

**AS PREATONI PANK
TALLINN**

**2003 PUBLIC ANNUAL REPORT
(TRANSLATION FROM ESTONIAN)**

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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
Leading auditor's name	Urmas Kaarlep
Auditor's license	17.12.1990.a., license no. 53

Report balance sheet date	31.12.2003
Reporting period	01.01.2003 – 31.12.2003
Reporting currency	Estonian kroons (EEK) in thousands

Statement of the Management Board

On 30 January 2004, on the publication date of the 2003 AS Preatoni Pank Public Annual Report, the Management Board of AS Preatoni Pank (the Bank) gave the following statements:




1. The 2003 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 2003 Public Annual Report is complete and reflecting the current situation.
3. The financial and other information published in this 2003 Public Annual Report includes all the matters that could affect the meaning or the content of this report.
4. The financial statements have been prepared in accordance with accounting principles generally accepted in Estonia and give a true and fair view of the financial position of the bank, of the results of its operations and cash flows.
5. AS Preatoni Bank will continue as a going concern.

The audit on the year 2003 was conducted in accordance with International Standards on Auditing. This 2003 Public Annual Report will be submitted for approval by the General Shareholders' Meeting on 12 March 2004. The previous year Annual Report of 2002 was approved on 12 March 2003.

Ott Karolin	Chairman of the Board		<u>30/01/04</u>
Urmas Pütsepp	Member of the Board		<u>30.01.04</u>
Mart Veskimägi	Member of the Board		<u>30.01.04</u>

Management Report

Description of the Company

90,1% of the shares of Preatoni Pank (the Bank) are owned by Ernesto Preatoni (place of residence Tallinn, Estonia), and 9,9% of the shares by Sigma Real Estate OÜ (location Tallinn, Estonia). 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 hold 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 hold 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 their investment banking and private banking as its 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' segments and certain areas of operation. Because of these advantages, the Bank is flexible in providing services regardless of any changes in the economic environment and market situation. In addition, the above advantages enable the Bank to have more effective, faster and simpler risk management and control system. The other advantages of the Bank are its qualified employees with banking experiences.

The Bank is not planning to pay significant dividends to its shareholders in the upcoming years. The Management Board of the Bank considers that it is essential to direct the 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 60 000 Estonian kroons.

In the year 2003, 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 2003. Salary of the Management Board during the accounting period accounted for 1 722 200 Estonian kroons. The average number of employees during the accounting period was 14 and the total amount of their salaries paid was 4 426 274 Estonian kroons.

Major Economic Events

The year 2003 is characterized by a sharp drop in interest rates in world markets, which was caused by an aggressive interest rate policy of European and United States central banks to fight against possible economic depression. General drop in interest rates have affected the clients of Preatoni Bank to refinance their loans more frequently and forced the Bank to decrease its interest rates. In spite of this negative aspect, the Bank's loan portfolio stayed almost the same at the end of the year, the bank earned 7,9 million kroons as interest income. In addition, the active refinancing activity increased the turnover of the loan portfolio, which resulted in better loan fees than expected.

Similarly to previous years, the quality of the Bank's loan portfolio stayed high and didn't demand specific loan provisions. There were no overdue loans and all loans belonged to the highest category according to the internally used classification procedures. The Bank's loan policy stayed the same, according to what the Bank preferred to grant short-term loans to enterprises.

Source of financing the loans has continuously been the Bank's owners' equity, and clients' deposits have been kept in deposits with other banks or invested in marketable fixed income securities.

Drop in USA dollar, which last through the year and reached almost 20%, forced many of the Bank's foreign currency clients to take more long-term positions and decreased their activity in making transactions. This caused the decrease of income from foreign currency transactions compared with the year 2002. At the same time the Bank followed the same risk policy by not taking speculative foreign currency positions, and the open position from clients' transactions is hedged continuously.

Low interest level and enhanced perspective of global economy took along first noticeable rise in stock markets in recent years. Unfortunately it did not materialize in clients' activity, which caused lower than expected service fees from securities' transactions. On the other hand, the year was characterized by foreign markets transactions. The year can be considered as a very positive to the Bank's asset management clients, whose portfolios' average growth was over 20% in 2003.

The quality of the Bank's other assets can also be considered very good.

Risk Management

The main objective of the Bank's liquidity management is to match the maturities of its 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 responsibility of the money and capital market divisions. 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 and securities are set by the Management Board and are subject to regular reviews. 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 necessary 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. All foreign currency positions are continuously monitored and marked to market. Open foreign currency positions are mainly hedged with swaps and forwards.

The Bank's general strategy is to minimise exposure to the interest rate risk primarily by matching interest rate sensitivity of its assets and liabilities. The Bank's strategy is to lend only its own capital and the clients' deposits are placed with other banks using similar maturity terms, thus decreasing the interest rate risk. The bank also uses interest rate swaps to hedge the interest rate risk. The interest rate risk is measured by 1% sensitivity to interest rate changes.

The Bank's credit risk profile is rather characterised by low risk but stable interest income than high risk and higher interest income. All decisions related to loans and guarantees are made by the Bank's credit committee. According to the Law of Credit Institutions, the competence and limits of credit committee in making decisions are established by the Supervisory Board. In circumstances where the customer liabilities to the Bank exceed the competence of the credit committee the decision made must be approved by the Bank's Supervisory Board or by a member of the Supervisory Board according to the rules set by the Supervisory Board. All liabilities that customers have to the bank are considered as 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. The loan and customer relationship division reports to the Management Board about the general credit risk and the financial position of the major loan customers.

The investment portfolio is divided into two: Bank's own investments and investments on behalf of the customers, which are the risk of the 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 overall limits and the sectors for investments. The Board reviews the investment portfolio regularly and if necessary also alters the set limits and maturities of the 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 cannot 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. A good documentation from both the developers and the users is a very important factor in providing support to optional substitute labour. 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 internal policies set. 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.

To avoid country risk only collateral in Estonia or countries with high ratings are accepted.

As the Bank does not have any subsidiaries, the internal control system involves only the control over the Bank's activities.

The Bank's Supervisory Board has set the general principles of the controls over the Bank's activities. The Management Board elaborates the control measures based on these general principles. The controls implemented in the Bank's business processes are regulated by the rules and procedures approved 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 audit department is responsible for testing and evaluating the current internal control system, the sufficiency and efficiency of the control mechanisms set by the Management and Supervisory Boards of the Bank and make recommendations for improvements of the system. The internal audit department reports to the Management and 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.

The employees' access to the information, which is required for fulfilling their tasks, is regulated by the IT access regulation. The Management Board is responsible for informing the Bank's employees about the external laws and rules regulating their area of responsibility as well as the internal policies set by the Bank's Management and Supervisory Board.

Standard Ratios

Capital Adequacy

(In thousands of EEK)

	31.12.2003	31.12.2002
1. First level equity	101 536	100 905
1.1 Paid-in share capital	100 000	100 000
1.2 General banking reserve	0	0
1.3 Other reserves	210	200
1.4 Retained profit/loss of the previous years	1 576	1 497
1.5 Profit for the current reporting period	214	89
1.9 Treasury stock (less)	0	0
1.10 Intangible assets (less)	-464	-881
1.11 Loss for the current reporting period (less)	0	0
2. Second level equity	0	0
3. Total gross own funds (1+2)	101 536	100 905
4. Deductions from gross own funds	0	0
5. Total net own funds (3-4)	101 536	100 905
6. Third level equity	0	0
7. Risk weighted assets	84 358	84 406
7.1 I category (risk adjustment 0%)	5 942	10 567
7.2 II category (risk adjustment 20%)	41 669	49 007
7.3 III category (risk adjustment 50%)	7 008	10 847
7.4 IV category (risk adjustment 100%)	72 520	69 181
8. Risk weighted off-balance sheet commitments	43	103
8.1 Group I	43	0
8.2 Group II	0	103
9. Capital requirement for currency risk	0	0
10. Capital requirement for trading portfolio risks	79	350
10.1 For interest position risk	79	299
10.2 For share position risk	0	51
10.3 For trading risk	0	0
10.4 For option risk	0	0
10.5 For trading portfolio transaction risk	0	0
10.6 For trading portfolio credit risk	0	0
11. Capital requirement for trading portfolio credit risk open positions exceeding risk concentration limits	0	0
12. Capital adequacy (5.+6.)/(7.+8.+9.x10+10x12,5+11x12,5)	118.91%	113.52%

Net Currency Positions
(In thousands of EEK)

31.12.2003

Currency	Position in balance sheet		Off-balance sheet position		Net position
	long	short	long	short	
EEK and EUR position	132 851	29 817	59 042	61 085	100 991

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

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.

Liquidity (Assets and Liabilities by Remaining Maturity)

(In thousands of EEK)

31.12.2003

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	58 397	0	1 202	4 392	25 664	15 430	11 397	16 154	132 636
cash and deposits with banks	47 611	0	0	0	0	0	0	0	47 611
claims and loans to customers	5 224	0	506	4 250	25 320	15 430	11 397	16 154	78 281
securities	5 562	0	0	0	0	0	0	0	5 562
other receivables	0	0	696	142	344	0	0	0	1 182
2. Off-balance sheet assets	0	0	116 899	1 684	0	0	0	0	118 583
1. Balance sheet liabilities	8 074	0	22 061	0	1 030	0	0	0	31 165
amounts owed to banks	0	0	0	0	0	0	0	0	0
amounts owed to customers	7 320	0	22 054	0	1 014	0	0	0	30 388
issued debt securities	0	0	0	0	0	0	0	0	0
other liabilities	754	0	7	0	16	0	0	0	777
2. Off-balance sheet liabilities	990	0	117 074	1 551	0	0	0	0	119 615

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 deposits with 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 receivables	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

Risk Concentration
(In thousands of EEK)

31.12.2003

	number / amount	% from net own funds
1. Number of customers with high risk concentration	2	
2. Due from customers with high risk concentration	34 987	34.46
3. Due from related persons	135	0.13

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

Key Figures

	31.12.2003	31.12.2002
Return on equity (ROE) in %	0.21 %	0.09 %
Equity multiplier (EM)	1.41	1.71
Profit margin (PM) in %	1.61 %	0.58 %
Asset utilization (AU) in %	9.22 %	8.82 %
Net interest margin (NIM) in %	5.61 %	4.77 %
Earnings per share (EPS)	0.02	0.01
SPREAD in %	4.40 %	3.66 %
Yield on interest earning assets (YIEA) in %	6.12 %	5.58 %
Cost on interest bearing liabilities (COL) in %	1.72 %	1.92 %

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 31 December 2003.

Financial Statements

Income Statement

(In thousands of EEK)

	Note	Bank 2003	Bank 2002
Interest income	2	8 630	9 521
Interest income from banking activities		8 630	9 521
Interest expense	3	709	1 380
Interest expense from banking activities		709	1 380
Net interest income (+/-)		7 921	8 141
Net fee and commission income		1 602	2 597
Fee and commission income	4	2 072	3 334
Fee and commission expense	5	470	737
Net trading income (+/-)	6	1 825	2 522
Administrative expenses		10 200	10 820
Salary expense	7	4 454	4 635
Social insurance tax	8	1 492	1 553
Other administrative expenses	9	4 254	4 632
Value adjustments of tangible and intangible assets (+/-)	10	-521	-930
Value adjustments of advances and off-balance sheet items (+/-)	11	747	-134
Other operating income and expenses		-1 160	-1 287
Other operating expenses	12	1 160	1 287
Profit (loss) before taxation		214	89
Net profit/loss (+/-)		214	89

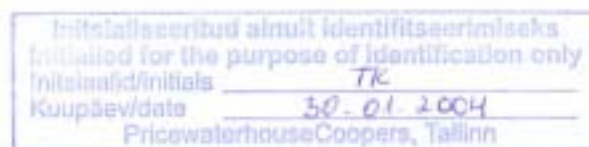
The accounting policies described on page 17 to page 21 and notes on page 22 to page 29 form an integral part of the current financial statements.

Balance Sheet

(In thousands of EEK)

ASSETS	Note	Bank	Bank
		31.12.2003	31.12.2002
Cash	13	448	665
Loans and advances		125 444	137 246
Balances with central bank	14	5 494	9 902
Due from other banks	15	41 669	49 007
Due from customers of credit institution	16	78 281	79 084
Provision for doubtful debts	17	0	-747
Debt securities and fixed income securities	18	5 562	13 946
Shares and other securities	19	0	228
Intangible assets	20	464	881
Other intangible assets		464	881
Fixed assets	21	65	109
Other assets	22	1	43
Accruals and prepaid expenses	23	1 181	1 539
TOTAL ASSETS		133 165	154 657
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities		30 388	51 967
Due to customers of credit institution	24	30 388	51 967
Other liabilities	25	19	10
Accrued expenses and deferred income	26	758	894
TOTAL LIABILITIES		31 165	52 871
SHAREHOLDERS' EQUITY			
Share capital		100 000	100 000
Statutory legal reserve		210	200
Retained earnings		1 576	1 497
Profit/loss for the financial year		214	89
TOTAL SHAREHOLDERS' EQUITY		102 000	101 786
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		133 165	154 657

The accounting policies described on page 17 to page 21 and notes on page 22 to page 29 form an integral part of the current financial statements.



Cash Flow Statement

(In thousands of EEK)

	2003	2002
I Cash flows from operating activities	-9 235	-26 521
interests received	8 780	9 316
interests paid	-782	-1 451
fees and commissions received	2 227	3 352
fees and commissions paid	-483	-739
administrative expenses paid	-10 250	-10 674
net trading income received	1 825	2 522
other operating expenses paid	-1 160	-1 287
net increase(-) / decrease(+) in operating assets		
loan portfolio	1 710	-13 390
due from other banks	2 668	11 780
other assets	-812	3 170
Securities	8 612	10 598
net increase(+) / decrease(-) in operating liabilities		
due to customers	-21 579	-39 717
other liabilities	9	-1
II Cash flows from investing activities	-60	-35
purchase of tangible fixed assets	-60	-35
Net increase in cash and cash equivalents (I + II)	-9 295	-26 556
Cash and cash equivalents at the beginning of the year	53 004	79 560
Cash and cash equivalents at the end of the year*	43 709	53 004

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

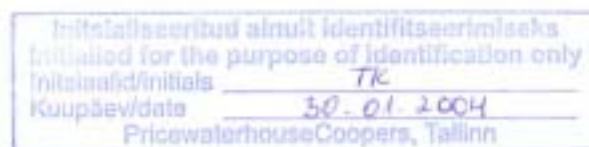
(In thousands of EEK)

	Note	2003	2002
Cash	13	448	665
surplus of the reserve in the central bank	14	1 592	3 332
demand deposits in banks	15	69	543
overnight deposits in banks	15	41 600	48 464
Total		43 709	53 004

Annexes to Cash Flow Statement:

1. Bank did not pay income tax in 2003
2. Bank did not have assets acquired under capital lease terms during year 2003
3. Bank did not pay any investment in Estonian Privatisation Vouchers (EVP) and did not execute any non-monetary payment during year 2003
4. Bank did not receive non-monetary dividends during year 2003

The accounting policies described on page 17 to page 21 and notes on page 22 to page 29 form an integral part of the current financial statements.



Statement of Changes in Equity

(In thousands of EEK)

	01.01.2003- 31.12.2003	01.01.2002- 31.12.2002
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	200	0
Statutory legal reserve	10	200
Balance at the end of year	210	200
Retained earnings		
Balance at the beginning of the year	1 586	1 697
Appropriations to the statutory legal reserve	-10	-200
Profit/loss of the financial year	214	89
Balance at the end of year	1 790	1 586
Total shareholders' equity		
at the beginning of the year	101 786	101 697
at the end of the year	102 000	101 786

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

The accounting policies described on page 17 to page 21 and notes on page 22 to page 29 form an integral part of the current financial statements.

Notes to the 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 have been prepared under historical cost convention as modified by revaluation of certain securities. 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 officially valid on the transaction date. Assets and liabilities denominated in foreign currencies are revalued 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".

Derivatives

The speculative off-balance sheet financial instruments (e.g. forwards, swaps) are marked to market. 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".

Offsetting

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

Cash and Cash Equivalents

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

Securities held for trading

Securities held for trading are securities, which are acquired for generating a profit from fluctuations in market prices. Securities are initially recognised at cost. They are subsequently measured at market value, using stock exchange closing prices. Securities not listed on the stock exchange are measured at fair value. Computation is based on any information available to the Bank on the value of such investment. Interest income of the money market funds' shares, which is categorised as securities held for trading, 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. Income/loss on securities held for trading are recognised in the income statement as "Net trading income".

Securities held to maturity

Securities purchased with a strategic purpose to hold them for a long-term until the maturity date, are recorded as securities held to maturity. These securities are measured at amortised cost, using effective interest rate. FIFO method is used to determine the result of their sales.

Intangible Assets

Purchased patents, licenses and software programs are considered to be intangible assets. Intangible assets are recorded in the balance sheet at acquisition cost less amortization and any provision for impairment. Straight-line method is used for amortising the intangible assets. The amortization 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 to be fixed assets. New fixed assets are depreciated from the month of taking it into use until the asset is fully depreciated. Fixed assets are recorded in the balance sheet at acquisition cost less depreciation and any provision for impairment.. Straight-line method is used for depreciating fixed assets and the depreciation rates are as follows:

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

Loans

Disbursed loans are recognised at cost at trade date and subsequently accounted for at amortised cost, using effective interest rate. Loans, which are signed but not paid, are recorded as off-balance sheet liabilities. Loans not paid by the due date exceeding by more than 150 days, are removed from the balance sheet, and accounted for off-balance sheet.

Purchase and sale-back transactions of securities (repos) 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 determine the specific provision for 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.

Loans are provisioned in accordance with guidelines issued by the Bank of Estonia "Credit institution loan servicing and the order of providing for doubtful loans". Based on that, the amount of a specific provision is equal to the difference between the book 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 information 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 book value and the net realisable value of the collateral or the loan.

Interest, Fees and Commissions

Interest income and expense are recorded in the income statement on accrual basis using effective interest rate. Interest calculation is suspended when the loan payment is overdue by 90 days and the interest accrued is excluded from the 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 amount of 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

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 as 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 average amount of deposits and issued financial guarantees. Credit institutions are obliged to keep minimum 40% of the established Estonian kroons statutory reserve on the correspondent account at the Bank of Estonia every day. 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 should be 5% of the Bank's net own funds. The open position limits of the 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 which came into force on 1 January 2000, the legal entities registered in Estonia do not pay income tax on the profit earned but on the profit distributed.

According to Amendment to the Income Tax Law that came into force on 1 January 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 deferred tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet.

The income tax related to the payment of dividends is recorded in the income statement as income tax expense when dividends are declared.

Notes 2 - 32

(In thousands of EEK)

	2003	2002
Note 2: interest income		
interest income from loans	6 995	6 809
interest income from demand deposits	211	375
interest income from time deposits	970	1 415
interest income from debt securities	454	922
total interest income	8 630	9 521
 Note 3: interest expense		
interest expense from demand deposits	19	65
interest expense from time deposits	690	1 315
total interest expense	709	1 380
 Note 4: fee and commission income		
loan arrangements and guarantees	492	627
bank transaction fees	250	288
security transaction fees	1 019	1 153
accounts opening and maintenance fees	304	361
investment banking fees	0	900
other fee and commission income	7	5
total fee and commission income	2 072	3 334
 Note 5: fee and commission expense		
security transaction expenses	121	372
bank transaction expenses	172	177
S.W.I.F.T. expenses	177	188
total fee and commission expense	470	737
 Note 6: net trading income		
income from foreign exchange	1 566	2 465
income from shares and debt securities in trading portfolio	259	57
total net trading income	1 825	2 522
 Note 7: salary expense		
salaries	4 446	4 548
change in vacation reserve	2	81
fringe benefits	6	6
total salary expense	4 454	4 635

	2003	2002
Note 8: social insurance tax		
social taxes from salaries	1 489	1 524
social taxes change from vacation reserve	1	27
social taxes from fringe benefits	2	2
total social insurance tax	1 492	1 553

Note 9: other administrative expenses		
rent of premises	1 191	1 198
IT expenses	1 358	1 322
mail and communication expenses	339	387
services purchased	786	1 072
office expenses	120	118
training and business traveling	15	27
transportation expenses	437	483
other expenses	8	25
total other administrative expenses	4 254	4 632

Note 10: value adjustments of tangible and intangible assets		
depreciation of tangible assets	-104	-514
depreciation of intangible assets	-417	-416
total depreciation of tangible and intangible assets	-521	-930

Note 11: value adjustments of advances and off-balance sheet items		
general provision change for loans	747	-134
total provision for loans	747	-134

Note 12: other operating expenses		
Guarantee Fund payments	136	270
Tallinn Stock Exchange fees	152	143
Financial Inspection fees	832	837
other operating expenses	40	37
total other operating expenses	1 160	1 287

	31.12.2003	31.12.2002
Note 13: cash		
cash in Estonian kroons	405	665
cash in foreign currency	43	0
total cash	448	665

Note 14: balances with central bank		
statutory reserve	3 902	6 570
surplus of the reserve in the central bank	1 592	3 332
total balances with central bank	5 494	9 902

	31.12.2003	31.12.2002
Note 15: due from other banks		
demand deposits	69	543
overnight deposits	41 600	48 464
total due from other banks	41 669	49 007
receivables by countries		
Estonia	41 661	48 999
OECD countries	8	8
total receivables by countries	41 669	49 007
 Note 16: due from customers of credit institution		
Claims by customer types		
due from financial institutions	5 304	4 397
loans to private companies	64 356	62 144
loans to private persons	8 621	12 543
total claims by customer types	78 281	79 084
Claims by remaining maturity		
on demand	5 224	4 317
up to 3 month	4 756	1 055
from 3 month to 12 month	25 320	26 207
from 1 year up to 2 years	15 430	1 942
from 2 years up to 5 years	11 397	23 396
over 5 years	16 154	22 167
total claims by remaining maturity	78 281	79 084
claims by countries		
Estonia	73 057	74 767
OECD countries	5 224	4 317
total claims by countries	78 281	79 084

The Bank did not have any overdue loans in 2003 and 2002.

Note 17: provision for doubtful debt

general provision for loans	0	-747
total general provision for loans	0	-747

According to the Guideline No 3 (effective from 1.1.2003) of the Estonian Accounting Standards Board the Bank did not make any general provision for loans which had no specific provision in 2003, because all loans were assessed individually. In 2002 general provision for loans was 1% of outstanding amount. The Bank does not have loans where specific provision is applied.

31.12.2003

31.12.2002

Note 18: debt securities and fixed income securities**debt securities by issuer's**

debt securities of credit institutions	5 562	13 776
debt securities of private enterprises	0	170
total debt securities by issuer's	5 562	13 946

debt securities by countries

Estonia	3 012	5 474
OECD countries	2 550	8 472
total debt securities by countries	5 562	13 946

Note 19: shares and other securities

shares in trading portfolio	0	228
-listed	0	228
total shares and other securities	0	228

shares and other securities by countries

Estonia	0	138
other countries	0	90
total shares and other securities by countries	0	228

Note 20: intangible assets

software	2 081	2 081
depreciation	-1 617	-1 200
total intangible assets	464	881

Note 21: tangible assets

computers	993	974
furniture	535	535
other tangible assets	608	666
accumulated depreciation	-2 071	-2 066
total tangible assets	65	109

There were no sales of tangible or intangible assets during 2003 and 2002. There were write-offs in completely amortized tangible assets in the amount of 99,000 Estonian kroons in 2003.

Note 22: other assets

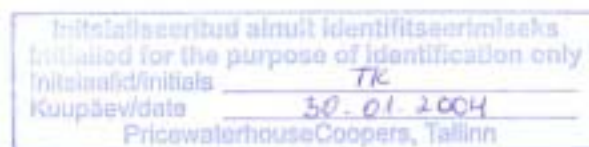
revaluation of foreign currency derivatives	1	43
total other assets	1	43

Note 23: accruals and prepaid expenses

interests receivable	589	739
fees and commissions receivable	146	300
prepaid expenses	446	472
other accrued revenue	0	28
total accruals and prepaid expenses	1 181	1 539

	31.12.2003	31.12.2002
Note 24: due to customers of credit institution		
demand deposits	7 320	15 789
time deposits	23 068	36 178
total due to customers	30 388	51 967
demand deposits by customers		
financial institutions	24	24
non-profit organisations	49	0
companies	5 086	12 603
private persons	2 161	3 162
total demand deposits by customers	7 320	15 789
time deposits by customers		
financial institutions	1 095	10 084
companies	18 944	17 804
non-profit organisations	0	115
private persons	3 029	8 175
total time deposits by customers	23 068	36 178
Note 25: other liabilities		
payments in transmission	19	10
total other liabilities	19	10
Note 26: accrued expenses and deferred income		
interest payable	23	96
taxes payable	281	226
incl. staff income tax	92	92
social tax	127	125
unemployment insurance premium	6	6
value added tax	45	0
income tax from fringe benefits	2	2
income tax withheld from non-residents	2	1
contributions to mandatory funded pension	7	0
payables to employees	303	454
payables to suppliers	151	118
total accrued expenses and deferred income	758	894
Note 27: related party transactions		
deposits with the Bank		
members of the Supervisory Board	51	56
members of the Management Board	191	237
paid interests	2	2
loans to the related parties		
loans to the members of Supervisory Board and Management Board	69	881
interest income earned	39	76
salaries		
salaries to the Management Board	1 722	1 682
membership fees of the Supervisory Board	20	20

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



Note 28: operating leases liability

Preatoni Pank has concluded two operating lease agreements for two vehicles. Minimal operating lease liability as at 31 December 2003 for 2004 is 126 thousand Estonian kroons, and the following liabilities until the end of the agreements are 44 thousand Estonian kroons. Rent expenses in the financial period were 209 thousand Estonian kroons and in 2002, were 209 thousand Estonian kroons.

In 1999, Preatoni Pank signed 5 year-operating lease agreement for premises. The rent payment in 2002 amounted to 1 198 thousand Estonian kroons, and in 2003 amounted to 1 191 thousand Estonian kroons. Minimal operating lease liability in 2004 is 490 thousand Estonian kroons.

Note 29: geographical concentration of assets/receivables

(In thousands of EEK)

31.12.2003						
Country/ Type of receivable	Balance sheet assets			incl. overdue assets	Off-balance sheet assets	By country (%)
	loans	securities	interests receivable			
Estonia	120 212	3 012	424	0	59 042	73.03%
Finland	1 271	0	0	0	0	0.51%
Sweden	0	2 550	159	0	0	1.08%
Italy	99	0	0	0	0	0.04%
USA	202	0	0	0	0	0.08%
Great Britain	3 660	0	6	0	59 541	25.26%
TOTAL	125 444	5 562	589	0	118 583	100%

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%

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

31.12.2003

Economic sector/ Type of receivable	Balance sheet assets			incl. overdue assets	Off- balance sheet assets	By sector (%)
	loans	securities	interests receivable			
finance	52 467	5 562	285	0	64 303	49.02%
retail and wholesale	10 356	0	85	0	10 457	8.35%
real estate development	37 524	0	89	0	0	15.03%
private persons	8 621	0	33	0	0	3.46%
industry	15 427	0	92	0	0	6.20%
service providers	1 049	0	5	0	0	0.42%
transport and logistic	0	0	0	0	43 823	17.52%
TOTAL	125 444	5 562	589	0	118 583	100%

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	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%
service providers	700	0	4	7	0	0.18%
transport 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%

Note 31: off-balance sheet items
(In thousands of EEK)

	31. 12.2003		31. 12.2002	
	Assets	Liabilities	Assets	Liabilities
Irrevocable transactions	0	1 033	0	1 618
Guarantees and pledges	0	43	0	0
incl. financial guarantees	0	43	0	0
Stand-by loans	0	990	0	1 618
Derivatives	118 583	118 582	245 534	245 491
Currency related derivatives	118 583	118 582	245 534	245 491

Note 32: assets and liabilities by interest rate re-pricing date

(In thousands of EEK)

31.12.2003

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	58 397	0	1 202	21 991	25 664	14 145	10 717	520	132 636
cash and deposits with banks	47 611	0	0	0	0	0	0	0	47 611
claims and loans to customers	5 224	0	506	21 849	25 320	14 145	10 717	520	78 281
securities	5 562	0	0	0	0	0	0	0	5 562
other receivables	0	0	696	142	344	0	0	0	1 182
2. Off-balance sheet assets	0	0	116 899	1 684	0	0	0	0	118 583
1. Balance sheet liabilities	8 074	0	22 061	0	1 030	0	0	0	31 165
amounts owed to banks	0	0	0	0	0	0	0	0	0
amounts owed to customers	7 320	0	22 054	0	1 014	0	0	0	30 388
issued debt securities	0	0	0	0	0	0	0	0	0
other liabilities	754	0	7	0	16	0	0	0	777
2. Off-balance sheet liabilities	990	0	117 074	1 551	0	0	0	0	119 615

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	21 369	26 498	1 840	20 399	4 498	153 667
cash and deposits with 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 receivables	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

Note 33: overdue claims

The Bank did not have overdue claims and loans as at 31 December 2003 and 31 December 2002.

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 2003 as set out on pages 13 to 29. These financial statements are the responsibility of the Bank's management board. 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 2003 and of the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Estonia.



Urmas Kaarlep
AS PricewaterhouseCoopers



Tiit Raimla
Authorised auditor

30 January 2004

The Management Board's Profit Allocation Proposal

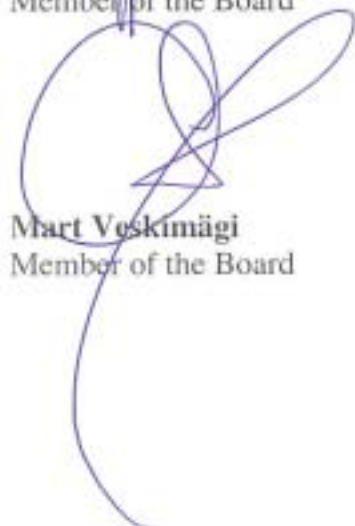
The Management Board of Preatoni Bank confirmed audited profit in amount 214 028 Estonian kroons for the financial year of 2003. The Management Board proposal is not to distribute the profit of the financial year 2003 and record 194 028 Estonian kroons as "Retained earnings" and 20 000 Estonian kroons as "Statutory legal reserve".



Ott Karolin
Chairman of the Board



Urmas Pütsepp
Member of the Board



Mart Veskimägi
Member of the Board