AS PREATONI PANK
TALLINN

2002 PUBLIC ANNUAL REPORT

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Introduction

Credit institution

Company name	AS Preatoni Pank
Address	Roosikrantsi St.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
Address	Pärnu Mnt. 15, 10141 Tallinn, Estonia
Registry code	10142876
Auditor’s name	Urmas Kaarlep
Auditor’s license	17.12.1990.a., license no. 53

Report balance sheet date	31.12.2002
Reporting period	01.01.2002 – 31.12.2002
Reporting currency	Estonian kroons (EEK) in nomination of thousands

Statement of the Management Board

On January 24, 2003, the publication date of the 2002 AS Preatoni Pank Public Annual Report, the Management Board of AS Preatoni Pank (the Bank) gave the following opinions:

1. The 2002 Public Annual Report consists of the following parts and reports:
   Introduction;
   Management Report;
   Financial Statements;
   Auditor's Report;
   The Management Board's Profit Allocation Proposal.

The Public Annual Report also includes information that is required by the authority in order to comply with the requirements of Public Annual Reports, as stipulated by the Eesti Pank decree No 25, 19.10.1999, Eesti Pank decree No 1, 09.02.2000, Eesti Pank decree No 1, 31.01.2001 and Eesti Pank decree No 14, 19.09.2002.

2. The financial and additional information published in this 2002 Public Annual Report is complete and reflecting the current situations.

3. The financial and other information published in this 2002 Public Annual Report has included all the matters that could affect the meaning or the content of this report.

4. The financial reports have been compiled in consistent with the internationally accepted accounting principles and reporting, as stipulated in § 5 of the Estonian Accounting Law. Furthermore, This 2002 Public Annual Report has been completed in compliance to the requirements as stated in the Estonian laws.

The audit on the year 2002 was conducted in accordance with International Standards on Auditing. This 2002 Public Annual Report will be submitted for approval by the General Shareholders' Meeting on March 12, 2003. The previous year Annual Report of 2001 was approved on March 20, 2002.

Ott Karolin	Chairman of the Board		24/01/03
Urmas Pütsepp	Member of the Board		24.01.03
Mart Veskimägi	Member of the Board		24.01.03

Management Report

Description of the Company

Sole shareholder of Preatoni Pank (the Bank) is Ernesto Preatoni. The Supervisory Board of the 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 the Bank.

The Management Board of the 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 the Bank.

The Bank owns the activity license issued by Estonian Central Bank (the Bank of Estonia), which allows the Bank to deal with all banking operations. 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 its focus on certain customers' segment and certain areas of operation. Because of these advantages, the Bank is flexible in providing services regardless any changes in the economic environment and market situation. In addition, the above advantages make the risk management and the control system more effective, faster and simpler. The other advantage of the Bank is that it has qualified employees with banking experience.

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

The Bank has neither subsidiaries nor participating interests.

Fixed assets investments during the accounting period have been 35 thousand Estonian kroons.

In the year 2002, membership fees of 20 000 Estonian kroons were paid to the members of the Supervisory Board of the Bank. No fees or any other monetary compensation were paid to the members of the Management Board in the year 2002. Salary of the Management Board during the accounting period accounted for 1 681 562 Estonian kroons. The average number of employees during the accounting period was 14 and the total amount of their salaries paid was 4 528 177 Estonian kroons.

Major Economic Events

2002 Economic results were influenced by general trends of international money and capital markets. Those trends were overwhelmingly negative. As the result of those trends, clients' activities in those markets have declined. Clients' have also been very careful in making any investment decisions. This has resulted in a decline in the Bank's brokerage and advisory revenues. However, the 11% yield on the Bank's managed client portfolios is a reasonable result.

The priority in lending activities was to issue short term loans in order to generate fee income besides the traditional interest income. The increase in loan commitment fees was partly compensating the decrease of revenues from fees and commissions from the investment banking and brokerage activities. In lending activities, the Bank has the principle not to lend on the basis of client deposits. Loan portfolio can not exceed the shareholders' equity of the Bank. All client deposits are kept as deposits in other banks or as marketable fixed income securities.

There is also no need for specific provisions for loan portfolio in 2002. In the current portfolio, there is no overdue or doubtful loan. All loans belong to the highest category according to the internally used classification procedures. In addition, a general provision of 1% of the total amount of the loan portfolio is made and the quality of other risk related assets is considered very good.

Risk Management

The main objective of the Bank's liquidity management is to maintain the maximum matching between the maturity of assets and liabilities, and to ensure continuous surplus liquidity to guarantee the Bank's ability to fulfil its obligations to the customers and daily transactions for both the customers and the Bank. The daily management of the Bank's liquidity is the task of the money and capital market division. The Bank keeps its liquid assets in the correspondent account at the Bank of Estonia, in other Estonian banks, in 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 daily liquidity and for informing the Management Board.

The Bank maintains minimum positions in foreign currencies necessarily to provide services to the customers and 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 the limits stipulated by the Bank of Estonia regulations. 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 the interest rate risk primarily by keeping similar sensitivity of the assets and liabilities to the 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 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 higher interest income. All decisions related to loans and guarantees are made by the credit committee. According to the Law of Credit Institutions, the credit committee's competence in making decisions is established by the Supervisory Board. In addition, the credit committee makes decisions on the 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 by the Bank's Supervisory Board or by a member of the Supervisory Board according to the competence set by the Supervisory Board. All the liabilities that customers have 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 online to the loan and customer relationship division. The loan and customer relationship division reports to the Management Board the general credit risk and 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 to the Bank's customers. The money and capital markets division is responsible for all investment decisions, regardless on whose behalf the investments are made. The Bank's Management Board sets the limits and the 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 the 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 that allows 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. A good documentation from both the developers and the users is a very important factor in providing supports to optional substitute labour. The banking system is defended from outside intruders by a firewall. All programs belong to the banking system are protected by passwords, which are changed according to the regulations. The banking system is equipped with a system for 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 the Bank does not have any subsidiary, the internal audit system involves only the control over the Bank.

The Bank's Supervisory Board has set the general principles on the control over the Bank's activities. The internal control system involves the control measures, which are expedited according to the general principles. The Management Board expedites the regulations on the control over the Bank's activities based on the general principles. The controls that are implemented in the Bank’s business process are regulated by the rules and procedures confirmed by the Management Board.

The Management Board’s competence involves the creation of the control mechanisms, the implementation and the control over the fulfilment 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 an information system, which is integrated with the unified database. The information of the Bank’s activities is stored both electronically and on paper basis.

The employees’ access to the information, which is required 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 over employees’ task set in the documents confirmed by the Bank’s Management Board and the Supervisory Board.

Standard Ratios

Capital Adequacy

(In thousands of EEK)		**31.12.2002**
1.	**First level equity**	**100 905**
1.1	Paid-in share capital	100 000
1.2	General banking reserve	0
1.3	Other reserves	200
1.4	Retained profit/loss of the previous years	1 497
1.5	Profit for the current reporting period	89
1.9	Treasury stock (less)	0
1.10	Intangible assets (less)	-881
1.11	Loss for the current reporting period (less)	0
2.	**Second level equity**	**0**
3.	**Total gross own funds (1+2)**	**100 905**
4.	**Deductions from gross own funds**	**0**
5.	**Total net own funds (3-4)**	**100 905**
6.	**Third level equity**	**0**
7.	**Risk adjusted assets**	**84 406**
7.1	I category (risk adjustment 0%)	10 567
7.2	II category (risk adjustment 20%)	49 007
7.3	III category (risk adjustment 50%)	10 847
7.4	IV category (risk adjustment 100%)	69 181
8.	**Risk weighted off-balance sheet commitments**	**103**
8.1	Group I	0
8.2	Group II	103
9.	**Capital requirement for currency risk**	**0**
10.	**Capital requirement for trading portfolio risks**	**350**
10.1	For interest position risk	299
10.2	For share position risk	51
10.3	For trading risk	0
10.4	For option risk	0
10.5	For trading portfolio transaction risk	0
10.6	For trading portfolio credit risk	0
11.	**Capital requirement for trading portfolio credit risk open positions exceeding risk concentration limits**	**0**
12.	**Capital adequacy (5.+6.)/(7.+8.+9.x10+10x12,5+11x12,5)**	**113.52%**

Capital adequacy calculation for the current reporting period is based on the Eesti Pank decree No 12, 02.07.2002 “Prudential ratios of credit institutions”.

Capital Adequacy

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

Net Currency Positions
(In thousands of EEK)

31.12.2002

Currency	Position in balance sheet		Off-balance sheet position		Net position
	long	short	long	short	
EEK and EUR position	138 518	50 956	125 454	113 053	99 963

Net position of other currencies is less than 1 % of net equity.
Net currency positions calculation of the current reporting period is based on the Eesti Pank decree No 12, 02.07.2002 “Prudential ratios of credit institutions”.

31.12.2001

Currency	Position in balance sheet		Off-balance sheet position		Net position
	long	short	long	short	
EEK 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.

Liquidity (Assets and Liabilities by Remaining Maturity)
(In thousands of EEK)

31.12.2002

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	78 065	0	998	1 075	26 498	1 923	23 162	21 946	153 667
cash and claims to banks	59 574	0	0	0	0	0	0	0	59 574
claims and loans to customers	4 317	0	54	990	25 945	1 923	23 162	21 946	78 337
securities	14 174	0	0	0	0	0	0	0	14 174
other claims	0	0	944	85	553	0	0	0	1 582
2. Off-balance sheet assets	0	0	240 685	4 849	0	0	0	0	245 534
1.Balance sheet liabilities	16 596	0	32 592	503	3 180	0	0	0	52 871
amounts owed to banks	0	0	0	0	0	0	0	0	0
amounts owed to customers	15 789	0	32 527	500	3 151	0	0	0	51 967
issued debt securities	0	0	0	0	0	0	0	0	0
other liabilities	807	0	65	3	29	0	0	0	904
2. Off-balance sheet liabilities	1 618	0	240 903	4 588	0	0	0	0	247 109

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

Risk Concentration
(In thousands of EEK)

31.12.2002

	number / amount	% from net own funds
1. Number of customers with high risk concentration	3	
2. Due from customers with high risk concentration	55 883	55.38
3. Due from related persons	1 784	1.77

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

Key Figures

	31.12.2002	31.12.2001
Return on equity (ROE) in %	0.09 %	3.88 %
Equity multiplier (EM)	1.71	1.74
Profit margin (PM) in %	0.58 %	17.87 %
Asset utilization (AU) in %	8.82 %	12.51 %
Net interest margin (NIM) in %	4.77 %	5.56 %
Earnings per share (EPS)	0.01	0.39
SPREAD in %	3.66 %	2.95 %
Yield on interest earning assets (YIEA) in %	5.58 %	6.37 %
Cost on interest bearing liabilities (COL) in %	1.92 %	3.42 %

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 (the Bank) does not have an international credit rating.

Legal disputes

There are no outstanding legal disputes as of December 31, 2002.

Financial Statements

Income Statement
(In thousands of EEK)

		Note	Bank 2002	Bank 2001
1.	**Interest income**	2	**9 521**	**13 188**
1.1.	Interest income from banking activities		9 521	13 188
1.2.	Interest income from leasing activities		0	0
1.3.	Other interest income		0	0
2.	**Interest expense**	3	**1 380**	**3 808**
2.1.	Interest expense from banking activities		1 380	3 808
2.2.	Interest expense from leasing activities		0	0
2.3.	Other interest expense		0	0
3.	**Net interest income (+/-)**		**8 141**	**9 380**
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**		**0**	**640**
6.	**Profit/loss from equity method (+/-)**		**0**	**0**
7.	**Net fee and commission income**		**2 597**	**4 173**
7.1.	Fee and commission income	4	3 334	5 499
7.2.	Fee and commission expense	5	737	1 326
8.	**Net trading income (+/-)**	6	**2 522**	**2 360**
9.	**Administrative expenses**		**10 820**	**11 048**
9.1.	Salary expense	7	4 635	4 392
9.2.	Social insurance tax	8	1 553	1 450
9.3.	Pensions		0	0
9.4.	Other administrative expenses	9	4 632	5 206
10.	**Value adjustments of tangible and intangible assets (+/-)**	10	**-930**	**-1 155**
11.	**Value adjustments of advances and off-balance sheet items (+/-)**	11	**-134**	**-52**
12.	**Value adjustments of long term investments (+/-)**		**0**	**0**
13.	**Other operating income and expenses**		**-1 287**	**-423**
13.1.	Other operating income		0	0
13.2.	Other operating expenses	12	1 287	423
14.	**Extraordinary income/expense (+/-)**		**0**	**0**
15.	**Profit (loss) before taxation**		**89**	**3 875**
16.	**Income tax expenses**		**0**	**0**
16.1.	Income tax of financial year		0	0
17.	**Minority interest**		0	0
18.	**Net profit/loss (+/-)**		**89**	**3 875**

The accounting policies described on page 18 to page 22 and notes to the annual report on page 23 to page 30 form an integral part of the current financial statements.

	Balance Sheet		Bank	Bank
	(In thousands of EEK)	Note	31.12.2002	31.12.2001
ASSETS				
1.	**Cash**	13	**665**	**466**
2.	**Loans and advances**		**137 246**	**165 604**
2.1.	Balances with central bank	14	9 902	17 619
2.2.	Due from other banks	15	49 007	79 825
2.3.	Due from customers of credit institution	16	79 084	68 773
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	17	-747	-613
3.	**Debt securities and fixed income securities**	18	**13 946**	**24 553**
4.	**Shares and other securities**	19	**228**	**218**
5.	**Shares in affiliates**		**0**	**0**
6.	**Shares in subsidiaries**		**0**	**0**
7.	**Intangible assets**	20	**881**	**1 297**
7.1.	Consolidated goodwill		0	0
7.2.	Other intangible assets		881	1 297
8.	**Fixed assets**	21	**109**	**588**
9.	**Subscribed capital unpaid**		**0**	**0**
10.	**Other assets**	22	**43**	**136**
11.	**Accruals and prepaid expenses**	23	**1 539**	**1 352**
12.	**TOTAL ASSETS**		**154 657**	**194 214**
LIABILITIES AND SHAREHOLDERS' EQUITY				
1.	**LIABILITIES**		**51 967**	**91 684**
1.1.	Due to central bank		0	0
1.2.	Due to credit institutions		0	0
1.3.	Due to customers of credit institutions	24	51 967	91 684
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**	25	**10**	**11**
4.	**Accrued expenses and deferred income**	26	**894**	**822**
5.	**Provisions**		**0**	**0**
5.1.	Insurance technical provisions		0	0
6.	**Subordinated liabilities**		**0**	**0**
7.	**Minority interest**		**0**	**0**
8.	**TOTAL LIABILITIES**		**52 871**	**92 517**
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		200	0
9.6.	Unrealized exchange rate differences		0	0
9.7.	Retained earnings		1 497	-2 178
9.8.	Profit/loss for the financial year		89	3 875
9.9.	Treasury stock (less)		0	0
10.	**TOTAL SHAREHOLDERS' EQUITY**		**101 786**	**101 697**
11.	**TOTAL LIABILITIES AND EQUITY**		**154 657**	**194 214**

The accounting policies described on page 18 to page 22 and notes to the annual report on page 23 to page 30 form an integral part of the current financial statements.

Cash Flow Statement
(In thousands of EEK)

	2002	2001
I Cash flows from operating activities	-26 521	9 372
interests received	9 316	12 937
interests paid	-1 451	-3 789
fees and commissions received	3 352	5 399
fees and commissions paid	-739	-1 324
administrative expenses paid	-10 674	-10 992
net trading income received	2 522	2 360
other operating expenses paid	-1 287	-423
net increase(-) / decrease(+) in operating assets		
loan portfolio	-13 390	-5 211
due from other banks	11 780	-10 889
other assets	3 170	-6 754
Securities	10 598	-9 663
net increase(+) / decrease(-) in operating liabilities		
due to customers	-39 717	38 234
other liabilities	-1	-513
II Cash flows from investing activities	-35	950
purchase of tangible fixed assets	-35	-40
proceeds from sales of long term investments	0	990
Net increase in cash and cash equivalents (I + II)	-26 556	10 322
Cash and cash equivalents at the beginning of the year	79 560	69 238
Cash and cash equivalents at the end of the year*	53 004	79 560

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

(In thousands of EEK)	Note	2002	2001
Cash	13	665	466
surplus of the reserve in the central bank	14	3 332	769
demand deposits in banks	15	543	4 046
overnight deposits in banks	15	48 464	74 279
Total		**53 004**	**79 560**

Annexes to Cash Flow Statement:

1. Bank did not pay income tax in 2002
2. Bank did not have assets acquired under capital lease terms during year 2002
3. Bank did not pay any investment in Estonian Privatisation Vouchers (EVP) and did not execute any non-monetary payment during year 2002
4. Bank did not receive non-monetary dividends during year 2002

The accounting policies described on page 18 to page 22 and notes to the annual report on page 23 to page 30 form an integral part of the current financial statements.

Statement of Changes in Equity

(In thousands of EEK)	01.01.2002-31.12.2002	01.01.2001-31.12.2001
Share capital		
Balance at the beginning of the year	100 000	100 000
Balance at the end of year	**100 000**	**100 000**
Statutory legal reserve		
Balance at the beginning of the year	0	0
Statutory legal reserve	200	0
Balance at the end of year	**200**	**0**
Profit/loss retained		
Balance at the beginning of the year	1 697	-2 178
Appropriations to the statutory legal reserve	-200	0
Profit/loss of the financial year	89	3 875
Balance at the end of year	**1 586**	**1 697**
Total shareholders' equity		
at the beginning of the year	**101 697**	**97 822**
at the end of the year	**101 786**	**101 697**

Share capital is divided into 10 000 000 common shares with nominal value of 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

(In thousands of EEK)

	31. 12.2002		31. 12.2001	
	Assets	**Liabilities**	**Assets**	**Liabilities**
1.Irrevocable transactions	**0**	**1 618**	**0**	**1 275**
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	1 618	0	1 275
1.4.Other off-balance sheet commitments	0	0	0	0
2.Derivatives	**245 534**	**245 491**	**197 797**	**197 661**
incl. options	0	0	0	0
2.1. Currency related derivatives	245 534	245 491	197 797	197 661
2.2. Interest rate based derivatives	0	0	0	0
2.3. Securities related derivatives	0	0	0	0
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 page 18 to page 22 and notes to the annual report on page 23 to page 30 form an integral part of the current financial statements.

Note 1

Accounting Policies

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

Consolidation

The 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 which are 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 as “Net trading income”.

Estimated market value of financial assets and liabilities

According to the bank management’s estimated 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 at the 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 in the balance sheet as “Other assets or other liabilities” and the revaluation result is recorded in the income statement as “Net trading income”. Instruments used for hedging purposes are counted on accrual basis in conjunction to 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 at the market value on the balance sheet date, if the prices of the shares, listed on the stock exchange, are the closing prices on the trading date. The shares, which are not listed on the stock exchange, are recorded at the 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, which is categorised as short-term investments, is recorded on accrual basis as interest income and is treated 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 for long-term, are recorded as long-term investments. Long-term investments are reflected at 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 at acquisition cost. In evaluating the debt securities, the interest arising from the difference between the acquisition cost and the 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 at 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 at acquisition cost less depreciation. Straight-line method is used for depreciating fixed assets and the depreciation rates are the following:

computers, communication equipments	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, which are signed but not paid, are recorded as off-balance sheet liabilities. Loans that are not paid by the due date, which is exceeded by more than 150 days, are removed from the balance sheet and counted into 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 over the period of the agreement's validity and is recorded in the income statement as "Interest income" and in the balance sheet as "Accruals and prepaid expenses".
In order to categorise loans, the client's economic situation, the creditworthiness, the 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 the 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 outstanding loan balances.

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 90 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 of 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 and EU euro 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. Equity is not included in the calculation of the open currency positions.

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 1st, 2000, the legal entities registered in Estonia do not pay income tax on the profit earned but on the profit distributed.

According to the Income Tax Law that came into force on January 1st, 2003, 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.

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 - 32
(In thousands of EEK)

	2002	2001
Note 2: interest income		
interest income from loans	6 809	6 909
interest income from demand deposits	375	601
interest income from time deposits	1 415	4 573
interest income from debt securities	922	1 105
total interest income	**9 521**	**13 188**
Note 3: interest expense		
interest expense from demand deposits	65	174
interest expense from time deposits	1 315	3 634
total interest expense	**1 380**	**3 808**
Note 4: fee and commission income		
loan arrangements and guarantees	627	565
bank transaction fees	288	247
security transaction fees	1 153	2 970
accounts opening and maintenance fees	361	707
investment banking fees	900	1 005
other fee and commission income	5	5
total fee and commission income	**3 334**	**5 499**
Note 5: fee and commission expense		
security transaction expenses	372	1 017
bank transaction expenses	177	190
S.W.I.F.T. expenses	188	119
total fee and commission expense	**737**	**1 326**
Note 6: net trading income		
income from foreign exchange	2 465	2 028
income from shares and debt securities in trading portfolio	57	332
total net trading income	**2 522**	**2 360**
Note 7: salary expense		
salaries	4 548	4 331
change in vacation reserve	81	55
fringe benefits	6	6
total salary expense	**4 635**	**4 392**

	2002	2001
Note 8: social insurance tax		
social taxes from salaries	1 524	1 429
social taxes change from vacation reserve	27	19
social taxes from fringe benefits	2	2
total social insurance tax	**1 553**	**1 450**

Note 9: other administrative expenses		
rent of premises	1 198	1 188
IT expenses	1 322	1 358
mail and communication expenses	387	468
services purchased	1 072	1 299
advertising and printed documents	12	135
training and business traveling	27	119
transportation expenses	483	469
other expenses	131	170
total other administrative expenses	**4 632**	**5 206**

Note 10: value adjustments of tangible and intangible assets		
depreciation of tangible assets	-514	-739
depreciation of intangible assets	-416	-416
total depreciation of tangible and intangible assets	**-930**	**-1 155**

Note 11: value adjustments of advances and off-balance sheet items		
general provision change for loans	-134	-52
total provisions for loans	**-134**	**-52**

Note 12: other operating expenses		
Guarantee Fund payments	270	289
Tallinn Stock Exchange fees	143	100
Financial Inspection fees	837	0
other operating expenses	37	34
total other operating expenses	**1 287**	**423**

	31.12.2002	31.12.2001
Note 13: cash		
cash in Estonian kroons	665	466
total cash	**665**	**466**

Note 14: balances with central bank		
statutory reserve	6 570	16 850
surplus of the reserve in the central bank	3 332	769
total balances with central bank	**9 902**	**17 619**

	31.12.2002	31.12.2001
Note 15: due from other banks		
demand deposits	543	4 046
overnight deposits	48 464	74 279
time deposits	0	1 500
total due from other banks	**49 007**	**79 825**
claims by countries		
Estonia	48 999	76 478
OECD countries	8	3 347
total claims by countries	**49 007**	**79 825**

Note 16: due from customers of credit institutions

claims by customer types		
due from financial institutions	4 397	7 476
loans to private companies	62 144	44 612
loans to private persons	12 543	16 685
total claims by customer types	**79 084**	**68 773**
claims by remaining maturity		
demand deposits	4 317	7 396
up to 3 month	1 055	169
from 3 month to 12 month	26 207	14 885
from 1 year up to 2 years	1 942	2 400
from 2 years up to 5 years	23 396	19 208
over 5 years	22 167	24 715
total claims by remaining maturity	**79 084**	**68 773**
claims by countries		
Estonia	74 767	61 156
OECD countries	4 317	7 617
total claims by countries	**79 084**	**68 773**

The Bank did not have overdue loans in 2002 and 2001.

Note 17: uncollectible debt		
general provision for loans	-747	-613
total general provision for loans	**-747**	**-613**

For all loans that do not have specific provision, a general provision of 1% of outstanding amount has been made. The Bank does not have loans where specific provision is applied.

	31.12.2002	31.12.2001
Note 18: debt securities and fixed income securities		
debt securities by issuer's		
debt securities of credit institutions	13 776	24 383
debt securities of private enterprises	170	170
total debt securities by issuer's	**13 946**	**24 553**
debt securities by countries		
Estonia	5 474	170
OECD countries	8 472	24 383
total debt securities by countries	**13 946**	**24 553**
Note 19: shares and other securities		
shares in trading portfolio	228	218
-listed	228	218
total shares and other securities	**228**	**218**
shares and other securities by countries		
Estonia	138	97
OECD countries	0	1
other countries	90	120
total shares and other securities by countries	**228**	**218**
Note 20: intangible assets		
software	2 081	2 081
depreciation	-1 200	-784
total intangible assets	**881**	**1 297**
Note 21: tangible assets		
computers	974	951
furniture	535	535
other tangible assets	666	654
depreciation	-2 066	-1 552
total tangible assets	**109**	**588**

There were no sales or write-offs in tangible or intangible assets during 2002 and 2001.

Note 22: other assets		
revaluation of foreign currency derivatives	43	136
total other assets	**43**	**136**
Note 23: accruals and prepaid expenses		
interests receivable	739	534
fees and commissions receivable	300	318
prepaid expenses	472	478
other accrued revenue	28	22
total accruals and prepaid expenses	**1 539**	**1 352**

	31.12.2002	31.12.2001
Note 24: due to customers of credit institution		
demand deposits	15 789	13 223
time deposits	36 178	78 461
total due to customers	**51 967**	**91 684**
demand deposits by customers		
financial institutions	24	24
non-profit organisations	0	12
companies	12 603	8 190
private persons	3 162	4 997
total demand deposits by customers	**15 789**	**13 223**
time deposits by customers		
financial institutions	10 084	26 987
companies	17 804	39 950
non-profit organisations	115	0
private persons	8 175	11 524
total time deposits by customers	**36 178**	**78 461**
Note 25: other liabilities		
payments in transmission	10	11
total other liabilities	**10**	**11**
Note 26: accrued expenses and deferred income		
interest payable	96	167
taxes payable	226	361
payables to employees	454	192
payables to suppliers	118	102
total accrued expenses and deferred income	**894**	**822**
Note 27: related party transactions		
Related parties deposits in the bank		
members of the Supervisory Board	56	1 049
members of the Management Board	237	138
paid interests to the members of the Supervisory Board and the Management Board	2	5
Loans to the related parties		
loans to the members of Supervisory Board and Management Board	881	950
interest income earned	76	34
Salaries		
salaries to the Management Board	1 682	1 512
membership fees to the Supervisory Board	20	35

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

Note 28: operating leases liability

Preatoni Pank has concluded two 4-year-operating lease agreements in 2001. Minimal operating lease liability as of December 31, 2002 for 2003 is 212 thousand Estonian kroons and the following liabilities until the end of the agreements are 106 thousand Estonian kroons. Rent expenses in the financial period were 209 thousand Estonian kroons and in 2001, were 124 thousand Estonian kroons.

In 1999, Preatoni Pank signed 5-year-operating lease agreement for premises. The rent payment in 2001 was counted as 1 201 thousand Estonian kroons and in 2002, was counted as 1 198 thousand Estonian kroons. Minimal operating lease liability in 2003 is 1 242 thousand Estonian kroons and following liabilities until end of the agreement are 522 thousand Estonian kroons.

Note 29: geographical concentration of assets/receivables

(In thousands of EEK)

31.12.2002

Country/ Type of receivable	Balance sheet assets			incl. overdue assets	Off-balance sheet assets	By country (%)
	loans	securities	interests receivable			
Estonia	133 668	5 612	579	747	130 791	67.87%
Finland	924	0	0	0	0	0.23%
Sweden	0	8 472	160	0	0	2.17%
Italy	80	0	0	0	0	0.02%
USA	245	0	0	0	0	0.06%
Great Britain	3 076	0	0	0	114 743	29.63%
Lithuania	0	90	0	0	0	0.02%
TOTAL	**137 993**	**14 174**	**739**	**747**	**245 534**	**100%**

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%**

Note 30: concentration of assets/receivables by economic sector
(In thousands of EEK)

31.12.2002

Economic sector/ Type of receivable	**Balance sheet assets**			**incl. overdue assets**	**Off-balance sheet assets**	**By sector (%)**
	loans	**securities**	**interests receivable**			
finance	63 306	13 776	382	0	115 236	48.45%
retail and wholesale trade	5 803	0	21	58	77 790	21.01%
real estate development	31 069	0	153	311	0	7.77%
private persons	12 543	0	59	125	0	3.14%
Industry	24 572	170	120	246	0	6.19%
public and private services	700	0	4	7	0	0.18%
Transportation and logistic	0	0	0	0	52 508	13.20%
government and municipalities	0	2	0	0	0	0.00%
telecommunication	0	226	0	0	0	**0.06%**
TOTAL	**137 993**	**14 174**	**739**	**747**	**245 534**	**100%**

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%**

Note 31: assets and liabilities by interest rate re-pricing date

(In thousands of EEK)

31.12.2002

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	78 065	0	998	1 075	26 498	1 923	23 162	21 946	153 667
cash and claims to banks	59 574	0	0	0	0	0	0	0	59 574
claims and loans to customers	4 317	0	54	21 284	25 945	1 840	20 399	4 498	78 337
Securities	14 174	0	0	0	0	0	0	0	14 174
other claims	0	0	944	85	553	0	0	0	1 582
2. Off-balance sheet assets	0	0	240 685	4 849	0	0	0	0	245 534
1.Balance sheet liabilities	16 596	0	32 592	503	3 180	0	0	0	52 871
amounts owed to banks	0	0	0	0	0	0	0	0	0
amounts owed to customers	15 789	0	32 527	500	3 151	0	0	0	51 967
issued debt securities	0	0	0	0	0	0	0	0	0
other liabilities	807	0	65	3	29	0	0	0	904
2. Off-balance sheet liabilities	1 618	0	240 903	4 588	0	0	0	0	247 109

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

Note 32: overdue claims

The bank did not have overdue claims and loans as of December 31, 2002 and December 31, 2001. For all loans that do not have specific provision, a general provision of 1 % of outstanding amount has been made. As of December 31, 2002, the general provision is 747 thousand Estonian kroons. The Bank does not have loans where specific provision is applied.

PRICEWATERHOUSECOOPERS

AS PricewaterhouseCoopers
Pärnu mnt. 15
10141 Tallinn
Estonia
www.pwcglobal.com/ee/

Telephone +372 6 141 800
Facsimile +372 6 141 900

AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholder of AS Preatoni Pank

We have audited the financial statements of AS Preatoni Pank (the Bank) for the year ended 31 December 2002 as set out on pages 14 to 30. 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 2002 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

24 January 2003

The Management Board's Profit Allocation Proposal

The Management Board of Preatoni Bank confirmed audited profit in amount 89 473 Estonian kroons for the financial year of 2002. The Management Board proposal is not to distribute the profit of the financial year 2002 and record 79 473 Estonian kroons as "Retained earnings" and 10 000 Estonian kroons as "Statutory legal reserve".

Ott Karolin
Chairman of the Board

Urmas Pütsepp
Member of the Board

Mart Veskimägi
Member of the Board