



BALTI INVESTEERINGUTE GRUPI PANK  
AS

*Consolidated interim financial  
statements as at and for the  
period ended 30 June 2007*

**BALTI INVESTEERINGUTE GRUPI PANK AS**  
**CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR**  
**THE 1<sup>st</sup> HALF OF 2007**

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
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E-mail:	<a href="mailto:big@big.ee">big@big.ee</a>
Website:	<a href="http://www.big.ee">www.big.ee</a>
End of reporting period:	30 June 2007
Beginning of financial year:	1 January 2007
End of financial year:	31 December 2007
Chairman of Management Board:	Targo Raus
Auditors:	Taivo Epner, KPMG Baltics Maret Tambek, KPMG Baltics

This interim report contains a review of operations and consolidated interim financial statements which have been appended an auditor's report. The presentation currency is the euro and figures are presented in millions of euros. The document comprises 39 pages.

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## **REVIEW OF OPERATIONS**

### **Description of the Group**

At 30 June 2007, the group and consolidation group of Balti Investeeringute Grupi Pank AS (hereinafter also the “Bank” and the “Parent company”) included Balti Investeeringute Grupi Pank AS and its two subsidiaries (together referred to as the “Group”):

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

Business name: OÜ Rütli Majad  
Address: Rütli 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 2007, the Group’s structure has not changed.

### **Business and financial review**

In the first half of 2007, the Group’s core business continued growing at a rapid pace. Compared to a year ago, the balance sheet total expanded 2.6-fold to 145.04 million euros and the loan portfolio grew 2.1 times to 103.2 million euros.

Interest income surged to 15.1 million euros, a two-fold improvement on a year ago, and net income for the period rose to 5.7 million euros.

The Group’s structure and the managements of group entities remained the same throughout the period.

On 1 August 2007, the membership of the Parent company’s management board changed as Head of Sales and Marketing Kaido Saar ascended to the board. Since 1 August 2007, members of the management board have been Veiko Kandla, Kaido Saar, and Targo Raus.

In 2007, the Group began preparing for penetration of the Lithuanian market. On 25 July, a representation was registered with the Lithuanian Company Register. The representation will complete the activities required for opening a branch and

launching business operations. A branch should be opened in the second half of 2007.

The development of the Lithuanian consumer loan market has been following the pattern of Estonia and Latvia. Although the Lithuanian market is considerably larger than the Estonian one, the average consumer credit per person and the ratio of consumer loans to GDP are significantly lower than the corresponding figures for Estonia and Latvia. These are the factors which underpin our decision to enter the Lithuanian market.

In the first half of 2007, the number of bank offices operated by Balti Investeeringute Grupi Pank AS increased to 29, including 17 in Estonia and 12 in Latvia.

At period-end, the Group employed 354 people, including 206 in Estonia and 148 in Latvia. In addition, the Group had 27 leased staff in Lithuania. Payments made to the Group's management and supervisory board members in the first half of 2007 totalled 0.08 million euros and 0.02 million euros respectively.

During the reporting period, Balti Investeeringute Grupi Pank AS issued bonds of 62.7 million euros in an international market. The bonds are listed on Stockholm Stock Exchange.

In the second half-year, we intend to continue enhancing the efficiency of our internal processes by upgrading our IT solutions, improving management accounting and developing other operations.

Selected figures and ratios:

Balance sheet (in millions of euros):	<u>30 June 2007</u>	<u>30 June 2006</u>
Total assets	145.039	55.850
Loans to customers	103.185	48.487
Allowance for credit losses	-3.311	-0.577
Due from Central Bank and credit institutions	25.582	4.408
Debt securities issued	96.852	26.902
Deposits from customers	12.283	4.458
Due to credit institutions	9.617	0.132
Total equity	24.420	13.364
Income statement (in millions of euros):	<u>1<sup>st</sup> half 2007</u>	<u>1<sup>st</sup> half 2006</u>
Interest income	15.143	7.310
Interest expense	3.069	0.692
Administrative expenses	4.237	2.077
Including salaries	1.812	0.807
Impairment losses on financial assets	-2.099	-0,196
Net income for the period	5.710	4.535
<i>Ratios (on a half-yearly basis)</i>	<u>1<sup>st</sup> half 2007</u>	<u>1<sup>st</sup> half 2006</u>
Return on equity (ROE)	25.75%	40.07%
Profit margin (PM)	34.32%	56.81%

Asset utilization ratio (AU)	14.96%	17.41%
Price difference (SPREAD)	10.94%	14.95%
Equity multiplier (EM)	5.02	4.05
Earnings per share (EPS)	71.38	56.68
Yield on interest-earning assets	14.45%	17.02%
Cost of interest-bearing liabilities	3.51%	2.07%

*For the period* (in millions of euros)

Average equity	22.175	11.318
Average assets	111.218	45.864
Average interest-earning assets	104.779	42.954
Average interest-bearing liabilities	87.367	33.504
Total income	16.634	7.984

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

*Underlying formulas:*

- Return on equity (ROE) – net income to equity
- Profit margin (PM) – net income 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) – net income to the period's average number of shares outstanding
- 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 value 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

### **Significant shareholdings at 30 June 2007**

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

*The company's shares are registered in the Estonian Central Depository for Securities.*

## Ratings

Balti Investeeringute Grupi Pank AS has not been rated by any international rating agency.

## Litigations

At 30 June 2007, the Bank and the Group were not involved in any significant litigation.

## Analysis of financial position and results of operation

### Financial position

Assets	<p>In the first half of 2007, the Group's assets grew by 87% to 145.039 million euros, a 2.6-fold improvement year-over-year.</p> <p>In addition to a swift rise in loans to customers, the amounts due from the Central Bank and credit institutions increased notably, accounting for 24.9% of consolidated assets at 30 June 2007 against 11.6% at 31 December 2006.</p>
Loan portfolio	<p>The loan portfolio continued expanding through the first half of 2007, triggering a rise in other significant financial indicators. At the end of the reporting period, effective loan agreements in Estonia and Latvia totalled 39,000 and 35,000 respectively.</p> <p>During the first half-year, the portfolio grew by 59%, a 2.1-fold increase on a year ago. At 30 June 2007, the loan portfolio totalled 103.185 million euros, making up 71% of the Group's assets. The Estonian and Latvian loan portfolios accounted for 65.86% and 34.14% of the total respectively. At 30 June 2006, the proportion of the Latvian portfolio was 18.06%.</p>
Allowance for credit losses	<p>There were no significant changes in the structure and terms of loan products in the first half of 2007. In line with the corporate strategy, the proportion of loans against income continued growing. At 30 June 2007, they made up 62.87% of the loan portfolio against 47.82% at 30 June 2006.</p> <p>Changes in the structure of the loan portfolio bring about changes in the customers' settlement behaviour. The collection periods of small unsecured receivables are longer than those of large loans which are secured with real estate. On the other hand, the loan portfolio of Balti Investeeringute Grupi Pank AS is diversified – the average amount of a loan is 1406 euros and at 30 June 2007 40 of the largest receivables accounted for no more than 5.7% of the loan portfolio.</p>

At 30 June 2007, the allowance for credit losses amounted to 3.3 million euros, 1.3 million euros up on a year ago.

## Liabilities

In the first half of 2007, the Group's liabilities increased 2.1 times (2.8 times year-over-year). The item (85.98 million euros) was debt securities issued which at 30 June 2007 accounted for 71% of consolidated liabilities. The growth in debt financing results from bond issues arranged for institutional investors.

As part of an up to 100 million euro debt security programme, the Group conducted two bond issues of 62.7 million euros in aggregate. 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 settlement terms.

In addition, term deposits from customers increased substantially, amounting to 12.2 million euros at 30 June (up 51% on the beginning of the year and up 176% on a year ago).

At the end of the reporting period, amounts due to credit institutions totalled 9.6 million euros, accounting for 8% of consolidated liabilities.

## Equity

The Group's equity grew by 22% to 24.4 million euros, a 82% increase year-over-year. The Group's capital adequacy ratio was 22.4%, surpassing the required level (10%) more than two-fold. At 30 June 2007, tier 1 and 2 capitals totalled 31.5 million euros, making up 21.7% of the balance sheet total.

## Results of operation

**Interest income** Interest income for the first half of 2007 amounted to 15.1 million euros, more than two-fold growth on the first half of 2006. The yield on interest earning assets declined from 17.4% a year ago to 14.7% owing to changes in the balance sheet structure.

**Interest expense** Interest expenses have increased on account of significant growth in debt financing (instigated by growth in the loan portfolio, the transfers which have to be made to the reserve with Central Bank<sup>1</sup> 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

<sup>1</sup> The reserve with Central Bank has to amount to 15% of all funds received excluding funds received from Estonian credit institutions.

market, then in the first half of 2007 the Group entered international markets. The international markets' assessment of the Estonian and Latvian macroeconomic environment differs from the one of local financial institutions. Due to the combined effect of the above factors, the growth in debt financing has been accompanied by a rise in the cost of financing. However, we expect the cost of financing to decline in subsequent periods (thanks to continuing growth in operating volumes, our strengthening reputation in financial markets, and a possible rating).

In the first half of 2007, interest expenses made up 20.3% of interest income.

Administrative expenses	Administrative expenses increased 104% year-over-year, rising to 4.237 million euros by period-end.  Gross salaries for the first half of 2007 totalled 1.4 million euros.
Impairment losses on financial assets	Impairment losses on financial assets totalled 2 million euros against 0.2 million euros a year ago. The increase in impairment losses is related to planned changes in the balance sheet structure (growth in the proportion of loans against income), which have increased settlement delays.
Other operating income and expenses	Other operating income for the first half of 2007 amounted to 1.3 million euros, a two-fold rise year-over-year. The largest item in other operating income was collection charges received.  Other operating expenses (including contributions to the Deposit Guarantee Fund, health care expenses and fringe benefit charges) totalled 0.8 million euros.
Net income	Balti Investeeringute Grupi Pank AS ended the first half of 2007 with net income of 5.7 million euros.

## CONSOLIDATED INTERIM 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 for the first half of 2007 set out on pages 10 to 39 of this report and confirms that to the best of its knowledge, information and belief:

- The consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.
- The consolidated interim financial statements give a true and fair view of the financial position of Balti Investeeringute Grupi Pank AS and of the results of its operations.
- All significant events that occurred until the date on which the financial statements were authorised for issue (27 August 2007) have been properly recognised and disclosed.
- Balti Investeeringute Grupi Pank AS is a going concern.

	Date	Signature
Targo Raus Chairman of Management Board	27 August 2007	.....
Kaido Saar Member of Management Board	27 August 2007	.....
Veiko Kandla Member of Management Board	27 August 2007	.....

## Consolidated balance sheet

(In millions of euros)	Note	30 June 2007	31 December 2006
<b>ASSETS</b>			
Cash		0.001	0
Due from Central Bank		10.515	6.148
Due from credit institutions		25.582	2.859
Loans to customers	3	103.185	64.711
Allowance for credit losses	3, 5	-3.311	-1.331
Debt and other fixed income securities		1.199	0
Intangible assets		0.515	0.408
Property and equipment		1.300	1.156
Investment property		0.338	0.342
Other assets		0.110	0
Accrued income and prepaid expenses	6	5.605	3.103
<b>TOTAL ASSETS</b>		<b>145.039</b>	<b>77.396</b>
<b>LIABILITIES</b>			
Due to credit institutions	7	9.617	10.177
Deposits from customers	8	12.283	8.115
Other liabilities		0.064	0.073
Debt securities issued	9	85.979	30.785
Accrued expenses and deferred income	10	1.803	1.413
Subordinated liabilities	9	10.873	6.904
<b>TOTAL LIABILITIES</b>		<b>120.619</b>	<b>57.467</b>
<b>EQUITY</b>			
	19		
Share capital		5.113	5.113
Capital reserve		0.511	0.256
Translation reserve		0.241	0.028
Retained earnings		12.845	3.422
Net income for the period		5.710	11.110
<b>TOTAL EQUITY</b>		<b>24.420</b>	<b>19.929</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>145.039</b>	<b>77.396</b>

## Consolidated income statement

(In millions of euros)	Note	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2006
Interest income	11	15.143	7.310
Interest expense	12	3.069	0.674
<b>Net interest income</b>		<b>12.074</b>	<b>6.636</b>
<b>Net fees and commissions</b>		<b>-0.004</b>	<b>-0.004</b>
Fee and commission income		0.006	0.005
Fee and commission expense		0.010	0.009
<b>Net gain / loss on financial transactions</b>		<b>-0.092</b>	<b>-0.006</b>
Gains / income on financial transactions		0.139	0
Losses / expenses on financial transactions		0.231	0.006
<b>Administrative expenses</b>		<b>4.237</b>	<b>2.096</b>
Salaries		1.387	0.612
Social security and health insurance charges		0.425	0.195
Other administrative expenses		2.425	1.289
<b>Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets</b>		<b>-0.156</b>	<b>-0.070</b>
<b>Net impairment loss on financial assets</b>	5	<b>-2.099</b>	<b>-0.196</b>
Recoveries		0.001	0.02
Losses		2.100	0.216
<b>Net other operating income</b>		<b>0.549</b>	<b>0.394</b>
Other operating income		1.345	0.655
Other operating expenses		0.796	0.261
<b>Net income before tax</b>		<b>6.035</b>	<b>4.658</b>
Income tax expense		0.325	0.123
<b>Net income for the period</b>		<b>5,710</b>	<b>4,535</b>
<b>Basic earnings per share (in euros)</b>	18	<b>71.389</b>	<b>56,690</b>
<b>Diluted earnings per share (in euros)</b>	18	<b>71.389</b>	<b>56,690</b>

## Consolidated statement of cash flows

(In millions of euros)	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2006
<b>Cash flows from operating activities</b>		
Interest received	11.918	6.548
Interest paid	-2.843	-0.572
Administrative expenses paid	-4.972	-2.338
Other operating income received	1.008	0.539
Other operating expenses paid	-0.120	-0.240
Doubtful receivables recovered	0.006	0.020
Proceeds from sale of other assets	0	0.013
Loans granted	-55.021	-27.434
Repayment of loans granted	17.801	9.487
Change in mandatory reserve with Central Bank	-5.936	-1.184
Proceeds from debt securities issued	73.123	13.052
Proceeds from customer deposits	5.010	4.035
Paid on redemption of deposits	-1.322	-0.018
Paid on redemption of debt securities	-13.505	-4.618
Income tax paid	-0.341	-0.062
Effect of changes in exchange rates	-0.114	0
<b>Net cash from / used in operating activities</b>	<b>24.692</b>	<b>-2.772</b>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment and intangible assets	-0.452	-0.249
Proceeds from sale of property and equipment	0	0.003
Change in investment portfolio	0	0
Purchase of securities	-1.831	0
Proceeds from sale of securities purchased	0.656	0
<b>Net cash used investing activities</b>	<b>-1.627</b>	<b>-0.246</b>
<b>Cash flows from financing activities</b>		
Proceeds from loans from credit institutions	11.185	8.673
Repayment of loans to credit institutions	-11.744	-5.582
Repayment of other loans	0	-0.054
Dividends paid	-1.406	-0.479
<b>Net cash used in / from financing activities</b>	<b>-1.965</b>	<b>2.558</b>
<b>Effect of exchange rate fluctuations related to foreign subsidiary</b>	<b>0.055</b>	<b>-0.032</b>
<b>Increase / decrease in cash and cash equivalents</b>	<b>21.155</b>	<b>-0.492</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>4.427</b>	<b>1.689</b>
<b>Cash and cash equivalents at end of period</b>	<b>25.582</b>	<b>1.197</b>
	<b>30 June 2007</b>	<b>30 June 2006</b>
Demand and overnight deposits with credit institutions	25.582	0.132
Deficit / surplus of mandatory reserve with Central Bank	0	1.065
<b>Total</b>	<b>25.582</b>	<b>1.197</b>

## Consolidated statement of changes in equity

(In millions of euros)	30 June 2007	30 June 2006
<b>Share capital</b>		
Balance at beginning of period	5.113	5.113
<b>Balance at end of period</b>	<b>5.113</b>	<b>5.113</b>
<b>Reserves - capital reserve</b>		
Balance at beginning of period	0.255	0.046
Transfer	0.256	0.210
<b>Balance at end of period</b>	<b>0.511</b>	<b>0.256</b>
<b>Translation reserve</b>		
Balance at beginning of period	0.028	0.002
Change	0.213	0.036
<b>Balance at end of period</b>	<b>0.241</b>	<b>0.038</b>
<b>Retained earnings</b>		
Balance at beginning of period	14.531	4.111
Net income for the period	5.710	4.536
Transfers to reserves	-0.256	-0.210
Dividend distribution	-1.406	-0.479
Change in translation reserve	-0.024	0
<b>Balance at end of period</b>	<b>18.555</b>	<b>7.958</b>
<b>Total equity</b>	<b>24.420</b>	<b>13.365</b>

## Notes to the consolidated interim financial statements

### 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 of the Bank for the period ended 30 June 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 for the year ended 31 December 2006 are available at the Parent company's offices at Rüütli 23, Tartu and at the corporate website at [www.big.ee](http://www.big.ee).

#### **Statement of compliance**

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2006.

The management board authorised the consolidated interim financial statements for issue on 13 August 2007.

#### **Basis of preparation**

The financial statements are presented in euros (EUR). The figures reported in the financial statements are presented in millions of euros, rounded to three digits after the decimal point. The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments held for trading and financial instruments classified as available-for-sale. Group entities apply, in all material respects, uniform accounting policies.

#### **Significant estimates and judgements made by management**

The preparation of financial statements in conformity with IFRS 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 the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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.

#### **Risk management**

There have been no significant changes in risk management during the reporting period. The Group's risk management policies are presented in the notes to the consolidated financial statements for the year ended 31 December 2006.

## **Note 2. Risk management**

### ***General risk management principles and methods***

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.

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 those areas which the Group knows, with which the Group has had positive experience and in which the Group has achieved certain success.

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

The Group will avoid taking risks in transactions which are open to significant legal risk or ambiguous accounting principles. The Group will not take unmanageable or unlimited risks. The Group will observe 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 tests.

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 made 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.

- 1) 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.
- 2) 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 grant also 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 30 June 2007, the Group did not have any customers whose liability would have exceeded 10% of the Group's net own funds.
- 3) 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 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 Bank's claims against the borrower not to be satisfied and consequently the Bank to incur a financial loss. Credit analyses are conducted on the basis of and in accordance with the procedure established by the Bank's management board.
- 4) 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 Bank's 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 Bank's supervisory board.
- 5) Loans are granted and managed in accordance with documented rules of procedure which are established by the Group's management board and are mandatory for all employees and structural units involved in credit management. The Bank's management board arranges relevant basic and further training.
- 6) The Bank's management board appoints employees or units responsible for credit control who monitor adherence to credit management rules and, if necessary, make proposals to the Bank's management board for the amendment and revision of those rules.
- 7) The Bank's management board arranges the monitoring of both individual loans and the overall loan portfolio on an ongoing basis. On monitoring individual loans, duly appointed members of staff review 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, duly appointed members of staff review 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.

- 8) 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 relevant experts (e.g. real estate appraisers).
- 9) The Group deals actively with the management of overdue loan liabilities, 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 the 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.
- 10) 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.

### **Liquidity risk and financing risk**

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

- 1) 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 the Group can meet its existing commitments both under normal and stressed circumstances.
- 2) 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.
- 3) The Group monitors the temporal distribution of receivables and liabilities (the compatibility of the volumes and due dates of assets and liabilities) on an ongoing basis and establishes limits to the maximum allowed differences between receivables and liabilities over a certain period.

- 4) The Group maintains sufficient liquidity reserves. Liquid assets are held with Eesti Pank (Bank of Estonia) and invested in money market and liquidity funds.
- 5) The Group uses diversified sources of financing.

#### Liquidity and financing risk management

- 1) Liquidity and financing risk management is based on regularly prepared statements and forecasts of cash flows and financial ratios, performance of stress tests, and maintenance of appropriate liquidity buffers.
- 2) The Group monitors the following ratios:
  - a. Liquid asset ratio (liquid assets to total assets) – as a rule must be at least 5%.
  - b. Equity to assets ratio – as a rule must be at least 10%.
  - c. Loans to assets ratio – as a rule may amount to up to 90%.
  - d. Capital adequacy ratio – must be at least 10%.
  - e. As a rule, the proportion of one investor may not exceed 15% of total financing.
  - f. As a rule, the proportion of one group of financing sources may not exceed 60% of total financing.
  - g. During any 6 and 12 month term liabilities may not account for more than 50% of receivables.
  - h. The liquidity reserve must amount to at least 5% of the loan portfolio.
- 3) Maintenance of liquidity buffers
  - a. As a rule, liquid assets are held with Eesti Pank (Bank of Estonia).
  - b. If the Group's free funds exceed the amount which has to be kept in the liquidity reserve, the funds may be placed in money market and liquidity funds which do not impose restrictions on the return of the funds within one day.
  - c. The size of the Bank's loan portfolio is relatively stable and not subject to swift fluctuations because of contracts made. The Bank does not have an obligation to issue new loans and the proportion of loans with unused credit limits is small.
  - d. Should it appear that the Bank 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 Bank to meet its existing financial obligations.
  - e. Reserve liquidity is ensured through a liquidity portfolio which includes:
    - i. Money market loans
    - ii. Overdraft agreements

- f. If possible, the Bank's management board should not use the liquidity portfolio to meet the Bank's daily financing needs but should keep it for covering unexpected or unusual expenditures.

### **Management of real estate market risk**

The real estate market risk is managed using the following principles.

- 1) The Group accepts as loan collateral only such immovable properties and structures as movables whose market value has been identified in a written valuation report prepared by a real estate company with whom the Group has a corresponding agreement.
- 2) The agreements made with real estate companies regarding valuation of assets must set out the real estate company's proprietary liability for incorrect appraisal.
- 3) 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 approved by the Group.
- 4) 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.
- 5) In addition to the valuation report prepared by a real estate company, risk is assessed on a subjective basis.
- 6) 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.

### **Management of other market risks**

The Bank's management monitors changes in the Estonian and the world's credit customer and financial markets on an ongoing basis. On the appearance of developments or trends which will have a significant impact on the Group's operations, the Group will review and if 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.

### **Management of 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 / activities:

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

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

Risks with a low probability but a potentially extensive financial impact (natural disasters, fire, etc) are insured against.

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

- 1) 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.
- 2) Procedural risk is managed using the following principles:
  - a. The Group's management board regulates the Group's daily business activity and operations by establishing appropriate rules and routines.
  - b. The Group's management board arranges regular basic and further training for the Group's employees.
- 3) Personnel risk is managed using the following principles:
  - a. Staff is recruited in accordance with the staff recruitment policy established by the Group's management board.
  - b. The Group appraises the knowledge and qualifications of the staff of the credit department on a regular basis.
  - c. Employees may assume obligations for the Group only within the limits established by the Group's management board.
  - d. Most business processes require the confirmation of at least two employees or units.
  - e. The Group enters into individual proprietary liability agreements with the staff assigned to safeguarding the Group's assets.

- 4) Legal risk is managed using the following principles:
- a. Legal services to the Group are provided by the Group's legal department which consists of appropriately qualified professionals.
  - b. 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.
  - c. Any deviations from the terms and conditions of model agreement forms have to be agreed with the Group's legal department and noted in writing in the credit acceptance decision.
  - d. Where necessary, the Group requests legal opinions from recognised law offices and notaries.
- 5) External attacks risk is managed using the following principles:
- a. Customers and partners are identified every time.
  - b. The disbursement of loans requires the confirmation of at least two employees.
  - c. 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).
  - d. Services provided are paid for using non-cash methods.
  - e. Physical security is ensured by establishing relevant rules and implementing relevant measures.

## Regulatory ratios

### Capital adequacy

(In millions of euros)

	30 June 2007	30 June 2006
<b>1. Tier 1 capital</b>	<b>23,905</b>	<b>13,194</b>
1.1 Paid-in share capital	5.113	5.113
1.2 General banking reserve	-	-
1.3 Other reserves	0.511	0.256
1.4 Retained earnings	12.845	3.422
1.5 Net income for the period	5.710	4.536
1.6 Minority interest (only in the consolidated financial statements)	-	-
1.7 Unrealised exchange differences (only in the consolidated financial statements)	0.241	0.038
1.8 Negative goodwill	-	-
1.9 Treasury stock	-	-
1.10 Intangible assets	-0.515	- 0.171
<b>2. Tier 2 capital</b>	<b>7.647</b>	<b>-</b>
<b>3. Gross capital (1.+2.)</b>	<b>31.552</b>	<b>13.194</b>
<b>4. Deductions from gross capital</b>	<b>-</b>	<b>-</b>
<b>5. Net capital (3.-4.)</b>	<b>31.552</b>	<b>13.194</b>
6. Tier 3 capital	-	-
<b>7. Risk-weighted assets</b>	<b>111.226</b>	<b>50.477</b>
7.1 Category I (risk weight 0%)	10.548	4.276
7.2 Category II (risk weight 20%)	25.582	0.132
7.3 Category III (risk weight 50%)	5.595	1.983
7.4 Category IV (risk weight 100%)	103.312	49.459
<b>8. Risk-weighted off-balance sheet transactions</b>	<b>-</b>	<b>-</b>
8.1 Group I	-	-
8.2 Group II	-	-
<b>9. Capital requirement for covering foreign currency risks</b>	<b>2.914</b>	<b>0.782</b>
<b>10. Capital requirement for covering trading portfolio risks</b>	<b>-</b>	<b>-</b>
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	-	-
<b>11. Capital requirement for covering trading portfolio credit exposures exceeding the risk exposure limits</b>	<b>-</b>	<b>-</b>
<b>12. Capital adequacy (5.+6.)/(7.+8.+9.*10.+10.*12.5+11*12.5)</b>	<b>22.48%</b>	<b>22.63%</b>

## Concentrations of risk

At 30 June 2007, the Group was not exposed to any clients whose total liability exceeded 10% of the Group's own funds on a net basis. The average amount of a loan amounted to 1406 euros.

## Note 3. Loans to customers

(In millions of euros)	30 June 2007			31 December 2006		
	Loan portfolio	Allowance for doubtful loans	Net loan portfolio	Loan portfolio	Allowance for doubtful loans	Net loan portfolio
Overdue loans (note 4)	14.210	-0.669	13.541	8.207	-0.109	8.098
Short-term loans	9.414	-0.356	9.058	7.573	-0.292	7.281
Loans repayable between 1 and 2 years	14.914	-0.534	14.380	6.463	-0.145	6.318
Loans repayable between 2 and 5 years	26.963	-0.849	26.114	18.105	-0.398	17.707
Loans repayable between 5 and 7 years	7.415	-0.288	7.127	4.623	-0.117	4.506
Loans repayable between 7 and 10 years	23.793	-0.530	23.263	15.024	-0.237	14.787
Loans repayable between 10 and 15 years	5.442	-0.084	5.358	4.602	-0.033	4.569
Loans repayable in over 15 years	1.034	-0.001	1.033	0.114	0.000	0.114
<b>Total loans to customers</b>	<b>103.185</b>	<b>-3.311</b>	<b>99.874</b>	<b>64.711</b>	<b>-1.331</b>	<b>63.380</b>

Loans by product type :

<b>Loan</b>	<b>30 June 2007</b>	<b>31 December 2006</b>
Loans against income	64.874	37.390
Surety loans	18.163	14.338
Loans secured with real estate	16.487	10.007
Credit lines to companies (secured with real estate)	3.661	2.976
	<b>103.185</b>	<b>64.711</b>

**Annual interest rates of loans:**

*Loans repayable under the annuity schedule:*

Loan type	Under 1 year	1 to 2 years	2 to 4 years	4 to 5 years	5 to 6 years	6 to 7 years	7 to 8 years	10 to 15 years
Loans against income	42%	32%	29%	29%	27%	25%	25%	-
Unsecured loans	42%	32%	29%	29%	27%	25%	25%	-
Surety loans	42%	32%	29%	29%	27%	25%	25%	-
Loans against real estate	19%	19%	19%	19%	18%	16%	15.9%	15.5%

*Loans repayable in a lump sum:*

Loan type	Under 1 year	1 to 2 years	2 to 4 years	4 to 5 years	5 to 6 years	6 to 10 years
Loans against income	66%	53%	53%	45%	40%	37%
Surety loans	66%	53%	53%	45%	40%	37%
Loans secured with real estate	36%	33.6%	-	-	-	-
Credit lines (revolving credit)	19%	19%	-	-	-	-

The effective interest rate is up to 1 percentage point higher than the contractual one.

**Note 4. Overdue loans\***

(In millions of euros)*	<b>30 June 2007</b>	<b>31 December 2006</b>
Up to 30 days	0.223	0.419
30 - 60 days	0.393	0.218
60 – 90 days	0.424	0.379
Over 90 days	13.170	7.191
<b>Total</b>	<b>14.210</b>	<b>8.207</b>

\* Overdue loans do not include overdue interest receivables.

## Note 5. Allowance for credit losses

(In millions of euros)	<b>30 June 2007</b>	<b>31 December 2006</b>
<b>Balance at beginning of period</b>	<b>-1.331</b>	<b>-0.384</b>
Loan receivables written off as irrecoverable	-0.004	0.033
Increase / decrease in allowance	-1.976	-0.980
Exchange differences	0	0
<b>Balance at end of period</b>	<b>-3.311</b>	<b>-1.331</b>

## Impairment losses of financial assets

	<b>1<sup>st</sup> half 2007</b>	<b>1<sup>st</sup> half 2006</b>
Recovery of loans written off as irrecoverable	0.001	0.020
Increase in impairment losses on other accrued income	-0.129	0
Increase in impairment losses on loans	-1.971	-0.216
<b>Total</b>	<b>-2.099</b>	<b>-0.196</b>

## Note 6. Accrued income and prepaid expenses

(In millions of euros)	<b>30 June 2007</b>	<b>31 December 2006</b>
<b>Accrued income</b>		
Interest receivable from customers	5.041	2.831
Interest receivable from Central Bank	0.033	0.013
Interest on arrears and penalty payments receivable	0.024	0.008
Commissions and fees receivable	0.031	0.017
Collection fees and other charges receivable	0.370	0.210
Write-down of amounts due	-0.182	-0.053
Other accrued income	0.104	0.003
<b>Total</b>	<b>5.421</b>	<b>3.029</b>
<b>Prepaid expenses</b>		
Prepaid contract fees	0.009	0.018
Prepaid marketing expenses	0.034	0.023
Prepaid insurance premiums	0.013	0.002
Prepaid rental	0.035	0.005
Other prepaid expenses	0.093	0.026
<b>Total</b>	<b>0.184</b>	<b>0.074</b>
<b>Total accrued income and prepaid expenses</b>	<b>5.605</b>	<b>3.103</b>

**Note 7. Due to credit institutions**

(In millions of euros)	30 June 2007			31 December 2006		
	Current portion	Non-current portion	Total	Current portion	Non-current portion	Total
Investment loan from Sampo Pank	9.545	0	<b>9.545</b>	0	9.545	<b>9.545</b>
Loan from SEB Eesti Ühispank	0	0.072	<b>0.072</b>	0	0.094	<b>0.094</b>
Overdraft from Hansabanka	0	0	<b>0</b>	0.538	0	<b>0.538</b>
<b>Total</b>	<b>9.545</b>	<b>0.072</b>	<b>9.617</b>	<b>0.538</b>	<b>9.639</b>	<b>10.177</b>

Interest rates of the loans as at 30 June 2007:

Loan from Sampo Pank: 6 months' Euribor + 0.85% per year

Loan from SEB Eesti Ühispank: base interest rate of the bank's kroon-denominated loans + 3% per year

Hansabanka. overdraft: 3 months' Rigibor + 3% of the used portion and 1% of the unused portion per year.

**Note 8. Deposits**

(In millions of euros)	30 June 2007	31 December 2006
Matured deposits	0.013	0
Deposits maturing within 1 year	10.467	6.603
Deposits maturing between 1 and 2 years	0.677	0.432
Deposits maturing between 2 and 5 years	1.126	1.080
<b>Total</b>	<b>12.283</b>	<b>8.115</b>

	30 June 2007	31 December 2006
Term deposit. interest payout once a year	0.527	0.461
Term deposit. interest payout once a month	0.908	0.717
Term deposit. interest payout at end of term	6.782	2.373
Term deposit. interest payout at end of term (large investor)	4.066	4.564
<b>Total</b>	<b>12.283</b>	<b>8.115</b>

Interest rates offered to customers at 30 June 2007:

Deposits of up to 6391 euros			
Year	Term deposit with monthly interest payout (%)	Term deposit with annual interest payout (%)	Term deposit with interest payout at end of term (%)
6 months	0	0	4.50
1	4.70	4.80	4.80
2	4.80	4.90	4.95
3	4.95	5.05	5.15

Deposits of over 6391 euros			
Year	Term deposit with monthly interest payout (%)	Term deposit with annual interest payout (%)	Term deposit with interest payout at end of term (%)
6 months	0	0	4.65
1	4.85	4.95	4.95
2	4.95	5.05	5.10
3	5.05	5.15	5.25

### Note 9. Debt securities issued

(In millions of Estonian euros)

<b>Debt securities by maturity</b>	<b>30 June 2007</b>	<b>31 December 2006</b>
Past maturity	0.090	0.123
Maturing within 1 year	18.385	13.270
Maturing between 1 and 2 years	6.520	17.456
Maturing between 2 and 5 years	64.209	3.530
Maturing in over 5 years	7.648	3.310
<b>Total</b>	<b>96.852</b>	<b>37.689</b>

	<b>30 June 2007</b>	<b>31 December 2006</b>
Compound interest bonds	0.152	0.242
Simple interest bonds	94.729	29.628
<i>Including subordinated bonds</i>	10.873	6.904
Discount bonds	1.963	7.761
Savings bonds	0.008	0.058
<b>Total</b>	<b>96.852</b>	<b>37.689</b>

<b>Debt securities by currency</b>	<b>30 June 2007</b>	<b>31 December 2006</b>
Debt securities denominated in EEK	29.993	31.833
<i>Including subordinated bonds</i>	10.873	6.904
Debt securities denominated in EUR	60.984	0
Debt securities denominated in LVL	5.875	5.856
<b>Total</b>	<b>96.852</b>	<b>37.689</b>

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

## Note 10. Accrued expenses and deferred income

(In millions of euros)

<b><i>Accrued expenses</i></b>	<b>30 June 2007</b>	<b>31 December 2006</b>
Interest payable on debt securities	0.368	0.459
Interest payable on deposits	0.234	0.089
Bank interest payable	0	0.001
Accounts payable to suppliers	0.227	0.178
Payables to employees	0.112	0.102
Taxes payable	0.490	0.342
<b>Total</b>	<b>1.431</b>	<b>1.171</b>

<b><i>Deferred income</i></b>	<b>30 June 2007</b>	<b>31 December 2006</b>
Advances from customers	0.372	0.242
<b>Total</b>	<b>0.372</b>	<b>0.242</b>

<b>Total accrued expenses and deferred income</b>	<b>1.803</b>	<b>1.413</b>
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## Note 11. Interest income

(In millions of euros)

	<b>1<sup>st</sup> half 2007</b>	<b>1<sup>st</sup> half 2006</b>
Interest income on loans to customers	14.874	7.310
Interest income on deposits	0.241	0
Interest income on debt and other fixed income securities	0.028	0
<b>Total</b>	<b>15.143</b>	<b>7.310</b>

## Note 12. Interest expense

(In millions of euros)

	<b>1<sup>st</sup> half 2007</b>	<b>1<sup>st</sup> half 2006</b>
Interest expense on debt securities	-2.495	-0.519
Interest expense on deposits	-0.266	-0.027
Interest expense on bank loans	-0.286	-0.122
Interest expense on other loans	-0.022	-0.006
<b>Total</b>	<b>-3.069</b>	<b>-0.674</b>

### Note 13. Net currency positions

30 June 2007 (In millions of euros)	Balance sheet position		Off-balance sheet position		Net position
	Long	Short	Long	Short	
EEK	85.066	42.337	-	0.222	42.507
EUR	24.750	70.563	-	-	- 45.813
LVL	35.223	7.719	-	-	27.504

31 December 2006 (In millions of euros)	Balance sheet position		Off-balance sheet position		Net position
	Long	Short	Long	Short	
EEK	73.344	40.083	-	0.203	33.059
EUR	-	9.545	-	-	- 9.545
LVL	4.052	7.839	-	-	- 3.787

### Note 14. 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. Items that cannot be allocated to segments are presented as unallocated.

### Geographical segments

(In millions of euros)

	Estonia		Latvia		Eliminations		Group	
	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2006	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2006	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2006	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2006
<b>Revenue from external customers</b>								
Interest income	11.527	6.205	3.616	1.105	0	0	15.143	7.310
Net fees and commissions	-0.002	0.001	-0.002	-0.005	0	0	-0.004	-0.004
<b>Total revenue from external customers</b>	<b>11.525</b>	<b>6.206</b>	<b>3.614</b>	<b>1.100</b>	<b>0</b>	<b>0</b>	<b>15.139</b>	<b>7.306</b>
<b>Inter-segment revenue</b>	<b>2.460</b>	<b>0.517</b>	<b>0</b>	<b>0</b>	<b>-2.460</b>	<b>-0.517</b>	<b>0</b>	<b>0</b>
<b>Total revenue</b>	<b>13.985</b>	<b>6.723</b>	<b>3.614</b>	<b>1.100</b>	<b>-2.460</b>	<b>-0.517</b>	<b>15.139</b>	<b>7.306</b>
Net income before tax	6.077	4.283	1.370	0.807	-1.412	-0.432	6.035	4.658
Income tax expense	0	0	0.325	0.123	0	0	0.325	0.123
<b>Net income</b>	<b>6.077</b>	<b>4.283</b>	<b>1.045</b>	<b>0.684</b>	<b>-1.412</b>	<b>-0.432</b>	<b>5.710</b>	<b>4.535</b>

(In millions of euros)

	Estonia		Latvia		Eliminations		Consolidated	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Loans to customers	100.687	61.938	35.225	15.668	-32.727	-12.895	103.185	64.711
Allowance for credit losses	-2.292	-1.086	-1.019	-0.245	0	0	-3.311	-1.331

## Note 15. Income tax expense

	30 June 2007	31 December 2006
Income tax expense	0.325	0.296
Deferred income tax	0	-0.004
<b>Total</b>	<b>0.325</b>	<b>0.292</b>
Property and equipment	0.256	0.185
Carrying amount of property and equipment for tax purposes	-0.147	-0.102
Vacation pay liability	-0.049	-0.022
Impairment losses on receivables	-1.019	-0.244
<b>Total</b>	<b>-0.959</b>	<b>-0.183</b>
<b>Deferred income tax</b>	<b>-0.144</b>	<b>-0.027</b>

In the first half of 2007, the income tax calculated on net profit earned in Latvia amounted to 0.325 million euros.

## Note 16. Contingent income tax liability

At 30 June 2007, the Group's total distributable profits (retained earnings and net income for the period) amounted to 18.555 million euros. The income tax liability that would arise if all of the profits were distributed as dividends amounts to 4.082 million euros. Thus, the maximum amount that could be distributed as the net dividend is 14.473 million euros.

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the dividend tax expense reported in the income statement for 2007 cannot exceed the total distributable profits as of 30 June 2007.

## Note 17. Related parties

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

- 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 the first half of 2007 the remuneration of the members of the Group's management and supervisory boards totalled 0.08 million euros and 0.02 million euros respectively.

In 2006, OÜ Edelatuulik Invest and OÜ Stermand Invest. companies in which Member of the Supervisory Board of Balti Investeeringute Grupi Pank AS Linda

Terras is a shareholder. concluded term deposit agreements with Balti Investeeringute Grupi Pank AS. At 30 June 2007, interest accrued but not paid under the agreements amounted to 0.013 million euros. The interest rates of the deposits do not differ from the ones offered to other customers depositing similar amounts at the same time. At 30 June 2007, deposits from companies related to Linda Terras totalled 0.438 million euros.

#### Note 18. Earnings per share

	30 June 2007	30 December 2006
<b>Net income for the period (in millions of euros)</b>	5.710	4.535
Number of shares outstanding at beginning of period	80 000	80 000
Number of shares outstanding at end of period	80 000	80 000
Weighted average number of ordinary shares outstanding during the period	80 000	80 000
<b>Earnings per share (in euros)</b>	71	57

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

#### Note 19. 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 5.113 million euros and 15.338 million euros respectively. The share capital is made up of ordinary shares with a par value of 63.912 euros 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 transfers of net income. Each year, an entity has to transfer at least one twentieth of its net income for the period to the capital reserve until the reserve amounts to one tenth of the share capital. The capital reserve may be used to cover losses and to increase share capital. It may not be distributed to shareholders.

***Translation reserve***

The translation reserve comprises foreign currency 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 30 June 2007, the Group's unrestricted equity amounted to 18.555 million euros.

***Dividends***

Dividends have been distributed as follows:

- in 2006, 5.99 euros per share, i.e. 0.479 million euros in aggregate;
- in 2007, 17.58 euros per share, i.e. 1.406 million euros in aggregate.

## The parent company's separate primary financial statements

### The parent company's separate balance sheet

(In millions of euros)	30 June 2007	31 December 2006
<b>ASSETS</b>		
Due from Central Bank	10.515	6.147
Due from credit institutions	25.001	2.697
Loans to customers	101.032	62.265
Allowance for credit losses	-2.292	-1.086
Investments	1.805	0.606
Intangible assets	0.498	0.400
Property and equipment	0.552	0.480
Accrued income and prepaid expenses	5.090	2.668
<b>TOTAL ASSETS</b>	<b>142.201</b>	<b>74.177</b>
<b>LIABILITIES</b>		
Due to credit institutions	9.617	9.639
Deposits from customers	12.281	8.115
Debt securities issued	85.979	30.785
Accrued expenses and deferred income	1.019	0.988
Subordinated liabilities	10.873	6.904
<b>TOTAL LIABILITIES</b>	<b>119.769</b>	<b>56.431</b>
<b>EQUITY</b>		
Share capital	5.113	5.113
Capital reserve	0.510	0.256
Retained earnings	10.715	2.437
Net income for the period	6.094	9.940
<b>TOTAL EQUITY</b>	<b>22.432</b>	<b>17.746</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>142.201</b>	<b>74.177</b>

## Parent company's separate income statement

(In millions of euros)	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2006
Interest income	11.532	6.296
Interest expense	3.051	0.676
<b>Net interest income</b>	<b>8.481</b>	<b>5.620</b>
<b>Income on financial investments</b>	<b>1.412</b>	<b>0.431</b>
<b>Net fees and commissions</b>	<b>-0.002</b>	<b>0.001</b>
Fee and commission income	0.005	0.004
Fee and commission expense	0.007	0.003
<b>Net gain / loss on financial transactions</b>	<b>-0.001</b>	<b>-0.004</b>
Gains / income on financial transactions	0.139	0
Losses / expenses on financial transactions	0.14	0.004
<b>Administrative expenses</b>	<b>3.268</b>	<b>1.869</b>
Salaries	0.906	0.514
Social security and health insurance charges	0.302	0.171
Other administrative expenses	2.06	1.184
<b>Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets</b>	<b>-0.111</b>	<b>-0.049</b>
<b>Net impairment loss on financial assets</b>	<b>-1.329</b>	<b>-0.196</b>
Recoveries	0.001	0.02
Losses	1.33	0.216
<b>Net other operating income</b>	<b>0.912</b>	<b>0.352</b>
Other operating income	0.967	0.402
Other operating expenses	0.055	0.05
<b>Net income</b>	<b>6.094</b>	<b>4.286</b>

## Parent company's separate statement of cash flows

(In millions of euros) 1<sup>st</sup> half 2007 1<sup>st</sup> half 2006

### Cash flows from operating activities

Interest received	8.057	5.49
Interest paid	-2.828	-0.557
Administrative expenses paid	-3.476	-2.219
Other operating income received	0.641	0.295
Other operating expenses paid	-0.109	-0.032
Doubtful receivables recovered	0.006	0.020
Proceeds from sale of other assets	0	0.013
Loans granted	-49.834	-24.549
Repayment of loans granted	12.432	7.431
Change in mandatory reserve with Central Bank	-5.936	-1.184
Proceeds from debt securities issued	73.123	13.052
Proceeds from customer deposits	5.01	4.035
Paid on redemption of deposits	-1.322	-0.018
Paid on redemption of debt securities	-13.505	-4.618
Effect of changes in exchange rates	-0.012	0
<b>Net cash from / used in operating activities</b>	<b>22.247</b>	<b>-2.841</b>

### Cash flows from investing activities

Acquisition of property and equipment and intangible assets	0.329	-0.189
Purchase of securities	-1.831	0
Proceeds from sale of securities purchased	0.656	0
Dividends received	1.423	0.431
<b>Net cash from in investing activities</b>	<b>-0.081</b>	<b>0.242</b>

### Cash flows from financing activities

Proceeds from loans from credit institutions	11.185	8.181
Repayment of loans to credit institutions	-11.207	-5.582
Repayment of other loans	0	-0.022
Dividends paid	-1.406	-0.479
<b>Net cash used in / from financing activities</b>	<b>-1.428</b>	<b>2.098</b>
<b>Increase / decrease in cash and cash equivalents</b>	<b>20.738</b>	<b>-0.501</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>4.266</b>	<b>1.685</b>
<b>Cash and cash equivalents at end of period</b>	<b>25.004</b>	<b>1.184</b>

	30 June 2007	30 June 2006
Demand and overnight deposits with credit institutions	25.004	0.119
Deficit / surplus of mandatory reserve with Central Bank	0	1.065
<b>Total</b>	<b>25.004</b>	<b>1.184</b>

### Parent company's separate statement of changes in equity

(In millions of euros)	30 June 2007	30 June 2006
<b>Share capital</b>		
Balance at beginning of period	5.113	5.113
<b>Balance at end of period</b>	<b>5.113</b>	<b>5.113</b>
<b>Reserves - capital reserve</b>		
Balance at beginning of period	0.255	0.046
Transfer	0.255	0.210
<b>Balance at end of period</b>	<b>0.510</b>	<b>0.256</b>
<b>Retained earnings</b>		
Balance at beginning of period	12.377	3.126
Net income	6.094	4.286
Transfers to reserves	-0.256	-0.210
Dividend distribution	-1.406	-0.479
<b>Balance at end of period</b>	<b>16.809</b>	<b>6.723</b>
<b>Total equity</b>	<b>22.432</b>	<b>12.092</b>

## SIGNATURES

The management board has prepared the review of operations and the consolidated interim financial statements for the period ended 30 June 2007.

The supervisory board has reviewed the interim report, including the review of operations and the consolidated interim financial statements which have been appended an auditor's report.

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

## **AUDITOR'S REPORT**