



**BALTI INVESTEERINGUTE GRUPI PANK AS**

**BOND ISSUE PROSPECTUS**

**TOTAL NOMINAL VALUE OF THE ISSUE LTL 10 000 000**

**10 000 BONDS WITH INTEREST RATE 12% PER ANNUM**

**BOND ISSUE WITH MATURITY DATE MARCH 24, 2009**

**ISIN CODE EE3300096304**

**TALLINN**  
**September 2008**

**Arranger: AS SEB Pank**

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**SEB**

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## ANNEXES

- Copy of the resolution of the Board of Issuer as of March 19, 2008;
- Copy of the resolution of the Board of Issuer as of September 1, 2008;
- Copy of the Articles of Association;
- Public Interim Report Q1 2008;
- Public Interim Report 2Q 2008;
- Annual Report 2007;
- General Terms and Conditions of Commercial Paper and Bond Issue and Special Conditions (Purchase Offer).

## 1 STATEMENT OF MANAGEMENT BOARD'S RESPONSIBILITY

Balti Investeeringute Grupi Pank AS (reg. code in Estonian Commercial Register: 10183757), located at Rüütli 23, 51006 Tartu, Estonia (hereinafter also referred to as "the Issuer" or "BIG"), represented by the members of the Management Board:

- Targo Raus, Chairman of the Management Board
- Veiko Kandla, Member of the Management Board
- Kaido Saar, Member of the Management Board

shall be responsible for the authenticity and completeness of all the data presented in this bonds prospectus (hereinafter referred to as "the Prospectus").

The signatories certify that they have adopted all appropriate and reasonable measures to verify the authenticity and completeness of the data contained in the Prospectus and that to their knowledge nothing has been omitted which would have a significant effect on the content or meaning of the data contained within.

Tallinn, 9 September 2008



Targo Raus  
Chairman of the Board



Veiko Kandla  
Member of the Board



Kaido Saar  
Member of the Board

## **2 SUMMARY**

This section of the Prospectus is a summary and it should be read as an introduction to the Prospectus. Any decision to invest in the securities should be based on consideration of all information in the Prospectus by the potential investor (hereinafter referred to as Investor).

Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff Investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

The persons responsible for the information included in the Prospectus hold civil liability, but only in the case if the summary is misleading, inaccurate or conflicting to the other sections of the Prospectus. Before deciding to invest, potential Investor should thoroughly and objectively consider the risks associated with investing into the offered bonds (hereinafter referred to as Bonds).

### **2.1 Issuer**

The incorporation date of the Issuer is August 24, 1997 and registration date with Commercial Register of the Republic of Estonia January 30, 1997. The registry code of the Issuer is 10183757. The Issuer received a credit institutions licence on September 27, 2005 and shortly after, on November 9, 2005, the business name of the Issuer was changed to Balti Investeeringute Grupi Pank AS.

Balti Investeeringute Grupi Pank AS is a commercial bank specialised in providing consumer credits. BIG's mission is to make consumer credits (small financing) easily accessible for everybody by being flexible and proactive.

Currently, BIG is operating in Estonian, Latvian and Lithuanian market being one of largest loan providers to private individuals after universal banks and leasing companies in the Baltics. BIG has shown high growth rates in recent years and has a good market position for further growth.

The Issuer started offering term deposits in March 2006. The Issuer has no plans to start offering demand deposits or to set up payment services or other universal bank activities. The focus will remain on existing client segment, product development is directed to raising effectiveness in administering increasing number of small loan contracts.

The Issuer is a parent company of a consolidation group which consists of Balti Investeeringute Grupi Pank AS, its 100% subsidiaries AS Baltijas Izaugsmes Grupa and OÜ Rūitli Majad. In Lithuania, the Issuer operates through a branch, Balti Investeeringute Grupi Pank AS filialas.

In November 2007, Moody's Investors Service assigned a financial strength rating of E+ to Balti Investeeringute Grupi Pank AS, which translates into Baseline Credit Assessment of B1, a long-term deposit rating of B1; and a short-term deposit rating of Non-Prime. In September 2008, Moody's Investors Service confirmed the E+ financial strength rating with stable outlook, however the outlook on long-term ratings was changed from stable to negative.

Further information on the Issuer can be found from section 5 of the Prospectus.

### **2.2 Important agreements, patents and licences**

The Issuer has no knowledge of any important agreements concluded by the Issuer, which could affect the Issuer's capability to fulfil its liabilities due to Investors regarding the issued Bonds.

The Issuer holds a credit institution licence issued by the Financial Supervision Authority on September 27, 2005.

The Issuer does not plan to expand its activities to other product categories or activities allowed by the credit institution licence. The Issuer plans to remain focused on consumer credit services. In addition, the Issuer accepts term deposits supporting its main activities.

The Issuer does not hold any patents or other licences which considerably influence the business activities and economic results of the Issuer.

## **2.3 Financial information summary**

The financial information presented herein is based on audited consolidated financial reports as of 31.12.2007 and on Public Interim Report as of 30.06.2008. Audit review of Q2 2008 has been conducted.

Balti Investeeringute Grupi AS has enjoyed rapid growth in its business activities and profits. Receivables from customers amounted to 141.8 million euros by end of Q2 2008 and formed 82.2% of the total balance sheet as of 30.06.2008.

The share of equity is high and formed 19.6% of the total balance sheet as of 30.06.2008. Capital adequacy ratio was 18.25% as of 30.06.2008.

Debt securities issued formed 70.0% of the Issuer's liabilities as of 30.06.2008. Other financing sources include term deposits (19.1% of total liabilities as of 30.06.2008), loans from banks (0.8%), and subordinated liabilities (7.9%).

Interest income amounted to 22.2 million euros in 1H 2008. Second largest source of income is other operating income (3.5 million euros in 1H 2008), which mainly consists of income related to enforcement process. Weighted average yield of loan portfolio (including income related to enforcement process) amounted to 36.5% (annualised) in 1H 2008.

Interest expense formed 7.5 million euros in 1H 2008. Spread in 1H 2008 was 15.5%. Other largest cost items in 1H 2008 were impairment losses in the amount of 4.5 million euros in 1H 2008 and salary expenses in the amount of 3.5 million euros in 1H 2008. Net profit was 5.7 million euros in 1H 2008. Net profit margin in 1H 2008 was 20.1%.

## **2.4 Auditor and legal advisory**

The auditor of the Issuer is KPMG Baltics AS (registry code 10096082). The auditors for 2007 annual report were Taivo Epner and Eero Kaup. Starting from 2008, the auditors are Andres Root and Eero Kaup (KPMG).

More detailed information regarding the auditor of the Issuer can be found in section 4 of the Prospectus.

The Issuer has an in-house legal department. However, throughout the years, the Issuer has also used services from various well-known law firms.

## **2.5 Management**

The main management bodies of the Issuer are the Supervisory Board and the Management Board.

The Supervisory Board of the Issuer consists of five members:

- Parvel Pruunsild, Chairman of the Supervisory Board
- Meelis Luht, Member of the Supervisory Board
- Juhani Jaeger, Member of the Supervisory Board
- Vahur Voll, Member of the Supervisory Board
- Linda Terras, Member of the Supervisory Board

The Management Board of the Issuer consists of three members:

- Targo Raus, Chairman of the Management Board
- Veiko Kandla, Member of the Management Board
- Kaido Saar, Member of the Management Board

More detailed information regarding the management of the Issuer can be found in section 8.2 of the Prospectus.

## **2.6 Risk factors**

The main risk factors that influence the Issuer are borrowers' (the Issuer's clients') credit risk, liquidity and financing risk, operational risks, and market risks (interest, foreign exchange, and real estate market risk). Before the purchase of the Bonds the Investor should independently analyze risks related to the Bonds, since risks can substantially influence the Issuer's ability to duly fulfil the obligations arising from the Bonds.

Risks related to the Bonds are liquidity and price risk. Detailed information on the impact of different risks on the Issuer and its Bonds can be found in the section 3 of the Prospectus.

## **2.7 Bonds**

A bond is a coupon debt security, representing the Issuer's unsecured and unsubordinated debt obligation, issued and redeemed in accordance with "General Terms and Conditions of Commercial Paper and Bond Issue" and Special Conditions as specified on purchase offer (hereinafter referred to as the Terms and Conditions).

The Issuer's debt obligations arising from the Bonds rank *pari passu* with the rest of the Issuer's unsecured and unsubordinated debt obligations. The issued Bonds are freely transferable and encumberable.

The term of the Bonds issued through primary issue shall be approximately 1 year, with value date on March 19, 2008 and maturity date on March 24, 2009.

The Issuer shall pay interest to the Bonds, the rate of which was determined pursuant to purchase offers submitted during primary distribution. The interest rate is 12% per annum. Calculation of interest shall be based on the actual number of days during the interest period and a year of actual number of days (Act/Act). The interest period shall commence on the value date and shall end on the Interest payment day.

Interest payment day shall be on Maturity Date, March 24, 2009

The Bonds are nominated in Lithuanian litas (LTL). The nominal value of the Bonds is 1 000 LTL.

All in all the total value of the issued Bonds is LTL 10 000 000 (ten million litas) in nominal value. The total number of the Bonds issued is 10 000 (ten thousand).

The Bonds were registered with the Estonian Central Securities Register according to the Estonian Central Securities Register Act and other applicable legal acts under ISIN code EE3300096304 on March 19, 2008.

## **2.8 Bond Issue**

The primary distribution of the bond issue was carried out by way of private placement. The arranger was AS SEB Pank.

The subscription period of Bonds commenced March 12, 2008 and ended at 12 p.m. (Estonian time) on March 17, 2008. The total volume of the Bond issue in its nominal value was LTL 10 000 000 (ten million litas) and 10 000 (ten thousand) Bonds were issued. The issue price of a bond was LTL 1 000 (one thousand litas).

The Bonds shall be listed in the bond list of the Tallinn Stock Exchange in accordance with a respective decision of the listing committee within three months as of submission of the listing application by the Issuer. The listing prospectus together with other particulars and documents shall be submitted to the Tallinn Stock Exchange within six months of the initial offering.

## **2.9 The use of the proceeds**

Funds that have been raised as a result of bond issue shall be used for general corporate purposes of the Issuer, mainly supporting the growth of the loan portfolio in Estonian, Latvian and Lithuanian market.

## **2.10 Documents available to the public**

The following documents are available to the public:

- Articles of Association – Rõütli 23, 51006 Tartu, Republic of Estonia and on the Issuer's website <http://www.big.ee/>;
- Financial information – Rõütli 23, 51006 Tartu, Republic of Estonia and on the Issuer's website <http://www.big.ee/>;
- Prospectus – Rõütli 23, 51006 Tartu, Republic of Estonia and on the Issuer's website <http://www.big.ee/>.

The abovementioned documents shall be available on the website of the Tallinn Stock Exchange after respective decision of the listing committee. The web page address of OMX Tallinn Stock Exchange is <http://www.baltic.omxnordicexchange.com/>.

### 3 RISK FACTORS

Each Investor should carefully review the risks described in this section. Risk factors that could influence the value of the Bonds are specific risks related to issued securities (section 3.1), to the Issuer (section 3.2), or other risks (section 3.3). Besides risk factors outlined in this part of the Prospectus, other risks influencing the performance of the Bonds may exist and should be considered by a potential Investor before making the investment decision. In order to evaluate how the Issuer manages risks brought out in sections 3.2 and 3.3, potential Investor should familiarise himself with the risk management procedures of the Issuer, brought out in section 3.4 of the Prospectus.

#### 3.1 Risk factors associated with the type of securities issued

Security-specific risks related to the issued Bonds could be outlined as follows:

- market risk (liquidity risk);
- credit risk;
- interest rate risk.

**Market risk** alias liquidity risk should be evaluated by a potential Investor considering that despite listing the Bonds on Tallinn Stock Exchange, there is no guarantee of sufficient liquidity in the secondary market of the Bonds and the Investor might bear a loss due to not being able to sell the securities on the secondary market or having to sell them at an unfavourable price.

As a **credit risk**, a potential Investor should assess specific credit risks associated with the Issuer as well as general credit risk of the Bonds. As a specific credit risk, events that undermine the creditworthiness of the Issuer should be considered. As a general credit risk, a possibility should be considered that future bond issuers with similar profile offer higher yield to attract investors, and as a result of that the yield on the Bonds should have been higher as well.

**Interest rate risk** should be assessed by a potential Investor considering that besides the activities of the Issuer the developments of financial markets may affect the value of the Bonds and when the interest rates are rising, the value of existing Bonds may go down, and vice versa.

#### 3.2 Main risks associated with the Issuer

The risks described below may negatively affect the Issuer and, at the extreme, may cause the Issuer's insolvency and default on the Bonds. The main risk factors influencing the financial performance of the Issuer are:

- clients' credit risk;
- liquidity risk;
- operational risks;
- market risks (interest rate risk, foreign exchange rate risk, real estate market risk).

**Credit risk** is a risk that the Issuer has to bear a loss, since a client who has taken a loan from the Issuer, does not fulfil his obligations duly. In some cases, the Issuer may be unable to assess the borrowers' credit risk correctly because of fraudulent behaviour of the borrower or rapid change in the ability of the borrower to fulfil his obligations to the Issuer due to changing economic situation of the person.

**Liquidity and financing risk** is the possibility that the Issuer may face difficulties in meeting its obligations duly, if the Issuer will not be able to finance its activities.

**Operational risks** are risks that may realize due to various internal and external factors. Operational risks facing the Issuer consist of the following risks:

- technological risk – potential loss that may raise from various failures of hard- or software the Issuer is using;
- risk of procedures – potential loss that may realize as a result of not applying internal

rules or applying inefficient or inadequate internal rules;

- risk of personnel – potential loss that may arise, if the Issuer employs disloyal or incompetent personnel for reaching its goals. Successful operations of the Issuer depend on the ability to motivate and retain personnel and on opportunities to attract new employees;
- legal risk – potential loss that may arise, if the Issuer inadequately evaluates legal matters affecting the Issuer.

**Market risks** are risks that may cause financial losses, if the value of a certain asset held by the Issuer changes. The most important market risks affecting the Issuer are:

- interest rate risk – a risk that the Issuer bears losses due to changes in interest rates of the market, as the interest rate of its liabilities does not match interest rate of his assets;
- foreign exchange risk – a risk of a potential loss, if foreign exchange rate of its assets and/or liabilities moves towards an unfavourable direction;
- real estate market risk – a risk of bearing a loss, if the value of real estate objects, used as collateral for loans, given out by the Issuer, deteriorates.

### 3.3 Other risks

**Country risk or political risk** – a risk that the country or area, where the Issuer is active, goes through major (political) changes or events occur, as a result of which there is a risk that the Issuer may lose all or part of its investments in this country or region, or that the investments made in this country or region lose all or part of their value. As country or political risks, radical changes in economic and legal environment (e.g. nationalizing certain objects), social or domestic policy crises (e.g. riots), etc should be considered. Being active in Estonian, Latvian and Lithuanian markets, the Issuer and its subsidiaries are dependent on the political and economic processes in these countries.

**System risk** – a risk of (mainly) technical failures in the systems of security depository, clearing house, stock exchange, or similar institutions may cause losses to Investor due to unfulfilled or delayed transactions or transactions carried out incorrectly.

**Risk of external attacks** – a loss that may arise from illegal behaviour of clients, counterparties or other persons, who act for the purpose of personal gain (attack, fraud).

**Counterparty risk** – a risk that the Investor bears losses due to a counterparty's failure to duly meet its obligations arising from a certain securities' trade.

### 3.4 Risk management system

The risk management system of the Issuer can be outlined as follows:

#### 3.4.1 Credit risk management

Trends and changes in loan portfolio of the Issuer are monitored on continuous basis to immediately respond to changes in the market. Credit risk is measured and managed through the following principles:

- categorisation of loan portfolio based on payment discipline;
- detailed analysis of the non-performing portfolio.

Provisions are formed for credit losses. Provisioning policy establishes homogeneous group provisions for all issued loans and individual provisions for non-performing loans. Individual provisions are formed based on assessment of size and timing of future cash flows. Non-performing receivables that, in the opinion of the Issuer, will not be fully or partly recovered during the next one year and those receivables where recovery can not be reliably forecast will be provisioned for 100% from the moment of occurrence of such a situation. In addition, all receivables in enforcement process with no significant repayments within 9 months are provisioned for 50%. If no significant repayments occur within the following 6 months, the receivables are provisioned for 100% and if no significant repayments during the following 3 months, receivables are written off from the balance sheet.

**In case of delays in payments** the Issuer's actions are as follows:

- reminder letter is sent to the borrower;
- provider of security or surety is notified of the obligation;
- a notification of the intention to terminate the loan agreement is sent to the borrower and provider of security or surety;
- the loan contract is unilaterally terminated by the Issuer and respective amounts classified as non-performing loans;
- non-performing loans are handled by the Issuer's legal department.

In order to **recover non-performing loans**, the Issuer uses the following procedures:

- negotiations and additional agreements with obligor;
- using specialised debt collection companies;
- legal proceedings;
- enforcement procedures.

Investments and resources are targeted toward optimisation and automation of the collection process (payment delay forms, court filings, etc). However, significant part of the collection process relies on state bureaucracy and is time consuming. Through enforcement process payments are often made during a longer time period since significant part of loan portfolio is unsecured and payments in enforcement process rely on monthly payments rather than lump sum from sale of security.

Allowance for credit losses is based on IFRS standards and relies on continuous review of the non-performing portfolio.

#### **3.4.2 Management of liquidity and financing risk**

The Issuer as a bank is subject to the supervision of the Estonian Financial Supervision Authority. The requirements, inter alia, define that:

- capital adequacy should be kept above 10% (capital adequacy as of 30.06.2008 was 18.25%);
- reserve in the Central Bank of Estonia amounts to 11.4% of total assets (excluding receivables from other Estonian financial institutions). As of 30.06.2008 reserve in Central Bank amounted to 19.6 million euros.

In addition, the Issuer has established internal rules for the management of liquidity and financing risk. Forecasts, analysis and stress-tests are carried out on continuous basis.

The Issuer does not provide current accounts and overdraft loans to its customers – this makes cash flows relatively easy to forecast and manage.

Short-term liquid assets of the Issuer are generally deposited in the Central Bank or in money market instruments allowing redemption within one day.

#### **3.4.3 Management of market risks**

##### **Interest rate risk**

Issuer's wide interest rate spread (15.5% in 1H 2008) covers potential interest rate risks. Issuer's funding is based on fixed interest rate or floating Euribor contracts. The Issuer's loan portfolio is fixed-interest based.

##### **Foreign exchange risk**

The Issuer's assets are denominated in Estonian kroons, Latvian lats, Lithuanian litas and euros. The Issuer's liabilities are denominated in Estonian kroons, Latvian lats, Lithuanian litas and euros. Foreign exchange risks between euros and Estonian kroons are not considered significant due to Estonian Central Bank policies and the setup of Estonian monetary system. The Issuer has open LVL and LTL currency positions as of end of 1H 2008 amounting to 38.3 million euros and 7.1 million euros respectively.

Currently significant amount of issued loans are denominated in euros. Earlier currency risk hedge was provided by a devaluation clause in loan contracts.

#### **Real estate market risk**

10.4% of Issuer's loan portfolio is secured with real estate (includes also credit lines for companies) as of 30.06.2008 (12.1% as of 31.12.2007).

The real estate market risk is managed through compliance to the following principles:

- usually only 1 rank mortgage in land register is accepted as collateral for loans given out, in order to assure full satisfaction of claims of the Issuer in case the market value of the collateral deteriorates;
- the market value of the collateral is estimated based on written expert evaluations of selected real estate evaluators. Additional risk assessment of the collateral is done by the Issuer based on subjective information;
- as collateral only real estate from the areas of active and transparent real estate market are accepted. Such areas are determined by the Issuer in co-operation with accepted real estate evaluators.

The Issuer has recently significantly decreased new real estate based lending due to concerns regarding real estate valuations. The Issuer estimates LVR (loan to value ratio) of its real estate loan portfolio to be ca 50%.

#### **3.4.4 Management of operational risks**

In general - the Management Board of the Issuer is responsible for the operational risk management. On the operational scale, operational risk management is carried out by department managers (e.g. manager of IT department, manager of legal department, manager of client service department etc).

Governance of **info-technological risk** is carried out following the rules stipulated by the Issuer, among which the following actions are envisaged: usage of recovery plans, usage of backup copies, restrictions on access to workstations and servers, and recording of actions and alterations.

**Risk of procedures** is managed following the internal rules stipulated by the Management Board of the Issuer. In addition to regulated daily procedures, the risk of procedures is managed by regular training of personnel.

**Personnel risk** is managed through internal regulations and processes, including:

- regular attesting of personnel, responsible for issuing loans;
- personnel eligible to take obligations in the name of the Issuer have strict restrictions on the scope of the obligations taken;
- in main business activities, "rule of four eyes" is followed, meaning that at least two employees have to confirm the action;
- material liability contracts are concluded between the Issuer and personnel in offices responsible for material assets.
- in hiring new personnel, standard qualification principles, established by the Management Board, are followed: complying with the requirements of skills and education necessary for the office, background check and personnel tests, and probationary period is used.

**Legal risk** is managed through the following means:

- loan contracts are concluded using standard contract forms which have been drawn up by the legal department of the Issuer, any variation from a standard contract form requires a special decision by authorized personnel;
- trends and changes in legal environment are regularly monitored by the legal department of the Issuer;

- in case of need, legal opinions of external legal experts are used.

#### **3.4.5 Management of other risks**

Risk of external attacks is managed by using the following principles:

- clients and partners of the Issuer are always identified;
- loan disbursement decision must always be approved by at least two employees of the Issuer;
- employees of the Issuer are trained to discover potential cases of fraud, for that purpose experts in the field are involved;
- services offered by the Issuer are subject to non-cash settlement;
- special rules are applied to guarantee physical security at the workplace.

## **4 AUDITOR AND LEGAL ADVISORS**

### **4.1 Auditor**

The Issuer's Annual Reports are audited by KPMG. The audited Annual Report is published within two months after the end of the financial year. In addition, quarterly audit review is carried out and Public Interim Reports are published within two months after the end of reporting period.

The auditors of 2007 Annual Report were Taivo Epner and Eero Kaup. Since beginning of 2008 the auditors are Andres Root and Eero Kaup.

KPMG is a global network of professional firms providing audit, tax, and advisory services. KPMG operates in 145 countries. KPMG is one of the leading professional services firms in the Baltic States. KPMG in the Baltics is a swiftly growing practice with offices in Tallinn, Tartu, Riga, Vilnius and Klaipeda. KPMG member firms in Estonia, Latvia, and Lithuania operate as one business under common management. KPMG has been operating in Estonia since 1992 (prior to 04.07.2005 bearing the name Aktsiaselts KPMG Estonia) and was the first multinational business advisory firm to open an office in Estonia.

Information about the auditor

|                                            |                                                       |
|--------------------------------------------|-------------------------------------------------------|
| Reg. code in Estonian Commercial Register: | 10096082                                              |
| Registration place:                        | Tallinn                                               |
| Legal address:                             | Narva mnt 5, 10117 Tallinn                            |
| Telephone:                                 | +372 6 268 700                                        |
| Fax:                                       | +372 6 268 777                                        |
| E-mail:                                    | kpmg@kpmg.ee                                          |
| Web page address:                          | <a href="http://www.kpmg.ee/">http://www.kpmg.ee/</a> |

Pursuant to the opinion of the sworn auditor, the consolidated financial statement presents fairly, in all material respects, the consolidated financial position of Balti Investeeringute Grupi Pank AS as of 31 December 2007, and its consolidated financial performance and its consolidated cash flows in accordance with International Financial Reporting Standards as adopted by the European Union.

The Issuer affirms that the independent auditor's report presented in the financial reports attached to the Prospectus has been presented accurately and correctly. According to the Issuer's knowledge no facts or other information have been omitted that might render the information given in the Prospectus on the auditor or its independent report false or misleading.

### **4.2 Legal advisors**

The company has an in-house legal department. However, throughout the years, the company has also used services from various well-known law firms.

## 5 THE ISSUER

### 5.1 General information

|                                              |                                                                                                   |
|----------------------------------------------|---------------------------------------------------------------------------------------------------|
| Legal name:                                  | Balti Investeeringute Grupi Pank AS                                                               |
| Legal address:                               | Rüütli 23, 51006 Tartu, Estonia                                                                   |
| Permanent location:                          | Rüütli 23, 51006 Tartu, Estonia                                                                   |
| Telephone:                                   | + 372 735 0993                                                                                    |
| Fax:                                         | + 372 737 7582                                                                                    |
| E-mail:                                      | big@big.ee                                                                                        |
| Web page address:                            | <a href="http://www.big.ee/">http://www.big.ee/</a>                                               |
| Place of registration:                       | Tartu, Estonia                                                                                    |
| Registration code:                           | 10183757                                                                                          |
| Incorporation date:                          | August 24, 1997                                                                                   |
| Registration date:                           | January 30, 1997*                                                                                 |
| Legal form:                                  | public limited company                                                                            |
| Legislation under which the Issuer operates: | the Issuer is incorporated and validly existing under the legislation of the Republic of Estonia. |

*\* Date of registration in Estonian Commercial Register. Previously registered in Register of Enterprises, Agencies and Organisations of the Republic of Estonia (registration date September 22, 1992).*

### 5.2 Share capital

|                          |                                                                                                                                                                                                                                                                                                      |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Amount of share capital: | EEK 80 000 000                                                                                                                                                                                                                                                                                       |
| Number of shares:        | 80 000                                                                                                                                                                                                                                                                                               |
| Nominal value:           | EEK 1 000                                                                                                                                                                                                                                                                                            |
| ISIN code:               | EE3100016015                                                                                                                                                                                                                                                                                         |
| Rights of a shareholder: | Ordinary shares. Each share grants the shareholder one vote at shareholders' meeting of the Issuer, allowing the shareholder to participate in the management of the company, profit distribution decisions and residual assets' distribution decisions (in case of the dissolution of the company). |

According to the articles of association of the Issuer, the minimum and maximum authorised share capital amount to 80 million kroons and 200 million kroons, respectively.

The Issuer as well as its subsidiaries does not possess any own shares.

### 5.3 Articles of Association

The Articles of Association of the Issuer have been drawn up according to the Commercial Code of Estonia. The Articles of Association of the Issuer are attached to the Prospectus.

### 5.4 Recent significant developments

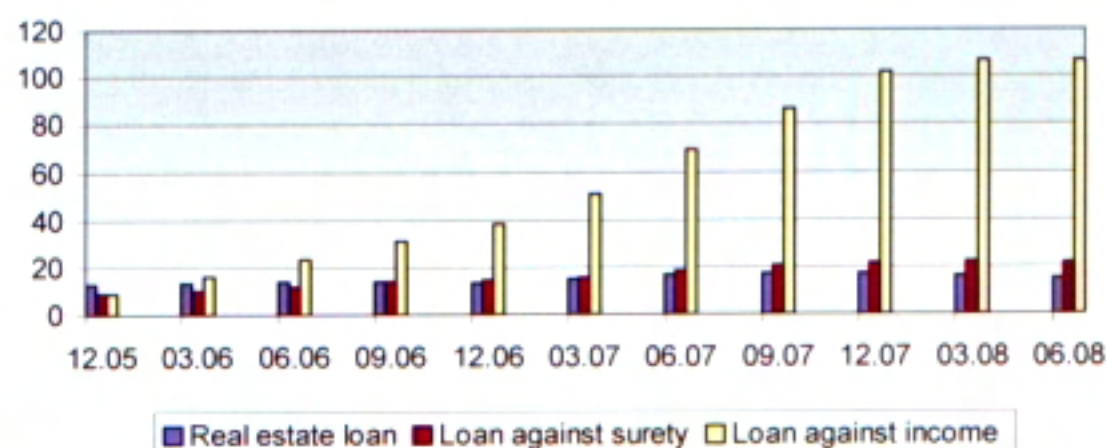
In November 2007, Moody's Investors Service assigned a financial strength rating of E+ to Balti Investeeringute Grupi Pank AS, which translates into Baseline Credit Assessment of B1, a long-term deposit rating of B1; and a short-term deposit rating of Non-Prime. In September 2008, Moody's Investors Service confirmed the E+ financial strength rating with stable outlook, however the outlook on long-term ratings was changed from stable to negative.

There are no other significant developments relevant to the Issuer's solvency since the date of the Public Interim Report of Q2 2008.

## 6 BUSINESS ACTIVITIES

### 6.1 Principal activities

Issuer's loan portfolio by collateral (mEUR, as of 30.06.2008)

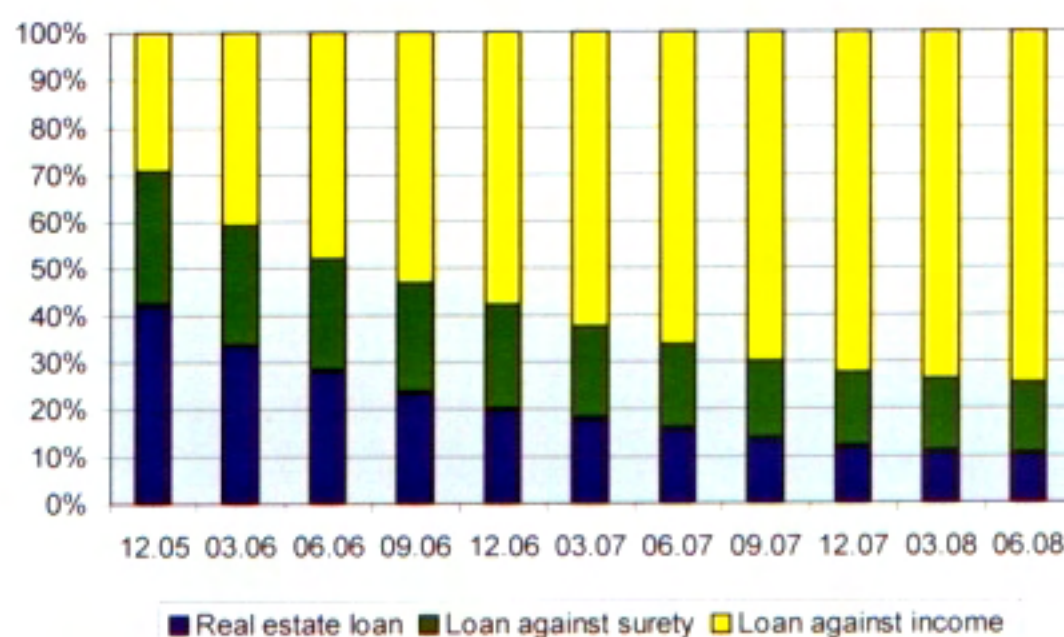


loan portfolio of private individuals accounts for 97.6% of the total loan portfolio as of end of 1H 2008. Receivables from customers formed ca EUR 141.8 million, including allowance for credit losses and accrued income. While income loans are issued within the range of EUR 70-7 700, the amount of surety loans and real estate loans depends on the collateral. The average loan amount is 1 109 EUR.

The structure of the loans is dependant on the amount, term and other client-specific information. The types of the loans issued are:

- income loans – maximum loan amount EUR 7 700, application processing time is less than 24 hours;
- surety loans – maximum loan amount dependant on surety provider(s), application processing time is less than 24 hours;
- loans secured with mortgage – maximum loan amount depends on the value of the collateral.

Issuer's loan portfolio by collateral (mEUR, as of 30.06.2008)



The Issuer is focused on consumer finance, offering cash loans to customers. This has been the Issuer's main activity since the establishment in 1992. The client segment, the Issuer is focused on, is private individuals. The

Up to year 2001, lending against mortgage was the primary business of the Issuer. Since then the Issuer has significantly reduced the mortgage and surety components of the credit stock in favour of income loans, which provide higher margins to the Issuer. Focusing on true and normal consumer finance (i.e. one without mortgage collateral) is part of Issuer's long term strategy.

Issuer's client base is diversified in terms of region within its markets in Estonia, Latvia, and Lithuania. The number of active client contracts stands at ca 128 thousand as of 30.06.2008. Loans to one client group may not exceed 10% of equity of the Issuer. In reality the three biggest loans of the Issuer only amount to 1.0 million EUR, i.e. the risk concentration limit is not a major restraint for the Issuer.

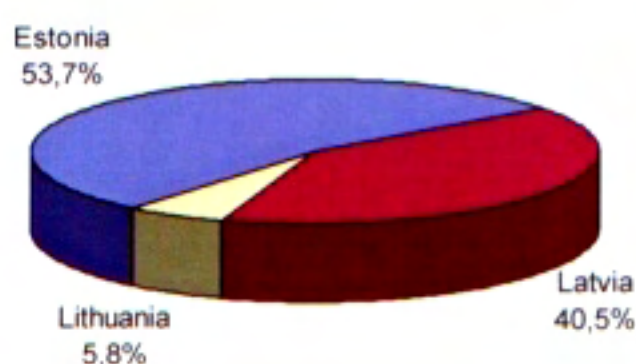
The Issuer started attracting **term deposits** in March 2006. By the end of 2007, the deposits amounted to 11.8 million EUR. By the end of 1H 2008, the deposits amounted to 26.4 million EUR (19.1% of total liabilities). In the long term, the Issuer considers term deposits to be an important financing source; the share of term deposits in total financing is expected to grow further during the coming periods.

## 6.2 Principal markets

The Issuer is operating in Estonian, Latvian and Lithuanian markets. The environment and Issuer's activities on these markets can be described as follows:

- the Issuer's loan portfolio consists of over 128 thousand loan contracts with an average loan amount of EUR 1 109;
- focus is on mid and mid-lower income segment of the population.

Issuer's receivables from customers by country (as of 30.06.2008)



With the economic development and European Union related convergence, the living standard of the customer segment in these countries has been rapidly improving.

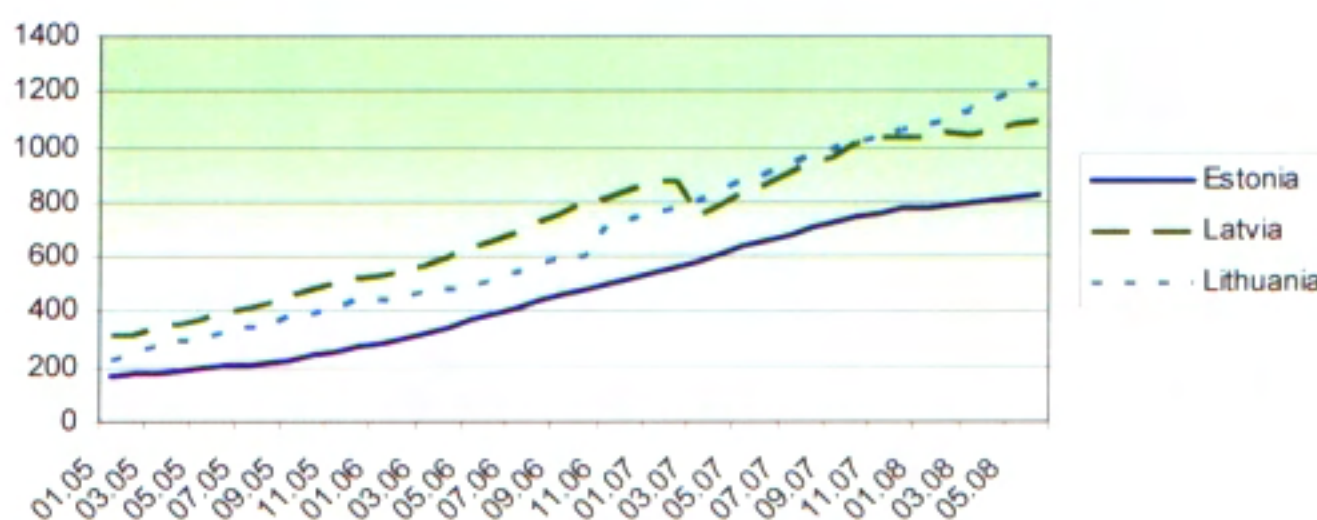
Consumer credit to GDP and consumer

credit per capita are still low compared to other EU countries (see charts below).

The Baltic States are currently facing an economic slowdown (limited economic growth, high inflation, and decrease in consumption volumes) after significant growth period since joining EU in 2004. Growth rates of loan volumes are expected to remain modest in 2008. Unemployment level is showing signs of increase, however the current levels are still well below EU average.

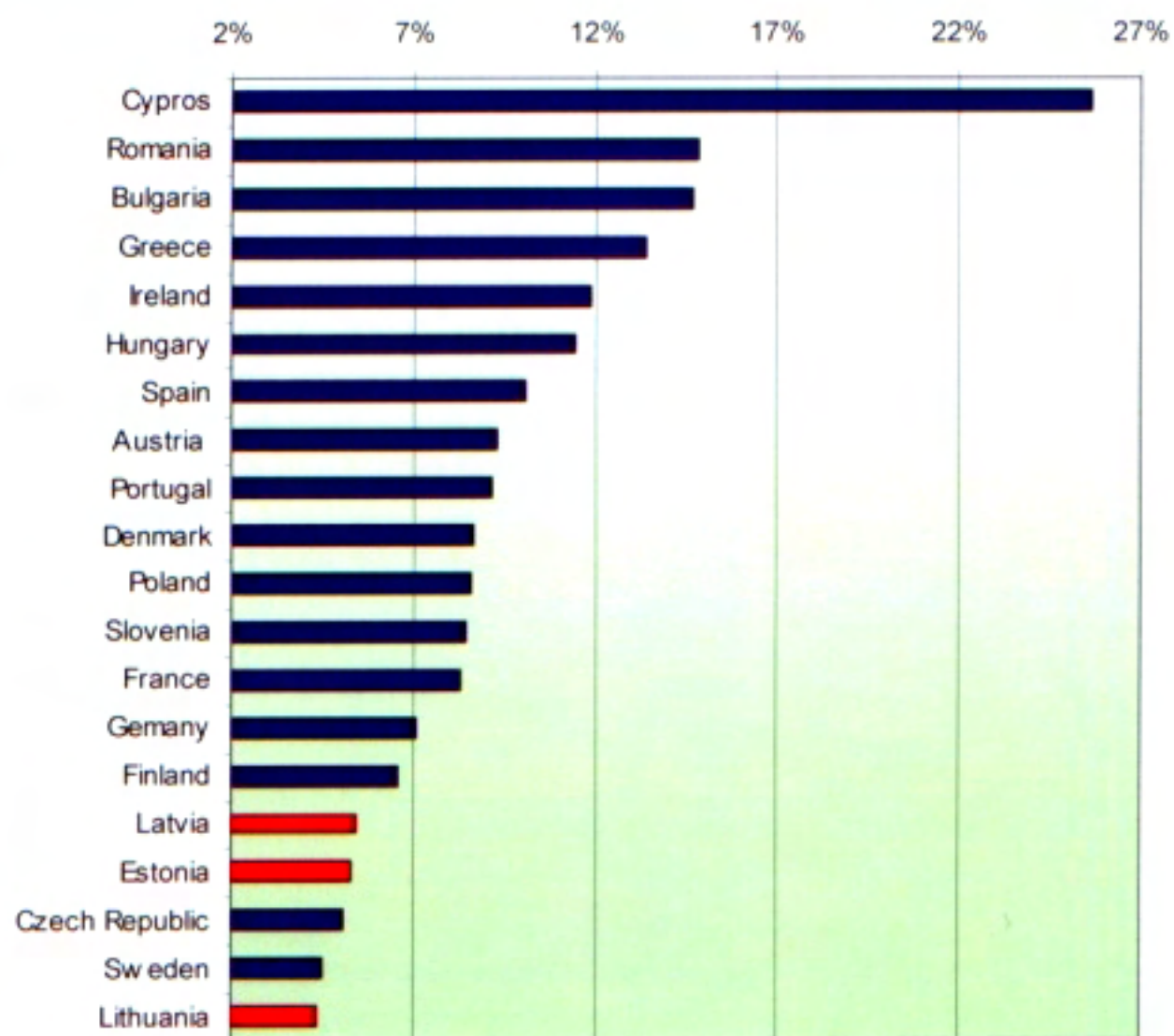
Lower market growth will also limit the growth of Issuer's loan portfolio, highest growth is expected in Latvia and Lithuania, where Issuer's market share is lower. The Issuer does not foresee significant adverse change in payment behaviour of its customers as its loan portfolio is well diversified (regional, client area of activity, age, gender, etc.). The average outstanding loan amount is EUR 1 109, therefore there is no concentration risk.

**Market size (outstanding consumer credit in Estonia, Latvia and Lithuania, millions of euros, as of 30.06.2008)**

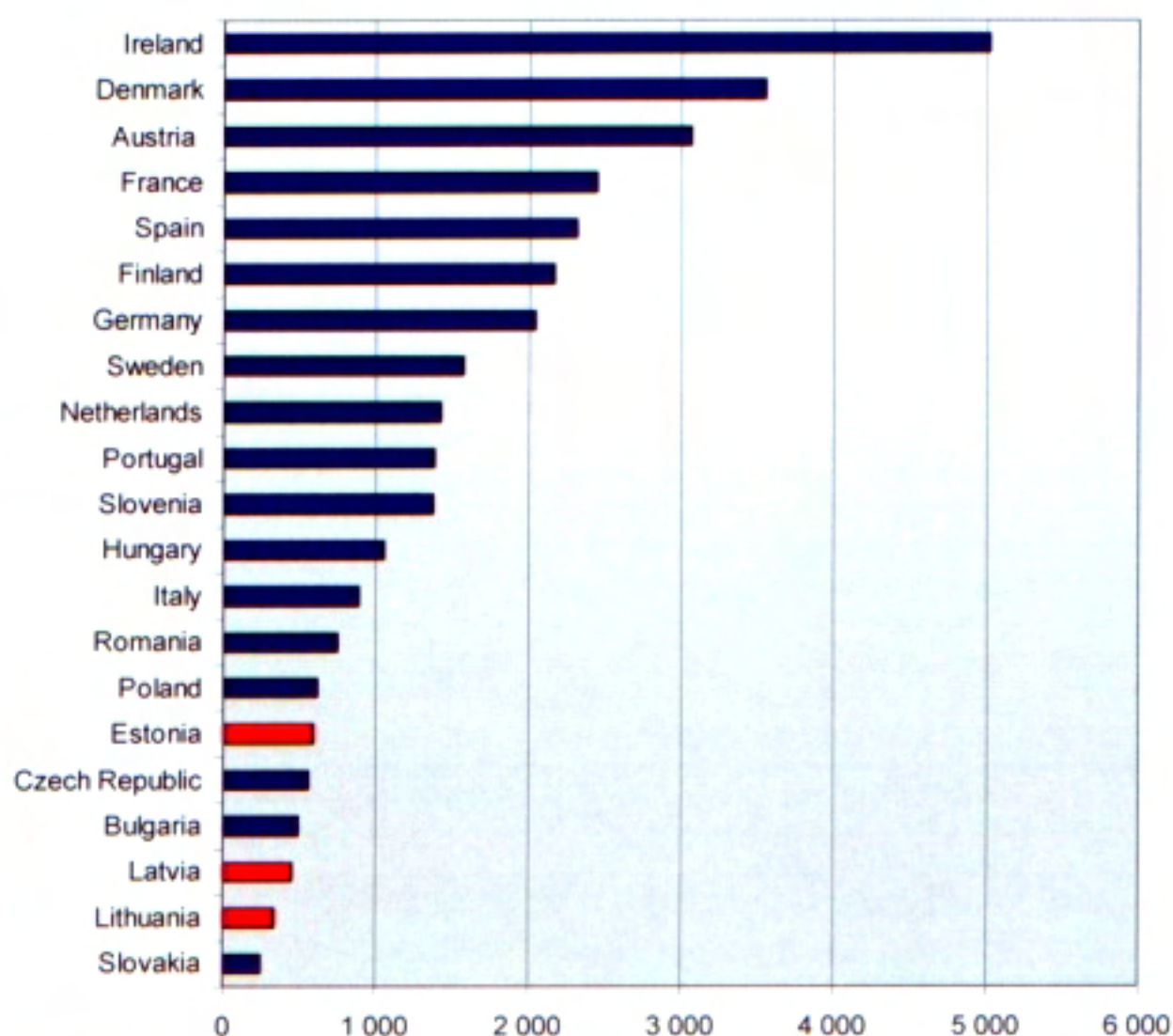


Source: ECB

**Consumer credit to GDP in selected European countries (as of 30.06.2008, %)**



### Consumer credit per capita in selected European countries (as of 30.06.2008, EUR)



Source: ECB

### The estimated market share (millions of euros, as of 30.06.2008):

|              | Consumer credit market | Issuer's client receivables* | Market share |
|--------------|------------------------|------------------------------|--------------|
| Estonia      | 824                    | 72.811                       | 8.8%         |
| Latvia       | 1 090                  | 57.375                       | 5.3%         |
| Lithuania    | 1 231                  | 8.275                        | 0.7%         |
| <b>Total</b> | <b>3 145</b>           | <b>141.834</b>               | <b>4.5</b>   |

\* Receivables from private individuals only

Source: ECB, Balti Investeeringute Grupi Pank AS

#### 6.2.1 Estonia

In Estonia, Balti Investeeringute Grupi Pank AS has 21 offices, located mainly in shopping centres. The Issuer is represented in all the largest towns in Estonia. The number of active customers in Estonia is ca 52 thousand as of end of 1H 2008. Customer receivables in Estonia amount to ca EUR 76.2 million (as of 30.06.2008).

The direct competitors are small consumer finance companies. They can be characterised mostly as small in size and with short history. The main players in consumer finance in the Estonian market are:

- Kagu Invest AS – a consumer financing company that was established in 1992. Kagu Invest AS operates under trademark Laenuabi. As of year-end 2007 they had 7 sales offices in Estonia. They offer unsecured loans, surety loans and loans secured with mortgage. As of year-end 2007, the size of the loan portfolio of Kagu Invest was ca EUR 9.6 million. The company is presented on the local bond market with three commercial paper issues in total size of EUR 4.5 million.

- Mobile Credit Estonia OÜ operating under trade mark Credit24 – a consumer financing company operating in Estonian, Finnish, Latvian, and Lithuanian markets and has close to 100 000 customers. The company belongs to MCB Finance OÜ. MCB Finance OÜ belongs to MCB Finance Group plc, which is listed in the AIM list of London Stock Exchange since January 2007. The loan portfolio of MCB Finance Group plc was EUR 8.7 million as of 31.03.2008.

Other smaller players on consumer credit market of Estonia include companies such as SMS Laen, Krediidikassa, Monetti, Ehital Liising, and Reval Credit.

In addition to consumer-financing specialised companies, there is also an indirect competition with the universal banks in Estonia, including Hansapank AS, SEB Pank AS, Danske Bank A/S Estonia branch, etc. This competition concerns their respective consumer credit products (credit cards, etc). However, the client focus and products offered by universal banks are not directly comparable with the Issuer and those of the Issuer's.

### **6.2.2 Latvia**

The Issuer has been operating in the Latvian market through its subsidiary AS Baltijas Izaugsmes Grupa since 1996. As of 30.06.2008, the Issuer has 17 offices in Latvia. The number of customers stands at 69 thousand and loan portfolio size is EUR 57.4 million (including accrued interest and allowance for credit losses, as of 30.06.2008).

In the Latvian market, the main competition comes from:

- GE Money Bank – a subsidiary of American world-wide consumer and small financing specialized bank. GE Money Bank was formed in April 2008 after the integration of AS GE Money and AS Baltic Trust Bank. GE Money Bank offers a variety of financial services, including consumer loans. GE Money Bank has ca 135 thousand clients in Latvia;
- Inserviss Group – a company specialized on consumer finance activities, operating in Latvia since 1995. The company is owned by the French bank Société Générale;

Other smaller players in consumer credit financing market of Latvia include companies such as Credit24, Nelss and Norvik Bank.

There is also indirect competition with various universal banks in Latvia. This competition concerns their respective consumer credit products (credit cards, etc).

### **6.2.3 Lithuania**

Lithuanian branch has been operating since Q3 2007. By the end of 1H 2008, the branch had 5 offices in Lithuania. The number of customers was ca 7 thousand and the size of loan portfolio was EUR 8.3 million (including accrued interest and allowance for credit losses, as of 30.06.2008).

In the Lithuanian market BIG considers the following companies to be its main competitors:

- Kreditas123 – issues consumer loans, maximum loan amount EUR 57 000. Offers a fast and non-complex service through customer service offices, Lithuanian Post and various stores;
- Credit24 - owned by MCB Finance Group Plc, operates in Baltic States and Finland;

Additionally there is indirect competition from universal banks, such as Snoras, Hansabankas, etc.

## **6.3 Competitive advantages**

The Issuer's competitive advantages include:

- specialization and focus on a well-defined client segment allowing to develop processes and technologies to meet the customers' needs;
- well established trade mark – according to a recent customer total awareness surveys prepared by market research company Emor, 71% of Estonians know the brand and services of BIG. Total awareness in Latvia and Lithuania is 49% and 27% respectively,

according to most recent customer awareness surveys conducted in both countries.

- long track record - company has been exclusively focusing on consumer credits since its establishment in 1992;
- reliability – Issuer operates as a credit institution in Estonia and Lithuania being subject to regulatory supervision, both on country specific and group-level. The Issuer regularly publishes audited Annual Reports and Public Interim Reviews and has a B1 credit rating from Moody's Investors Service.

#### **6.4 Patents and licences**

The Issuer holds a credit institution licence issued by the Estonian Financial Supervision Authority for indefinite period of time. The licence allows Balti Investeeringute Grupi Pank AS to operate as a credit institution. The credit institution licence was issued on September 27, 2005.

The Issuer does not hold any patents or other licences which considerably influence the business activities and economic results of the Issuer.

#### **6.5 Important agreements**

The Issuer has no knowledge of any important agreements concluded by the Issuer, which could affect the Issuer's capability to fulfil its liabilities due to Investors regarding the issued Bonds.

#### **6.6 Legal proceedings and arbitration**

Since the foundation of the Issuer in 1992, there has not been and at the moment of registration of the Prospectus there are no government interventions, lawsuits or arbitration processes which could affect or have affected substantially the financial situation of the Issuer.

The Issuer lacks information on any action, which is planned to be filed in arbitration court or a court of law by third persons and which has or which may have a significant effect on the activity and/or financial state of the Issuer. Nor does the Issuer intend to file any action in the near future which has or which may have a significant effect on the activity and/or financial state of the Issuer.

#### **6.7 Investments**

In 1H 2008 investments in tangible and intangible assets amounted to 1.5 million euros. The investments included acquisition of additional office space in Tallinn and IT-related investments.

The Issuer does not plan any further major investments in 2008.

Financing of investments and general business activities is planned to be done through same means as until the present date:

- equity;
- term deposits;
- credit lines;
- raising funds from both local and international bond markets.

## 7 FINANCIAL INFORMATION

### 7.1 Financial statements

Audited consolidated Annual Report of 2007 and Public Interim Report of Q1 2008 and Public Interim Report of Q2 2008 have been attached to the Prospectus.

#### 7.1.1 Consolidated balance sheet

| (In millions of euros)                | 30.06.2008     | 31.12.2007     | 31.12.2006    |
|---------------------------------------|----------------|----------------|---------------|
| <b>ASSETS</b>                         |                |                |               |
| Due from Central Bank                 | 19.591         | 19.277         | 6.147         |
| Due from banks                        | 6.079          | 4.305          | 2.859         |
| Loans to customers                    | 141.834        | 140.558        | 66.162        |
| Other receivables and prepayments     | 1.245          | 0.706          | 0.321         |
| Investment property                   | -              | -              | 0.343         |
| Intangible assets                     | 0.439          | 0.500          | 0.408         |
| Property and equipment                | 3.236          | 2.001          | 1.157         |
| Other assets                          | 0.108          | 0.110          | -             |
| <b>TOTAL ASSETS</b>                   | <b>172.532</b> | <b>167.457</b> | <b>77.397</b> |
| <b>LIABILITIES</b>                    |                |                |               |
| Loans from banks                      | 1.059          | 9.595          | 10.178        |
| Deposits from customers               | 26.443         | 11.752         | 8.204         |
| Other liabilities and deferred income | 3.054          | 2.117          | 0.938         |
| Debt securities issued                | 97.177         | 102.925        | 31.245        |
| Subordinated liabilities              | 11.013         | 10.873         | 6.904         |
| <b>TOTAL LIABILITIES</b>              | <b>138.746</b> | <b>137.262</b> | <b>57.469</b> |
| <b>EQUITY</b>                         |                |                |               |
| Share capital                         | 5.113          | 5.113          | 5.113         |
| Capital reserve                       | 0.511          | 0.511          | 0.256         |
| Translation reserve                   | -0.202         | 0.350          | 0.027         |
| Retained earnings                     | 22.663         | 12.891         | 3.422         |
| Net income for the period             | 5.701          | 11.330         | 11.110        |
| <b>TOTAL EQUITY</b>                   | <b>33.786</b>  | <b>30.195</b>  | <b>19.928</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>172.532</b> | <b>167.457</b> | <b>77.397</b> |

### 7.1.2 Consolidated income statement

(In millions of euros)

|                                         | 1H 2008       | 2007          | 2006          |
|-----------------------------------------|---------------|---------------|---------------|
| Interest income                         | 22.244        | 36.710        | 17.954        |
| Interest expense                        | 7.511         | 9.552         | 1.757         |
| <b>Net interest income</b>              | <b>14.733</b> | <b>27.158</b> | <b>16.197</b> |
| Net fees and commissions                | -0.036        | -0.017        | -0.002        |
| Net gain/loss on financial transactions | -0.114        | -0.235        | -0.016        |
| Other operating income                  | 3.533         | 3.477         | 1.650         |
| <b>Total income</b>                     | <b>18.116</b> | <b>30.383</b> | <b>17.829</b> |
| Salaries                                | 3.539         | 4.448         | 2.043         |
| Administrative expenses                 | 3.177         | 7.490         | 2.544         |
| Depreciation and amortization           | 0.303         | 0.371         | 0.171         |
| Impairment losses on financial assets   | 4.473         | 5.391         | 0.980         |
| Other operating expenses                | 0.121         | 0.348         | 0.689         |
| <b>Total operating expenses</b>         | <b>11.613</b> | <b>18.048</b> | <b>6.427</b>  |
| <b>Net income before tax</b>            | <b>6.503</b>  | <b>12.335</b> | <b>11.402</b> |
| Income tax expense                      | 0.802         | 1.005         | 0.292         |
| <b>Net income for the period</b>        | <b>5.701</b>  | <b>11.330</b> | <b>11.110</b> |

### 7.1.3 Consolidated statement of cash flows

| (in millions of euros)                                             | 1H 2008        | 2007           | 2006           |
|--------------------------------------------------------------------|----------------|----------------|----------------|
| <b>Cash flow from operating activities</b>                         |                |                |                |
| Interests received                                                 | 18.513         | 29.800         | 15.267         |
| Interests paid                                                     | -6.808         | -8.582         | -1.364         |
| Administrative expenses paid (incl. salary expenses)               | -6.807         | -11.287        | -4.391         |
| Other operating income received                                    | 2.785          | 2.766          | 1.381          |
| Other operating income paid                                        | -0.132         | -0.448         | -0.679         |
| Reversal of impairment losses                                      | 0.029          | 0.010          | 0.029          |
| Proceeds from sale of other assets                                 | -              | -              | 0.007          |
| Loans granted                                                      | -24.740        | -113.570       | -56.679        |
| Repayment of loans granted                                         | 22.714         | 41.213         | 23.032         |
| Change in mandatory reserve in Central Bank                        | -1.828         | -13.033        | -2.553         |
| Proceeds from customer deposits                                    | 18.495         | 12.552         | 7.456          |
| Paid on redemption of deposits                                     | -4.507         | -9.775         | -0.833         |
| Income tax paid                                                    | -1.060         | -0.562         | -0.097         |
| Effect of change in exchange rates                                 | -0.042         | -0.238         | -              |
| <b>Net cash used in operating activities</b>                       | <b>16.612</b>  | <b>-71.154</b> | <b>-19.425</b> |
| <b>Cash flow from investing activities</b>                         |                |                |                |
| Acquisition of property and equipment and intangible assets        | -1.482         | -1.020         | -0.598         |
| Proceeds from sale of property and equipment                       | -              | -              | 0.009          |
| Dividends paid                                                     | -              | -              | -              |
| <b>Net cash used in investing activities</b>                       | <b>-1.482</b>  | <b>-1.020</b>  | <b>-0.589</b>  |
| <b>Cash flow from financing activities</b>                         |                |                |                |
| Proceeds from debt securities issued                               | 5.377          | 88.694         | 21.094         |
| Paid on redemption of debt securities                              | -10.938        | -17.152        | -7.883         |
| Proceeds from subordinated debt securities issued                  | -              | 4.327          | 6.903          |
| Paid on redemption of subordinated debt securities                 | -              | -0.362         | -              |
| Proceeds from loans from banks                                     | 3.052          | 13.421         | 22.417         |
| Repayments from loans from banks                                   | -11.682        | -14.004        | -19.132        |
| Repayments of other loans                                          | -              | -              | -0.093         |
| Dividends paid                                                     | -0.639         | -1.406         | -0.479         |
| <b>Net cash from financing activities</b>                          | <b>-14.830</b> | <b>73.518</b>  | <b>22.827</b>  |
| Effect of exchange rate fluctuations related to foreign subsidiary | -0.039         | 0.151          | -0.056         |
| Increase in cash and cash equivalents                              | 0.261          | 1.495          | 2.757          |
| Cash and cash equivalents at the beginning of the year             | 5.970          | 4.427          | 1.670          |
| <b>Cash and cash equivalents at the end of the period</b>          | <b>6.230</b>   | <b>5.922</b>   | <b>4.427</b>   |

## 7.2 Debt obligations

Important financing sources for the Issuer are bonds, term deposits and bank loans.

As of 30.06.2008 BIG had outstanding bonds in the total amount of EUR 97.2 million (including accrued interest) and subordinated liabilities in the amount of EUR 11.0 million (including accrued interest).

As of 30.06.2008 loans from banks amounted to EUR 1.1 million.

The importance of term deposits in total financing is growing - by the end of 1H 2008 the share of term deposits in total liabilities was 19.1% (compared to 8.6% at the end of 2007). The Issuer expects the share of term deposits in total financing to grow during the coming periods.

|                                    | 30.06.2008     |             | 31.12.2007     |             |
|------------------------------------|----------------|-------------|----------------|-------------|
| (millions of euros)                | Amount         | WAM*        | Amount         | WAM*        |
| Subordinated bonds                 | 11.013         | 4.41        | 11.002         | 4.91        |
| Term deposits                      | 26.443         | 0.76        | 11.752         | 0.67        |
| Local-market bonds                 | 15.821         | 0.53        | 21.608         | 0.51        |
| International bonds                | 81.357         | 2.75        | 81.188         | 3.25        |
| Bank loans                         | 1.059          | 2.57        | 9.595          | 0.38        |
| Other payables and deferred income | 3.054          | N/A         | 2.117          | N/A         |
| <b>Total</b>                       | <b>138.746</b> | <b>2.25</b> | <b>137.262</b> | <b>2.53</b> |

\*Weighted average maturity

## 7.3 Receivables from customers

The Issuer's receivables from customers amount to 141.8 million euros by the end of 1H 2008 (compared to 140.6 million euros as of 31.12.2007).

### Receivables from customers

| (millions of euros)                          | 30.06.2008     | 31.12.2007     |
|----------------------------------------------|----------------|----------------|
| Loan receivables from customers              | 141.886        | 139.105        |
| Impairment allowance to loan receivables     | -9.302         | -5.726         |
| Interest receivables from customers          | 10,571         | 7.951          |
| Impairment allowance to interest receivables | -1.320         | -0.772         |
| <b>Total</b>                                 | <b>141.834</b> | <b>140.558</b> |

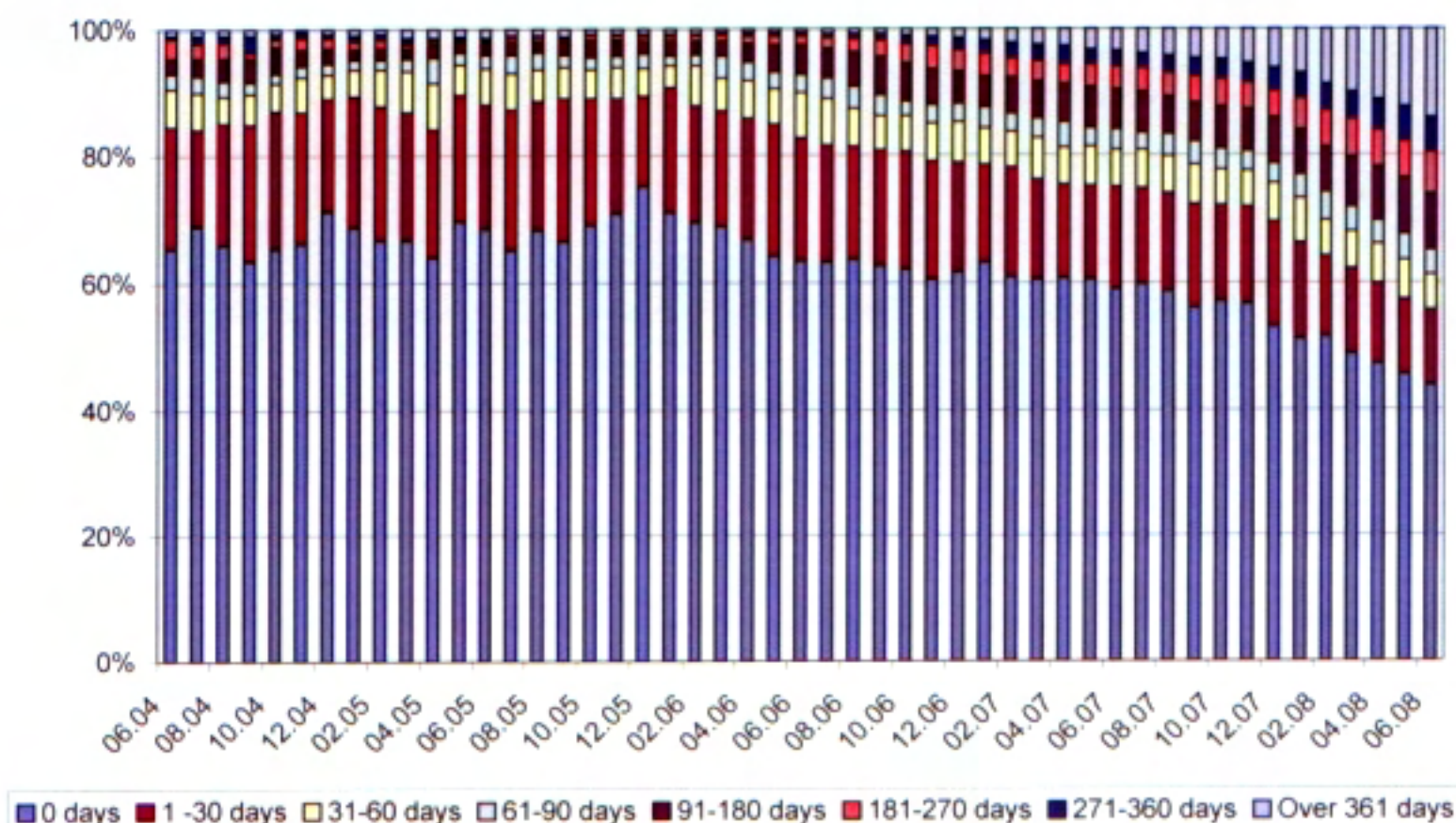
Issuer's loan portfolio structure is changing – the share of income loans from total portfolio forms 74.7% of the loan portfolio, while the proportion of loans secured with real estate is dropping.

### Loans by collateral

| (millions of euros)            | 30.06.2008     | 31.12.2007     |
|--------------------------------|----------------|----------------|
| Income loans                   | 106.031        | 100.844        |
| Surety loans                   | 21.064         | 21.403         |
| Loans secured with real estate | 11.179         | 13.842         |
| Credit lines                   | 3.612          | 3.016          |
| <b>Total</b>                   | <b>141.886</b> | <b>139.105</b> |

The breakdown of the loan portfolio by respective payment delays is provided in the following graph. Payment delays relate to:

- changes in the portfolio structure with increasing focus to consumer credits and respective more volatile payment behaviour;
- relatively long collection period and resulting accumulation of loan contracts in enforcement process as explained below, graph shows both delayed payment and principal amount (also in cases where principal is not due):



In case of long-term payment delay, it must be taken into consideration that the enforcement process of consumer loans differs significantly from the enforcement process of loans secured with physical collateral (e.g. mortgage of real estate). As a rule, consumer loans are backed with the customer's regular income and amounts due under terminated 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, these loans cannot be reported as part of the performing portfolio because they are serviced through enforcement proceedings.

The Issuer'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 is still outstanding. As the collection proceedings have not been completed, the expected proportion of fully recovered loans is even higher. Not all loans overdue more than 180 days have a court decision yet, therefore at a later stage the share of recovered loans in enforcement process will increase even more.

|                | Write-offs | Recoveries | Recovery rate | Average loan portfolio | Write-offs to average loan portfolio | Loss rate* |
|----------------|------------|------------|---------------|------------------------|--------------------------------------|------------|
| <b>2Q 2008</b> | 123 143    | 3 717      | 3,02%         | 141 498 980            | 0,09%                                | 0,08%      |
| <b>2007</b>    | 194 373    | 14 380     | 7,40%         | 101 917 470            | 0,19%                                | 0,18%      |
| <b>2006</b>    | 24 363     | 0          | 0,00%         | 45 607 821             | 0,05%                                | 0,05%      |
| <b>2005</b>    | 1 437      | 159        | 11,05%        | 21 333 553             | 0,01%                                | 0,01%      |
| <b>2004</b>    | 19 141     | 17 117     | 89,42%        | 12 909 615             | 0,15%                                | 0,02%      |
| <b>2003</b>    | 49 329     | 35 388     | 71,74%        | 9 156 339              | 0,54%                                | 0,15%      |
| <b>2002</b>    | 91 413     | 72 246     | 79,03%        | 6 475 384              | 1,41%                                | 0,30%      |
| <b>2001</b>    | 98 082     | 33 936     | 34,60%        | 3 711 730              | 2,64%                                | 1,73%      |
| <b>2000</b>    | 110 090    | 78 455     | 71,26%        | 1 938 366              | 5,68%                                | 1,63%      |
| <b>1999</b>    | 15 149     | 11 221     | 74,07%        | 1 538 771              | 0,98%                                | 0,26%      |
| <b>1998</b>    | 102 862    | 46 744     | 45,44%        | 1 286 039              | 8,00%                                | 4,36%      |

\* unrecovered write offs to average loan portfolio

The Issuer's strong track record in this area is supported by two significant risk management measures:

- the Issuer grants loans to individuals. Although the solvency of individuals may deteriorate temporarily it does not usually disappear completely. Taking into consideration the low overall debt burden and a legal system that provides for sophisticated and effective collection proceedings such as in the Baltic States, recovery of the overdue debts of individuals is a matter of the right time horizon rather than potential non-recovery.
- the Issuer's loan portfolio is well diversified – as of 30.06.2008 the average loan amount was EUR 1 109 while 40 largest loans accounted for 3.7% of the total loan portfolio.

To hedge the risks arising from customers' settlement behaviour and to cover potential credit losses, the Issuer has made appropriate impairment allowances, which as of 30.06.2008 totalled EUR 10.6 million (including allowances for loan receivables in the amount of EUR 9.3 million and allowances for interest receivables in the amount of EUR 1.3 million). Impairment allowances form 7.0% of receivables from customers. The allowances have been formed on a conservative basis.

#### 7.4 Operating capital

The Issuer has enough operating capital for economic activity.

#### 7.5 Information on trends

Growth of consumer lending has been high in recent years in relation with high economic growth, increasing purchasing power, and high consumer sentiment. Recent slow-down in economic growth in the Baltic countries has stabilized growth in consumer lending. Both, consumers as well as loan providers have become more conservative assessing the growth of income levels and loan repayment schedules.

Slightly increasing unemployment rates are not expected to have a significant impact on consumer lending quality. Instead it is expected to bring along positive effects on the labour markets (more stability regarding jobs). The unemployment level was previously at abnormally low level creating tensions on employers' side.

Share of overdue loans and credit losses for banks is expected to increase – resulting from changes in the macro environment and lower growth rates. However, the historical base of overdue loans for the banking sector has been very low and the increase is not seen as a threat to the banking sector due to its strong capitalization.

#### **7.6 Recent significant developments**

There has been no material adverse change in the prospects of the Issuer since the date of its last published Public Interim Report.

#### **7.7 Financial forecast**

The Issuer does not publish financial forecasts.

## 8 ORGANISATIONAL STRUCTURE

### 8.1 Structure of the Group

The consolidation group of the Issuer consists of Balti Investeeringute Grupi Pank AS, its two subsidiaries: AS Baltijas Izaugsmes Grupa and OÜ Rütli Majad and branch in Lithuania.

### 8.2 Management Bodies

The main management bodies of the Issuer are the Supervisory Board and the Management Board.

#### 8.2.1 Supervisory Board

The Supervisory Board of the Issuer consists of five members:

- Parvel Pruunsild, Chairman of the Supervisory Board
- Meelis Luht, Member of the Supervisory Board
- Juhani Jaeger, Member of the Supervisory Board
- Vahur Voll, Member of the Supervisory Board
- Linda Terras, Member of the Supervisory Board

All members of the Supervisory Board have extensive knowledge of financial sector due to finance-related education and work experience in the field. Both Parvel Pruunsild and Vahur Voll have been members of the Management Board of the Issuer before becoming members of the Supervisory Board (1992-1994, Parvel Pruunsild was the Chairman of the Management Board). Juhani Jaeger worked in BIG since 1997 as a lawyer and since 2000 is a member of the Supervisory Board. Meelis Luht is the multimedia director and member of the Management Board of AS Eesti Meedia (since 1998) and became a member of the Supervisory Board of the Issuer in 2005. Linda Terras has worked as chief accountant of AS Flora Kommerts (1993-2005), becoming member of the Supervisory Board of the Issuer in 2005.

Legal address and location of Supervisory Board is Rütli 23, 51006 Tartu, Republic of Estonia.

Members of the Supervisory Board do not have significant business interest outside the Issuer.

#### 8.2.2 Management Board

The Management Board of the Issuer consists of three members:

- **Targo Raus** (personal identification code 36911260213) has been the Chairman of the Management Board of the Issuer since 2003. Prior to joining AS Balti Investeeringute Grupp he was a board member of AS Eesti Ühispank (1998-2000) and AS Tallinna Pank (1992-1998). He is responsible for the general management of the company.
- **Veiko Kandla** (personal identification code 37812116017) has been working in BIG since January 2000 – as a lawyer, head of legal department and since 2004 as manager of credit area. Veiko Kandla has been a member of the Management Board of the Issuer since May 2000. He is currently working as Head of Credits.
- **Kaido Saar** (personal identification code 38104290034) joined BIG in 2002. He has worked as a loan specialist and manager of office network. Since 2006, Kaido Saar is Head of Marketing and Sales and Member of the Management Board since 2007.

Legal address and location of Management Board is Rütli 23, 51006 Tartu, Republic of Estonia.

Members of the Management Board do not have significant business interest outside the Issuer.

### **8.2.3 Conflicts of interest**

The persons mentioned in section 8.2 conflict of interests between their obligations towards the Issuer and their private benefit or any other obligations. In order to prevent possible conflicts of interests, the Issuer abides by all restrictions stipulated under the regulations of Estonia regarding transactions with members of Supervisory Board or Management Board.

### **8.2.4 Payments made to the members of Management and Supervisory Boards**

In 1H 2008 payments made to the members of the Issuer's Supervisory and Management Boards totalled 0.028 and 0.142 million euros, respectively.

### **8.2.5 Transactions with related parties**

Related parties are defined as shareholders, who have significant influence over the Issuer, companies in which they have a controlling interest, members of the Supervisory Board and the Management Board, key management personnel, their close relatives and companies, in which they have a controlling interest, as well as associated companies. All transactions with related parties have been carried out on general market terms.

As of 30.06.2008, 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 agreement with BIG, with an outstanding balance totalling 0.383 million euros and interest accrued but not paid on the deposits amounted to 0.010 million euros. The interest rate of the deposits does not differ from the ones offered to other similar deposits at the time.

### **8.2.6 Clauses regulating management and supervision**

Management and supervision of the Issuer is carried out in accordance with Commercial Code and Credit Institutions Act of Estonia. There are no clauses in the Articles of Association that would restrict or extend the powers of the Management Board or Supervisory Board compared to the powers outlined in the Commercial Code and Credit Institutions Act. According to the Articles of Association of the Issuer, each member of the Management Board has the right to represent the company by himself.

### **8.2.7 Corporate Governance Code**

In matters related to the governance of the Issuer, the Issuer follows principles laid down in the Corporate Governance Code of the Issuer based on the principles adopted by Tallinn Stock Exchange. Corporate Governance Report for 2007 of the Issuer is published as a note in the Annual Report of 2007 of the Issuer.

## **8.3 Overview of the subsidiaries**

**AS Baltijas Izaugsmes Grupa** is a 100% subsidiary of the Issuer incorporated in the Republic of Latvia.

|                          |                                   |
|--------------------------|-----------------------------------|
| Legal name:              | AS Baltijas Izaugsmes Grupa       |
| Legal address:           | Citadelas 2, LV-1010 Riga, Latvia |
| Permanent location:      | Citadelas 2, LV-1010 Riga, Latvia |
| Registration code:       | 40003291179                       |
| Incorporation date:      | April 18, 1996                    |
| Registration date:       | April 18, 1996                    |
| Legal form:              | public limited company            |
| Share capital:           | EUR 0.43 million                  |
| Equity (as of 30.06.08): | EUR 4.40 million                  |
| Legislation:             | Republic of Latvia                |

The core activity of AS Baltijas Izaugsmes Grupa is similar to Balti Investeeringute Grupi Pank AS - providing consumer credit to private individuals in the Republic of Latvia. As of 30.06.2008, the total number of offices in Latvia stands at 17. In addition, from November 2006 BIG offers its products in partnership with the Latvian postal services provider Latvijas Pasts at 286 post offices across Latvia.

The management of AS Baltijas Izaugsmes Grupa is carried out by CEO and sole member of the Management Board – Juris Pūce (personal identification code: 050758-10730), and Supervisory Board. Supervisory board of AS Baltijas Izaugsmes Grupa has three members – Targo Raus (Chairman of the Supervisory Board), Veiko Kandla, and Kaido Saar. All-in-all the management and financing of AS Baltijas Izaugsmes Grupa is closely tied with that of the parent company as financing for the company is raised through Balti Investeeringute Grupi Pank AS; its products and services are closely related to those of the parent company and management is carried out in close co-operation between the parent company and subsidiary.

**Balti Investeeringute Grupi Pank AS filialas** is a branch of Balti Investeeringute Grupi Pank AS in Lithuania.

|                          |                                              |
|--------------------------|----------------------------------------------|
| Legal name:              | Balti Investeeringute Grupi Pank AS filialas |
| Legal address:           | Jogailos 4, Vilnius 01116, Lithuania         |
| Permanent location:      | Jogailos 4, Vilnius 01116, Lithuania         |
| Registration code:       | 301048563                                    |
| Incorporation date:      | July 17, 2007                                |
| Registration date:       | September 22, 2007                           |
| Legal form:              | branch                                       |
| Equity (as of 30.06.08): | EUR -1.45 million                            |
| Legislation:             | Republic of Lithuania                        |

The core activity of Balti Investeeringute Grupi Pank AS filialas is similar to Balti Investeeringute Grupi Pank AS - providing credit to private individuals in the Republic of Lithuania. As of 30.06.2008, the Lithuanian branch of the Issuer has five offices in Lithuania, including three in Vilnius.

The management of Balti Investeeringute Grupi Pank AS filialas is carried out by Head of Lithuanian branch Maksim Melamed (personal identification code: 38209090317) and Deputy Head of Lithuanian branch Rolandas Norvilas (personal identification code: 37802130224). All-in-all the management and financing of Balti Investeeringute Grupi Pank AS filialas is closely tied with that of the mother company as financing for the company is raised through Balti Investeeringute Grupi Pank AS; its products and services are closely related to those of the parent company and management is carried out in close co-operation between the branch and the mother company.

**OÜ Rütli Majad** is a 100% subsidiary of the Issuer incorporated in the Republic of Estonia.

|                          |                                |
|--------------------------|--------------------------------|
| Legal name:              | OÜ Rütli Majad                 |
| Legal address:           | Rütli 23, 51006 Tartu, Estonia |
| Permanent location:      | Rütli 23, 51006 Tartu, Estonia |
| Registration code:       | 10321320                       |
| Incorporation date:      | November 18, 1997              |
| Registration date:       | November 27, 1997              |
| Legal form:              | private limited company        |
| Share capital:           | EUR 0.31 million               |
| Equity (as of 30.06.08): | EUR 0.36 million               |
| Legislation:             | Republic of Estonia            |

The core activity of OÜ Rütli Majad is management of Issuer's offices in Tartu (Rütli 21/23) and Tallinn (Tartu mnt 18). The Management Board of the company consists of Arvo Lehemets, Veiko Kandla and Targo Raus.

#### 8.4 Principal shareholders

As of the date of the Prospectus, the Issuer has two shareholders: Parvel Pruunsild and Vahur Voll. Both of the aforementioned shareholders are private individuals and residents of the Republic Estonia. Both of the shareholders have been principal founders of the company and owners since the establishment of the company.

Parvel Pruunsild (personal identification code 36906162723) owns 50%, i.e. 40 000 shares of the Issuer. Since the establishment until the present date he has actively participated in the management of the company, first as Chairman of the Management Board and since 1994 as the Chairman of the Supervisory Board.

Vahur Voll (personal identification code 37011262727) owns 50%, i.e. 40 000 shares of the Issuer. Since the establishment of the Issuer until the present date he has actively participated in the management of the company, first as a member of the Management Board and since 1994 as a member of the Supervisory Board.

The Issuer has no knowledge of any agreements, execution of which could lead to changes in the Issuer's shareholders' structure.

Standards of the Credit Institutions Act, strict control of compliance performed by the Financial Supervision Authority, the Issuer's internal audit division, co-ordination of authorities of the Issuer with the Financial Supervision Authority, as well as liability of members of Supervisory and Management Boards of joint stock companies stipulated by the Commercial Code, are the factors ensuring that the control of the shareholders over the Issuer is not misused.

#### 8.5 Overview of associated companies

The Issuer has no companies associated to it.

#### 8.6 Personnel

As of 30.06.2008, the Issuer and its subsidiaries employed 492 persons in total.

Personnel of the Issuer by area of activity\*:

|                                  | <b>Estonia</b> | <b>Latvia</b> | <b>Lithuania</b> | <b>Total</b> |
|----------------------------------|----------------|---------------|------------------|--------------|
| Administrative specialist        | 1              | 0             | 0                | 1            |
| Office and legal department      | 8              | 4             | 4                | 16           |
| Credit area                      | 44             | 44            | 3                | 91           |
| Financial area                   | 16             | 15            | 4                | 35           |
| Foreign markets                  | 1              | 0             | 0                | 1            |
| Human resources                  | 3              | 3             | 1                | 7            |
| Internal audit                   | 1              | 1             | 0                | 2            |
| IT                               | 31             | 4             | 1                | 36           |
| Management body                  | 3              | 1             | 1                | 5            |
| Marketing and sales              | 105            | 140           | 34               | 279          |
| Product development and training | 11             | 5             | 2                | 18           |
| Risk management                  | 1              | 0             | 0                | 1            |
| <b>Total</b>                     | <b>225</b>     | <b>217</b>    | <b>44</b>        | <b>492</b>   |

\*excluding employees on maternity leave

As a general principle the Issuer supports top-level personnel growth from inside the company rather than hiring new people from outside the bank. This principle has been applied on one hand - in order to offer good career opportunities to employees; on the other – to be sure that executives are familiar with the company and its developments, that they carry on corporate culture and they are emotionally attached to the company.

The personnel of the Issuer are youthful, active and purpose-oriented. More than 56% of them have higher education. As an employer the Issuer offers his employees friendly, stable work environment with clearly stated scope of liability. Improving professional skills of the employees are supported by well-established training system as well as development prospects inside the group.

## **9 INFORMATION ON THE BOND ISSUE**

### **9.1 Terms and Conditions**

The Bond is a coupon debt security, representing the Issuer's unsecured and unsubordinated debt obligations, issued and redeemed in accordance with Terms and Conditions.

The Issuer's debt obligations arising from the Bonds rank *pari passu* with the rest of the Issuer's unsecured and unsubordinated debt obligations. The issued Bonds are freely transferable and encumberable.

The Bonds were nominated in Lithuanian litas (LTL). The nominal value of the Bonds was 1 000 LTL.

The issue price of the Bond was its nominal value, i.e. á 1 000 LTL. The redemption price of the Bond was its nominal value together with the accrued interest.

The term of the Bonds, issued through primary distribution, shall be approximately 1 year, with value date on March 19, 2008 and maturity date on March 24, 2009.

The primary distribution of the Bond issue was carried out as a private placement. The arranger was AS SEB Pank.

The subscription period of Bonds commenced on March 12, 2008 and ended at 12 p.m. (Estonian time) on March 17, 2008. The total volume of the Bond issue in its nominal value was LTL 10 000 000 (ten million litas) and 10 000 (ten thousand) Bonds were issued. The issue price of a Bond was LTL 1 000 (one thousand litas).

The Terms and Conditions have been attached to the Prospectus and form an inseparable part of the Prospectus. The Issuer shall not undertake to set out all information related to the Terms and Conditions in this Prospectus.

#### **9.1.1 Interest**

The Issuer shall pay interest to the Bonds, the rate of which was determined pursuant to purchase offers submitted during primary distribution. The interest rate is 12% per annum.

Calculation of interest shall be based on the actual number of days during the interest period and a year of actual number of days (Act/Act). The interest period shall commence on the value date and shall end on the Interest payment day.

Interest payment day shall be on Maturity Date, March 24, 2009

#### **9.1.2 Redemption**

The Bonds shall be redeemed, i.e. the redemption amount shall be paid to the Investors on the Maturity Date, i.e. on March 24, 2009.

As the redemption payment the Issuer shall pay the total redemption price of the owned Bonds to the Investor. The redemption price of the Bond shall be the nominal value of the Bond and the unpaid interest calculated to the same.

The redemption payments of the Bonds shall be paid to the Investors, who according to the Estonian Central Securities Register's information are the owners of the Bonds at 9 a.m. on the Maturity Date.

Following the receipt of the redemption payments in the Investors' current accounts, the Bonds shall be considered redeemed and shall be removed from the Register.

### **9.2 Registration and listing of the Bonds**

The Bonds were registered with the Estonian Central Securities Register according to the Estonian Central Securities Register Act and other applicable legal acts under ISIN code EE3300096304 on March 19, 2008.

The Bonds shall be listed in the bond list of the Tallinn Stock Exchange in accordance with a respective decision of the listing committee within three months as of submission of the listing application by the Issuer. The listing prospectus together with other particulars and documents shall be submitted to the Tallinn Stock Exchange within six months of the primary Issue.

### **9.3 The use of the proceeds**

Funds that have been raised as a result of Bonds issue are used in the ordinary course of business of the Issuer to finance the growth of loan portfolio in Estonia, Latvia and Lithuania.

### **9.4 Payment agent**

AS SEB Pank (reg. code in Estonian Commercial Register: 10004252), located at Tornimäe 2, 15010 Tallinn, Estonia, shall perform duties of the payment agent of Bond issue, mediating the issue-related payments. The bank also acts as a mediator of the information and documents between the Issuer and the Investors and shall perform other duties provided for in the Terms and Conditions of the Bond Issue.

### **9.5 Legal information**

The basis for arranging the issue were the Balti Investeeringute Grupi Pank AS Management Board resolution from March 19, 2008. Copy of the beforementioned resolution is enclosed to this prospect as Annex no 1.

The Securities Market Act, the decree of the Minister of Finance No 14 on Listing Requirements, from 21.01.2003, the European Parliament and Counsel of Europe directive 2003/71/EC (Prospectus Directive), Commission regulation (EC) No 809/2004 (Prospectus Regulation) and the requirements established by the Tallinn Stock Exchange shall be applied to the Bond Issue.

### **9.6 Taxation**

The Bonds proceeds are subject to taxation in accordance to the legislation, effective in the Republic of Estonia or in the Investor's home country.

The Payment Agent shall withhold income tax, if pursuant to the legal acts effective in the Republic of Estonia, income tax is to be withheld from the payments related to Bonds.

## **10 PUBLISHING OF THE PROSPECTUS**

The Prospectus will be published on the Issuer's website <http://www.big.ee/>.

## **11 DOCUMENTS AVAILABLE TO THE PUBLIC**

All interested persons have the possibility to get acquainted with the following documents:

- Articles of Association – Rõütli 23, 51006 Tartu, Republic of Estonia and on the Issuer's website <http://www.big.ee/>;
- Financial information – Rõütli 23, 51006 Tartu, Republic of Estonia and on the Issuer's website <http://www.big.ee/>;
- Prospectus – Rõütli 23, 51006 Tartu, Republic of Estonia and on the Issuer's website <http://www.big.ee/>.

The above-mentioned documents shall be available on the website of the Tallinn Stock Exchange after the respective decision of the listing committee. The web page address of OMX Tallinn Stock Exchange is <http://www.baltic.omxnordicexchange.com/>.