

AS Preatoni Pank

Annual Report

For the year ended 31 December 2000

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Introduction and Signatures for the Annual Report of the Financial Year ended on 31 December 2000

The business name of Preatoni Bank is the limited company Preatoni Pank and it is operating at Roosikrantsi 2, Tallinn, Republic of Estonia. Preatoni Bank is registered in the Registration Department of Tallinn City Court on 14 October 1999 under registration code 10586461. Monetary paid-in share capital of Preatoni Bank in the amount of 100,000,000 Estonian kroons is divided into 10,000,000 common shares with nominal value of ten Estonian kroons.

Preatoni Bank's auditor is authorised public accountant Urmas Kaarlep (auditor's certificate no. 53, 17.12.1990) from PricewaterhouseCoopers Ltd. (registration code 10142876, located at Narva mnt. 9a, Tallinn). Financial Statements of Preatoni Bank are audited according to international auditing standards and the audit has been carried through according to IFAC principles, standards and recommendations.

Balance Sheet date of the Annual Report is 31 December 2000 an accounting period is from 01 January 2000 to 31 December 2000. Annual Report of Preatoni Bank is compiled in Estonian kroons.

Annual Report of Preatoni Bank consists of management report, financial statements, management proposal about distribution of the profit and independent external auditor's report. Annual Report is signed by all members of the Management Board and the Council of Preatoni Bank.

The Management Board and the Council of Preatoni Bank confirm the truth and completeness of the data and additional information presented in the Annual Report page 5-22 and confirm that the data and the additional information is not missing or excluding anything which can influence their substance or meaning.

Name	Position	Signature	Date
Ott Karolin	Chairman of the Board	_____	_____
Urmas Pütsepp	Member of the Board	_____	_____
Mart Veskimägi	Member of the Board	_____	_____
Ernesto Preatoni	Chairman of the Council	_____	_____
Giuseppe Lusuardi	Member of the Council	_____	_____
Tiit Vähi	Member of the Council	_____	_____
Jaak Saarniit	Member of the Council	_____	_____
Aivar Pihlak	Member of the Council	_____	_____

Management Report

The sole shareholder of Preatoni Bank is Ernesto Preatoni, citizen of the Republic of Estonia. Ernesto Preatoni is the Chairman of the Supervisory Board of Preatoni Bank. The Supervisory Board of Preatoni Bank consists of five members. In addition to Ernesto Preatoni the members of the Supervisory Board are Giuseppe Lusuardi, Tiit Vähi, Jaak Saarniit and Aivar Pihlak. The members of the Supervisory Board (excluding the sole shareholder Ernesto Preatoni) do not have shares or options to acquire shares in Preatoni Bank.

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

Preatoni Bank's main areas of operation are investment and private banking. The advantages of the bank are its small size and focusing on certain customers' segment and certain areas of operation. Due to that the Bank is flexible and quick in providing services particularly in case of changes in the economic environment and market situation. Besides, the advantages mentioned above make the risk management and control system more effective, quicker and simpler. The advantage of Preatoni Bank is also having qualified employees with banking experience.

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

The Management Board of Preatoni Bank achieved its objective for the year 2000 to finish the first full year of operations with profit.

Especially the activities in the field of investment banking should be emphasised, which ended in several successful transactions like consulting AS Pro Kapital, the largest real estate development company in the Baltic States, in its merger with Domina Hotel e Comproprietaria Alberghiere s.p.a., the company managing hotels in South-Europe and Egypt; quoting its shares in the primary list of Tallinn Stock Exchange, and intermediating the sales of AS Võru Juust to the Italian cheese production company Saviola s.p.a.. As for the future also the co-operation contract with Tartu University in investment banking is of great importance, in which framework a seminar introducing the possibilities of acquiring venture capital was organised for the managers of spin-off companies established at the university.

Preatoni Bank has confirmed its role in the Estonian market of securities' mediation. By the end of December 2000 the total amount of clients' assets in securities accounts opened by the Bank reached almost 1.95 billion kroons. The continuously increasing clients' transaction volume in foreign markets, which exceeded the transactions' volume with Estonian securities by the end of the year, must be mentioned. Transactions in Finnish, USA and Italian securities' market were of especially great importance.

Other significant events for the Bank were also the joining with SWIFT and launching the Internet Bank project, the first phase of which was the opening of the portal www.turud.ee that provides financial information, in October. The Bank plans to start the providing of all banking services via Internet during the first half-year of 2001.

The amount of investments into fixed assets and intangible assets in the financial year was 1.3 million kroons. Larger investments were made into the following areas:

- software licenses 0.9 million kroons
- computer hardware 0.3 million kroons
- other investments 0.1 million kroons.

In the year 2000 membership fees in the amount of 55,000 kroons were paid to the members of the Supervisory Board of Preatoni Bank. No fees or other monetary compensation were paid to the members of the Management Board in the year 2000. The Management Board's salary in the reporting period was 1,675,455 kroons. The average number of employees in the reporting period was 14 and the total amount of their salaries paid was 4,224,924 kroons.

Financial Statements

Income Statement

	Note No.	01 Jan 2000- 31 Dec 2000 (EEK)	14 Oct 1999- 31 Dec 1999 (EEK)
Interest income	1	9,120,723	912,265
Interest expense	2	-1,057,624	-6,520
Net interest income		8,063,099	905,745
Fees and commissions income	3	5,507,429	506,083
Fees and commissions expense	4	-709,163	-59,124
Net fees and commissions income		4,798,266	446,959
Income from securities	5	9,013	-291,013
Net trading income	6	1,455,584	48,396
Other revenues	7	0	33,246
Total revenues		14,325,962	1,143,333
Administrative expenses		-10,722,823	-4,849,274
Salary expenses	8	-4,319,442	-749,943
Social taxes	9	-1,429,379	-247,481
Other administrative expenses	10	-4,974,002	-3,851,850
Depreciation of fixed assets and intangible assets	11	-997,611	-183,486
Provision for loans	12	-560,867	0
Other expenses	13	-282,841	-50,000
Operating profit		1,761,820	-3,939,427
Net profit (loss) for the period		1,761,820	-3,939,427

The accounting principles described on pages 9-12 and Notes provided on pages 13-22 form an integral part of the current financial statements.

Balance Sheet		31 Dec 2000	31 Dec 1999
		(EEK)	(EEK)
ASSETS	Note No.		
Cash	14	468,123	179,101
Balances with the central bank	15	5,939,337	2,379,896
Due from other credit institutions	16	70,290,884	39,004,291
Due from financing institutions	17	1,300,459	84,232
Debt securities of trading portfolio	18	14,048,887	46,587,062
Shares and other securities	19	1,409,485	2,596,023
Loans to customers	20	56,086,694	19,543,412
- general provision for loans	21	-560,867	0
Net loans to customers		55,525,827	19,543,412
Fixed and intangible assets	22	3,000,369	2,677,889
Accrued income and prepaid expenses	23	531,112	428,624
Other assets	24	26,947	0
TOTAL ASSETS		152,541,430	113,480,530
 LIABILITIES			
Deposits	25	53,449,730	15,941,134
Other liabilities and accrued income	26	1,269,307	1,478,823
TOTAL LIABILITIES		54,719,037	17,419,957
 OWNERS' EQUITY			
Share capital		100,000,000	100,000,000
Retained earnings		-3,939,427	0
Profit (loss) for the financial year		1,761,820	-3,939,427
TOTAL OWNERS' EQUITY		97,822,393	96,060,573
 TOTAL LIABILITIES AND OWNERS' EQUITY		152,541,430	113,480,530

The accounting principles described on pages 9-12 and Notes provided on pages 13-22 form an integral part of the current financial statements.

Cash Flow Statement

	Note No.	01 Jan 2000- 31 Dec 2000 (EEK)	14 Oct 1999- 31 Dec 1999 (EEK)
Cash flows from operating activities		28,037,483	-54,336,337
interest received		9,171,983	577,873
interest paid		-914,612	-1,108
fees and commissions received		5,336,766	458,438
fees and commissions paid		-701,398	-33,724
administrative expenses paid		-10,292,608	-4,715,092
net trading income received		1,455,584	48,396
other operating income received		0	33,246
other operating expenses paid		-282,841	-50,000
net change in operating assets (-/+)			
loan portfolio		-36,543,282	-19,543,413
receivables from other banks		-7,327,664	-133,000
other assets		-1,226,260	-130,817
securities		32,643,727	-48,102,099
net change in external operating liabilities (+/-)			
deposits		37,508,596	15,941,134
other liabilities		-790,508	1,313,829
Cash flows from investing activities		-230,091	-4,233,375
purchase of fixed assets	31	-381,158	-1,718,987
purchase of intangible assets	31	-938,933	-1,142,388
investments in subsidiaries	27	0	-1,372,000
proceeds from sales of subsidiaries	27	1,090,000	0
Cash flows from financing activities		0	100,000,000
proceeds from the issue of share capital		0	100,000,000
Net increase in cash and cash equivalents		27,807,392	41,430,288
Cash and cash equivalents at the beginning of year		41,430,288	0
Cash and cash equivalents at the end of year*		69,237,680	41,430,288
* Cash and cash equivalents at the end of year			
cash	14	468,123	179,101
residual surplus exceeding the reserve in central bank	15	1,043,337	2,346,896
demand deposits in banks	16	2,681,214	840
overnight deposits in banks	16	65,045,006	38,903,451
Total		69,237,680	41,430,288

The accounting principles described on pages 9-12 and Notes provided on pages 13-22 form an integral part of the current financial statements.

Statement of Changes in Equity

	01 Jan 2000- 31 Dec 2000 (EEK)	14 Oct 1999- 31 Dec 1999 (EEK)
Share capital		
Balance at the beginning of year	100,000,000	100,000,000
Balance at the end of year	100,000,000	100,000,000
Retained earnings		
Balance at the beginning of year	-3,939,427	0
Profit (loss) for the financial year	1,761,820	-3,939,427
Balance at the end of year	-2,177,607	-3,939,427
Total owners' equity:		
at the beginning of year	96,060,573	100,000,000
at the end of year	97,822,393	96,060,573

The share capital is divided into 10,000,000 common shares with nominal value of 10 Estonian kroons each and are paid for 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 principles described on pages 9-12 and Notes provided on pages 13-22 form an integral part of the current financial statements.

Accounting Principles

The financial statements of Preatoni Bank (“the Bank”) have been prepared in accordance with International Accounting Standards (IAS) and by using the acquisition cost principle, adjusting it by valuing certain securities into market value.

Consolidation

Preatoni Bank has neither subsidiaries nor associated companies. The Bank’s 100% subsidiary AS Beeta Varahaldus was consolidated in the Annual Report of 1999. As this investment object was not quoted on the public stock exchange and as the balance sheet total of AS Beeta Varahaldus did not exceed 1% of the Bank’s balance sheet total, participation in the subsidiary was recorded in the financial statements of 1999 by using the equity method. The 100% participation in AS Beeta Varahaldus was sold in 2000 and it did not have material influence on the financial statements.

Assets and liabilities denominated in foreign currency

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

Estimated market value of financial assets and liabilities

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

Derivatives

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

Offsetting

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

Cash and cash equivalents

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

Investments into securities and bonds

Shares

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

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

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

Debt securities

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

Intangible assets

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

Fixed assets

Assets with useful life over one year and acquisition cost over 1,000 Estonian kroons are considered fixed assets. New fixed assets are depreciated since the month of taking into use until the asset is fully depreciated. Fixed assets are recorded in the balance sheet in acquisition cost less depreciation.

Straight-line method is used for depreciating fixed assets and the depreciation rates are the following:

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

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

Loans and provisions

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

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

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

Based on these criteria loans are classified to 5 categories:

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

Provisions are made depending on the loan's category. The specific provisioning rate of loans of categories A and B is 0%. Other loans are provisioned in accordance with the decree of the President of the Bank of Estonia "Credit institution loan servicing and the order of expensing doubtful loans". Based on that the amount of a specific provision is equal to the difference between the balance sheet value and the present value of the anticipated future cash flows discounted with the interest rate specified in the loan agreement. If the Bank has no sufficient assurance to assess the servicing of the loan based on cash flows, the calculation of a specific provision is based on the net realisable value of the collateral or the loan itself. In these circumstances the amount of the specific provision is equal to the difference between the balance sheet value and the net realisable value of the collateral or the loan. For other loans that do not have a specific provision a general provision is made in the amount of 1 % of the loan balances outstanding.

Interest, fees and commissions

Interest income and expense are recorded in the income statement on accrual basis. Interest calculation is suspended when the loan payment is overdue by 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 at the end of the reporting period.

Accounting for leases

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

Statutory reserve in the Bank of Estonia

The Bank of Estonia has established a statutory reserve to credit institutions at 13% of the three decades' average amount of deposits and issued financial guarantees. Credit institutions are obliged to keep minimum 40% of the established 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 kroon, EU euro and national currency of common currency countries must not exceed 15% of the Bank's net own funds and the total open net position in foreign currencies must not exceed 30% of the net own funds of the credit institution.

Risk concentration

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

Potential income tax liability from dividends

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

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

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

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

Comparatives

Presentation of the financial statements of 2000 has changed in comparison with 1999. The comparative figures of 2000 have been adjusted according to the new presentation. Adjustments have not influenced the owners' equity of the company.

Notes to the Financial Statements

	01 Jan-31 Dec 2000	14 Oct-31 Dec 1999
Note 1: interest income		
interest income from loans (8,0-13,0 %)	5,679,652	234,816
interest income from demand deposits (1,0- 3,8 %)	196,471	45,070
interest income from time deposits (1,3- 6,4 %)	1,294,074	73,187
interest income from debt securities (4,1- 7,5 %)	1,773,565	264,680
interest income from money market funds (2,6- 4,9 %)	176,961	294,512
total interest income	9,120,723	912,265
Interest range of different sources of interest income is provided in brackets.		
Note 2: interest expense		
interest expense from demand deposits (1,0- 1,5 %)	81,238	1,108
interest expense from time deposits (2,3- 5,7 %)	975,891	5,412
other interest expense (6,1-12,0 %)	495	0
total interest expense	1,057,624	6,520
Interest range of different sources of interest expense is provided in brackets.		
Note 3: fees and commissions income		
loan arrangements and guarantees	960,560	411,700
bank transaction fees	76,252	11,671
security transaction fees	1,406,562	25,677
account opening and maintenance fees	599,792	57,035
investment banking fees	2,448,210	0
other fees and commissions income	16,053	0
total fees and commissions income	5,507,429	506,083
Note 4: fees and commissions expense		
security transaction expenses	457,766	38,166
bank transaction expenses	58,630	20,958
S.W.I.F.T. expense	192,767	0
total fees and commissions expense	709,163	59,124
Note 5: income from securities (see also note 27)		
income from subsidiaries	9,013	-291,013
total income from securities	9,013	-291,013
Note 6: net trading income		
income from foreign exchange	651,042	8,169
income from shares and debt securities in trading portfolio	804,542	40,227
total net trading income	1,455,584	48,396
Note 7: other operating income		
rent income	0	33,246
total other operating income	0	33,246
Note 8: salary expense		
salaries	4,279,924	696,605
change in vacation reserve	35,306	53,338
fringe benefits	4,212	0
total salary expense	4,319,442	749,943
Note 9: social taxes		
social taxes from salaries	1,412,376	229,879
social taxes change from vacation reserve	11,651	17,602
social taxes from fringe benefits	5,352	0
total social taxes expense	1,429,379	247,481

	01 Jan-31 Dec 2000	14 Oct-31 Dec 1999
Note 10: other administrative expenses		
rent of premises	1,223,349	662,658
IT expense	1,128,232	623,554
mail and communication expenses	594,172	177,241
services purchased	1,354,104	1,406,629
advertising and printed documents	71,704	205,745
notary and public fees	18,271	345,750
training and business travels	86,940	283,313
transportation expenses	347,905	54,360
other expenses	149,325	92,600
total other administrative expenses	4,974,002	3,851,850
Note 11: depreciation of fixed and intangible assets		
depreciation of fixed assets	683,071	129,938
depreciation of intangible assets	314,540	53,548
total depreciation of fixed and intangible assets	997,611	183,486
Note 12: provisions for loans		
general provision for loans	560,867	0
total provisions for loans	560,867	0
Note 13: other operating expenses		
Deposit Guarantee Fund payments	143,341	50,000
Tallinn Stock Exchange membership fee	100,000	0
other operating expenses	39,500	0
total other operating expenses	282,841	50,000
	31 Dec 2000	31 Dec 1999
Note 14: cash		
Cash in Estonian kroons	468,123	179,101
total cash	468,123	179,101
Note 15: balances with central bank		
statutory reserve	4,896,000	33,000
surplus of the reserve in the central bank	1,043,337	2,346,896
total balances with central bank	5,939,337	2,379,896
Note 16: receivables from credit institutions		
demand deposits	2,681,214	840
overnight deposits	65,045,006	38,903,451
time deposits	2,564,664	100,000
total receivables from credit institutions	70,290,884	39,004,291
receivables by countries		
Estonia	69,014,262	39,004,291
OECD countries	1,276,622	0
total receivables by countries	70,290,884	39,004,291
Note 17: receivables from financing institutions		
demand deposits	1,220,459	4,232
other deposits	80,000	80,000
total receivables from financing institutions	1,300,459	84,232
receivables by countries		
Estonia	80,000	80,000
OECD countries	1,220,459	4,232
total receivables by countries	1,300,459	84,232

	31 Dec 2000	31 Dec 1999
Note 18: debt securities of trading portfolio		
debt securities by issuers		
debt securities of credit institutions	11,462,208	30,683,023
debt securities of local authorities	650,000	1,700,000
debt securities of private enterprises	1,936,679	6,288,535
debt securities of financial institutions	0	7,915,504
total debt securities by issuer's	14,048,887	46,587,062
debt securities by countries		
Estonia	9,457,404	24,510,934
OECD countries	4,591,483	22,076,128
total debt securities by countries	14,048,887	46,587,062
Note 19: shares and other securities		
shares in trading portfolio	1,059,485	1,165,036
-listed	1,058,492	1,165,006
-unlisted	993	30
strategic investments	350,000	350,000
shares of subsidiaries	0	1,080,987
total shares and other securities	1,409,485	2,596,023
shares and other securities by countries		
Estonia	1,409,485	2,457,523
OECD countries	0	138,500
total shares and other securities by countries	1,409,485	2,596,023
Note 20: loans to customers		
loans by customer types		
loans to private companies	42,681,763	15,783,667
loans to private persons	13,404,931	3,759,745
total loans by customer types	56,086,694	19,543,412
loans by remaining maturity		
from 1 month to 3 months	350,000	1,600,000
from 3 months to 12 months	6,053,280	9,750,000
from 1 year up to 2 years	392,062	100,000
from 2 years up to 5 years	22,852,518	4,041,516
over 5 years	26,438,834	4,051,896
total loans by remaining maturity	56,086,694	19,543,412
The bank did not have overdue loans in 2000.		
loans by countries		
Estonia	55,589,501	17,689,180
OECD countries	497,193	104,232
other countries	0	1,750,000
total loans by countries	56,086,694	19,543,412
Note 21: general provision for loans	560,867	0
For all loans that do not have a specific provision the general provision has been made in the amount of 1 % of the outstanding amount. The Bank does not have any loans requiring specific provisions.		
Note 22: fixed and intangible assets (see also note 31)		
intangible assets		
software	2,081,321	1,142,388
depreciation	-368,088	-53,548
total intangible assets	1,713,233	1,088,840

	31.12.2000	31.12.1999
fixed assets		
computers	930,409	610,975
furniture	531,789	531,789
other fixed assets	637,947	576,223
depreciation	-813,009	-129,938
total fixed assets	1,287,136	1,589,049

In 1999 and 2000 there were no sales or write-offs of fixed and intangible assets.

Note 23: accrued income and prepaid expenses

interest receivable	283,132	334,392
fees and commissions receivable	218,309	47,646
prepaid expenses	29,671	45,222
other accrued income	0	1,364
total accrued income and prepaid expenses	531,112	428,624

Note 24: other assets

revaluation of foreign currency forwards	26,947	0
total other assets	26,947	0

Note 25: deposits

demand deposits	38,214,596	13,176,838
time deposits	15,235,134	2,764,296
total deposits	53,449,730	15,941,134

demand deposits by customers

financial institutions	991,756	758,459
companies	33,029,542	8,215,224
private persons	4,193,298	4,203,155
total demand deposits by customers	38,214,596	13,176,838

time deposits by customers

companies	9,561,515	0
non-profit organisations	149,924	0
private persons	5,523,695	2,764,296
total time deposits by customers	15,235,134	2,764,296

Note 26: other liabilities and accrued income

payments in transfer	523,321	1,313,829
interest payable	148,424	5,412
taxes payable	263,501	0
payables to employees	117,896	70,940
payables to suppliers	183,000	63,242
other accruals	33,165	25,400
total other liabilities and accrued income	1,269,307	1,478,823

Note 27: investments in subsidiaries

In 2000 the Bank sold its participation in the 100% owned subsidiary AS Beeta Varahaldus (10426361).

This was a cash transaction and the Bank gained profit in the amount of 9,013 Estonian kroons:

purchase price in 1999	1,372,000 kroons
loss according to equity method in 1999	-291,013 kroons
sales price in 2000	1,090,000 kroons

Note 28: transactions between related parties	31 Dec 2000	31 Dec 1999
related parties deposits in the bank		
members of the Supervisory Board	7,366	0
members of the Management Board	130,840	82,454
paid interests to the members of the supervisory Board and the management board	309,177	9
	31 Dec 2000	31 Dec 1999
loans to related parties		
loans to the members of Management Board	362,382	0
interest income earned	6,735	0
salaries to the Supervisory Board and the Management Board		
salaries to the Management Board	1,675,455	280,000
salaries to the Supervisory Board	55,000	0

At the company's management's estimate the related party transactions are made according to market conditions.

Note 29: off-balance sheet transactions

	31 Dec 2000		31 Dec 1999	
	Assets	Liabilities	Assets	Liabilities
1. Irrevocable transactions	0	350,000	0	0
1.1. Credit lines and overdrafts	0	350,000	0	0
2. Derivatives	21,838,608	21,811,661	0	0
2.1. Currency forwards	19,438,608	19,411,661	0	0
2.2. Share options	2,400,000	2,400,000	0	0

Note 30: operating lease liability

In 1999 Preatoni Bank concluded two 2-year operating lease agreements on cars. As at 31 Dec 2000 the minimum operating lease liability in 2001 is 175,152 Estonian kroons. The mentioned lease liability in the financial period was 200,535 kroons and 26,225 kroons in 1999.

In 1999 Preatoni Bank signed a 5-year operating lease agreement on premises. The lease liability in 1999 was 662,658 Estonian kroons and 1,168,470 kroons in 2000. The minimum operating lease liability in 2001 is 1,177,257 kroons and the following liabilities until the end of the agreement are 2,944,295 kroons.

Note 31: movement of fixed and intangible assets

Type of fixed assets	Software	Computers	Furniture	Other fixed assets	Total
Acquisition cost 31 Dec 1999	1,142,388	610,975	531,789	576,223	2,861,375
Accumulated depreciation 31 Dec 1999	53,548	49,737	39,884	40,317	183,486
Residual value at 31 Dec 1999	1,088,840	561,238	491,905	535,906	2,677,889
Purchases in 2000	938,933	319,434	0	61,724	1,320,091
Depreciation for the 2000	314,540	331,263	159,537	192,271	997,611
Acquisition cost 31 Dec 2000	2,081,321	930,409	531,789	637,947	4,181,466
Accumulated depreciation 31 Dec 2000	368,088	381,000	199,421	232,588	1,181,097
Residual value at 31 Dec 2000	1,713,233	549,409	332,368	405,359	3,000,369

Note 32: net foreign currency positions (Th. EEK)

31 Dec 1999

Currency	Balance sheet position		Off-balance sheet position		Net position currency (Th.)	Net position (Th. EEK)	Exchange rate 31.12.1999
	long	short	long	short			
DEM	1,179	0	0	0	1,179	9,432	8.00000
EEK	96,689	105,689	0	0	-9,000	-9,000	1.00000
EUR	461	498	0	0	-37	-579	15.64666
USD	9	0	0	0	9	140	15.56183

31 Dec 2000

Currency	Balance sheet position		Off-balance sheet position		Net position currency (Th.)	Net position (Th. EEK)	Exchange rate 31.12.2000
	Long	short	long	short			
DEM	6	24	0	0	-18	-145	8.00000
EEK	92,591	145,778	12,396	12,719	-53,510	-53,510	1.00000
EUR	3,755	354	0	0	3,401	53,214	15.64664
ITL		20,022	0	0	-20,022	-162	0.008082
LTL	47	0	0	0	47	197	4.203905
SEK	18	0	0	0	18	32	1.767717
USD	52	52	561	561	0	0	16.81982

Note 33: capital adequacy (Th. EEK)

	31 Dec 2000	31 Dec 1999
I OWNERS' EQUITY	96,109	93,891
1. PRIMARY OWN FUNDS (Tier 1)	96,109	94,972
1.1. Paid-in share capital	100,000	100,000
1.2. Retained profit / loss	-3,939	0
1.3. Profit / loss for the current reporting period	1,761	-3,939
1.4. Intangible assets (minus)	-1,713	-1,089
2. Deductions from gross own funds	0	1,081
3. Total net own funds (1-2)	96,109	93,891
II CAPITAL REQUIREMENT FOR COVERING THE RISKS (1+2)	7,071	3,644
1. Capital requirement for covering the credit risk ((1.1+1.2.)/10)	6,845	2,841
1.1 Assets weighted by credit risk	68,025	28,406
I category (credit risk 0 %)	6,407	2,559
II category (credit risk 20 %)	70,291	39,004
III category (credit risk 50 %)	10,111	2,777
IV category (credit risk 100 %)	48,911	19,217
1.2 Risk-weighted off-balance sheet commitments	423	0
2. Capital requirement for covering the trading portfolio risk	226	803
2.1. Capital requirement for covering the interest position risk	99	669
2.2. Capital requirement for covering the share position risk	127	134
III CAPITAL ADEQUACY (%) (II/III*10)	135,92%	257,66%

Note 34: receivables and liabilities by maturity (Th. EEK)

Note No.34 coincides with the 'report on the division of assets and liabilities based on the date of change in the interest rate'.

31 Dec 1999

assets-liabilities' maturity	On demand	Overdue	Up to 1 month	From 1 month up to 3 months	From 3 months up to 12 months	1 year up to 2 years	From 2 years up to 5 years	Over 5 years
1. Balance sheet assets	42,599	0	47,003	1,600	9,895	1,611	4,042	4,052
Incl. cash and due from Banks	41,430	0	33	0	100	0	0	0
loans to customers	0	0	0	1,600	9,750	180	4,042	4,052
Securities	1,165	0	46,587	0	0	1,431	0	0
other receivables	4	0	383	0	45	0	0	0
1. Balance sheet liabilities	14,491	0	1,929	0	1,000	0	0	0
incl. Deposits	13,177	0	1,764	0	1,000	0	0	0
other liabilities	1,314	0	165	0	0	0	0	0

31 Dec 2000

assets-liabilities' maturity	On demand	Overdue	Up to 1 month	From 1 month up to 3 months	From 3 months up to 12 months	1 year up to 2 years	From 2 years up to 5 years	Over 5 years
1. Balance sheet assets	90,461	0	3,053	388	6,022	388	22,624	26,605
Incl. cash and due from Banks	74,133	0	2,565	0	0	0	0	0
loans to customers	1,220	0	0	347	5,993	388	22,624	26,255
Securities	15,108	0	0	0	0	0	0	350
other receivables	0	0	488	41	29	0	0	0
2. Off-balance sheet assets	0	0	7,568	14,271	0	0	0	0
1. Balance sheet liabilities	38,738	0	9,230	6,396	154	201	0	0
Incl. Deposits	38,215	0	8,567	6,318	150	200	0	0
other liabilities	523	0	663	78	4	1	0	0
2. Off-balance sheet commitments	350	0	7,560	14,252	0	0	0	0

Note 35: risk concentration (Th. EEK)

	31 Dec 2000		31 Dec 1999	
	number/sum	% net own funds	number/sum	% net own funds
1. Number of customers with high risk concentration	1	-	1	-
2. Net own funds	96,109	-	93,891	-
3. Debts with high risk concentration	20,049	20,86%	11,489	12,24%

Note 36: geographical concentration of assets/receivables (Th. EEK)

31 Dec 1999

Country/ Type of receivable	Balance sheet assets			incl. overdue assets		Off-balance sheet assets	By country (%)
	loans*	securities	Interests receivable				
Estonia	59,157	26,968	202	0	0	0	65.02%
Finland	0	15,149	114	0	0	0	22.02%
Sweden	0	6,927	0	0	0	0	10.07%
Belize	1,750	0	18	0	0	0	2.53%
USA	4	139	0	0	0	0	0.21%
Germany	100	0	0	0	0	0	0.15%
Total	61,011	49,183	334	0	0	0	100.00%

* including receivables from banks and receivables from financial institutions.

31 Dec 2000

Country/ Type of receivable	Balance sheet assets			incl. overdue assets		Off-balance sheet assets	By country (%)
	loans*	securities	Interests receivable				
Estonia	130,067	10,867	280	0	0	21,839	95.58%
Finland	562	1,979		0	0	0	1.48%
Sweden	0	2,612	0	0	0	0	1.53%
Italy	1,717		3	0	0	0	1.00%
USA	658			0	0	0	0.38%
Germany	52	0	0	0	0	0	0.03%
Total	133,056	15,458	283	0	0	21,839	100.00%

* including receivables from banks and receivables from financial institutions.

Note 37: concentration of assets/receivables by economic sector (Th. EEK)**31 Dec 1999**

Economic sector/ Type of receivable	Balance sheet assets			incl. overdue assets	Off-balance sheet assets	By sector (%)
	loans*	Securities	interests receivable			
finance	41,467	40,202	196	0	0	74.07%
retail and wholesale trade	13,544	0	74	0	0	12.32%
utilities sector	0	6,308	0	0	0	5.71%
private persons	3,760	0	20	0	0	3.42%
real estate development	2,240	0	20	0	0	2.04%
government and municipalities	0	1,700	14	0	0	1.55%
industry	0	514	10	0	0	0.47%
transportation and logistics	0	459	0	0	0	0.42%
Total	61,011	49,183	334	0	0	100.00%

* including receivables from banks and receivables from financial institutions.

31 Dec 2000

Economic sector/ Type of receivable	Balance sheet assets			incl. overdue assets	Off-balance sheet assets	By sector (%)
	loans*	Securities	interests receivable			
finance	77,530	12,022	20	0	0	52.49%
retail and wholesale trade	10,524	0	111	0	19,439	17.62%
real estate development	28,937	524	23	0	2,400	18.69%
private persons	13,271	0	78	0	0	7.82%
industry	2,794	33	10	0	0	1.66%
transportation and logistics	0	2,155	0	0	0	1.26%
government and municipalities	0	650	41	0	0	0.40%
utilities sector	0	74	0	0	0	0.04%
Total	133,056	15,458	283	0	21,839	100.00%

* including receivables from banks and receivables from financial institutions

Note 38: risk management

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

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

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

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

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

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

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

The main task of the Bank's internal auditor is to check the risk-taking, risk management and risk control systems against the objectives set by the Management Board. The internal auditor co-operates fully with the Management Board, heads of departments as well as external auditor, in order to fulfil these tasks. Established limit systems, different levels of decision-making, segregation of duties, exact job descriptions and procedures are all very important regarding all the above-mentioned risks. Doubled systems and back-up copies from all the supporting IT systems are used to cover for the risks related to IT, in accordance with the rules set by the IT committee.

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AUDITOR'S REPORT

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 2000 as set out on pages 5 to 22. 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 2000 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Urmas Kaarlep
AS PricewaterhouseCoopers

Toomas Vapper
Authorised auditor

30 January 2001

Proposal of the Management Board about Distribution of the Profit

The Management Board of Preatoni Bank confirmed audited profit in the amount 1,761,820 Estonian kroons for the financial year 2000. The Management Board proposal is not to distribute the profit of the financial year 2000 in the sum of 1,761,820 Estonian kroons and to book under balance sheet item "Retained earnings".

Ott Karolin
Chairman of the Board

Urmas Pütsepp
Member of the Board

Mart Veskimägi
Member of the Board