income	14	33.108	14.680
Debt securities issued	15	1,610.427	488.872
Subordinated liabilities	15	170.130	108.030
Total liabilities		**2,147.677**	**899.194**
Equity	33		
Share capital		80.000	80.000
Capital reserve		8.000	4.000
Translation reserve		5.474	0.437
Retained earnings		201.700	53.537
Profit for the period		177.275	173.829
Total equity		**472.449**	**311.803**
Total liabilities and equity		**2,620.126**	**1,210.997**

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CONSOLIDATED INCOME STATEMENT

(In millions of kroons)	**Note**	**2007**	**2006**
Interest income	16	574.381	280.921
Interest expense	17	149.451	27.488
Net interest income		**424.930**	**253.433**
Net fees and commissions		-0.273	-0.039
Net gain/loss on financial transactions	18	-3.679	-0.252
Other operating income	19	54.412	25.822
Total income		**475.390**	**278.964**
Salaries		69.596	31.977
Administrative expenses	20	117.199	39.801
Depreciation and amortisation	9, 10, 11	5.803	2.668
Net impairment loss on loans and interest receivables	7	84.348	15.338
Other operating expenses	21	5.442	10.777
Total operating expenses		**282.388**	**100.561**
Profit before income tax		**193.002**	**178.403**
Income tax expense	28	15.727	4.574
Profit for the period		**177.275**	**173.829**

Basic earnings per share (EEK)	32	**2,216**	**2,173**
Diluted earnings per share (EEK)	32	**2,216**	**2,173**

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CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions of kroons)	2007	2006
Cash flows from operating activities		
Interest received	466.265	238.880
Interest paid	-134.283	-21.336
Administrative expenses paid (including salaries)	-176.596	-68.725
Other operating income received	43.284	21.604
Other operating expenses paid	-7.007	-10.618
Reversal of impairment losses	0.154	0.457
Proceeds from sale of other assets	-	0.109
Loans granted	-1,776.990	-886.841
Repayment of loans granted	644.848	360.378
Change in mandatory reserve with Central Bank	-203.923	-39.943
Proceeds from customer deposits	196.392	116.664
Paid on redemption of deposits	-152.950	-13.032
Income tax paid	-8.790	-1.523
Effect of changes in exchange rates	-3.718	-
Net cash used in operating activities	**-1,113.314**	**-303.926**

Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-15.963	-9.361
Proceeds from sale of property and equipment	-	0.135
Change in investment portfolio (securities)	-	0.006
Purchase of securities	-28.655	-
Proceeds from sale of securities	28.655	-
Net cash used in investing activities	**-15.963**	**-9.220**

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(In millions of kroons)	2007	2006
Cash flows from financing activities		
Proceeds from debt securities issued	1,387.755	330.046
Paid on redemption of debt securities	-268.366	-123.335
Proceeds from subordinated debt securities issued	67.696	108.003
Paid on redemption of subordinated debt securities	-5.658	-
Proceeds from loans from banks	210.000	350.751
Repayment of loans from banks	-219.115	-299.348
Repayment of other loans	-	-1.454
Dividends paid	-22.000	-7.500
Net cash from financing activities	**1,150.312**	**357.163**
Effect of exchange rate fluctuations related to foreign subsidiary	2.354	-0.881
Increase in cash and cash equivalents	23.389	43.136
Cash and cash equivalents at beginning of period	69.273	26.137
Cash and cash equivalents at end of period	**92.662**	**69.273**

(In millions of kroons)	2007	2006
Cash and cash equivalents at end of period		
Cash	0.007	0.005
Demand and overnight deposits with banks	67.351	44.728
Surplus on mandatory reserve with Central Bank	25.304	24.540
Total	**92.662**	**69.273**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December (In millions of kroons)	2007	2006
Share capital		
Balance at beginning of period	80.000	80.000
Balance at end of period	**80.000**	**80.000**
Capital reserve		
Balance at beginning of period	4.000	0.718
Transfer	4.000	3.282
Balance at end of period	**8.000**	**4.000**
Translation reserve		
Balance at beginning of period	0.437	0.025
Change	5.037	0.412
Balance at end of period	**5.474**	**0.437**
Retained earnings		
Balance at beginning of period	227.366	64.327
Profit for the period	177.275	173.829
Transfer to capital reserve	-4.000	-3.282
Dividend distribution	-22.000	-7.500
Change in translation reserve	0.334	-0.008
Balance at end of period	**378.975**	**227.366**
Total equity	**472.449**	**311.803**

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NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Balti Investeeringute Grupi Pank AS is a company holding an activity licence of a credit institution registered in Estonia. The consolidated financial statements as at and for the year ended 31 December 2007 comprise Balti Investeeringute Grupi Pank AS (also referred to as the "parent company") and its subsidiaries AS Baltijas Izaugsmes Grupa and OÜ Rüütli Majad (together referred to as the "Group").

The consolidated financial statements as at and for the year ended 31 December 2007 were signed by the management board on 29 February 2008.

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

The consolidated financial statements as at and for the year ended 31 December 2007 are available at BIG's office at Rüütli 23 in Tartu and on the corporate website at www.big.ee.

Changes in presentation practice

For clearer presentation of the financial position and results of operation of the Group and the parent company, in 2007 the balance sheet and income statement formats were changed.

The new balance sheet format does not include the line *Allowance for credit losses*. The amount recognised on that line in the consolidated balance sheet as of 31 December 2006 (-20.819 million kroons) has been transferred to the line *Loans to customers*. Nor does the new balance sheet format include the line *Accrued income and prepaid expenses*. Interest receivables (44.292 million kroons) and impairment allowances for interest receivables (-0.763 million kroons) recognised on that line in the consolidated balance sheet as of 31 December 2006 have been transferred to the line *Loans to customers*. The remainder of *Accrued income and prepaid expenses* (5.022 million kroons) has been transferred to the line *Other receivables and prepayments*.

In the new format, the balance sheet item *Deposits from customers* includes deposits with accrued interest liabilities and the item *Debt securities issued* includes debt securities with accrued interest liabilities. The line *Accrued expenses and deferred income* is no longer used. In the balance sheet as of 31 December 2006, the interest accrued on deposits (1.392 million kroons) has been transferred from *Accrued expenses and deferred income* to *Deposits from customers* and the interest accrued on debt securities (7.185 million kroons) has been transferred to *Debt securities issued*. The remainder of *Accrued expenses and deferred income* in the consolidated balance sheet as of 31 December 2006 (13.529 million kroons) and the items reported in *Other liabilities* (1.151 million kroons) have been transferred to the line *Other liabilities and deferred income*.

In the income statement, fee and commission income and fee and commission expense are no longer reported separately. Only the net amount is presented in *Net fees and commissions*. *Other operating income* has been moved next to other items of income and the income statement has been supplemented with the line *Total income*.

In the new format, salaries are presented together with social charges. Thus, in the consolidated income statement for 2006 salaries of 24.415 million kroons and social charges of 7.562 million kroons have been combined and presented in an aggregate amount of 31.977 million kroons in *Salaries*.

In the new income statement format, the line *Other administrative expenses* has been renamed *Administrative expenses*.

In addition, the income statement has been supplemented with the line *Total operating expenses*.

In connection with changes in presentation practice, the parent company's balance sheet as of 31 December 2006 has been changed as follows:

- The *Allowance for credit losses* of -17.000 million kroons and interest receivables of 38.246 million kroons and impairment losses on interest receivables of -0.763 million kroons

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recognised in *Accrued income and prepaid expenses* have been transferred to *Loans to customers*. The remainder of *Accrued income and prepaid expenses* of 4.259 million kroons has been transferred to *Other receivables and prepayments*.

- Interest accrued on deposits (1.391 million kroons) and interest accrued on debt securities (7.185 million kroons) have been transferred from *Accrued expenses and deferred income* to *Deposits from customers* and *Debt securities issued* respectively. The remainder of *Accrued expenses and deferred income* of 6.885 million kroons has been recognised in *Other liabilities and deferred income*.

In the parent company's income statement for 2006, social charges of 6.291 million kroons have been combined with salaries so that the total figure for *Salaries* is 25.221 million kroons.

For fairer presentation of information in the consolidated income statement and the parent company's unconsolidated income statement, comparative information on 2006 has been adjusted as follows:

- Interest received from banks of 0.105 million kroons has been transferred from *Other operating income* to *Interest income*.
- The costs incurred in connection with the issue of debt securities of 0.736 million kroons have been transferred from *Administrative expenses* (in the old format *Other administrative expenses*) to *Interest expense*.

In the consolidated statement of cash flows and the parent company's unconsolidated statement of cash flows, the lines *Proceeds from debt securities issued* (330.046 million kroons in 2006) and *Paid on redemption of debt securities* (123.335 million kroons in 2006) have been transferred from cash flows from operating activities to cash flows from financing activities.

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 preparation

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

In accordance with the Estonian Accounting Act, the parent company's unconsolidated primary financial statements (balance sheet, income statement, statement of cash flows and statement of changes in equity) have to be disclosed in the notes to the consolidated financial statements. The unconsolidated primary financial statements of Balti Investeeringute Grupi Pank AS are presented in note 34 *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.

Significant estimates and judgements made by management

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, 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 carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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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 5).

Consolidation

Subsidiaries

Subsidiaries are entities controlled by the parent company. Control exists when the parent company 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 in 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 exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Estonian kroons at the Eesti Pank foreign exchange rate 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.

Offsetting

Financial assets and 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.

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 in 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 stated at their amortised cost.

Financial assets and liabilities

Financial assets comprise cash, short-term financial investments, loans to credit institutions and customers, other receivables and accrued income. Financial liabilities comprise deposits from customers, liabilities arising from securities, accrued expenses and other liabilities.

A financial asset or 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.

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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. A financial liability is removed from the balance sheet when it is discharged or cancelled or expires.

Purchases and sales of financial assets are consistently recognised at the settlement date, i.e. at the date the assets are transferred to or by the Group.

Investments in debt securities and equity instruments

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 market price at the balance sheet date.

Loans to customers

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 measured and assessed for impairment on a collective and a specific asset level.

- Impairment assessment on a collective level
  - An impairment allowance for a group of loans which is assessed for impairment collectively 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 which is assigned to the group.
  - The credit committee reviews the principles underlying the establishment of collective 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 groups which are assessed for impairment collectively. Instead, they are established specific allowances.
- Impairment assessment on a specific asset level
  - Loans which exceed 65,000 euros (i.e. 1,000,000 kroons or 45,000 lats or 220,000 litas) and loans which have been classified as non-performing are assessed for impairment on a specific asset (individual) level.
  - A specific impairment allowance is calculated as the difference between the nominal carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's effective interest rate. The cash flows of a loan which 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 which is assigned to the underlying loan.
- Non-performing loans
  - A non-performing loan is a loan in respect of which BIG 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.

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- 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 collective impairment allowance for the category of loans.
- The general impairment rate applied to non-performing loans during a quarter is found based on the collective 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 reliably estimated 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 which 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*.

Non-current financial investments
Investments are classified as non-current items if they mature within more than one year or the Group intends to hold them for an extended period (investments in subsidiaries). Non-current investments in subsidiaries are recognised in the parent company's balance sheet at cost or at fair value if the latter can be measured reliably. Changes in the carrying amounts of investments in subsidiaries and gains on the sale of shares in subsidiaries are recognised in the income statement in *Net gain/loss on financial transactions*.

Debt securities issued and deposits
The principal of debt securities and deposits is carried in the balance sheet 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.

In the case of simple-interest debt securities and deposits, the first interest payment is made on the first regular payment date. In the case of compound-interest or discounted debt securities and deposits, interest is paid upon redemption. In the case of simple-interest deposits and debt securities, interest is calculated and paid out once a month at a fixed date or at the dates agreed in the agreement. Interest is calculated on the nominal value of the debt security or deposit.

In the case of compound-interest debt securities and deposits, the current month's interest is calculated on the nominal value of the security or deposit plus the interest accrued on it in the preceding months. In the case of discounted debt securities and deposits, interest is calculated on a monthly basis, based on the difference between the purchase and sales price of the item and the term of the security or deposit.

Subordinated liabilities
Subordinated liabilities 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.

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Investment property

Investment property is property held by the Group as the owner or the lessee under a finance lease to earn rentals or for capital appreciation or both. An investment property is initially measured at its cost. Transaction costs are included in the initial measurement.

Subsequent to initial recognition, investment property is accounted for by applying the cost model, which means that after recognition investment property is carried at its cost less any accumulated depreciation and any impairment losses. Investment property is depreciated using the same depreciation methods and depreciation rates as those assigned to items of property and equipment. Subsequent expenditure relating to an investment property is added to the carrying amount of the property only when it increases the value of the property above its originally assessed value. Expenditures aimed at maintaining the initial value of investment property are recognised as an expense in the period in which they are incurred.

An investment property is reclassified when the purpose of its holding changes. When an investment property is transferred to another category of assets, it is accounted for using the accounting policies applied to that category of assets as of the date it is transferred.

Property and equipment

Items of property and equipment are carried at cost less any accumulated depreciation and any impairment losses. Assets are recognised as items of property and equipment if they are used in the Group's business, if they are individually significant and if 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. Land is not depreciated. The estimated useful lives are as follows:

Asset group	**Useful life**
Land and works of art	are not depreciated
Buildings	25 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 from the implementation of the asset.

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

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recoverable amount is identified. The recoverable amount is the higher of the asset's fair value (less costs to sell) and value in use which 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 recognised as a finance lease. Other leases are treated as operating leases.

The Group as a lessor

Assets leased out under the terms of finance lease are recognised in the balance sheet and presented as a receivable at an amount equal to the net investment in the lease. Lease payments receivable are divided into principal repayments and finance income. Finance income is recognised over the lease term.

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

Finance leases for assets acquired are carried as assets and liabilities at amounts equal to the fair value of the leased property. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognised over the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Other assets

Other assets comprise items of immovable and movable property which 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 instruments of delivery and receipt issued by bailiffs and the cost of an item equals 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 realised other assets is assigned using individual costing.

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 which is used to discount the estimated future cash flows of the asset or liability.

Other income

In the event of non-performance or unsatisfactory performance of the obligations provided in the loan agreement, Group companies may charge the debtor interest on arrears for each day of delay in satisfactory performance.

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Revenue from the sale of goods and the rendering of services 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 is recognised when the right to receive payment is established.

Corporate income tax

In 2007, the income of Group entities was subject to the following tax rates:

Balti Investeeringute Grupi Pank AS (the parent company, Estonia) and OÜ Ruutli Majad (Estonia) – 0%; SIA Baltijas Izaugsmes Grupa (Latvia) – 15%; Balti Investeeringute Grupi Pank AS (Lithuanian branch) - 18% (from 1 January 2008 – 15%).

In accordance with the effective Estonian Income Tax Act, only this portion of profit which is distributed as dividends is subject to income tax. The tax rate is 22/78 (from 1 January 2008 - 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 for which the dividends are declared or in which they are paid.

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 statement, deferred tax liabilities are recognised in the balance sheet in the *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/loss 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/loss 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 which 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, which 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 standards adopted during the financial year

The Group has adopted as of 1 January 2007 the following new and revised International Financial Reporting Standards:

- IFRS 7 Financial Instruments: Disclosures
- IAS 17 Leases (revised in 2005)
- IAS 33 Earnings per Share (revised in 2005)

and has increased its disclosures as of 31 December 2007 and 31 December 2006 accordingly. The adoption of the new and revised standards did not have any impact on the Group's results of operation and financial position as of 31 December 2007 and 31 December 2006.

New standards and interpretations not yet adopted

To date, a number of new standards, amendments to standards and interpretations have been issued which are not yet effective [IAS 8.30(a)] but will be mandatory for the Group in annual periods beginning on or after 1 January 2008. The following is management's assessment of the impact these new standards, amendments and interpretations may have on the Group's financial statements in the period of initial application.

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- Revised IFRS 2 Share-based Payment (effective from 1 January 2009). Revised IFRS 2 is not relevant to the Group's operations 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 revised standard does not have to be applied to business combinations before its effective date. Therefore, the revised standard does not have any impact on the financial statements of business combinations originating before the effective date of the revised standard.
- IFRS 8 Operating Segments (effective from 1 January 2009). The standard requires segment disclosure based on the components of the Group that management monitors in making decisions about operating matters. The Group has not yet completed its analysis of the impact of the revised standard.
- Revised IAS 1 Presentation of Financial Statements (effective from 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. The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- Revised IAS 23 Borrowing Costs (effective from 1 January 2009). Revised IAS 23 is not relevant to the Group's operations as the Group does not have any qualifying assets for which borrowing costs would be capitalised.
- Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). 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.
- IFRIC 11 IFRS 2 – Company and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 is not relevant to the Group's operations as the Group has not entered into any share-based payments arrangements.
- IFRIC 12 Service Concession Arrangements (effective from 1 January 2008). IFRIC 12 is not relevant to the Group's operations as none of the Group entities have entered into any service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). The Group management does not expect the interpretation to have any impact on the consolidated financial statements.
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions (effective for annual periods beginning on or after 1 January 2008). The Group does not operate in countries that have a minimum funding requirement where there are restrictions on the employer company's ability to get refunds or reduce contributions.

NOTE 2. RISK MANAGEMENT

General risk management principles and methods

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

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

The supervisory board defines the Group's general risk management principles which serve as risk taking and management guidelines. 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. All risk management policies and procedures are reviewed on a regular basis and updated whenever necessary.

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

The objective of risk management is to ensure an optimum risk-benefit ratio and to maintain steady profitability and continuity of operations.

Risks are identified before a business decision is adopted. Risks are taken only in areas which are familiar and have yielded positive experience and certain achievements.

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

The Group avoids taking risks in transactions which are open 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.

Adherence to general risk management principles and methods and the application of relevant controls is monitored by the Group's internal audit unit.

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. The Group applies the following credit policy and credit risk management principles.

- Overall credit risk management is the responsibility of the Group's management board and Credit Committee. 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.
- To avoid significant risk exposure, the Group provides mainly small and medium-sized loans. The Group may also grant large loans if sufficient collateral is provided and other relevant requirements are met, but at no time may the total liabilities of the borrower and the parties related to the borrower exceed 10% of the Group's net own funds.
- At 31 December 2007, the Group did not have any customers with high risk exposure, i.e. customers whose liability would have exceeded 10% of the Group's net own funds.
- 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 which might cause the Group's claims against the borrower not to be satisfied and consequently the Group to incur a financial loss. Credit analyses are conducted on the basis of and in accordance with the procedure established 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.
- Loans are granted and managed in accordance with documented rules of procedure which are established by the management board and are mandatory for all employees and

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structural units involved in credit management. The management board arranges relevant basic and further training.

- The management board appoints employees or units responsible for credit control who monitor adherence to credit management rules and, if necessary, make proposals to the management board for the amendment and revision of those rules.
- The management board arranges the monitoring of both individual loans and the overall loan portfolio on an ongoing basis. On monitoring individual loans, the Group reviews the discharge of the borrower's obligations (making of payments, insurance, re-registration of the right of security to a mortgage, etc.) under effective loan and collateral agreements throughout the loan term. 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 payments) and the maturity structure of the loan portfolio and liabilities. The Group uses the information thus obtained for classifying loans, determining the carrying amount of receivables and making management decisions
- Requirements to collateral depend on the amount of the loan. As a rule, large loans have to be secured with physical collateral (mortgage of immovable property). Smaller loans may be secured with surety agreements, the borrower's cash flows or assets. The Group does not finance business plans or routine business operations. The sufficiency and value of immovable property or other collateral is determined on the basis of the asset's current value considering the changes in value which 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 deals actively with the management of overdue loans, applying measures which correspond to the gravity of the breach of contract (e.g. oral and written reminders, extraordinary cancellation, collection procedures, litigation, or execution 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 intends and is able to perform contractual obligations in a satisfactory manner. The changes to original credit terms and conditions may not have an adverse impact on the initially estimated profitability of the loan.
- The Group's credit policy and principles applied on analysing and granting credit are reviewed on an ongoing basis and updated to reflect changes in the economic environment and settlement discipline.
- To cover the risk of impairment of loans, the Group establishes impairment allowances. The principles of establishing impairment allowances are described in note 1 and further information on impairment allowances is provided in note 7.

The loan portfolio continued growing throughout 2007 – the net loan portfolio expanded by 1,095 million kroons to 2,087 million kroons.

Balti Investeeringute Grupi Pank AS is the only bank in the region that is focused on the provision of consumer finance. In line with the corporate strategy, at 31 December 2007 loans against income accounted for 72.5% of the loan portfolio compared with 57.8% at the end of 2006.

The past years' changes in the structure of the loan portfolio have not caused any major changes in the customers' settlement behaviour – the proportion of non-performing loans to the total number of loans issued per month has remained stable or even declined. However, the collection of non-performing consumer loans differs significantly from the collection of loans secured with physical collateral (e.g. mortgage of real estate). Non-performing consumer loans are not satisfied in a lump sum but over an extended period in smaller instalments. If a loan is being collected with the assistance of bailiffs, the Group recognises the loan as a non-performing item regardless of the positive cash flow. As a result, the time required for collection proceedings increases the proportion of non-performing loans cumulatively although the actual settlement behaviour does not deteriorate. Nor does a longer collection period generally refer to significant changes in the anticipated profitability of the loan because in addition to the loan amount, the customer has to settle all collateral claims associated with collection proceedings.

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, in the case of loans whose collection proceedings had lasted for at least two years, only about one tenth of the initial balance of the non-performing loans was still outstanding at 31 December 2007. As the collection proceedings have not been completed, the expected proportion of fully recovered loans is even higher. The Group's strong track record in this area is supported by two significant risk management measures:

- The Group provides loans to individuals. Although the solvency of individuals may deteriorate temporarily it cannot 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, recovery of the overdue debts of individuals is a matter of the right time horizon rather than potential non-recovery.
- The Group's loan portfolio is well dispersed – at 31 December 2007 the average loan amount was 20 thousand kroons while 40 largest loans accounted for 3.86% of the total loan portfolio.

To hedge the risks arising from customers' settlement behaviour and to cover potential credit losses, the Group has made appropriate allowances for impairment which at 31 December 2007 totalled 102.916 million kroons, i.e. 4.7% of the loan portfolio. The allowances have been made on a conservative basis.

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

Interest rate risk
The Group grants loans which have generally a fixed interest rate. At the same time, a significant portion of the Group's financing is raised through instruments with a floating interest rate (EURIBOR). The Group performs regular stress tests to evaluate the interest rate risk. A 1% change in the rate of EURIBOR would have a 15.8 million kroon impact on the interest expense of the next financial year (based on liabilities as at 31 December 2007). Further information on the evaluation of the interest rate risk is presented in note 23.

Currency risk
The Group's loan portfolio is comprised of loans issued in the currencies of the region in which the Group operates (EEK, LVL, LTL) and in euros. Estonia, Latvia and Lithuania have joined the ERM 2 mechanism. Therefore, the risk of exchange rate fluctuations is insignificant.

The risk of devaluation is hedged by the above countries' currency board systems and the devaluation clause included in the Group's loan agreements. In addition, in Latvia the currency of loans issued is euro.

Open currency positions are presented in note 24.

Liquidity risk and financing risk
The Group's liquidity risk is managed using the following principles.

- The objective of liquidity risk management is to ensure that the Group will always have sufficient funds for its operation, both in the short and long term perspective, and to ensure that the Group can meet its existing commitments both under normal and stressed circumstances.
- The guiding principle in liquidity planning is that no claim against the Group, which will or may fall due, considering all available sources of funding and restrictions to issuance of loans, may cause a lack of liquidity.
- The Group monitors the temporal distribution of receivables and liabilities on an ongoing basis and establishes limits to the maximum allowed differences between receivables and liabilities over a certain period.

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- The Group maintains sufficient liquidity reserves. Liquid assets are held with the Central Bank and invested in money market and liquidity funds, term deposits and corporate bonds.
- The Group uses diversified sources of financing.

The liquidity and financing risk management process involves

- Forecasting of future cash flows
- Forecasting of liquidity ratios
- Forecasting of financing ratios
- Performance of stress tests and scenario analysis
- Adoption and observance of a liquidity management plan

The Group uses mainly the following sources of financing:

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

As a rule, liquid assets are held with the Central Bank and invested in money market and liquidity funds, term deposits and corporate bonds. In the case of corporate bonds, the Group prefers instruments which can be held to maturity.

The size of the Group's loan portfolio is relatively stable and not subject to swift fluctuations because of contracts made. The Group does not have an obligation to issue new loans and the proportion of loans with unused credit limit is small.

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 loans will allow the Group to meet its existing financial obligations.

At 31 December 2007, the weighted average duration of the Group's liabilities was 2.55 years with a relatively high concentration in 2011. The Group's action plan foresees further diversification of financing by maturity, source, and market (see also notes 12, 13, 14, 15 and 23).

Capital management

BIG is a company with a small number of shareholders. Both shareholders have been involved with the company since its establishment by holding 50% of the shares each. The shareholders have a long-term vision for the company's development.

The company has set itself the target of maintaining a 15% capital adequacy ratio both at the level of the Group and the parent company. At 31 December 2007, the capital adequacy ratio was 20.47%, surpassing the required level more than-two-fold.

Maximum dividend distributions amount to 15% of the profit for the period.

Collateral risk

Collateral risk is managed using the following principles.

- The Group observes the principle that all loans which are issued have to be secured.
- The Group accepts as loan collateral only such immovable properties whose market value is confirmed in a written valuation report prepared by a real estate company with whom the Group has a corresponding agreement.
- The agreements made with real estate companies regarding valuation of assets have to set out the real estate company's proprietary liability for incorrect appraisal.

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- 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.
- Loans are granted in accordance with the limits established for the overall amount of the loan and the ratio of the loan amount to the value of the collateral.
- In addition to the valuation report prepared by a real estate company, risk is assessed on a subjective basis.
- Acceptable collaterals 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.

Other market risks

The Group's management monitors 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 which may have a significant impact on the Group's operations, the Group will review and, where necessary, revise its short- and long-term action plans in order to adapt to the changed environment.

Changes in the Estonian and EU regulatory environment are monitored on a regular basis. The Group estimates legislative and political risks with a view to ensuring uninterrupted operation under any circumstances.

The impacts of changes in the macroeconomic environment are monitored on an ongoing basis, 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.

Operational risks

The bases for managing operational risks are established centrally. The Group identifies the operational risks of all products, activities, processes and systems.

In addition to identifying its operational risks, the Group assesses its sensitivity to those risks. This allows creating the Group's risk profile and allocating the Group's risk management resources most effectively.

Operational risks are identified using the following processes and activities:

- self- or risk evaluation questionnaires and/or seminars;
- mapping of unit, function and process risks according to risk type;
- application of risk indicators; and
- establishment of thresholds and limits for risk indicators.

To control its operational risks, the Group creates controller's positions in all its business units. The controllers report to the Group's risk manager.

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

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

- The Group manages its IT risk by establishing IT rules which regulate its IT activities, and require, among other things, implementation of disaster recovery plans, making of backup copies, protecting workstations and servers with access controls, and saving trace data on operations and changes.
- Procedural risk is managed using the following principles:
    - The Group's management board regulates the Group's daily business activity and operations by establishing appropriate and sufficient rules and routines.

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   - The Group's management board arranges regular basic and further training for the Group's employees.
- Personnel risk is managed using the following principles:
   - Staff is recruited in accordance with the staff recruitment policy established by the Group's management board.
   - The Group appraises the knowledge and qualifications of the staff of the credit department on a regular basis.
   - Employees may assume obligations for the Group only within the limits established by the Group's management board.
   - The core business processes require the confirmation of at least two employees or units.
   - The Group enters into individual proprietary liability agreements with the staff assigned to safeguarding the Group's assets.
- Legal risk is managed using the following principles:
   - Legal services to the Group are provided by the Group's legal department which consists of appropriately qualified professionals.
   - Loan agreements are concluded using model agreement forms which are prepared by the Group's legal department and approved by the Group's management board.
   - Any deviations from the terms and conditions of a model agreement have to be agreed with the Group's legal department and noted in writing in the credit acceptance decision.
   - Where necessary, the Group requests legal opinions from recognised law offices and notaries.
- External attacks risk is managed using the following principles:
   - Customers and partners are identified every time.
   - The disbursement of loans requires the confirmation of at least two employees.
   - The Group's employees are trained to detect potential fraud, using, among other methods, the assistance of appropriately qualified specialists (the staff of security companies, the Estonian Banking Association, etc).
   - Services are paid for using non-cash methods.
   - Physical security is ensured by establishing relevant rules and implementing relevant measures.

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Ratios

BIG 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. BIG has not been punished 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 BIG's non- or defective compliance with prudential ratios.

The main prudential ratios include:

- Minimum amount of own funds
    - BIG's own funds comprise of equity and subordinated debt securities.
    - BIG observes the requirements established for the minimum amount of own funds and the reciprocal proportions of own funds.
    - BIG's own funds are described in note 33 and note 15 (subordinated debt securities).
- Capital adequacy
    - At 31 December 2007, BIG's capital adequacy ratio was 20.47%, surpassing the mandatory level of 10% more than two-fold.
    - BIG has set itself the target of maintaining its capital adequacy ratio in the next few years at above 15%.
- Limitations on concentration of exposures
    - BIG's loan portfolio comprises of small loans and concentration of exposures is low.
    - At 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 2007, the average loan amount was 20 thousand kroons.
    - The largest exposure to a single customer amounts to 5.6 million kroons (0.26% of the loan portfolio). At 31 December 2007, 40 largest loans accounted for 3.86% of the loan portfolio.
- Limitations on participation in companies (BIG does not have any shareholdings outside its consolidation group).

Pursuant to effective legislation, Balti Investeeringute Grupi Pank AS maintains a mandatory reserve with the Central Bank. The size of the mandatory reserve is 15% of the Group's external funds less liabilities to Estonian credit institutions.

The size of the mandatory reserve is determined monthly based on the liabilities of the prior period.

The reserve requirement has to be complied with as a monthly average, and on a daily basis to the extent of at least 40%. Further information on the reserve with Central Bank is provided in note 4.

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Capital adequacy

(In millions of kroons)	31 Dec 2007	31 Dec 2006
1. Tier 1 capital	**464.633**	**305.415**
1.1 Paid-in share capital	80.000	80.000
1.2 General banking reserve	-	-
1.3 Other reserves	8.000	4.000
1.4 Retained earnings	201.700	53.537
1.5 Profit for the period	177.275	173.829
1.6 Minority interest (only in the consolidated financial statements)	-	-
1.7 Unrealised exchange differences (only in the consolidated financial statements)	5.474	0.437
1.8 Negative goodwill	-	-
1.9 Treasury stock	-	-
1.10 Intangible assets	-7.816	-6.388
2. Tier 2 capital	**119.657**	**-**
3. Gross capital (1.+2.)	**584.290**	**305.415**
4. Deductions from gross capital	**-**	**-**
5. Net capital (3.-4.)	**584.290**	**305.415**
6. Tier 3 capital	-	-
7. Risk-weighted assets	**2,196.265**	**1,053.655**
7.1 Category I (risk weight 0%)	301.623	96.388
7.2 Category II (risk weight 20%)	67.351	44.728
7.3 Category III (risk weight 50%)	136.713	50.344
7.4 Category IV (risk weight 100%)	2,114.438	1,019.537
8. Risk-weighted off-balance sheet transactions	**-**	**-**
8.1 Group I	-	-
8.2 Group II	-	-
9. Capital requirement for covering foreign currency risks	**65,793**	**14,238**
10. Capital requirement for covering trading portfolio risks	-	**-**
10.1 Capital requirement for covering interest position risk	-	-
10.2 Capital requirement for covering equity position risk	-	-
10.3 Capital requirement for covering commodity risk	-	-
10.4 Capital requirement for covering option risk	-	-
10.5 Capital requirement for covering trading portfolio transfer risk	-	-
10.6 Capital requirement for covering trading portfolio credit risk	-	-
11. Capital requirement for covering trading portfolio credit exposures exceeding the risk exposure limits	**-**	**-**
12. Capital adequacy (5.+6.)/(7.+8.+9.*10+10.*12.5+11*12.5)	**20.47%**	**25.54%**

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NOTE 3. INTERNAL CONTROL SYSTEM

The internal control system of Balti Investeeringute Grupi Pank 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, provides instructions to the management board regarding the Group's management, and supervises the activities of the Group and the management board.

The management board arranges the Group's daily business activity, determines the authority and responsibilities of different levels of management, provides job descriptions and establishes 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 verifies adherence to the rules, regulations, limits and standards established by the supervisory and management boards.

The objective of the internal audit unit is to provide management with reasonable assurance that the internal control system is 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 approved by the supervisory board.

NOTE 4. DUE FROM CENTRAL BANK

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Mandatory reserve	275.569	71.646
Surplus on the reserve with Central Bank	25.304	24.540
Total due from Central Bank	**300.873**	**96.186**

NOTE 5. LOANS TO CUSTOMERS

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Loans to customers	2,176.515	1,012.513
Impairment allowance for loans	-89.588	-20.819
Interest receivable from customers	123.942	44.292
Impairment allowance for interest receivables	-12.048	-0.763
Total loans to customers	**2,198.821**	**1,035.223**

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Loans by maturity structure

(In millions of kroons)	31 Dec 2007			31 Dec 2006		
	Gross loan portfolio	Impairment allowance	Net loan portfolio	Gross loan portfolio	Impairment allowance	Net loan portfolio
Overdue loans (note 6)	441.811	-18.186	423.625	128.415	-2.640	125.775
Short-term loans	429.664	-17.685	411.979	233.424	-4.800	228.624
Loans repayable within 1-5 years	774.229	-31.868	742.361	384.341	-7.903	376.438
Loans repayable in over 5 years	530.811	-21.849	508.962	266.333	-5.476	260.857
Total loans to customers	**2,176.515**	**-89.588**	**2,086.927**	**1,012.513**	**-20.819**	**991.694**

Loans by type

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Loans against income	1,577.872	585.038
Surety loans	334.880	224.336
Loans secured with real estate	216.576	156.568
Credit lines to companies	47.188	46.571
Total loans to customers	**2,176.515**	**1,012.513**

Annual interest rates of loans:
Loans repayable under the annuity schedule:

	Annual interest rates of loans							
Loan	**Up to 11 months**	**12-24 months**	**25-48 months**	**49-59 months**	**60-72 months**	**73-96 months**	**97-120 months**	**120-240 months**
Loans against income	42%	32%	29%	29%	27%	25%	25%	-
Surety loans	42%	32%	29%	29%	27%	25%	25%	-
Loans secured with real estate	19%	19%	19%	19%	18%	16%	15.9%	15.5%

Loans repayable in a lump sum:

	Annual interest rates of loans					
Loan	**Up to 11 months**	**12-18 months**	**19-24 months**	**25-59 months**	**60-72 months**	**72-120 months**
Loans against income	66%	53%	53%	45%	40%	37%
Surety loans	66%	53%	53%	45%	40%	37%
Loans secured with real estate	36%	33.60%	-	-	-	-
	Annual interest rates of credit lines					
Credit lines (revolving credit)	19%	19%	-	-	-	-

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NOTE 6. OVERDUE LOANS

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Up to 30 days	12.491	6.548
30 - 60 days	14.911	3.419
60-90 days	12.511	5.884
90-180 days	97.078	40.010
Over 180 days	304.820	72.554
Total	**441.811**	**128.415**

Overdue loans comprise overdue loan principal. In accordance with the terms of the loan agreement signed with the customer, the Group may terminate 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 balance, any accrued interest, and any collateral claims resulting from the settlement delay.

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 smaller 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 serviced through execution proceedings.

At 31 December 2007, loans overdue for more than 180 days totalled 305 million kroons. The proportion of loans overdue for more than 180 days under which payments had been made during the preceding 6 months was 63 million kroons, i.e. 20.6%. Not all loans overdue for more than than 180 days have reached the ruling stage. Accordingly, in a later stage, the volume of loans serviced through execution proceedings will increase even further.

NOTE 7. IMPAIRMENT ALLOWANCE FOR LOANS AND INTEREST RECEIVABLES

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Balance at beginning of period	**-21.582**	**-6.219**
Loans written off the balance sheet	3.177	0.523
Increase/decrease in allowance	-83.228	-15.890
Effect of movements in exchange rates	-0.003	0.004
Balance at end of period	**-101.636**	**-21.582**

Changes in impairment allowance

(In millions of kroons)	2007	2006
Recovery of loans written off as irrecoverable	0.108	0.450
Increase in impairment allowance for interest and other receivables*	-7.002	-0.626
Increase in impairment allowance for loans	-77.454	-15.162
Total	**-84.348**	**-15.338**

* From 2007, the impairment rate for interest and other receivables is the same as the impairment rate for underlying loans. In 2006, interest and other receivables were assigned collective impairment rates.

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NOTE 8. OTHER RECEIVABLES AND PREPAYMENTS

(In millions of kroons)

Other receivables	**31 Dec 2007**	**31 Dec 2006**
Interest receivable from Central Bank	0.744	0.197
Interest on arrears and penalty payments receivable	0.858	0.120
Commissions and fees receivable	0.544	0.260
Collection fees and other charges receivable	8.081	3.278
Miscellaneous receivables	0.410	0.084
Impairment allowance for other receivables	-1.280	-0.074
Total	**9.357**	**3.865**

(In millions of kroons)

Prepayments	**31 Dec 2007**	**31 Dec 2006**
Prepaid contract fees	0.195	0.275
Prepaid marketing expenses	0.298	0.361
Prepaid insurance premiums	0.047	0.027
Prepaid rental	0.789	0.079
Prepaid supervision fee	0.961	-
Other prepayments	0.588	0.414
Total	**2.878**	**1.156**
Total other receivables and prepayments	**12.235**	**5.022**

NOTE 9. INVESTMENT PROPERTY

31 Dec 2007

(In millions of kroons)	**Buildings and structures**	**Land**	**Total**
Cost at beginning of period	**6.212**	**0.125**	**6.337**
Acquisitions	0.023	-	0.023
Transfer	-6.235	-0.125	-6.360
Cost at end of period	-	-	-
Depreciation at beginning of period	**-0.979**	-	**-0.979**
Depreciation charge for the period	-0.020	-	-0.020
Transfer	0.999	-	0.999
Depreciation at end of period	-	-	-
Carrying amount at beginning of period	**5.233**	**0.125**	**5.358**
Carrying amount at end of period	-	-	-

Investment property was reclassified because in 2007 the portion of the property at Rüütli 21/23 in Tartu which was held to earn rentals decreased substantially. BIG uses the property mainly for its own office space. Therefore, the property was transferred to property and equipment.

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31 Dec 2006

(In millions of kroons)	Buildings and structures	Land	Total
Cost at beginning of period	**8.847**	**0.203**	**9.050**
Transfer	-2.635	-0.078	-2.713
Cost at end of period	**6.212**	**0.125**	**6.337**
Depreciation at beginning of period	**-1.199**	**-**	**-1.199**
Depreciation charge for the period	-0.144	-	-0.144
Transfer	0.364	-	0.364
Depreciation at end of period	**-0.979**	**-**	**-0.979**
Carrying amount at beginning of period	**7.648**	**0.203**	**7.851**
Carrying amount at end of period	**5.233**	**0.125**	**5.358**

NOTE 10. INTANGIBLE ASSETS

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Purchased software licences		
Cost at beginning of period	**7.109**	**1.844**
Acquisitions	3.105	5.265
Disposals	-0.040	-
Prepayments for intangible assets	0.158	-
Cost at end of period	**10.332**	**7.109**
Amortisation at beginning of period	**-0.721**	**-0.246**
Amortisation charge for the period	-1.828	-0.475
Disposals	0.033	-
Amortisation at end of period	**-2.516**	**-0.721**
Carrying amount at beginning of period	**6.388**	**1.598**
Carrying amount at end of period	**7.816**	**6.388**

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NOTE 11. PROPERTY AND EQUIPMENT

31 Dec 2007

(In millions of kroons)	**Land and buildings**	**Other**	**Total**
Cost at beginning of period	**14.209**	**9.558**	**23.767**
Additions	-	11.837	11.837
Disposals	-	-0.182	-0.182
Effect of movements in exchange rates	-	0.002	0.002
Other adjustments	-0.348	0.505	0.157
Transfer	6.360	-	6.360
Cost at end of period	**20.221**	**21.720**	**41.941**
Depreciation at beginning of period	**-2.292**	**-3.388**	**-5.680**
Depreciation charge for the period	-0.513	-3.442	-3.955
Disposals	-	0.161	0.161
Effect of movements in exchange rates	-	-0.008	-0.008
Other adjustments	0.055	-0.209	-0.154
Transfer	-0.999	-	-0.999
Depreciation at end of period	**-3.749**	**-6.886**	**-10.635**
Carrying amount at beginning of period	**11.917**	**6.170**	**18.087**
Carrying amount at end of period	**16.472**	**14.834**	**31.306**

31 Dec 2006

(In millions of kroons)	**Land and buildings**	**Other**	**Total**
Cost at beginning of period	**11.496**	**5.772**	**17.268**
Additions	-	5.432	5.432
Disposals	-	-1.487	-1.487
Effect of movements in exchange rates	-	-0.159	-0.159
Transfer	2.713	-	2.713
Cost at end of period	**14.209**	**9.558**	**23.767**
Depreciation at beginning of period	**-1.539**	**-3.032**	**-4.571**
Depreciation charge for the period	-0.389	-1.660	-2.049
Disposals	-	1.145	1.145
Effect of movements in exchange rates	-	0.159	0.159
Transfer	-0.364	-	-0.364
Depreciation at end of period	**-2.292**	**-3.388**	**-5.680**
Carrying amount at beginning of period	**9.957**	**2.740**	**12.697**
Carrying amount at end of period	**11.917**	**6.170**	**18.087**

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NOTE 12. LOANS FROM BANKS

(In millions of kroons)	31 Dec 2007			31 Dec 2006		
	Current portion	Non-current portion	Total	Current portion	Non-current portion	Total
Investment loan from Sampo Pank	149.372	-	149.372	-	149.339	149.339
Loan from SEB Eesti Ühispank	0.764	-	0.764	-	1.475	1.475
Overdraft from Hansabanka	-	-	-	8.436	-	8.436
Total	**150.136**	**-**	**150.136**	**8.436**	**150.814**	**159.250**

At 31 December 2007, the interest rates of the Group's loans were as follows:

- Long-term loan from Sampo Pank: Euro 6 months' EURIBOR + 0.85%
- Loan from SEB Eesti Ühispank: the bank's base interest rate for kroon-denominated loans + 3% per year

NOTE 13. DEPOSITS FROM CUSTOMERS

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Deposits	181.187	126.970
Interest payable on deposits	2.689	1.392
Total	**183,876**	**128,362**

Deposits **(In millions of kroons)**	**31 Dec 2007**	**31 Dec 2006**
Short-term deposits	153.921	103.320
Deposits maturing between 1-2 years	20.496	6.759
Deposits maturing between 2-5 years	6.770	16.891
Total	**181.187**	**126.970**

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Term deposit, interest payout once a year	6.558	7.209
Term deposit, interest payout once a month	16.562	11.226
Term deposit, interest payout at end of term	99.767	37.136
Term deposit, interest payout at end of term (large investor)	58.300	71.399
Total	**181.187**	**126.970**

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Interest rates for deposits offered to customers at 31 December 2007
Deposits of up to 100,000 kroons

Term	Deposits with monthly interest payout	Deposits with annual interest payout	Deposits with interest payout at end of term
6 months	-	-	4.50%
1 year	4.70%	4.80%	4.80%
2 years	4.80%	4.90%	4.95%
3 years	4.95%	5.05%	5.15%

Deposits of over 100 000 kroons

Term	Deposits with monthly interest payout	Deposits with annual interest payout	Deposits with interest payout at end of term
6 months	-	-	4.65%
1 year	4.85%	4.95%	4.95%
2 years	4.95%	5.05%	5.10%
3 years	5.05%	5.15%	5.25%

NOTE 14. OTHER LIABILITIES AND DEFERRED INCOME

(In millions of kroons)

Other liabilities	31 Dec 2007	31 Dec 2006
Bank interest payable	-	0.013
Accounts payable to suppliers	6.049	2.790
Payables to employees	4.095	1.602
Taxes payable	14.232	5.344
Other payables	0.843	1.152
Total	**25.219**	**10.900**

Deferred income	31 Dec 2007	31 Dec 2006
Advances from customers	7.889	3.780
Total	**7.889**	**3.780**

Other liabilities and deferred income	**33.108**	**14.680**

NOTE 15. DEBT SECURITIES ISSUED

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Debt securities issued (including subordinated debt securities)	1,767.749	589.717
Interest payable on debt securities	12.808	7.185
Total	**1,780.557**	**596.902**

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(In millions of kroons)	31 Dec 2007	31 Dec 2006
Past maturity	0.866	1.918
Short-term debt securities	325.293	207.625
Maturing between 1 and 2 years	52.942	273.133
Maturing between 2 and 5 years	1,268.991	55.239
Maturing in over 5 years	119.657	51.802
Total	**1,767.749**	**589.717**

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Compound interest bonds	1.453	3.780
Simple interest bonds	1,637.543	463.597
Including subordinated bonds	170.130	108.030
Discount bonds	128.621	121.428
Savings bonds	0.132	0.912
Total	**1,767.749**	**589.717**

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Debt securities denominated in EEK	406.815	498.093
Including subordinated debt securities	170.130	108.030
Debt securities denominated in EUR	1,268.991	-
Debt securities denominated in LVL	91.943	91.624
Total	**1,767.749**	**589.717**

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

NOTE 16. INTEREST INCOME

(In millions of kroons)	2007	2006
Interest income on loans to customers	562.778	280.816
Interest income on deposits	10.891	0.105
Interest income on debt and other fixed income securities	0.712	-
Total	**574.381**	**280.921**

NOTE 17. INTEREST EXPENSE

(In millions of kroons)	2007	2006
Interest expense on debt securities	131.174	18.756
Interest expense on deposits	8.746	2.725
Interest expense on bank loans	9.328	5.740
Interest expense on other loans	0.203	0.267
Total	**149.451**	**27.488**

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NOTE 18. NET GAIN/LOSS ON FINANCIAL TRANSACTIONS

(In millions of kroons)	2007	2006
Foreign exchange losses	8.016	0.309
Foreign exchange gains	4.337	0.057
Total	**-3.679**	**-0.252**

NOTE 19. OTHER OPERATING INCOME

(In millions of kroons)	2007	2006
Income from collection proceedings	52.773	24.318
Miscellaneous income	1.639	1.504
Total	**54.412**	**25.822**

NOTE 20. ADMINISTRATIVE EXPENSES

(In millions of kroons)	2007	2006
Accommodation expenses	0.465	0.212
Repair and renovation expenses	1.983	0.438
Assets of small value	1.669	1.203
Car expenses	1.000	0.780
Office expenses	4.713	2.286
Rental expenses	6.837	3.050
State fees	5.185	1.197
Services purchased	3.702	1.392
Collection and intermediation fees	1.160	0.943
Telephone and similar expenses	5.386	2.055
Postal supplies and charges	1.272	0.571
Marketing expenses	62.459	19.769
Training expenses	2.420	1.229
Other expenses	18.948	4.676
Total	**117.199**	**39.801**

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NOTE 21. OTHER OPERATING EXPENSES

(In millions of kroons)	2007	2006
Donations	0.005	0.582
Fringe benefits	1.059	0.528
Realised real estate	-	0.256
Health care expenses	0.199	0.146
Supervision fee to the Financial Supervision Authority	0.102	0.855
Contribution to the Guarantee Fund	0.613	0.145
Marketing expenses	0.435	4.243
Other expenses	3.029	4.022
Total	**5.442**	**10.777**

NOTE 22. FINANCE AND OPERATING LEASES

The Group as a lessor

Operating lease

The Group leases out office premises in its office building at Rüütli 21, Tartu. In the balance sheet the premises are carried as items property and equipment.

	31 Dec 2007	31 Dec 2006		
(In millions of kroons)	**Rüütli 21**	**Rüütli 21**	**Tartu mnt 18**	**Total**
Cost	3.782	3.782	2.555	6.337
Addition	0.023	-	-	-
Transfer to property and equipment	-3.805	-	-	-
Accumulated depreciation	-	-0.528	-0.451	-0.979
Carrying amount	**-**	**3.254**	**2.104**	**5.358**
Operating lease income of the period	0.425	1.292	0.170	1.462
Operating lease rentals receivable in subsequent periods:				
Within 1 year	0.076			
Between 1 and 5 years	0.069			

The Group as a lessee

Operating lease

The Group uses the following assets under operating lease:

Cars

Expiry dates of contracts fall between 2010 and 2012.

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Cars (In millions of kroons)

Operating lease expense of the period	0.630
Non-cancellable operating lease rentals payable in subsequent periods:	
Within 1 year	0.484
Between 1 and 5 years	1.200

Office premises (In millions of kroons)

Operating lease expense of the period	11.600
Non-cancellable operating lease rentals payable in subsequent periods:	
Within 1 year	15.274
Between 1 and 5 years	39.137

NOTE 23. DISTRIBUTION OF ASSETS AND LIABILITIES BY INTEREST RATE RESET PERIODS

31 Dec 2007 (In millions of kroons)	Less than 1 month	1-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and due from Central Bank	300.880	-	-	-	**300.880**
Due from banks	67.351	-	-	-	**67.351**
Loans to customers	484.666	386.809	774.229	530.811	**2,176.515**
Impairment allowance for loans	-19.949	-15.922	-31.868	-21.849	**-89.588**
Total assets	**852.897**	**386.809**	**774.229**	**530.811**	**2,544.746**
Liabilities					
Loans from banks	0.061	150.075	-	-	**150.136**
Including EURIBOR-linked instruments	-	149.372	-	-	**149.372**
Debt securities issued	51.523	1,402.606	313.620	-	**1,767.749**
Including EURIBOR-linked instruments	-	1,222.876	-	-	**1,222.875**
Deposits from customers	37.761	116.160	27.266	-	**181.187**
Total liabilities	**89.345**	**1,668.841**	**340.886**	**-**	**2,099.072**
Interest sensitivity of balance sheet items	**763.552**	**-1,282.032**	**433.343**	**530.811**	**445.674**

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31 Dec 2006 (In millions of kroons)	Less than 1 month	1-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and due from Central Bank	96.191	-	-	-	**96.191**
Due from banks	44.728	-	-	-	**44.728**
Loans to customers	160.964	199.959	384.879	266.711	**1,012.513**
Impairment allowance for loans	-3.310	-4.111	-7.914	-5.484	**-20.819**
Total assets	**301.883**	**199.959**	**384.879**	**266.711**	**1,153.432**
Liabilities					
Loans from banks	-	8.436	150.814	-	**159.250**
Including EURIBOR-linked instruments	-	-	149.339	-	**149.339**
Debt securities issued	1.918	207.625	328.372	51.802	**589.717**
Including EURIBOR-linked instruments	-	-	145.520	51.802	**197.322**
Deposits from customers	-	103.320	23.650	-	**126.970**
Total liabilities	**1.918**	**319.381**	**502.836**	**51.802**	**875.937**
Interest sensitivity of balance sheet items	**299.965**	**-119.422**	**-117.957**	**214.909**	**277.495**

NOTE 24. NET CURRENCY POSITIONS

31 December 2007	Balance sheet position		Off-balance sheet position		Net position
(In millions of kroons)	Assets	Liabilities	Assets	Liabilities	
EEK	1,598.843	606.826	-	2.858	989.159
EUR	242.764	1,419.686	-	-	- 1,176.921
LVL	712.604	117.641	-	-	594.963
LTL	65.915	3.524	-	-	62.392

31 December 2006	Balance sheet position		Off-balance sheet position		Net position
(In millions of kroons)	Assets	Liabilities	Assets	Liabilities	
EEK	1,147.592	627.199	-	3.170	517.223
EUR	-	149.339	-	-	- 149.339
LVL	63.405	122.656	-	-	- 59.251
LTL	-	-	-	-	-

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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

(In millions of kroons)	Estonia		Latvia		Lithuania	Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2007	2006	2007	2006
Revenue from external customers									
Interest income	356.159	230.780	214.851	50.141	3.371	-	-	574.381	280.921
Other operating income	37.481	19.269	16.928	6.553	0.003	-	-	54.412	25.822
Total revenue from external customers	**393.640**	**250.049**	**231.779**	**56.694**	**3.374**	**-**	**-**	**628.793**	**306.743**
Inter-segment revenue	**78.938**	**12.345**	**-**	**-**	**-**	**-78.938**	**-12.345**	**-**	**-**
Total revenue	**472.578**	**262.394**	**231.779**	**56.693**	**3.374**	**-78.938**	**-12.345**	**628.793**	**306.743**
Interest expense	149.439	26.875	55.930	6.262	1.092	-57.010	-5.649	**149.451**	27.488
Net gain/loss on financial transactions	-0.047	-0.204	-3.330	-	-0.132	-0.170	-0.048	-3.679	-0.252
Depreciation and amortisation	4.453	2.226	1.344	0.442	0.006	-	-	5.803	2.668
Impairment losses	-42.114	-13.571	-41.783	-1.767	-0.451	-	-	-84.348	-15.338
Profit/loss before income tax	170.815	155.309	63.030	29.838	-18.744	-22.099	-6.744	193.002	178.403
Income tax expense	-	-	15.727	4.574	-	-	-	15.727	4.574
Profit for the period	**170.815**	**155.309**	**47.303**	**25.264**	**-18.744**	**-22.099**	**-6.744**	**177.275**	**173.829**
Capital expenditure	**7.216**	**8.032**	**5.709**	**2.665**	**2.017**	**-**	**-**	**14.942**	**10.697**
Total segment assets	**2,562.257**	**1166.350**	**944.212**	**253.389**	**65.915**	**-952.258**	**-208.742**	**2,620.126**	**1210.997**
Total segment liabilities	**2,128.785**	**884.197**	**883.406**	**217.674**	**84.659**	**-949.17**	**-202.677**	**2,147.677**	**899.194**

NOTE 26. ASSETS PLEDGED AS SECURITY

- Liabilities to AS Sampo Pank are secured with a commercial pledge of the parent company's movable property to the extent of 25 million kroons, a second-ranking mortgage of 10.5 million kroons created on the immovable property at Rüütli 21/23 in Tartu, and a pledge of the parent company's receivables from third parties.
- Liabilities to AS SEB Ühisliising are secured with a first-ranking mortgage of 4.42 million kroons created on the immovable property at Rüütli 21/23 in Tartu and a mortgage of 2.3 million kroons created on a legal share in apartment ownership. The object of apartment ownership is located at Tartu mnt 18 in Tallinn.
- Liabilities to AS SEB Eesti Ühispank are secured with a mortgage of 4.2 million kroons created on the immovable property at Tartu mnt 18 in Tallinn.

NOTE 27. CONTINGENT LIABILITIES

Contingent liabilities include letters of guarantee from AS Sampo Pank ensuring the meeting of commitments arising from lease contracts between the Group's parent company and the recipients of the guarantee. The total guaranteed amount is 0.127 million kroons. The letters of guarantee expire on 7 January 2009.

At 31 December 2007, the unused portions of credit lines totalled 2,858 million kroons (31 December 2006: 3.170 million kroons).

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NOTE 28. INCOME TAX EXPENSE

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Income tax expense	15.727	4.630
Change in deferred income tax	-	-0.056
Total	**15.727**	**4.574**

The above income tax expense has been calculated on the net profit earned in Latvia in 2007 and 2006. In accordance with the Estonian Income Tax Act, in 2007 profit distributions, including dividend distributions, were subject to income tax at the rate of 22/78. Income tax is paid in addition to the dividend distribution. The income tax payable on dividends may be reduced by 22/78 of the dividends received from subsidiaries and associates.

Deferred income tax from the Latvian subsidiary

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Carrying amount of non-current assets for accounting purposes	6.973	2.894
Carrying amount of non-current assets for tax purposes	-4.084	-1.593
Vacation pay liability	-1.006	-0.348
Impairment allowances for receivables	-45.792	-3.819
Total temporary differences	**-43.909**	**-2.866**
Deferred income tax (15%)	**-6.586**	**-0.430**

Pursuant to Latvian tax laws, impairment allowances for receivables are not deductible.

Deferred income tax from the Lithuanian branch

(In millions of kroons)	31 Dec 2007	31 Dec 2006
Loss for the financial year	-18.744	-
Non-deductible expenses	1.511	-
Taxable loss for the period	**-17.233**	**-**
Deferred income tax (15%)	**-2.585**	**-**

The deferred tax asset has not been recognised in the balance sheet because according to the assessment of the Group's management, its utilisation in the immediate future is not probable.

Reconciliation of effective tax rate

(In millions of kroons)	2007	2006
Income tax expense for the period	15.727	4.574
Group's profit before income tax	193.002	178.403
Tax rate applicable to the parent company 0%	-	-
Effect of tax rates in foreign jurisdictions	15.727	4.630
Recognised change in deferred income tax	-	-0.056
Income tax paid on dividends	6.205	2.240
Deductions from income tax paid on dividends (income tax paid in foreign jurisdictions)	-6.205	-2.240

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NOTE 29. CONTINGENT INCOME TAX LIABILITY

At 31 December 2007, the Group's undistributed profits totalled 378.975 million kroons.

The income tax liability that would arise if all of the profits were distributed as dividends amounts to 79.585 million kroons and the maximum amount that could be distributed as the net dividend is 299.390 million kroons.

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the dividend tax expense reported in the income statement for 2008 cannot exceed the total distributable profits as of 31 December 2007.

NOTE 30. RELATED PARTIES

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

- the shareholders of Balti Investeeringute Grupi Pank AS;
- members of Group companies' management and supervisory boards and individuals whose shareholding is significant, except where the above cannot exert significant influence on the Group's business decisions. In addition, related parties include close family members of and companies related to the above.

In 2007, the remuneration and associated taxes of members of the Group's management and supervisory boards totalled 3.544 million kroons and 0.883 million kroons respectively.

In 2007, OÜ Edelatuulik Invest, a company in which Member of the Supervisory Board of Balti Investeeringute Grupi Pank AS Linda Terras is a shareholder, entered into term deposit agreements with BIG. At 31 December 2007, the deposit balances totalled 6 million kroons and interest accrued but not paid on the deposits amounted to 0.03 million kroons. The interest rates of the deposits did not differ from the ones offered to other customers depositing similar amounts at the time.

NOTE 31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of the assets and liabilities reported in the consolidated balance sheet as of 31 December 2007 do not differ significantly from their carrying amounts except for immovable property recognised in property and equipment whose amortised cost differs significantly from its fair value.

Financial assets at 31 December 2007

(In millions of kroons)	Carrying amount	Fair value
Cash	0.007	0.007
Due from Central Bank	300.873	300.873
Due from banks	67.351	67.351
Loans to customers	2,198.821	2,198.821
Other receivables and prepayments	12.235	12.235
Total	**2,579.287**	**2,579.287**

Financial liabilities at 31 December 2007	Carrying amount	Fair value
Loans from banks	150.136	150.136
Deposits from customers	183.876	183.876
Other liabilities and deferred income	33.108	33.108
Debt securities issued *	1,610.427	1,610.427*
Subordinated liabilities	170.130	170.130
Total	**2,147.677**	**2,147.677**

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* - The market value of debt securities issued is not available because the volume and number of transactions performed with the securities do not provide an adequate basis for determining market value.

NOTE 32. EARNINGS PER SHARE

	2007	2006
Net profit for the period (in millions of kroons)	177.275	173.829
Number of shares at beginning of period	80,000	80,000
Number of shares at end of period	80,000	80,000
Weighted average number of ordinary shares outstanding	80,000	80,000
Earnings per share (in kroons)	2,216	2,173

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

NOTE 33. EQUITY

Shares
Balti Investeeringute Grupi Pank is a limited liability company. According to the Articles of Association, the minimum and maximum authorised share capital amount to 80 million kroons and 240 million kroons respectively. Share capital is made up of ordinary shares with a par value of 1000 kroons each. Each share grants the shareholder 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. It may not be distributed to shareholders.

The Group's capital reserve includes the subsidiaries' capital reserves.

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

Unrestricted equity
At 31 December 2007, the Group's unrestricted equity amounted to 378.975 million kroons (31 December 2006: 227,366 million kroons).

Dividends
Dividends have been distributed as follows:

- in 2006, 93.75 kroons per share, i.e. 7.5 million kroons in aggregate;
- in 2007, 275 kroons per share, i.e. 22 million kroons in aggregate.

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NOTE 34. PARENT COMPANY'S PRIMARY UNCONSOLIDATED FINANCIAL STATEMENTS

Balance sheet (In millions of kroons)	**31 Dec 2007**	**31 Dec 2006**
Assets		
Cash	0.005	0.003
Due from Central Bank	300.873	96.186
Due from banks	37.847	42.202
Loans to customers	2,156.656	994.718
Other receivables and prepayments	9.889	4.259
Securities	9.482	9.482
Intangible assets	7.555	6.251
Property and equipment	11.321	7.518
Total assets	**2,533.628**	**1,160.619**
Liabilities		
Loans from banks	150.136	150.814
Deposits from customers	183.876	128.361
Other liabilities and deferred income	10.496	6.885
Debt securities issued	1,610.427	488.872
Subordinated liabilities	170.130	108.030
Total liabilities	**2,125.065**	**882.962**
Equity		
Share capital	80.000	80.000
Capital reserve	8.000	4.000
Translation reserve	167.657	38.128
Retained earnings	152.906	155.529
Profit for the period	**408.563**	**277.657**
Total equity	**2,533.628**	**1,160.619**

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Income statement (In millions of kroons)	2007	2006
Interest income	415.278	236.541
Interest expense	149.138	26.777
Net interest income	**266.140**	**209.764**
Income on financial investments	22.099	6.744
Net fees and commissions	-0.217	0.051
Net gain/loss on financial transactions	-0.179	-0.204
Other operating income	36.933	18.290
Total income	**324.776**	**234.645**
Salaries	44.260	25.221
Administrative expenses	78.526	35.834
Depreciation and amortisation	4.067	1.840
Net impairment loss on loans and interest receivables	42.565	13.571
Other operating expenses	2.452	2.650
Total operating expenses	**171.870**	**79.116**
Profit for the period	**152.906**	**155.529**

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Statement of cash flows (In millions of kroons)	2007	2006
Cash flows from operating activities		
Interest received	289.000	192.111
Interest paid	-134.046	-20.629
Administrative expenses paid (including salaries)	-120.290	-61.527
Other operating income received	26.422	13.983
Other operating expenses paid	-4.165	-2.039
Reversal of impairment losses	0.154	0.457
Proceeds from sale of other assets	-	0.109
Loans granted	-1,509.814	-781.628
Repayment of loans granted	439.095	280.079
Change in mandatory reserve with Central Bank	-203.923	-39.943
Proceeds from customer deposits	196.392	116.664
Paid on redemption of deposits	-152.950	-13.032
Effect of changes in exchange rates	-0.387	-0.044
Net cash used in operating activities	**-1,174.512**	**-315.439**
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-10.053	-6.643
Proceeds from sale of property and equipment	-	0.090
Change in investment portfolio (securities)	-	0.006
Purchase of securities	-28.655	-
Proceeds from sale of securities	28.655	-
Dividends received	22.259	6.679
Net cash from investing activities	**12.206**	**0.132**
Cash flows from financing activities		
Proceeds from debt securities issued	1,387.755	330.046
Paid on redemption of debt securities	-268.366	-123.335
Proceeds from subordinated debt securities issued	67.696	108.003
Paid on redemption of subordinated debt securities	-5.658	-
Proceeds from loans from banks	210.000	340.000
Repayment of loans from banks	-210.710	-290.673
Repayment of other loans	-	-0.564
Dividends paid	-22.000	-7.500
Net cash from financing activities	**1,158.717**	**355.977**
Increase in cash and cash equivalents	-3.589	40.669
Cash and cash equivalents at beginning of period	66.745	26.076
Cash and cash equivalents at end of period	**63.156**	**66.745**

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(In millions of kroons)

Cash and cash equivalents	**31 Dec 2007**	**31 Dec 2006**
Cash	0.005	0.003
Demand and overnight deposits with banks	37.847	42.202
Surplus on mandatory reserve with Central Bank	25.304	24.540
Total	**63.156**	**66.745**

Statement of changes in equity (In millions of kroons)	**31 Dec 2007**	**31 Dec 2006**
Share capital		
Balance at beginning of period	80.000	80.000
Balance at end of period	**80.000**	**80.000**
Capital reserve		
Balance at beginning of period	4.000	0.718
Transfer	4.000	3.282
Balance at end of period	**8.000**	**4.000**
Retained earnings		
Balance at beginning of period	193.657	48.910
Profit for the period	152.906	155.529
Transfer to capital reserve	-4.000	-3.282
Dividend distribution	-22.000	-7.500
Balance at end of period	**320.563**	**193.657**
Total equity	**408.563**	**277.657**

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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 2007.

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	29 February 2008	
Kaido Saar Member of Management Board	29 February 2008	
Veiko Kandla Member of Management Board	29 February 2008	
Parvel Pruunsild Chairman of Supervisory Board	29 February 2008	
Vahur Voll Member of Supervisory Board	29 February 2008	
Juhani Jaeger Member of Supervisory Board	29 February 2008	
Meelis Luht Member of Supervisory Board	29 February 2008	
Linda Terras Member of Supervisory Board	29 February 2008	

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Balti Investeeringute Grupi Pank AS

We have audited the accompanying consolidated financial statements of Balti Investeeringute Grupi Pank AS (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, 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 16 to 60.

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 Balti Investeeringute Grupi Pank 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.

Tallinn, 29 February 2008

KPMG Baltics AS

Taivo Epner
Authorized Public Accountant

Eero Kaup
Authorized Public Accountant

PROFIT ALLOCATION PROPOSAL

The consolidated undistributed profit including retained earnings and profit for the period of Balti Investeeringute Grupi Pank AS:

Retained earnings at 31 December 2007	201.700 million kroons
Net profit for 2007	177.275 million kroons
Total undistributed profit	378.975 million kroons

The management board proposes that the general meeting allocate the undistributed profit as follows:

1. Dividend distribution (300 kroons per share)	24 million kroons
2. Retained earnings after allocations	354.975 million kroons

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

Targo Raus
Chairman of Management Board