

AS Preatoni Pank

Public Annual Report of 2001

(Eesti Pank decree No 25, 19.10.1999,
Eesti Pank decree No 1, 09.02.2000,
Eesti Pank decree No 1, 31.01.2001)

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Introduction

Credit institution

Company name	AS Preatoni Pank
Address	Roosikrantsi Str.2, 10119 Tallinn, Estonia
Registered in	Republic of Estonia
Registry date	14.10.1999
Registry code	10586461 (Estonian Commercial Register)
Phone	+372 6 110 500
Fax	+372 6 110 501
SWIFT	PREAEE22
e-mail	info@preatonibank.ee
Internet homepage	http://www.preatonibank.ee

Auditor

Auditor's company name	AS PricewaterhouseCoopers
Registry code	10142876
Address	Pärnu Mnt. 15, 10141 Tallinn, Estonia
Auditor's name	Urmas Kaarlep
Auditor's license	17.12.1990.a., license no. 53

Report balance sheet date	31.12.2001
Reporting period	01.01.2001 – 31.12.2001
Reporting currency	Estonian kroons (EEK), thousands

Statement of the Management Board

After having been introduced to the Public Annual Report of 2001 of Preatoni Pank, the Management Board is on the following opinion on January 25, 2001, the date of publishing the Public Annual Report of 2001:

1. The Public Annual Report of 2001 consists of the following parts and reports:

Introduction;

Management Report;

Financial Statements;

Auditor's Report;

Proposal of the Management Board regarding profit allocation.

The Public Annual Report also includes the information in accordance with the requirements for Public Annual Reports, as stipulated by the Eesti Pank decree No 25, 19.10.1999, Eesti Pank decree No 1, 09.02.2000 and Eesti Pank decree No 1, 31.01.2001.

2. The financial and additional information published in the Public Annual Report of 2001 is true and complete.

3. The financial and other information, published in the Public Annual Report of 2001, is not missing anything, which could affect the meaning or content of the report.

4. The financial reports have been compiled in accordance with the internationally accepted principles of accounting and reporting, as stipulated in § 5 of the Estonian Accounting Law. The Public Annual Report of 2001 has been completed in accordance with the requirements of Estonian laws.

The audit of the year 2001 was conducted in accordance with International Standards on Auditing. The Public Annual Report of 2001 will be submitted for the approval to the General Shareholders' Meeting on March 13, 2002. The Annual Report of the previous year, 2000, was approved on April 6, 2001.

Ott Karolin Chairman of the Board



25.01.2002

Urmas Pütsepp Member of the Board



25.01.2002

Mart Veskimägi Member of the Board

25.01.2002

Management Report

Description of the Bank

Sole shareholder of Preatoni Bank is Ernesto Preatoni. The Supervisory Board of Preatoni Bank consists of five members. The members of the Supervisory Board are Ernesto Preatoni, Giuseppe Lusuardi, Neeme Jõgi, Jaak Saarniit and Karita Nilp. Ernesto Preatoni is the Chairman of the Supervisory Board. The members of the Supervisory Board (excluding sole shareholder Ernesto Preatoni) do not have shares or options to acquire shares of Preatoni Bank.

The Management Board of Preatoni Bank consists of three members. Ott Karolin is the Chairman of the Management Board and the members of the Management Board are Urmas Pütsepp and Mart Veskimägi. The Chairman of the Management Board and the members of the Management Board do not have shares or options to acquire shares of Preatoni Bank.

Preatoni Bank owns the activity license issued by Estonian Central Bank, which allows the Bank to deal with all banking operations. Still the bank considers the investment banking and private banking as the core business. The bank has the account holder status of Tallinn Stock Exchange and Estonian Central Depository for Securities and is the member of SWIFT. The advantages of the bank are its small size and focusing on certain customers' segment and certain areas of operation. Due to that the bank is flexible in providing services particularly in case of changes in the economic environment and market situation. Besides, the advantages mentioned above make the risk management and control system more effective, quicker and simpler. The advantage of Preatoni Bank is also having qualified employees with banking experience.

Preatoni Bank is not going to pay significant dividends to its shareholders within the upcoming few years. The Management Board of the Bank considers it essential to direct earned profit for the Bank's development and reserves.

Preatoni Bank has neither subsidiaries nor participating interests. The 100 % participation in AS Beeta Varahaldus was sold in 2000 and did not have material effect on the financial statements.

Investments into fixed assets during the accounting period formed 39 668 Estonian kroons.

In the year 2001 membership fees in the amount of 35 000 Estonian kroons were paid to the members of the Supervisory Board of Preatoni Bank. No fees or other monetary compensation were paid to the members of the Management Board in the year 2001. Salary of the Management Board in the accounting period amounted 1 512 000 Estonian kroons. The average number of employees during accounting period was 14 and the total amount of their salaries paid was 4 296 198 Estonian kroons.

Major economic events

Among major economic events of the year 2001 the following has to be emphasized:

- In March the Bank's management decided to accept the HEX Group OY offer for selling all Tallinn Stock Exchange (TSE) shares belonging to the Bank. As a result of the sale the Bank earned profit in amount 640 000 Estonian kroons. At the same time the Bank remained the member of TSE.
- In April the Internet bank for clients was opened, which enhanced the Bank's services to completely modern level. At the same time, the Internet bank is only the first building block in personal banking conception and does not mean that Bank is reoriented to retail banking.
- In the second quarter of the year 2001, for the first time from the beginning of the Bank's activity (started in October 1999), the owners' equity exceeded the limit of 100 000 000 Estonian kroons in account of unaudited profit of the current year.
- During the year 2001 transaction volumes of foreign exchange deals increased significantly (mostly deals with US Dollars), as a result of that the Bank acquired remarkable position in Estonian foreign exchange market.

Risk management

The main objective of the Bank's liquidity management is to maintain the maximum matching of the maturity of assets and liabilities, and to ensure continuous surplus liquidity in order to guarantee the Bank's ability to fulfil its obligations to the customers and daily transactions both for the customers and in the Bank's own name. The daily management of the Bank's liquidity is the task of the money and capital markets division. The Bank keeps its liquid assets on the correspondent account in the Bank of Estonia, in other Estonian banks, foreign banks and in marketable securities. Limits for other banks, limits for the securities and marketable securities are set by the Management Board and are subject to periodic adjustment. The division is responsible for monitoring the Bank's liquidity daily and informing the Management Board.

The Bank maintains minimum positions in foreign currencies necessary for providing services to the customers in order to keep a low risk profile. The Bank does not take speculative foreign currency positions. The Bank's Management Board has set the limits for maximum open currency positions, which are more conservative than stipulated by the regulations of the Bank of Estonia. All foreign currency positions are continuously monitored and valued at market. Open foreign currency positions are mainly covered with swaps and forwards.

The Bank's general strategy is to minimise exposure to interest rate risk primarily by keeping similar sensitivity of assets and liabilities to interest rates. As the Bank's strategies do not include the lending of liabilities, deposits with the Bank are placed with the same or similar maturity terms, thus decreasing also the interest rate risk. The Bank uses interest rate swaps to cover for the interest rate risk. The interest rate risk is measured by 1% sensitivity to interest rate changes.

The Bank's credit risk profile is characterised rather by low risk and lower but stable interest income, than high risk and high interest income. All decisions related to loans and guarantees are made by the credit committee. According to the Law on Credit Institutions the credit committee's competence of making decisions is established by the Supervisory Board. Also, the credit committee makes decisions regarding customers whose liabilities exceed the limit set by the Supervisory Board. Under these circumstances the decision of the credit committee must be passed for approval to the Bank's Supervisory Board or to a member of the Supervisory Board according to the competence set by the Supervisory Board. All the liabilities that the customer has to the Bank are considered customer receivables. The daily management and monitoring of the Bank's credit risk takes place in the loan and customer relationship division. All lending reports are available to the loan and customer relationship division online. The loan and customer relationship division reports to the Management Board on general credit risk and on the financial position of the major loan customers.

The investment portfolio is divided into two: investments on behalf of the Bank and investments on behalf of the customer, which is a risk of the Bank's customers. The money and capital markets division is responsible for all investment decisions, regardless on behalf they are made on. The Bank's Management Board sets the limits and areas of investment. The Bank's Management Board establishes each investment amount and maturity based on the limits. The Bank's Management Board overviews the investment portfolio regularly and changes the limits and areas of investment, if necessary, and can also alter the maturity term of investments.

The main instrument for minimising personnel risk is to follow the segregation of duties in performing banking operations. Operations are divided into front- and back-office operations so that one employee can not solely execute a whole operation. The Bank's Management Board is responsible for the personnel risk management.

The banking program used is based on ORACLE database, a so-called open system allowing continuous development and enhancement of the banking program, which is very important in minimising the information technology risk. The banking program is also scalable, which enables to add server capacity when the information volumes grow over time. Also a good documentation both from the developers and users side is a very important factor, helping to use substitute labour, if necessary. The banking system is defended from outside intruders by a firewall. All programs belonging to the banking system are protected by passwords, which are changed according to the regulations. The banking system is equipped with a system of back-ups. The IT committee is responsible for the control and management of IT related risks.

The Bank's Management Board has set a principle that risks are taken only when the rating is available or against collateral in Estonia, to avoid country risk.

As Preatoni Bank does not have any subsidiary, the internal audit system involves only control over the Bank.

The Bank's Supervisory Board has set the general principles of the control over the Bank's activity. The internal control system involves the control measures, which are worked out according to the general principles. The Management Board has worked out the regulations of the control over the Bank's activity, based on the general

principles. The controls functioning in the Bank's business process are regulated by the rules of procedures confirmed by the Management Board.

The Management Board's competency involves working out the control mechanisms, implementation and controlling the fulfillment of those mechanisms.

The internal auditor is competent to evaluate the present internal control system, the sufficiency and efficiency of the control mechanisms set by the Management Board and the Supervisory Board of the Bank, to make proposals for improving the internal control system and to test the functioning of the system. The internal audit is responsible for reporting the findings to the Management Board and the Supervisory Board.

The financial data is available online in information system, which is integrated with the unified database. The information of the Bank's activity is stored both electronically and in paper.

The employees' access to the information, needed in fulfilling their tasks, is regulated by the IT access regulation. The Management Board is responsible for informing the Bank's employees about the rules and regulations as well as the principles set in the documents confirmed by the Bank's Management Board and the Supervisory Board regulating their tasks.

Standard ratios

Capital adequacy

(thousands of EEK)

	31.12.2001	31.12.2000
I EQUITY	100 400	96 109
1. PRIMARY EQUITY (Tier 1)	100 400	96 109
1.1. Paid-in share capital	100 000	100 000
1.2. General banking reserve	0	0
1.3. Other reserves	0	0
1.4. Retained profit/loss of the previous years	-2 178	-3 939
1.5. Profit/loss for the current reporting period	3 875	1 761
1.6. Minority interest (only in consolidated statement)	0	0
1.7. Unrealised exchange rate differences (only in consolidated statement)	0	0
1.8. Treasury stock (less)	0	0
1.9. Intangible assets (less)	-1 297	-1 713
2. Supplementary equity (Tier 2)	0	0
3. Total gross own funds (1+2)	100 400	96 109
4. Deductions from gross own funds	0	0
5. Total net own funds (3-4)	100 400	96 109
6. Deductions from net own funds	0	0
7. Equity for market risk (Tier 3)	0	0
II CAPITAL REQUIREMENT FOR COVERING THE RISKS (1+2)	8 581	7 071
1. Capital requirement for covering the credit risk (1.1/10)	8 247	6 845
1.1 Credit risk adjusted assets	79 934	68 025
I category (credit risk 0%)	18 085	6 407
II category (credit risk 20%)	79 825	70 291
III category (credit risk 50%)	12 535	10 111
IV category (credit risk 100%)	57 701	48 911
1.2 Risk weighted off-balance sheet commitments	2 539	423
Group I	638	175
Group II	1 901	248
2. Capital requirement for trading portfolio risks	334	226
2.1. For interest position risk	282	99
2.2. For share position risk	52	127
2.3. For transaction risk	0	0
3. Capital requirement for currency risk (3.1/10)	0	0
4. Capital requirement for other risks	0	0
III CAPITAL ADEQUACY (%) (I/II*10)	117.00%	135.92%

Net currency positions

(thousands of EEK)

31.12.2001

Currency	Position in balance sheet		Off-balance sheet position		Net position
	long	short	long	short	
Estonian kroons and EUR position	187 833	191 973	100 930	98 088	-1 298

Net position of other currencies is less than 1 % of net equity.

As of 31.12.2000 net position of each Bank owned currency was less than 1 % of net equity.

Liquidity (assets and liabilities by remaining maturity)
(thousands of EEK)

31.12.2001

Assets, liabilities\ maturity	On demand	Over-due	Up to 1 month	From 1 month up to 3 month	From 3 month up to 12 month	1 year up to 2 years	From 2 years up to 5 years	Over 5 years	Total
1. Balance sheet assets	54 298	0	76 591	101	15 478	2 376	19 016	24 469	192 329
cash and claims to banks	22 131	0	75 779	0	0	0	0	0	97 910
claims and loans to customers	7 396	0	66	101	14 736	2 376	19 016	24 469	68 160
securities	24 771	0	0	0	0	0	0	0	24 771
other claims	0	0	746	0	742	0	0	0	1 488
2. Off-balance sheet assets	0	0	191 307	6 490	0	0	0	0	197 797
1. Balance sheet liabilities	13 425	0	73 230	5 611	67	184	0	0	92 517
amounts owed to banks	0	0	0	0	0	0	0	0	0
amounts owed to customers	13 223	0	72 690	5530	67	174	0	0	91 684
issued debt securities	0	0	0	0	0	0	0	0	0
other liabilities	202	0	540	81	0	10	0	0	833
2. Off-balance sheet liabilities	1 275	0	191 096	6 565	0	0	0	0	198 936

31.12.2000

Assets, liabilities\ maturity	On demand	Over-due	Up to 1 month	From 1 month up to 3 month	From 3 month up to 12 month	1 year up to 2 years	From 2 years up to 5 years	Over 5 years	Total
1. Balance sheet assets	90 461	0	3 053	388	6 022	388	22 624	26 605	149 541
cash and claims to banks	74 133	0	2 565	0	0	0	0	0	76 698
claims and loans to customers	1 220	0	0	347	5 993	388	22 624	26 255	56 827
securities	15 108	0	0	0	0	0	0	350	15 458
other claims	0	0	488	41	29	0	0	0	558
2. Off-balance sheet assets	0	0	7 568	14 271	0	0	0	0	21 839
1. Balance sheet liabilities	38 738	0	9 230	6 396	154	201	0	0	54 719
amounts owed to banks	0	0	0	0	0	0	0	0	0
amounts owed to customers	38 215	0	8 567	6 318	150	200	0	0	53 450
issued debt securities	0	0	0	0	0	0	0	0	0
other liabilities	523	0	663	78	4	1	0	0	1 269
2. Off-balance sheet liabilities	350	0	7 560	14 252	0	0	0	0	22 162

Risk concentration
(thousands of EEK)

31.12.2001

	number / amount	% from net own funds
1. Number of customers with high risk concentration	2	
2. Due from customers with high risk concentration	39 019	38.86
3. Due from related persons	957	0.95

31.12.2000

	number / amount	% from net own funds
1. Number of customers with high risk concentration	1	
2. Due from customers with high risk concentration	20 573	21.41
3. Due from related persons	365	0.38

Key figures

	31.12.2001	31.12.2000
Return on equity (ROE), %	3.88 %	1.82 %
Equity multiplier (EM)	1.74	1.37
Profit margin (PM), %	17.87 %	10.94 %
Asset utilization (AU), %	12.51 %	12.10 %
Net interest margin (NIM), %	5.56 %	6.33 %
Earnings per share (EPS)	0.39	0.18
SPREAD, %	2.95 %	4.11 %
Yield on interest earning assets (YIEA), %	6.37 %	7.16 %
Cost on interest bearing liabilities (COL), %	3.42 %	3.05 %

Explanations

Total income includes the following items (according to Eesti Pank decree No 25, 19.10.1999): interest income, income from fees and commissions, profit/loss from currency exchange, income from financial investments, other operating income, extraordinary income, income from value adjustments of fixed and intangible assets (+), income from value adjustments of advances and off-balance sheet commitments (+), income from value adjustments of long term financial investments.

ROE	Net profit(loss) / Average equity * 100
EM	Average assets / Average equity
PM	Net profit(loss) / Total income * 100
AU	Total income / Average assets * 100
NIM	Net interest income / Average interest earning assets * 100
EPS	Net profit(loss) / Average number of shares
SPREAD	Yield on interest earning assets – Cost of interest bearing liabilities
YIEA	Interest income / Average interest earning assets * 100
COL	Interest expense / Average interest bearing liabilities * 100

Ratings

AS Preatoni Pank does not have an international credit rating.

Legal disputes

There are no outstanding legal disputes as of 31.12.2001.

Financial Statements

Income Statement

(thousands of EEK)

	Note	Bank 2001	Bank 2000
1. Interest income	2	13 188	9 121
1.1. Interest income from banking activities		13 188	9 121
1.2. Interest income from leasing activities		0	0
1.3. Other interest income		0	0
2. Interest expense	3	3 808	1 058
2.1. Interest expense from banking activities		3 808	1 058
2.2. Interest expense from leasing activities		0	0
2.3. Other interest expense		0	0
3. Net interest income (+/-)		9 380	8 063
4. Income and expenses from insurance activities		0	0
4.1. Insurance premium		0	0
4.2. Insurance compensations and changes in reserves		0	0
5. Income from securities	4	640	0
6. Profit/loss from equity method (+/-)		0	9
7. Net fee and commission income		4 173	4 798
7.1. Fee and commission income	5	5 499	5 507
7.2. Fee and commission expense	6	1 326	709
8. Net trading income (+/-)	7	2 360	1 456
9. Administrative expenses		11 048	10 723
9.1. Salary expense	8	4 392	4 320
9.2. Social insurance tax	9	1 450	1 429
9.3. Pensions		0	0
9.4. Other administrative expenses	10	5 206	4 974
10. Value adjustments of tangible and intangible assets (+/-)	11	-1 155	-998
11. Value adjustments of advances and off-balance sheet items (+/-)	12	-52	-561
12. Value adjustments of long term investments (+/-)		0	0
13. Other operating income and expenses		-423	-283
13.1. Other operating income		0	0
13.2. Other operating expenses	13	423	283
14. Extraordinary income/expense (+/-)		0	0
15. Profit (loss) before taxation		3 875	1 761
16. Income tax expenses		0	0
16.1. Income tax of financial year		0	0
17. Minority interest		0	0
18. Net profit/loss (+/-)		3 875	1 761

The accounting policies described on pages 16-20 and Notes to the annual report on pages 21-28 form an integral part of the current financial statements.

Balance Sheet (thousands of EEK)			Bank	Bank
	Note	31.12.2001	31.12.2000	
ASSETS				
1. Cash	14	466	468	
2. Loans and advances		165 604	133 056	
2.1. Balances with central bank	15	17 619	5 939	
2.2. Due from other banks	16	79 825	70 291	
2.3. Due from customers of credit institution	17	68 773	57 387	
2.4. Due from customers of leasing enterprises		0	0	
2.5. Due from insurance institutions		0	0	
2.6. Other loans and advances		0	0	
2.7. Uncollectible debt	18	-613	-561	
3. Debt securities and fixed income securities	19	24 553	14 049	
4. Shares and other securities	20	218	1 410	
5. Shares in affiliates		0	0	
6. Shares in subsidiaries		0	0	
7. Intangible assets	21	1 297	1 713	
7.1. Consolidated goodwill		0	0	
7.2. Other intangible assets		1 297	1 713	
8. Fixed assets	22	588	1 287	
9. Subscribed capital unpaid		0	0	
10. Other assets	23	136	27	
11. Accruals and prepaid expenses	24	1 352	531	
12. TOTAL ASSETS		194 214	152 541	
LIABILITIES AND SHAREHOLDERS' EQUITY				
1. LIABILITIES		91 684	53 450	
1.1. Due to central bank		0	0	
1.2. Due to credit institutions		0	0	
1.3. Due to customers of credit institutions	25	91 684	53 450	
1.4. Due to customers of insurance institutions		0	0	
1.5. Other commitments		0	0	
2. Issued debt securities		0	0	
3. Other liabilities	26	11	523	
4. Accrued expenses and deferred income	27	822	746	
5. Provisions		0	0	
5.1. Insurance technical provisions		0	0	
6. Subordinated liabilities		0	0	
7. Minority interest		0	0	
8. TOTAL LIABILITIES		92 517	54 719	
9. Shareholders' equity:				
9.1. Share capital		100 000	100 000	
9.2. Paid-in capital over par		0	0	
9.3. General banking reserve		0	0	
9.4. Other reserves		0	0	
9.5. Statutory legal reserve		0	0	
9.6. Unrealized exchange rate differences		0	0	
9.7. Retained earnings		-2 178	-3 939	
9.8. Profit/loss for the financial year		3 875	1 761	
9.9. Treasury stock (less)		0	0	
10. TOTAL SHAREHOLDERS' EQUITY		101 697	97 822	
11. TOTAL LIABILITIES AND EQUITY		194 214	152 541	

The accounting policies described on pages 16-20 and Notes to the annual report on pages 21-28 form an integral part of the current financial statements.

Cash Flow Statement

(thousands of EEK)

	2001	2000
I Cash flows from operating activities	9 372	28 038
interests received	12 937	9 172
interests paid	-3 789	-915
fees and commissions received	5 399	5 337
fees and commissions paid	-1 324	-701
administrative expenses paid	-10 992	-10 293
net trading income received	2 360	1 456
other operating expenses paid	-423	-283
net increase(-) / decrease(+) in operating assets		
loan portfolio	-5 211	-36 543
due from other banks	-10 889	-7 328
other assets	-6 754	-1 226
securities	-9 663	32 644
net increase(+) / decrease(-) in operating liabilities		
due to customers	38 234	37 509
other liabilities	-513	-791
II Cash flows from investing activities	950	-230
purchase of tangible fixed assets	-40	-381
purchase of intangible fixed assets	0	-939
proceeds from sales of long term investments	990	0
proceeds from sales of subsidiaries	0	1 090
Net increase in cash and cash equivalents (I + II)	10 322	27 808
Cash and cash equivalents at the beginning of the year	69 238	41 430
Cash and cash equivalents at the end of the year*	79 560	69 238

* Cash and cash equivalents at the end of the year:

(thousands of EEK)

	Note	2001	2000
cash	14	466	468
surplus of the reserve in the central bank	15	769	1 044
demand deposits in banks	16	4 046	2 681
overnight deposits in banks	16	74 279	65 045
Total		79 560	69 238

Annexes to Cash Flow Statement:

1. Bank did not pay income tax in 2001
2. Bank did not have assets acquired under capital lease terms during year 2001
3. Bank did not pay for any investment in Estonian Privatisation Vouchers (EVP) or with nonmonetary payment during year 2001
4. Bank did not receive nonmonetary dividends during year 2001

The accounting policies described on pages 16-20 and Notes to the annual report on pages 21-28 form an integral part of the current financial statements.

Statement of Changes in Equity

(thousands of EEK)

	01.01.2001- 31.12.2001	01.01.2000- 31.12.2000
Share capital		
Balance at the beginning of the year	100 000	100 000
Balance at the end of the year	100 000	100 000
Profit/loss retained		
Balance at the beginning of the year	-2 178	-3 939
Profit/loss for the financial year	3 875	1 761
Balance at the end of the year	1 697	-2 178
Total shareholders' equity:		
at the beginning of the year	97 822	96 061
at the end of the year	101 697	97 822

Share capital is divided into 10 000 000 common shares with nominal value 10 Estonian kroons each and is paid-in in cash. The number of shares has not changed during the year. According to the statute minimum share capital is 100 000 000 Estonian kroons and maximum share capital is 400 000 000 Estonian kroons.

Off-balance Sheet Items

(thousands of EEK)

	31. 12.2001		31. 12.2000	
	Assets	Liabilities	Assets	Liabilities
1.Irrevocable transactions	0	1 275	0	350
1.1.Guarantees and pledges	0	0	0	0
incl. financial guarantees	0	0	0	0
1.2.Irrevocable transactions related to management and investment service	0	0	0	0
1.3.Stand-by loans	0	1 275	0	350
1.4.Other off-balance sheet commitments	0	0	0	0
2.Derivatives	197 797	197 661	21 839	21 812
incl. options	0	0	2 400	2 400
2.1. Currency related derivatives	197 797	197 661	19 439	19 412
2.2. Interest rate based derivatives	0	0	0	0
2.3. Securities related derivatives	0	0	2 400	2 400
2.4. Other derivatives	0	0	0	0
3.Revocable transactions	0	0	0	0
3.1.Stand-by loans	0	0	0	0
3.2.Other revocable transactions	0	0	0	0
4.Pledged assets as collateral	0	0	0	0

The accounting policies described on pages 16-20 and Notes to the annual report on pages 21-28 form an integral part of the current financial statements.

Note 1

Accounting policies

The financial statements of Preatoni Bank are prepared in accordance with the Estonian Accounting Law, generally accepted accounting principles and legal acts of the Bank of Estonia, applicable to credit institutions in preparing Public Annual Reports. The financial statements are prepared by using the acquisition cost principle, adjusting it by valuing certain securities into market value. Financial statements are prepared according to accrual basis of accounting.

Consolidation

Preatoni Bank has neither subsidiaries nor associated companies.

Assets and liabilities denominated in foreign currencies

Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date. Assets and liabilities denominated in foreign currency have been revaluated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia valid on the balance sheet date. Changes in exchange rates are recorded in the income statement in "Net trading income".

Estimated market value of financial assets and liabilities

According to the Bank management's estimate the book value of financial assets and liabilities recorded in the financial statements is in compliance with their estimated market value in material respects.

Derivatives

The speculative off-balance sheet financial instruments (e.g. forwards, swaps) are accounted for in market value. Derivatives tied to foreign currency are revaluated by using the exchange rate of the Bank of Estonia on the balance sheet date. The revaluation is recorded on the balance sheet account "Other assets or other liabilities" and the revaluation result on the income statement account "Net trading income". Instruments used for hedging purposes are accounted for on accrual basis in accordance with the recording of underlying transactions.

Offsetting

Financial assets and liabilities are offset only if such legal right exists and it is planned to settle the mentioned amounts on net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents include the cash, demand and overnight deposits in other credit institutions and the correspondent account in the Bank of Estonia, less the statutory legal reserve.

Investments into securities and bonds

Shares

All securities in the Bank's possession, to which the Bank has the right of ownership, have been recorded as securities. Investments into securities are divided into short-term or long-term financial assets depending on the purpose of their ownership.

Shares purchased with the aim of trading are recorded as short-term investments. They are revaluated to the market value on the balance sheet date, which in case of shares listed on the stock exchange are the closing prices of the trading date. Shares not listed on the stock exchange are recorded in acquisition cost. The value of these investments is written down in the Bank's balance sheet when the company's book value decreases (according to the company's financial information). Interest income of the money market funds' shares recorded in short-term investments is recorded on accrual basis as interest income and taken on account as accrued income. If the change in the value of the funds' shares is reflected in the redemption price of the fund's share, then on the balance sheet date the funds' shares are revaluated into their actual realisable value.

Shares purchased with a strategic purpose to hold them long-term are recorded as long-term investments. Long-term investments are reflected in acquisition cost in the financial statements; FIFO method is used to determine the result of their sales. Long-term investments are recorded at the lower of acquisition cost or net realisable value, whereas in realisable value only if it is permanently lower than the acquisition cost. Should the situation change and the write-down made earlier is no longer justified, the book value of long-term financial investments is adjusted but their acquisition cost will remain the upper limit of adjustments.

Debt securities

Bonds and other securities with fixed interest are reflected as debt securities. Debt securities are recorded in the balance sheet in acquisition cost. At evaluating the debt securities the interest formed as a difference between the acquisition cost and nominal value is allocated over the period of the bond's duration. The result is recorded in the income statement as interest income. In case the debt securities are realised, the FIFO method is used to define the sales result.

Intangible assets

Intangible assets are assets that do not have physical materiality. Purchased patents, licenses and software programs are considered to be intangible assets. Intangible assets are recorded in the balance sheet in acquisition cost less depreciation. Straight-line method is used for depreciating the intangible assets. The depreciation rate for intangible assets is 20% per year.

Fixed assets

Assets with useful life over one year and acquisition cost over 1 000 Estonian kroons are considered fixed assets. New fixed assets are depreciated since the month of taking into use until the asset is fully depreciated. Fixed assets are recorded in the balance sheet in acquisition cost less depreciation. Straight-line method is used for depreciating fixed assets and the depreciation rates are the following:

computers, communication equipment	40 % per year
safe storage lockers	25 % per year
other fixed assets	30 % per year.

Depreciation rates can be altered if the useful life of the fixed asset is different from the expected.

Loans and provisions

The amount of the actual loan liability as at the end of the reporting period is recorded as loans in the balance sheet. Loans that are signed but not paid are recorded as off-balance sheet liabilities. Loans not paid by the due date, which is exceeded by more than 150 days, are removed from the balance sheet and accounted for off balance sheet.

Purchase and sale-back transactions of securities are recorded similarly to lending. The difference of the purchase price and the sale-back price is allocated on the period of the agreement's validity and recorded in the income statement in "Interest income" and in the balance sheet in "Accruals and prepaid expenses".

In order to categorise loans the client's economic situation, creditworthiness, value of the collateral and its realisability and the client's payment discipline are assessed based on the loan analysis.

Based on these criteria loans are classified to 5 categories:

- category A – good loans
- category B – loans under special monitoring
- category C – doubtful loans
- category D – possible loss
- category E – uncollectible loans.

Provisions are made depending on the loan's category. The specific provisioning rate of loans of categories A and B is 0%. Other loans are provisioned in accordance with the Eesti Pank decree "Credit institution loan servicing and the order of expensing doubtful loans". Based on that the amount of a specific provision is equal to the difference between the balance sheet value and the present value of the anticipated future cash flows discounted with the interest rate specified in the loan agreement. If the Bank has no sufficient assurance to assess the servicing of the loan based on cash flows, the calculation of a specific provision is based on the net realisable value of the collateral or the loan itself. In these circumstances the amount of the specific provision is equal to the difference between the balance sheet value and the net realisable value of the collateral or the loan.

For other loans that do not have a specific provision a general provision is made in the amount of 1 % of the loan balances outstanding.

Interest, fees and commissions

Interest income and expense are recorded in the income statement on accrual basis. Interest calculation is suspended when the loan payment is overdue by 60 days and

the interest accrued is excluded from income until received. Income and expenses from fees and commissions are recorded in the income statement at the moment of providing or purchasing the service.

Vacation pay reserve

The amounts payable to employees according to employment agreements and the related taxes are recorded in the vacation pay reserve to the extent of the accrued vacation payment as at the end of the reporting period.

Accounting for leases

IAS 17 rules are applied in accounting for leases. Lease transactions are considered finance lease if all material income and risks arising from the agreement are transferred to the lessee. Assets leased in terms of finance lease are capitalised in the present value of lease payments and are depreciated according to their useful life or lease period. All other lease agreements are considered operating lease and the payments made on the basis of those agreements are expensed in the period for which they are made.

Statutory reserve in the Bank of Estonia

The Bank of Estonia has established a statutory reserve to credit institutions at 13% of the three decades' average amount of deposits and issued financial guarantees. Credit institutions are obliged to keep minimum 40% of the established Estonian kroons statutory reserve amount on the correspondent account at the Bank of Estonia every day. Three decades' average cash balance in Estonian kroons can be deducted from the statutory reserve, but not more than 20% of the statutory reserve.

Off-balance assets and liabilities

The guarantees, unused loan limits, letters of credit and derivative instruments are recorded as off-balance sheet transactions.

Open currency positions

The open net currency position is regulated by the Bank of Estonia. The short and long net positions in each currency are converted into Estonian kroons using the rate of the Bank of Estonia on the last banking day of the reporting period. The net position of each freely convertible currency must not exceed 15% of the Bank's net own funds, the position of non-convertible currency 5% of the Bank's net own funds. The open position limit of Latvian lat and Lithuanian lit is 10% of the Bank's net own funds. The open joint position of Estonian kroons, EU euro and national currency of common currency countries must not exceed 15% of the Bank's net own funds and the total open net position in foreign currencies must not exceed 30% of the net own funds of the credit institution.

Risk concentration

Risk concentration is considered high if the liabilities and potential liabilities of one client or related parties to the credit institution exceed 10% of the net own funds of the credit institution (the maximum limit allowed is 25% of net own funds). The total amount of debts with high risk concentration must not exceed 800% of the net own funds of the credit institution.

Potential income tax liability from dividends

According to the Income Tax Law that came into force on January 2000 the legal entities registered in Estonia do not pay income tax on the profit earned but on the profit distributed.

According to the mentioned law the company shall pay income tax at a rate of 26/74 on all monetary or non-monetary dividends or other profit distributions paid out to private persons, non-profit organisations and foundation not included in the list of non-profit organisations with income tax relief, and to non-residents. Dividends paid to resident companies are not taxed.

The company's potential tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet because it is impossible to reliably estimate this liability. The amount of potential tax liability related to the distribution of dividends depends on whether and when the company pays out the dividends, and in which proportion the shares are owned by resident entities, resident individuals and non-residents.

The income tax related to the payment of dividends is recorded in the income statement as income tax expense at the moment of paying the dividend.

Notes 2 - 33

(thousands of EEK)

	2001	2000
Note 2: interest income		
interest income from loans	6 909	5 680
interest income from demand deposits	601	196
interest income from time deposits	4 573	1 294
interest income from debt securities	1 105	1 774
interest income from money market funds	0	177
total interest income	13 188	9 121

Note 3: interest expense

interest expense from demand deposits	174	82
interest expense from time deposits	3 634	976
total interest expense	3 808	1 058

Note 4: income from securities

proceeds from sales of long term investments	640	0
total income from securities		

In 2001 Bank sold 22 Tallinn Stock Exchange AS (reg. no. 10359206) shares and gained 640 thousand Estonian kroons. Purchase price in 1999 was 350 thousand Estonian kroons and selling price in 2001 990 thousand Estonian kroons. Transaction was made in cash.

Note 5: fee and commission income

loan arrangements and guarantees	565	960
bank transaction fees	247	76
security transaction fees	2 970	1 407
accounts opening and maintenance fees	707	600
investment banking fees	1 005	2 448
other fee and commission income	5	16
total fee and commission income	5 499	5 507

Note 6: fee and commission expense

security transaction expenses	1 017	458
bank transaction expenses	190	58
S.W.I.F.T. expenses	119	193
total fee and commission expense	1 326	709

	2001	2000
Note 7: net trading income		
income from foreign exchange	2 028	651
income from shares and debt securities in trading portfolio	332	805
total net trading income	2 360	1 456
Note 8: salary expense		
salaries	4 331	4 280
change in vacation reserve	55	36
fringe benefits	6	4
total salary expense	4 392	4 320
Note 9: social insurance tax		
social taxes from salaries	1 429	1 412
social taxes change from vacation reserve	19	12
social taxes from fringe benefits	2	5
total social insurance tax	1 450	1 429
Note 10: other administrative expenses		
rent of premises	1 188	1 223
IT expenses	1 358	1 128
mail and communication expenses	468	594
services purchased	1 299	1 354
advertising and printed documents	135	72
training and business traveling	119	87
transportation expenses	469	348
other expenses	170	168
total other administrative expenses	5 206	4 974
Note 11: value adjustments of tangible and intangible assets		
depreciation of tangible assets	-739	-683
depreciation of intangible assets	-416	-315
total depreciation of tangible and intangible assets	-1 155	-998
Note 12: value adjustments of advances and off-balance sheet items		
general provision change for loans	-52	-561
total provisions for loans	-52	-561
Note 13: other operating expenses		
Deposit Guarantee Fund payments	289	143
Tallinn Stock Exchange membership fee	100	100
other operating expenses	34	40
total other operating expenses	423	283

	31.12.2001	31.12.2000
Note 14: cash		
cash in Estonian kroons	466	468
total cash	466	468
Note 15: balances with central bank		
statutory reserve	16 850	4 896
surplus of the reserve in the central bank	769	1 043
total balances with central bank	17 619	5 939
Note 16: due from other banks		
demand deposits	4 046	2 681
overnight deposits	74 279	65 045
time deposits	1 500	2 565
total due from other banks	79 825	70 291
claims by countries		
Estonia	76 478	69 014
OECD countries	3 347	1 277
total claims by countries	79 825	70 291
Note 17: due from customers of credit institutions		
claims by customer types		
due from financial institutions	7 476	1 300
loans to private companies	44 612	42 682
loans to private persons	16 685	13 405
total claims by customer types	68 773	57 387
claims by remaining maturity		
demand deposits	7 396	1 220
up to 3 month	169	350
from 3 month to 12 month	14 885	6 053
from 1 year up to 2 years	2 400	392
from 2 years up to 5 years	19 208	22 853
over 5 years	24 715	26 519
total claims by remaining maturity	68 773	57 387
claims by countries		
Estonia	61 156	55 670
OECD countries	7 617	1 717
total claims by countries	68 773	57 387

The bank did not have overdue loans in 2001 and 2000.

	31.12.2001	31.12.2000
Note 18: uncollectible debt		
general provision for loans	613	561
total general provision for loans	613	561

For all loans not having specific provision has been made general provision in amount of 1 % of outstanding amount. Bank does not have loans where specific provision is applied.

Note 19: debt securities and fixed income securities

debt securities by issuer's		
debt securities of credit institutions	24 383	11 462
debt securities of local authorities	0	650
debt securities of private enterprises	170	1 937
total debt securities by issuer's	24 553	14 049
debt securities by countries		
Estonia	170	9 458
OECD countries	24 383	4 591
total debt securities by countries	24 553	14 049

Note 20: shares and other securities

shares in trading portfolio	218	1 060
-listed	218	1 059
-unlisted	0	1
strategic investments	0	350
total shares and other securities	218	1 410

shares and other securities by countries

Estonia	97	1 410
OECD countries	1	0
other countries	120	0
total shares and other securities by countries	218	1 410

Note 21: intangible assets

software	2 081	2 081
depreciation	-784	-368
total intangible assets	1 297	1 713

Note 22: tangible assets

computers	951	930
furniture	535	532
other tangible assets	654	638
depreciation	-1 552	-813
total tangible assets	588	1 287

There were no sales or write-offs in tangible or intangible assets during 2001 and 2000.

	31.12.2001	31.12.2000
Note 23: other assets		
revaluation of foreign currency derivatives	136	27
total other assets	136	27
Note 24: accruals and prepaid expenses		
interests receivable	534	283
fees and commissions receivable	318	218
prepaid expenses	478	30
other accrued revenue	22	0
total accruals and prepaid expenses	1 352	531
Note 25: due to customers of credit institution		
demand deposits	13 223	38 215
time deposits	78 461	15 235
total due to customers	91 684	53 450
demand deposits by customers		
financial institutions	24	992
non-profit organisations	12	0
companies	8 190	33 030
private persons	4 997	4 193
total demand deposits by customers	13 223	38 215
time deposits by customers		
financial institutions	26 987	0
companies	39 950	9 561
non-profit organisations	0	150
private persons	11 524	5 524
total time deposits by customers	78 461	15 235
Note 26: other liabilities		
payments in transmission	11	523
total other liabilities	11	523
Note 27: accrued expenses and deferred income		
interest payable	167	148
taxes payable	361	264
payables to employees	192	118
payables to suppliers	102	183
other accruals	0	33
total accrued expenses and deferred income	822	746

Note 28: related party transactions	31.12.2001	31.12.2000
Related parties deposits in the bank		
members of the Supervisory Board	1 049	7
members of the Management Board	138	131
paid interests to the members of the Supervisory Board and the Management Board	5	309
Loans to the related parties		
loans to the members of Supervisory Board and Management Board	950	362
interest income earned	34	7
Salaries		
salaries to the Management Board	1 512	1 675
membership fees to the Supervisory Board	35	55

The Management Board believes that related party transactions are made according to market conditions.

Lisa 29: operating leases liability

Preatoni Pank has concluded two 4 years operating lease agreements in 2001. Minimal operating lease liability as 31.12.2001 for 2002 is 212 thousand Estonian kroons and following liabilities until end of the agreements are 514 thousand Estonian kroons. Rent expense in the financial period was 124 thousand Estonian kroons.

In 1999 Preatoni Pank signed 5 years operating lease agreement for premises. The rent payment in 2000 amounted 1 168 thousand Estonian kroons and in 2001 1 201 thousand Estonian kroons. Minimal operating lease liability in 2002 is 1 235 thousand Estonian kroons and following liabilities until end of the agreement are 1 818 thousand Estonian kroons.

Note 30: geographical concentration of assets/receivables (thousands of EEK)

31.12.2001						
Country/ Type of receivable	Balance sheet assets			incl. overdue assets	Off-balance sheet assets	By country (%)
	loans	securities	interests receivable			
Estonia	155 253	267	351	611	197 797	90.83%
Finland	1 440	1	0	0	0	0.37%
Sweden	0	24 383	162	0	0	6.31%
Italy	4 447	0	2	2	0	1.14%
USA	1 862	0	0	0	0	0.48%
Great Britain	3 215	0	19	0	0	0.83%
Lithuania	0	120	0	0	0	0.04%
TOTAL	166 217	24 771	534	613	197 797	100%

31.12.2000

Country/ Type of receivable	Balance sheet assets			incl. overdue assets	Off-balance sheet assets	By country (%)
	loans	securities	interests receivable			
Estonia	130 623	10 867	280	556	21 839	95.56%
Finland	562	1 979	0	0	0	1.49%
Sweden	0	2 612	0	0	0	1.53%
Italy	1 721	0	3	4	0	1.01%
USA	658	0	0	0	0	0.39%
Germany	53	0	0	1	0	0.02%
KOKKU	133 617	15 458	283	561	21 839	100%

Note 31: concentration of assets/receivables by economic sector
(thousands of EEK)

31.12.2001

Economic sector/ Type of receivable	Balance sheet assets			incl. overdue assets	Off- balance sheet assets	By sector (%)
	loans	securities	interests receivable			
finance	104 920	24 410	212	0	122 263	64.79%
retail and wholesale trade	4 784	0	32	48	57 842	16.11%
real estate development	32 509	0	164	325	0	8.32%
private persons	16 685	0	84	167	0	4.27%
industry	7 319	171	42	73	0	1.91%
transportation and logistic	0	147	0	0	17 692	4.59%
government and municipalities	0	37	0	0	0	0.01%
utilities sector	0	6	0	0	0	0.00%
TOTAL	166 217	24 771	534	613	197 797	100%

31.12.2000

Economic sector/ Type of receivable	Balance sheet assets			incl. overdue assets	Off- balance sheet assets	By sector (%)
	loans	securities	interests receivable			
finance	77 530	12 022	20	0	0	52.49%
retail and wholesale trade	10 630	0	111	106	19 439	17.62%
real estate development	29 230	524	23	293	2 400	18.69%
private persons	13 405	0	78	134	0	7.82%
industry	2 822	33	10	28	0	1.66%
transportation and logistic	0	2 155	0	0	0	1.26%
government and municipalities	0	650	41	0	0	0.42%
utilities sector	0	74	0	0	0	0.04%
TOTAL	133 617	15 458	283	561	21 839	100%

Note 32: assets and liabilities by interest rate repricing date
(thousands of EEK)

31.12.2001

Assets, liabilities\ maturity	On demand	Over-due	Up to 1 month	From 1 month up to 3 month	From 3 month up to 12 month	1 year up to 2 years	From 2 years up to 5 years	Over 5 years	Total
1. Balance sheet assets	54 298	0	76 591	22 834	15 478	2 376	15 391	5 361	192 329
cash and claims to banks	22 131	0	75 779	0	0	0	0	0	97 910
claims and loans to customers	7 396	0	66	22 834	14 736	2 376	15 391	5 361	68 160
securities	24 771	0	0	0	0	0	0	0	24 771
other claims	0	0	746	0	742	0	0	0	1 488
2. Off-balance sheet assets	0	0	191 307	6 490	0	0	0	0	197 797
1. Balance sheet liabilities	13 425	0	73 230	5 611	67	184	0	0	92 517
amounts owed to banks	0	0	0	0	0	0	0	0	0
amounts owed to customers	13 223	0	72 690	5530	67	174	0	0	91 684
issued debt securities	0	0	0	0	0	0	0	0	0
other liabilities	202	0	540	81	0	10	0	0	833
2. Off-balance sheet liabilities	1 275	0	191 096	6 565	0	0	0	0	198 936

31.12.2000

Assets, liabilities\ maturity	On demand	Over-due	Up to 1 month	From 1 month up to 3 month	From 3 month up to 12 month	1 year up to 2 years	From 2 years up to 5 years	Over 5 years	Total
1. Balance sheet assets	90 461	0	3 053	388	6 022	388	22 624	26 605	149 541
cash and claims to banks	74 133	0	2 565	0	0	0	0	0	76 698
claims and loans to customers	1 220	0	0	347	5 993	388	22 624	26 255	56 827
securities	15 108	0	0	0	0	0	0	350	15 458
other claims	0	0	488	41	29	0	0	0	558
2. Off-balance sheet assets	0	0	7 568	14 271	0	0	0	0	21 839
1. Balance sheet liabilities	38 738	0	9 230	6 396	154	201	0	0	54 719
amounts owed to banks	0	0	0	0	0	0	0	0	0
amounts owed to customers	38 215	0	8 567	6 318	150	200	0	0	53 450
issued debt securities	0	0	0	0	0	0	0	0	0
other liabilities	523	0	663	78	4	1	0	0	1 269
2. Off-balance sheet liabilities	350	0	7 560	14 252	0	0	0	0	22 162

Note 33: overdue claims

The bank did not have overdue claims and loans as of 31.12.2001 and 31.12.2000. For all loans not having specific provision has been made general provision in amount of 1 % of outstanding amount, as of 31.12.2001 613 thousand Estonian kroons. Bank does not have loans where specific provision is applied.

AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholders of AS Preatoni Pank

We have audited the financial statements of AS Preatoni Pank (the Bank) for the year ended 31 December 2001 as set out on pages 12 to 28. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2001 and of the results of its operations and its cash flows for the year then ended in accordance with Estonian Accounting Law.



Urmas Kaarlep
AS PricewaterhouseCoopers



Tiit Raimla
Authorised auditor

25 January 2002

Proposal of the Management Board regarding Profit Allocation


The Management Board of Preatoni Bank confirmed audited profit in amount 3 874 738 Estonian kroons for the financial year 2001. The Management Board proposal is not to distribute the profit of the financial year 2001 and record 3 674 738 Estonian kroons as “Retained earnings” and 200 000 Estonian kroons as “Statutory legal reserve”.



Ott Karolin
Chairman of the Board



Urmas Pütsepp
Member of the Board



Mart Veskimägi
Member of the Board