

**TALLINNA ÄRIPANGA AS**

**2009 CONSOLIDATED ANNUAL REPORT**  
(translation of the Estonian original)

**TABLE OF CONTENTS**

	Page
<b>1. INTRODUCTION .....</b>	<b>4</b>
1.1 GENERAL INFORMATION OF CREDIT INSTITUTION .....	4
1.2 AUDITOR .....	4
1.3 MANAGEMENT BOARD'S DECLARATION .....	5
<b>2. MANAGEMENT REPORT .....</b>	<b>6</b>
2.1 DESCRIPTION OF THE CREDIT INSTITUTION'S GROUP.....	6
2.2 GENERAL MANAGEMENT OF TALLINN BUSINESS BANK .....	7
2.3 PRINCIPAL SHAREHOLDERS OF TALLINN BUSINESS BANK.....	8
2.4 KEY EVENTS OF 2009 .....	9
2.6 INTERNAL CONTROL SYSTEM .....	11
2.7 DIVIDEND POLICY .....	12
2.8 EMPLOYEES .....	12
2.9 FINANCIAL RATIOS.....	12
2.10 CONSOLIDATED BALANCE SHEETS OF TALLINN BUSINESS BANK GROUP FOR 2005- 2009 .....	13
2.11 RATINGS.....	13
2.12 COURT CASES .....	13
2.13. PUBLIC INFORMATION REGARDING CAPITAL ADEQUACY AND RISK MANAGEMENT.....	13
<b>3. CONSOLIDATED FINANCIAL STATEMENTS .....</b>	<b>21</b>
3.1 MANAGEMENT BOARD'S DECLARATION .....	21
3.2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF TALLINN BUSINESS BANK GROUP .....	22
3.3 CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME OF TALLINN BUSINESS BANK GROUP .....	23
3.4 CONSOLIDATED CASH FLOW STATEMENT OF TALLINN BUSINESS BANK GROUP.....	24
3.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF TALLINN BUSINESS BANK GROUP .....	25
<b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS .....</b>	<b>26</b>
NOTE 1. GENERAL INFORMATION OF THE GROUP AND BASIS OF PREPARATION.....	26
NOTE 2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES.....	26
NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	28
NOTE 4. RISK MANAGEMENT.....	41
NOTE 6. RECEIVABLES FROM CREDIT INSTITUTIONS .....	60
NOTE 7. RECEIVABLES FROM CUSTOMERS .....	61
NOTE 8. OTHER RECEIVABLES .....	66
NOTE 9. OTHER ASSETS.....	66
NOTE 10. PROPERTY, PLANT AND EQUIPMENT.....	67
NOTE 11. INVESTMENT PROPERTY .....	68
NOTE 12. PAYABLES TO CREDIT INSTITUTIONS .....	68
NOTE 13. PAYABLES TO CREDIT INSTITUTIONS/CUSTOMERS.....	69
NOTE 14. OTHER DEBTS .....	69
NOTE 15. OTHER LIABILITIES AND ACCRUED EXPENSES.....	69
NOTE 16. SUBORDINATED LIABILITIES .....	70
NOTE 17. SHARE CAPITAL .....	70

NOTE 18. CONTINGENT ASSETS AND LIABILITIES .....	70
NOTE 19. INTEREST INCOME.....	71
NOTE 20. INTEREST EXPENSE .....	71
NOTE 21. FEE AND COMMISSION INCOME .....	72
NOTE 22. FEE AND COMMISSION EXPENSES .....	72
NOTE 23. NET GAINS FROM FINANCIAL TRANSACTIONS.....	72
NOTE 24. WAGES AND SALARIES, AND SOCIAL SECURITY TAXES .....	73
NOTE 25. OTHER ADMINISTRATIVE EXPENSES.....	73
NOTE 26. OTHER OPERATING INCOME .....	73
NOTE 27. OTHER OPERATING EXPENSES.....	73
NOTE 29. RELATED PARTIES.....	74
NOTE 30. SALE OF SUBSIDIARY .....	75
NOTE 31. PARENT'S UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION, STATEMENT OF COMPREHENSIVE INCOME, STATEMENT OF CHANGES IN EQUITY AND CASH FLOW STATEMENT EEK MILLION .....	77
<b>4. INDEPENDENT AUDITOR'S REPORT.....</b>	<b>81</b>
<b>5. PROPOSAL FOR COVERING THE LOSS.....</b>	<b>82</b>
<b>6. SIGNATURES OF THE MANAGEMENT AND SUPERVISORY BOARD TO THE 2009 ANNUAL REPORT.....</b>	<b>84</b>

## **1. INTRODUCTION**

### ***1.1 General information of credit institution***

Reporting period:	1 January 2009 ó 31 December 2009
Balance sheet date:	31 December 2009
Reporting currency:	Estonian kroon (EEK)
Balance units:	EEK million
Name of the Entity:	TALLINNA ÄRIPANGA AS
Location and address:	7 Vana-Viru Street, 10111 Tallinn
Country of registration:	The Republic of Estonia
Date of registration:	30 December 1991
Registration number:	10237984
Register:	Commercial Register of the City Court of Tallinn
Phone:	+372 66 88 000
Fax:	+372 66 88 001
E-mail:	info@tbb.ee

### ***1.2 Auditor***

Name of the auditor:	Tiit Raimla
Date of auditor's certification:	16 December 1994, license number 287
Audit firm:	AS PricewaterhouseCoopers
Registration number of the audit firm:	10142876
Location and address:	Pärnu mnt. 15, 10141 Tallinn

### ***1.3 Management Board's declaration***

The Management Board declares its responsibility for the preparation of the consolidated annual report of Tallinna Äripanga AS and its subsidiaries (hereinafter *the Group*) for the year ended 31 December 2009.

The Management Board declares to the best of its knowledge:

- The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and they present a true and fair view of the Group's financial position, results of operations, changes in equity and cash flows.
- Preparation of the financial statements requires the Management Board to make estimates which impact the Group's assets and liabilities as of the balance sheet date, and income and expenses for the reporting period. These estimates are based on up-to-date information about the Group's position, and plans and risks as of the preparation date of the financial statements. The ultimate outcome of recognised business transactions may differ from these estimates.
- The financial statements reflect significant circumstances impacting the valuation of assets and liabilities that have become evident by date of preparation of the financial statements of 30 April 2010.
- The Management Board estimates that the Group entities are going concern.
- The Consolidated Annual Report for the year 2009 report will be presented to the General Meeting of Shareholders for approval.
- The General Meeting of Shareholders approved the Annual Report for the year 2008 on 29 May 2009.



Valeri Haritonov  
Chairman of the  
Management Board



Andrei Zukov  
Member of the  
Management Board



Tatjana Levitskaja  
Member of the  
Management Board

## 2. MANAGEMENT REPORT

### 2.1 Description of the credit institution's Group

Tallinna Äripanga AS (hereafter also õthe Bankö or õTallinn Business Bankö) is the oldest functioning commercial bank in Estonia, which started its business activities in 1991. **Tallinna Äripanga AS** was registered on 30 December 1991, registration number 10237984, register: the Commercial Register of the City Court of Tallinn and share capital was EEK 229 753 920 as of 31 December 2009. The number of the credit institution operating license is EP-08 PO and it is effective from 21.01.1993. As of December 2009, Tallinn Business Bank has not been rated by an international rating agency.

Tallinn Business Bank offers traditional banking services: issuance of loans (regular loans and overdrafts), depositing, and foreign currency transactions and intermediation of precious metals. The Bank focuses primarily on transactions with corporate clients and shareholders.

The funding for the Bank's operations comes mostly from owners' equity, as well as subordinated debt and the funds borrowed from the Rural Development Foundation. In addition, the Bank uses funds available due to the nature of its main operations (deposits, cash in transit with payment orders, etc.).

The Bank's head office is located at 7 Vana-Viru Street, Tallinn. Other bank offices are located at 5a Estonia Avenue, Tallinn and at 4 Kerese Street, Narva.

Tallinn Business Bank owns 100% of the shares in three entities: TBB Liisingu AS, TBB Invest AS and Morgan Trade AS.

General information about the entities in the Group of Tallinna Äripanga AS (hereafter also as õTallinn Business Bankö or õthe Bankö) as of 31.12.2009:

<b>Name of entity</b>	<b>Address</b>	<b>Area of activity</b>	<b>Reg.number Reg. date</b>	<b>Ownership percentage</b>
Tallinna Äripanga AS	Vana -Viru 7, Tallinn	banking	10237984 30.12.1991	Parent company
TBB Liisingu AS	Vana -Viru 7, Tallinn	leasing activities	10570483 16.07.1999	100%
AS TBB Invest	Vana -Viru 5, Tallinn	real estate development	11162243 01.09.2005	100%
AS Morgan Trade	Vana -Viru 7, Tallinn	real estate development	11169423 03.10.2005	100%
TBB Realty Bulgaria LTD	bul. Patriarh Evtimii 36, Sredec, Sofia, Bulgaria	real estate development	175215733 03.03.2007	TBB Invest 100%

For the purposes of ensuring management optimisation and using resources more efficiently, the following changes were carried out in the Group in 2009:

- In the third quarter, Morgan Trade OÜ, a subsidiary of AS TBB Invest, became the Bank's subsidiary;

- Morgan Trade OÜ was restructured as a public limited company and in the course of restructuring, the current share capital was increased to 400 000 kroons. The amount of new share capital was registered at the Commercial Register on 2 November 2009;
- On 23 December 2009, Tallinn Business Bank sold its 99% ownership interest in the company TBB Leasing ( ), located in Russia;
- Considering the expected losses of subsidiaries for the year 2009, a resolution was adopted to increase the share capital of subsidiaries to bring it in compliance with the requirements of the Commercial Code. New shares issued with share premium in the amount of EEK 85.0 million were used to increase equity. As of 31.12.2009, no monetary contributions to the share capital of subsidiaries had been made yet.

There are no differences between Tallinn Business Bank Group (within the meaning of IFRS) and the consolidation group (within the meaning of the Credit Institutions Act). Therefore, the term õthe Groupö has been used consistently throughout this report.

## ***2.2 General management of Tallinn Business Bank***

### **Supervisory Board of the Bank**

According to the Articles of Association of Tallinn Business Bank, the Supervisory Board has at least five members. The members of the Supervisory Board are elected and recalled by the General Meeting of Shareholders. The members of the Supervisory Board elect one of them to be the Chairman of the Supervisory Board, who is in charge of the work of the Supervisory Board. The members of the Supervisory Board are elected for a term of three years.

With a protocol of the General Meeting of Shareholders held on 29 May 2009, the authority of the following members of the Supervisory Board was extended for the next three years:

- É Viljar Veskiõali, Chairman of the Supervisory Board, Counsellor of the Management Board of Tallinna Äripanga AS. Number of shares owned: 62 356;
- É Arvo Sulg, Member of the Supervisory Board, member of the Management Board of Noor Tehnik OÜ. Number of shares owned: 0;
- É Rustem Usmanov, member of the Supervisory Board, General Director of ALMAZJUVELIREXPORT. Number of shares owned: 0;
- É Madis Kiisa, member of the Supervisory Board, attorney at law at Laus and Partnerid OÜ. Number of shares owned: 0;
- É Sergei Gorny, member of the Supervisory Board, the first Deputy Chairman of the Management Board of ALMAZJUVELIREXPORT. Number of shares owned: 0;
- É Aleksandr Vassiljev, member of the Supervisory Board, President of õPlatinaö (õ )ö, ALMAZJUVELIREXPORT's company. Number of shares owned: 0.

### **Management Board**

According to the Articles of Association, the Management Board has at least three members with one of the elected to be the Chairman of the Management Board, in charge of the work of the Management Board. The Management Board is selected by the Supervisory Board of the Bank. At the time of preparation of Annual Report, the Management Board has the following members:

- Valeri Haritonov, Chairman of the Management Board. Number of shares as of 31.12.2009: 0. Number of shares at the time of preparation of the Annual Report: 0;
- Andrei Zukov, member of the Management Board. Number of shares as of 31.12.2009: 151 465. Number of shares at the time of preparation of the Annual Report: 151 465;
- Tatjana Levitskaja, member of the Management Board. Number of shares as of 31.12.2009: 139 567. Number of shares at the time of preparation of the Annual Report: 139 567.

According to the Articles of Association, the Chairman of the Management Board acts also as the Manager of the Bank, if the Management Board decides not to hire Managing Director. With protocol no. 11 of the meeting of the Management Board of 28 June 2006, the duties of the members of the Management Board were divided among its members: the Chairman of the Management Board V. Haritonov also performs the Managing Director's duties and the member of the Management Board T. Levitskaja performs the duties of Financial Director. With resolution no. 22-9 of the Bank's Supervisory Board of 01.09.2009, Andrei Zukov was elected as a new member of the Management Board. The member of the Management Board A. Zukov performs to the duties of Development Director. As of the time of preparation of the Annual Report, there have been no changes in the duties of the members of the Management Board.

#### **Committee established by the Bank's Supervisory Board**

According to the Articles of Association, the Bank's Supervisory Board has established the Credit Committee, approved the main principles and competence of its activities.

#### **Committee established by the Bank's Management Board**

The Bank's Management Board has set up the Asset and Liability Committee (ALCO) for the purpose of managing the Group's assets and liabilities, managing liquidity, financing and investing strategies, managing financial risk and determining capitalisation rates. The meetings of the Asset and Liability Committee are held once a month.

### ***2.3 Principal shareholders of Tallinn Business Bank***

Below is the list of Tallinn Business Bank's shareholders with an ownership interest of at least 5%, their domicile and size of ownership interest:

<b>Shareholder</b>	<b>Domicile</b>	<b>Number of shares as of 31.12.2009</b>	<b>Ownership %</b>	<b>Number of shares at the time of preparation of the Annual Report</b>	
				<b>Ownership %</b>	<b>Ownership %</b>
Leonarda Invest AS	Estonia	5 017 388	21.84%	5 017 388	21.84%
Belakhova Joulia	Russia	2 285 999	9.95%	2 285 999	9.95%
AS Grand Marketing	Estonia	2 278 992	9.92%	2 278 992	9.92%
Statik LLC	USA	2 189 176	9.53%	2 189 176	9.53%
Danasano AS	Estonia	2 187 694	9.52%	2 187 694	9.52%
Asparagos OÜ	Estonia	2 162 487	9.41%	2 162 487	9.41%
Bohemia Business Corp.	British Virgin Islands	1 911 469	8.32%	1 911 469	8.32%
Exact Consulting AS	Estonia	1 512 380	6.58%	1 512 380	6.58%
BB Invest AS	Estonia	1 296 805	5.64%	1 296 805	5.64%
Other	Estonia	2 133 002	9.29%	2 133 002	9.29%
<b>Total</b>		<b>22 975 392</b>	<b>100.00%</b>	<b>22 975 392</b>	<b>100.00%</b>

## **2.4 Key events of 2009**

- At the Annual General Meeting of Shareholders held on 29 May 2009, the Annual Report for the year 2008 was approved.
- From May 2009, the Bank issues bank cards independently.
- For the second consecutive year, Tallinn Business Bank has received a prize from Deutsche Bank for the outstanding quality of USD and EUR payment orders.
- From July 2009, the Bank provides an option for its customers to use PIN generators in its online bank.
- In the third quarter of 2009, restructuring occurred at the Bank: Morgan Trade OÜ, the subsidiary of AS TBB Invest, became the Bank's subsidiary.
- Morgan Trade OÜ was restructured as a public limited company and during the restructuring, the current share capital was increased to EEK 400 000. The amount of the new share capital was registered at the Commercial Register on 2 November 2009.
- In December 2009, the Bank completed a project ensuring the use of two independent internet service providers in order to increase online security in the event of problems with Internet connection.
- In December 2009, Tallinn Business Bank sold its 99% ownership interest in the company TBB Leasing ( ), located in Russia.
- In December 2009, a decision was adopted to increase the share capital of subsidiaries to bring them in compliance with the requirements of the Commercial Code. Share premium from the issuance of new shares in the amount of EEK 85.0 million was used to increase equity. As of 31.12.2009, no monetary contributions to the share capital of subsidiaries had been made yet.

### **Analysis of financial results**

The difficult times in the Estonian economy have lasted for some time already. As a consequence of the financial crisis, the gross domestic product (GDP) fell by ca. 14.2% in 2009. The financial crisis has also left a footprint on the financial sector which contracted by almost 30% in revenue terms (according to the data by Statistics Estonia).

During the current economic recession, the financial position and overall financial capability of companies and individuals has significantly deteriorated, leading to billion kroon losses for banks.

Negative trends in the economy have also had an impact on the financials of Tallinn Business Bank Group over the last two years. In 2009, the loss amounted to EEK 98.9 million and the loss for 2008 amounted to EEK 7.5 million. However, owing to high profitability and a capital buffer accumulated in previous periods, the Group has been successful in dealing with its losses.

Despite a decline in key profitability measures, the Group operates in a stable manner, has adequate liquidity and reserves for ensuring normal and reliable work. This is evident from the fact that the Group's activities are in compliance with all prevailing laws and regulations.

---

**Income statement analysis**

In 2009, the Group's total revenue fell by 21.0% as compared to 2008 and totalled EEK 112.2 million.

Interest income decreased by 52.4% in a year and totalled EEK 27.5 million (see Note 19). The decline was mainly related to a decrease in interest income earned on bank deposits by EEK 20.6 million or 72.0%. Interest income from leasing activities decreased by 36.5% and totalled EEK 4.0 million. Interest income from loans decreased by 32.9% and totalled EEK 15.3 million.

Interest expenses decreased by 28.0% and totalled EEK 26.8 million (see Note 20).

The Group's net interest income decreased by 96.6% and totalled EEK 0.7 million.

Fee and commission income increased by 10.6% and totalled EEK 45.0, mostly related to the increase in service fees for precious metal transactions. The largest fees and commissions were:

- services related to precious metal transactions 44.0%;
- service fees related to the payments 38.4%;
- fees related to cash transactions 4.4%.

Fee and commission expenses decreased by 23.8% as compared to the previous year and totalled EEK 14.4 million. The largest fee and commission expenses were:

- fees related to the payments 56.6%;
- data processing expenses 18.0%;
- fees related to card services 13.2%

The Group's net fee and commission income increased by 40.4% and totalled EEK 30.6 million.

Net finance income decreased by 22.6% as compared to the previous year and totalled EEK 17.5 million. The turbulent events in the financial markets led to a decline in the activity of the Bank's customers.

Loss from revaluation of investment property totalled EEK 80.5 million (2008: EEK 19.3 million) (Note 11).

Other operating income totalled EEK 1.3 million, decreasing by 61.8% as compared to the previous year.

Other operating expenses decreased by 54.8% and totalled EEK 4.2 million. The most important cost articles within other expenses were:

- real estate administration expenses in the amount of EEK 1.2 million (2008: EEK 4.7 million);
- instalment payments to the Guarantee Fund and supervision fees paid to the Financial Supervisory Authority in the total amount of EEK 1.0 million (2008: EEK 3.0 million).

Administrative expenses decreased by 23.3% as compared to 2008 and totalled EEK 29.0 million. Staff costs make up the largest group in the cost structure, amounting to 74.1% of administrative

expenses. In 2009, staff costs decreased by 19.5% as compared to 2008, related to the reduction in performance pay.

### **Balance sheet analysis**

In 2009, the balance sheet total of Tallinn Business Bank Group decreased by 43.4%, totalling EEK 1 959.4 million. This was primarily related to the participation of the Bank as an agent in international precious metal markets. As of 31 September 2009, the Bank had pending transactions involving precious metals in the amount of EEK 180.6 million (31.12.2008: EEK 1 661.9 million).

### ***Lending activity***

As of the end of 2009, the Group's trade receivables totalled EEK 303.5 million, decreasing by 26.1% as compared to the previous year, incl. loans to companies in the amount of EEK 158.8 million (decline of 27.9%), and loans to individuals in the amount of EEK 48.0 million (decline of 14.7%) (see Note 7). The sale of the subsidiary TBB Leasing ( ) had an effect on the decrease in the volume of the credit portfolio. As of the previous year-end, the volume of the loan portfolio of TBB Leasing totalled EEK 74.6 million.

### ***Financing***

In 2009, payables to customers and other payables grew by 20.9% and totalled EEK 1286.6 million. Growth of deposits by client sectors was as follows: individuals 17%, corporate entities 21.9% (see Note 13).

The Group's payables to credit institutions decreased to EEK 57.1 million, i.e. 46.5%. The amount consists of the borrowings of the subsidiaries AS Morgan Trade and AS TBB Invest from Swedbank (see Note 12).

## ***2.5 Development goals of Tallinn Business for 2010***

- Ensuring that Tallinn Business Bank operates as a niche-bank, providing general banking services and complex solutions to its customers;
- Continuance of its activities as an agent in precious metal markets.

## ***2.6 Internal control system***

The internal control system covers the activities of the Group of Tallinn Business Bank as a whole. The internal control system is a coordinated activity between the Supervisory Board, the Management Board and the staff with the task to ensure the most efficient achievement of general goals, fairness of reporting and compliance with prevailing legal regulations. The Bank's Management Board is responsible for maintenance and functioning of the internal control system.

Every management level performs specific functions in the internal control system. The Supervisory Board performs supervision of the Bank's and subsidiaries' activities by monitoring the Management Boards' activities, approving the strategy of the Group and general risk management principles.

The task of the Management Board is the arrangement of daily business activities, including determination of the responsibilities of each management level, approval of job descriptions, and internal rules and regulations. In addition, the members of the Management Board are responsible for the fulfilment of valid action plans and procedures.

To monitor that daily activities adhere to risk management principles, an internal control unit has been set up at the Group. The objective of the internal control service is the monitoring the preservation of assets, protecting the interests of the Bank's shareholders, depositors and creditors, and supervision of compliance of the Group's operations with regulatory acts and good banking practice. In order to achieve its objectives, the internal control service performs such tasks as control of internal documentation, identification of deficiencies in the Group's activities, investigation of violation of internal rules, reviewing cases involving infringement of duties and exceeding limits of authority along with highlighting these cases and making proposals regarding elimination of such deficiencies. In performing its tasks, the internal control service follows the work plan approved by the Supervisory Board of the Group.

### **2.7 Dividend policy**

The dividend policy of Tallinn Business Bank aims to guarantee preservation of shareholders' investments and increase the value of their investments. Therefore, the following principles are followed when paying out dividends:

- the financial results for the Group's financial year need to be positive, i.e. the Group needs to earn a profit;
- preservation of capitalisation levels appropriate and adequate for a small bank;
- compliance with reserve requirements to the extent required.

### **2.8 Employees**

	<b>2009</b>	<b>2008</b>
Average number of employees	61	64
Total wages and salaries (EEK million)	16.2	20.2

### **2.9 Financial ratios**

Below is a list of key financial ratios that describe the Group's operations in the financial years 2009 and 2008. Balance sheet ratios are calculated as an arithmetical average of the data from the end of the previous financial year and the date of each quarter of the financial year. In the income statement, the actual data for the financial year are used as the basis.

<b>Ratios</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>1. ROE</b>	-31.80%	-2.08%
<b>2. EM</b>	6.82	6.21
<b>3. PM</b>	-88.08%	-5.36%
<b>4. AU</b>	5.29%	6.25%
<b>5. ROA</b>	-4.66%	-0.34%
<b>7. EPS</b>	-4.30	-0.33

The ratios have been calculated using the following formulas:

1. Return on Equity (ROE):  $\text{Net profit (loss) / equity (\%)}$
2. Equity Margin (EM):  $\text{Assets / equity}$

3. Profit Margin (PM):	Net profit (loss) / total revenue* (%)
4. Asset Utilisation (AU):	Total revenue / assets (%)
5. Return on Assets (ROA)	Net interest income- interest bearing assets %
7. Earnings per Share (EPS):	Net profit (loss) / average number of shares (EEK)

\*Total revenue is the amount of all revenues presented in the income statement.

## 2.10 Consolidated balance sheets of Tallinn Business Bank Group for 2005- 2009

(EEK million)

	31.12.2009	31.12.2008	31.12.2007	31.12.2006	31.12.2005
Cash	30.9	7.6	14.3	14.5	4.7
Receivables	1 679.5	3 128.9	1 295.3	945.3	593.8
Other assets	13.6	14.2	14.4	18.7	7.1
Shares and other securities	0.2	-	0.1	-	-
Intangible assets	-	-	-	0.1	0.3
Property, plant and equipment	39.8	40.0	23.2	24.6	21.5
Investment property	195.4	272.1	287.5	203.1	15.3
<b>TOTAL ASSETS</b>	<b>1 959.4</b>	<b>3 462.8</b>	<b>1 634.8</b>	<b>1 206.3</b>	<b>642.7</b>
Payables	1 408.8	1 279.0	865.4	525.5	351.6
Other liabilities and accrued expenses	203.5	1 734.0	398.1	350.5	9.6
Subordinated debt	106.5	108.8	19.2	21.4	23.8
Total liabilities	1 718.8	3 121.8	1 282.7	897.4	385.0
Total equity	240.6	341.0	352.1	308.9	257.7
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1 959.4</b>	<b>3 462.8</b>	<b>1 634.8</b>	<b>1 206.3</b>	<b>642.7</b>

## 2.11 Ratings

As of 31 December 2009, Tallinn Business Bank had not been rated by an international rating agency.

## 2.12 Court cases

As of 31 December 2009, Tallinn Business Bank and its consolidation group entities - TBB Liisingu AS, AS Morgan Trade and AS TBB Invest - along with its subsidiaries were not involved in any court or arbitration cases, which could lead to significant losses for the Group in the future.

## 2.13. Public information regarding capital adequacy and risk management

In this section, additional information is disclosed in accordance with Bank of Estonia Governor's Decree No. 8 of 2 November 2009 concerning risk management, own funds and capital adequacy disclosures of a credit institution. Note 5 *Risk management* to the financial statements contains disclosures in accordance with International Financial Reporting Standards (IFRS).

### Information about calculation of capital requirements for credit risk

The capital requirement for credit risk is 10% of the value of risk-weighted assets. The Group uses a standard method for calculating the capital requirement for credit risk. Calculating the capital requirement for credit risk under the standard method involves multiplying the risk positions of risk-weighted assets with respective risk weightings. Risk weightings are determined on the basis of the risk position's class, credit quality level or both.

When using the standard method for calculating credit risk, all receivables are divided into classes of risk positions, and risk positions are divided into six grades of credit quality for the purpose of calculating risk-weighted assets. A credit quality grade is determined on the basis of a rating assigned by an international rating agency. If no international ratings have been assigned, the Group use the risk weightings approved by the Financial Supervision Authority.

For calculating the capital requirement for credit risk of the Group as of 31 December 2009 and 2008, both balance sheet assets and contingent liabilities have been taken into consideration.

### Calculation of capital requirements for credit risk.

#### 31.12.2009 EEK million

##### Balance sheet position

Risk position grade	Initial value	Allowance	Credit risk mitigation		Adjusted risk position	Risk weighting	Capital requirements
			Outflow	Inflow			
<b>Central government and central banks</b>	<b>170.9</b>	-	-	-	<b>170.9</b>		-
I credit quality grade	170.9	-	-	-	170.9	0%	-
<b>Agencies administered by government agencies, non-profit institutions and unions</b>	<b>1.9</b>	-	-	-	<b>1.9</b>		<b>0.2</b>
I credit quality grade	1.9	-	-	-	1.9	100%	0.2
<b>Credit institutions and investment firms</b>	<b>1 220.4</b>	-	-	-	<b>1 220.4</b>		<b>33.1</b>
I credit quality grade	1 111.7	-	-	-	1 111.7	20%	22.2
III credit quality grade	108.7	-	-	-	108.7	100%	10.9
<b>Corporate entities</b>	<b>30.3</b>	-	-	-	<b>30.3</b>		<b>3.0</b>
III credit quality grade	30.3	-	-	-	30.3	100%	3.0
<b>Retail receivables</b>	<b>28.2</b>	-	<b>-0.4</b>	-	<b>27.8</b>		<b>2.1</b>
I credit quality grade	28.2	-	-0.4	-	27.8	75%	2.1
<b>Real estate backed receivables</b>	<b>180.9</b>	<b>-0.7</b>	-	-	<b>180.2</b>		<b>17.3</b>
I credit quality grade	12.3	-0.7	-	-	11.6	35%	0.4
III credit quality grade	168.9	-	-	-	168.9	100%	16.9
<b>Overdue receivables</b>	<b>98.4</b>	<b>-48.5</b>	-	-	<b>49.9</b>		<b>3.6</b>
I credit quality grade	58.2	-30.9	-	-	27.3	50%	1.4
II credit quality grade	39.9	-17.6	-	-	22.3	100%	2.2
III credit quality grade	0.3	-	-	-	0.3	150%	-
<b>Other assets</b>	<b>277.6</b>	-	-	-	<b>277.6</b>		<b>24.4</b>
I credit quality grade	31.6	-	-	-	31.6	0%	-
II credit quality grade	3.2	-	-	-	3.2	20%	0.1
VI credit quality grade	242.8	-	-	-	242.8	100%	24.3
<b>TOTAL</b>	<b>2 008.6</b>	<b>-49.2</b>	<b>-0.4</b>	-	<b>1 959.0</b>		<b>83.7</b>

**Off-balance sheet position**

Risk position grade	Initial value	Credit risk mitigation		Revaluation factors	Adjusted risk position	Risk weighting	Capital requirement
		Outflow	Inflow				
<b>Credit institutions and investment firms</b>	<b>0.2</b>	<b>-0.2</b>	-	-	-	-	-
I credit quality grade	0.2	-0.2	-	50%	-	20%	-
<b>Corporate entities</b>	<b>0.2</b>	-	-	-	<b>0.1</b>	-	-
III credit quality grade	0.2	-	-	50%	0.1	100%	-
<b>Retail receivables</b>	<b>16.7</b>	<b>-4.6</b>	<b>0.1</b>	-	<b>8.2</b>	-	<b>0.6</b>
I credit quality grade	5.0	-	-	100%	5.0	75%	0.4
I credit quality grade	10.2	-4.6	0.1	50%	2.9	75%	0.2
I credit quality grade	1.5	-	-	20%	0.3	75%	-
<b>Real estate backed receivables</b>	<b>21.9</b>	-	-	-	<b>7.8</b>	-	<b>0.8</b>
III credit quality grade	15.7	-	-	50%	7.8	100%	0.8
III credit quality grade	6.2	-	-	0%	-	100%	-
<b>TOTAL</b>	<b>39.0</b>	<b>-4.8</b>	<b>0.1</b>	-	<b>16.1</b>	-	<b>1.4</b>

**31.12.2008 EEK million.**
**Balance sheet position**

Risk position grade	Initial value	Allowance	Credit risk mitigation		Adjusted risk position	Risk weighting	Capital requirements
			Outflow	Inflow			
<b>Central government and central banks</b>	<b>139.7</b>	-	-	-	<b>139.7</b>	-	-
I credit quality grade	139.7	-	-	-	139.7	0%	-
<b>Agencies administered by government agencies, non-profit institutions and unions</b>	<b>1.9</b>	-	-	-	<b>1.9</b>	-	<b>0.2</b>
I credit quality grade	1.9	-	-	-	1.9	100%	0.2
<b>Credit institutions and investment firms</b>	<b>2 603.0</b>	-	-	-	<b>2 603.0</b>	-	<b>52.1</b>
I credit quality grade	2 603.0	-	-	-	2 603.0	20%	52.1
<b>Corporate entities</b>	<b>77.8</b>	-	-	-	<b>77.8</b>	-	<b>7.8</b>
III credit quality grade	77.8	-	-	-	77.8	100%	7.8
<b>Retail receivables</b>	<b>54.1</b>	<b>-0.1</b>	-	-	<b>54.0</b>	-	<b>4.1</b>
I credit quality grade	54.1	-0.1	-	-	54.0	75%	4.1
<b>Real estate backed receivables</b>	<b>228.8</b>	<b>-8.7</b>	-	-	<b>220.1</b>	-	<b>21.5</b>
I credit quality grade	12.8	-0.1	-	-	12.7	60%	0.8
III credit quality grade	216.0	-8.6	-	-	207.4	100%	20.7
<b>Overdue receivables</b>	<b>50.6</b>	<b>-16.0</b>	-	-	<b>34.6</b>	-	<b>3.3</b>
I credit quality grade	3.6	-1.4	-	-	2.2	50%	0.1
II credit quality grade	46.8	-14.6	-	-	32.2	100%	3.2
III credit quality grade	0.2	-	-	-	0.2	150%	-
<b>Other assets</b>	<b>331.7</b>	-	-	-	<b>331.7</b>	-	<b>31.6</b>
I credit quality grade	13.6	-	-	-	13.6	0%	-
II credit quality grade	2.2	-	-	-	2.2	20%	-
VI credit quality grade	315.9	-	-	-	315.9	100%	31.6
<b>TOTAL</b>	<b>3 487.6</b>	<b>-24.8</b>	-	-	<b>3 462.8</b>	-	<b>120.6</b>

**Off-balance sheet position**

Risk position grade	Initial value	Credit risk mitigation		Revaluation factors	Adjusted risk position	Risk weighting	Capital requirements
		Outflow	Inflow				
<b>Credit institutions and investment firms</b>	<b>0.2</b>	<b>-0.2</b>	-	-	-	-	-
I credit quality grade	0.2	-0.2	-	50%	-	20%	-
<b>Companies</b>	<b>28.5</b>	<b>-0.7</b>	<b>0.7</b>	-	<b>26.7</b>		<b>2.7</b>
III credit quality grade	25.0	-	-	100%	25.0	100%	2.5
III credit quality grade	2.8	-	-	50%	1.4	100%	0.1
IV credit quality grade	0.7	-0.7	0.7	50%	0.3	100%	0.1
<b>Retail receivables</b>	<b>12.1</b>	<b>-4.1</b>	-	-	<b>3.2</b>		<b>0.2</b>
I credit quality grade	9.6	-4.1	-	50%	2.7	75%	0.2
I credit quality grade	2.3	-	-	20%	0.5	75%	-
I credit quality grade	0.2	-	-	0%	-	75%	-
<b>Real estate backed receivables</b>	<b>17.9</b>	-	-	-	<b>6.7</b>		<b>0.7</b>
III credit quality grade	13.4	-	-	50%	6.7	100%	0.7
III credit quality grade	4.5	-	-	0%	-	100%	-
<b>TOTAL</b>	<b>58.7</b>	<b>-5.0</b>	<b>0.7</b>	-	<b>36.6</b>	0%	<b>3.6</b>

**Assets and liabilities by currencies EEK million.**
**31.12.2009**

	EEK	USD	GBP	RUB	EUR	OTHER	TOTAL
<b>Assets</b>							
Cash and receivables from Central Bank	172.7	11.1	-	0.1	17.9	-	201.8
Receivables from credit institutions	1.3	849.4	6.4	9.3	343.9	10.0	1220.3
Receivables from customers - net	52.5	5.8	-	-	230.0	-	288.3
Securities	-	-	-	-	0.2	-	0.2
Investment property	195.4	-	-	-	-	-	195.4
Property, plant and equipment, and intangible assets	39.8	-	-	-	-	-	39.8
Other assets	10.8	0.4	-	-	2.4	-	13.6
<b>Total assets</b>	<b>472.5</b>	<b>866.7</b>	<b>6.4</b>	<b>9.4</b>	<b>594.4</b>	<b>10.0</b>	<b>1959.4</b>
<b>Liabilities</b>							
Payables to credit institutions	-	-	-	-	57.1	-	57.1
Deposits	221.3	571.4	4.4	8.3	539.7	6.6	1351.7
Subordinated loan	-	106.5	-	-	-	-	106.5
Other liabilities	8.8	186.1	2.0	1.2	2.3	3.1	203.5
<b>Total liabilities</b>	<b>230.1</b>	<b>864.0</b>	<b>6.4</b>	<b>9.5</b>	<b>599.1</b>	<b>9.7</b>	<b>1718.8</b>
<b>Total equity</b>	<b>240.6</b>						<b>240.6</b>
<b>Total liabilities and equity</b>	<b>470.7</b>	<b>864.0</b>	<b>6.4</b>	<b>9.5</b>	<b>599.1</b>	<b>9.7</b>	<b>1959.4</b>
Net position in balance sheet	1.8	2.7	-	-0.1	-4.7	0.3	-
Off-balance sheet net position	-10.9				-8.2		-19.1

**31.12.2008**

	EEK	USD	GBP	RUB	EUR	OTHER	TOTAL
<b>Assets</b>							
Cash and receivables from Central Bank	137.8	1.0	-	0.6	7.7	-	147.1
Receivables from credit institutions	1.4	2324.1	1.4	55.7	206.2	13.4	2602.2
Receivables from customers - net	30.1	6.2	-	74.6	276.3	-	387.2
Investment property	272.1	-	-	-	-	-	272.1
Property, plant and equipment, and intangible assets	39.7	-	-	0.3	-	-	40.0
Other assets	9.2	0.2	-	4.6	0.1	0.1	14.2
<b>Total assets</b>	<b>490.3</b>	<b>2331.5</b>	<b>1.4</b>	<b>135.8</b>	<b>490.3</b>	<b>13.5</b>	<b>3462.8</b>
<b>Liabilities</b>							
Payables to credit institutions	-	-	-	19.7	87.1	-	106.8
Deposits	234.3	562.0	0.7	40.4	323.2	11.6	1172.2
Subordinated loan	-	108.8	-	-	-	-	108.8
Other liabilities	10.0	1670.6	1.3	25.0	26.1	1.0	1734.0
<b>Total liabilities</b>	<b>244.3</b>	<b>2341.4</b>	<b>2.0</b>	<b>85.1</b>	<b>436.4</b>	<b>12.6</b>	<b>3121.8</b>
<b>Total equity</b>	<b>350.6</b>	<b>-</b>	<b>-</b>	<b>-9.6</b>	<b>-</b>	<b>-</b>	<b>341.0</b>
<b>Total liabilities and equity</b>	<b>594.9</b>	<b>2341.4</b>	<b>2.0</b>	<b>75.5</b>	<b>436.4</b>	<b>12.6</b>	<b>3462.8</b>
Net position in balance sheet	-104.6	-9.9	-0.6	60.3	53.9	0.9	0.0
Off-balance sheet net position	-11.5	-	-	-3.1	-5.2	-	-19.8

**Financial figures for the capital requirement for currency risk EEK million**

A net open foreign currency position is taken into consideration for calculating capital adequacy when it exceeds 2% of the level of own funds.

Currency	31.12.2009			31.12.2008		
	long	short	position/own funds	long	short	position/own funds
USD	2.7	-	0.9%	-	9.9	2.4%
CHF	0.9	-	0.3%	0.8	-	0.2%
GBP	-	-	-	-	0.6	0.1%
SEK	-	0.6	0.2%	-	0.2	0.1%
LVL	-	-	-	0.1	-	0.0%
RUB	-	0.1	-	57.2	-	13.9%
Others	-	-	-	0.2	-	-
<b>Total open currency positions</b>	<b>3.6</b>	<b>0.7</b>	<b>-</b>	<b>58.3</b>	<b>10.7</b>	<b>-</b>
<b>Net open foreign currency position</b>	<b>3.6</b>		<b>1.2%</b>	<b>58.3</b>		<b>14.2%</b>
Capital requirement rate for currency risk	8%			8%		
Coefficient for calculating the capital requirement for currency risk	1.25			1.25		
<b>Total capital requirement for currency risk</b>	<b>-</b>			<b>5.8</b>		

**Distribution of assets and liabilities according to maturities EEK million**

The Group's assets and liabilities according to maturities as of 31 December 2009 and 31 December 2008 are presented below.

**31.12.2009**

	On demand	Overdue	Up to 3 months	3 - 12 months	1 - 2 years	2-5 years	More than 5 years	Without maturity	Total
<b>Assets</b>									
Cash and receivables from Central Bank	201.8	-	-	-	-	-	-	-	201.8
Receivables from credit institutions	1110.5	-	-	109.8	-	-	-	-	1220.3
Receivables from customers ó net incl.	5.8	15.0	12.8	70.0	50.4	22.2	112.1	-	288.3
-receivables from customers ó gross	5.8	38.3	12.8	72.2	67.4	22.9	118.1	-	337.5
-allowance	-	-23.3	-	-2.2	-17.0	-0.7	-6.0	-	-49.2
Securities	-	-	-	-	-	-	0.2	-	0.2
Property, plant and equipment, and intangible assets	-	-	-	-	-	-	-	39.8	39.8
Investment property	-	-	-	-	-	-	-	195.4	195.4
Other assets	4.1	0.1	4.7	4.7	-	-	-	-	13.6
<b>Total assets</b>	<b>1322.2</b>	<b>15.1</b>	<b>17.5</b>	<b>184.5</b>	<b>50.4</b>	<b>22.2</b>	<b>112.3</b>	<b>235.2</b>	<b>1959.4</b>
<b>Liabilities</b>									
Payables to credit institutions	-	-	25.6	-	31.5	-	-	-	57.1
Deposits	845.6	-	291.7	176.0	10.0	14.5	13.9	-	1351.7
Other liabilities	97.6	-	104.7	1.0	-	-	0.2	-	203.5
Subordinated loan	-	-	-	19.6	-	86.9	-	-	106.5
Equity	-	-	-	-	-	-	-	240.6	240.6
<b>Total liabilities</b>	<b>943.2</b>	<b>-</b>	<b>422.0</b>	<b>196.6</b>	<b>41.5</b>	<b>101.4</b>	<b>14.1</b>	<b>240.6</b>	<b>1959.4</b>
Maturity difference of balance sheet items	-379.0	-15.1	404.5	12.1	-8.9	79.2	-98.2	5.4	-
Maturity difference of off-balance sheet items	-	-	2.2	22.3	10.4	1.3	2.8	-	39.0
<b>Total maturity difference</b>	<b>-379.0</b>	<b>-15.1</b>	<b>406.7</b>	<b>34.4</b>	<b>1.5</b>	<b>80.5</b>	<b>-95.4</b>	<b>5.4</b>	<b>39.0</b>

**31.12.2008**

	On demand	Overdue	Up to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Without maturity	Total
<b>Assets</b>										
Cash and receivables from Central Bank	147.1	-	-	-	-	-	-	-	-	147.1
Receivables from credit institutions	725.2	-	1875.9	1.1	-	-	-	-	-	2602.2
Receivables from customers - net incl.	6.2	21.1	37.2	58.9	114.0	30.5	119.3	-	-	387.2
-receivables from customers - gross	6.2	27.6	38.8	60.8	122.6	36.6	119.4	-	-	412.0
-allowance	-	-6.5	-1.6	-1.9	-8.6	-6.1	-0.1	-	-	-24.8
Securities	-	-	-	-	-	-	-	-	-	-
Property, plant and equipment, and intangible assets	-	-	-	-	-	-	-	-	40.0	40.0
Property investment	-	-	-	-	-	-	-	-	272.1	272.1
Other assets	3.2	-	4.2	6.8	-	-	-	-	-	14.2
<b>Total assets</b>	<b>881.7</b>	<b>21.1</b>	<b>1917.3</b>	<b>66.8</b>	<b>114.0</b>	<b>30.5</b>	<b>119.3</b>	<b>312.1</b>	<b>3462.8</b>	
<b>Liabilities</b>										
Payables to credit institutions	-	-	-	104.2	2.6	-	-	-	-	106.8
Deposits	733.1	-	215.8	162.4	12.2	22.8	25.9	-	-	1172.2
Other liabilities	1725.4	-	4.5	4.1	-	-	-	-	-	1734.0
Subordinated loan	-	-	-	-	20.0	-	88.8	-	-	108.8
Equity	-	-	-	-	-	-	-	-	341.0	341.0
<b>Total liabilities</b>	<b>2458.5</b>	<b>-</b>	<b>220.3</b>	<b>270.7</b>	<b>34.8</b>	<b>22.8</b>	<b>114.7</b>	<b>341.0</b>	<b>3462.8</b>	
Maturity difference of balance sheet items	1576.8	-21.1	-1697.0	203.9	-79.2	-7.7	-4.6	28.9	-0.0	
Maturity difference of off-balance sheet items	-	-	8.7	33.8	15.3	0.2	-	-	58.0	
<b>Total maturity difference</b>	<b>1576.8</b>	<b>-21.1</b>	<b>-1688.3</b>	<b>237.7</b>	<b>-63.9</b>	<b>-7.5</b>	<b>-4.6</b>	<b>28.9</b>	<b>58.0</b>	

**Internal capital adequacy assessment process (ICAAP)**

Internal capital adequacy assessment is a continuous process with the objective to assess Group's risk profile and respective capital requirements. In accordance with the international banking requirements of the Basel Committee (Basel II) and the Bank's internal requirements concerning the amount of equity, the Group performs additional capital requirement test calculations, taking into consideration the risk portfolio, the Bank's specific features, risk profiles, their allocations and the economic environment. The procedure for calculating capital requirements, including ICAAP requirements (Pillar II), is a part of the Risk Management Methodology. The methodology separately outlines equity planning procedures as a final step in the ICAAP process.

For calculating ICAAP in respect of credit and market risks, the risks for exceeding the optimal size of revaluation of investment, collateral, concentration and loan portfolio are considered. The economic cycle, earnings and reputational risks which are relevant today are also considered. When calculating capital adequacy (Pillar II) in accordance with ICAAP requirements, the rule that the minimum capital requirement Pillar II > Pillar I is adhered to and in both cases internal capital adequacy norm of > 12% is followed.

When calculating the capital requirement for operating risk (Pillar II), expert opinion is used to identify the most significant components of operating risk. In the financial year, these included IT

and external risk. The percentage of these components is used as a multiplier which increases the value of minimum capital requirement, calculated on the basis of Pillar I.

When calculating capital adequacy in accordance with ICAAP requirements, two main risks with an effect on the capital adequacy measure (economic cycle and revenue generation risks) are taken into consideration. Both risks correlate with each other, but are evaluated separately. The following formula is used for calculating the cover for economic risk:

(ROE *norm* / EM *norm*), where

- average value of assets;

ROE *norm* and EM *norm* in the Risk Management Methodology, the normative figures for the return on equity and equity margin are established.

Earnings risk represents a change in the amount of profit due to a change in the structure of profitable banking operations. For Tallinn Business Bank, such operations included operations with precious metals, deposits and other financial operations, totalling 34.2% of total revenue.

When evaluating the capital requirements for non-core business activities, the ratio RAROC - risk adjusted return on capital which correlates with expected risk, is used. The Risk Management Methodology specifies the limits for RACOR: 3.2 for the Bank and 2.8 for the Group.

From the point of view of risk management, the main goal of the use of RAROC is optimisation of the overall amount of capital and its structure, based on the trends of activities and the risk portfolio.

### **Strategic risk**

In today's economic conditions, a choice of a business strategy that considers both the challenges of the external environment as well as the internal market position is of great importance. Strategic risks are inherently difficult to measure and they can be measured as changes in the dynamics of the return on capital, return on assets, NIM and earnings per share. For calculating the strategic risk factor, the limits for ROA which is based on weighted risks return on asset limits are established (RORAC). The Management Board of the Bank is responsible for developing forecasting parameters for a midterm forecast. In the forecasts, the main trends in the development of the Estonian banking sector and the effect of the factors of the economic cycle are taken into consideration. The Bank's Supervisory Board reviews and approves the development strategy at the Annual General Meetings of Shareholders.

### **Reputational risk**

Reputational risk is defined as risk of losses due to a decrease in the number of the Bank's customers and business partners, as well as risk of negative perception of the Bank's financial capability, Bank's services, shareholders' image and Bank's management.

The risk of deterioration in the corporate image has a negative effect on a loss of liquidity, as it might cause instability in bank's deposits. On the other hand, a positive image and reputation as a stable and reliable business partner can quickly attract additional debt instruments when needed.

For calculating additional capital requirements in order to cover losses related to deterioration in the Bank's image, quantitative models are used. These models have been developed on the basis of a statistical analysis of their budgetary funds which are allocated to advertising, sponsorship and charity during the last 5 years, and the profit for the reporting period.

### 3. CONSOLIDATED FINANCIAL STATEMENTS

#### *3.1 Management Board's declaration*

The Management Board declares its responsibility for the preparation of the consolidated financial statements of Tallinna Äripanga AS and its subsidiaries (hereinafter "the Group") as set out on pages 21 to 79 for the year ended 31 December 2009.

The Management Board declares to the best of its knowledge:

- The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union,
- The financial statements present a true and fair view of the Group's financial position, results of operations, changes in equity and cash flows.
- The Management Board estimates that the Group entities are going concern.



Valeri Haritonov  
 Chairman of the  
 Management Board



Tatjana Levitskaja  
 Member of the  
 Management Board

Andrei Zukov  
 Member of the  
 Management Board

Tallinn, 30 April 2010

### *3.2 Consolidated statement of financial position of Tallinn Business Bank Group*

(EEK million)			
ASSETS	Note	31.12.2009	31.12.2008
<b>Cash</b>		<b>30.9</b>	<b>7.6</b>
<b>Receivables</b>		<b>1679.5</b>	<b>3128.9</b>
Receivables from Central Bank	5	170.9	139.5
Receivables from credit institutions	6	1220.3	2602.2
Receivables from customers	7	303.5	410.6
Other receivables	8	34.0	1.4
Allowances for receivables and loan losses	7	-49.2	-24.8
<b>Other assets</b>	9	<b>13.6</b>	<b>14.2</b>
<b>Shares and other securities</b>		<b>0.2</b>	<b>-</b>
<b>Property, plant and equipment</b>	10	<b>39.8</b>	<b>40.0</b>
<b>Investment property</b>	11	<b>195.4</b>	<b>272.1</b>
<b>TOTAL ASSETS</b>		<b>1959.4</b>	<b>3462.8</b>
<hr/>			
LIABILITIES AND EQUITY	Note		
<b>Debt obligations</b>		<b>1408.8</b>	<b>1279.0</b>
Payables to credit institutions	12	57.1	106.8
Payables to credit institutions' customers	13	1 286.6	1 064.4
Other debts	14	65.1	107.8
<b>Other liabilities and accrued expenses</b>	15	<b>203.5</b>	<b>1 734.0</b>
<b>Subordinated debt</b>	16	<b>106.5</b>	<b>108.8</b>
<b>TOTAL LIABILITIES</b>		<b>1 718.8</b>	<b>3 121.8</b>
Share capital	17	229.8	229.8
Reserves		8.9	7.8
Currency translation reserve		-	1.5
Retained earnings		1.9	101.9
<b>TOTAL EQUITY</b>		<b>240.6</b>	<b>341.0</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1959.4</b>	<b>3462.8</b>

The notes to the financial statements set out on pages 26 to 79 form an integral part of these financial statements.

### ***3.3 Consolidated income statement and statement of comprehensive income of Tallinn Business Bank Group***

<b>INCOME STATEMENT</b>		(EEK million)	
	Note	<b>2009</b>	<b>2008</b>
<b>Interest income</b>	19	<b>27.5</b>	<b>57.8</b>
<b>Interest expense</b>	20	<b>-26.8</b>	<b>-37.2</b>
<b>Net interest income/expense</b>		<b>0.7</b>	<b>20.6</b>
<b>Changes in value of receivables and contingent liabilities</b>	7	<b>-47.0</b>	<b>-20.3</b>
Income/profit		3.5	2.3
Expense/loss		-50.5	-22.6
<b>Gain on sale of subsidiary</b>	30	<b>16.1</b>	<b>12.4</b>
<b>Net fee and commission income</b>		<b>30.6</b>	<b>21.8</b>
Fee and commission income	21	45.0	40.7
Fee and commission expense	22	-14.4	-18.9
<b>Net income/expense from financial transactions</b>	23	<b>17.5</b>	<b>22.6</b>
<b>Administrative expenses</b>		<b>-29.0</b>	<b>-37.8</b>
Wages and salaries	24	-16.2	-20.2
Social security taxes, unemployment insurance premium	24	-5.3	-6.5
Other administrative expenses	25	-7.5	-11.1
<b>Depreciation</b>	10	<b>-6.4</b>	<b>-5.1</b>
<b>Revaluation of investment property</b>	11	<b>-79.2</b>	<b>-16.4</b>
Income/profit		1.3	2.9
Expense/loss		-80.5	-19.3
<b>Other operating income and expenses</b>		<b>-2.9</b>	<b>-5.9</b>
Other operating income	26	1.3	3.4
Other operating expense	27	-4.2	-9.3
<b>Loss before tax</b>		<b>-99.6</b>	<b>-8.1</b>
<b>Income tax expense</b>		<b>-0.7</b>	<b>-0.6</b>
Change in contingent income tax liability		-0.7	-0.6
<b>Net loss for financial year</b>		<b>-98.9</b>	<b>-7.5</b>

<b>STATEMENT OF COMPREHENSIVE INCOME</b>		(EEK million)	
		<b>2009</b>	<b>2008</b>
<b>After-tax net loss for the reporting period:</b>		<b>-98.9</b>	<b>-7.5</b>
- attributable to owners of the parent		-98.9	-7.5
<b>Other comprehensive income/loss</b>		<b>-1.5</b>	<b>1.5</b>
Currency translation reserve		-1.5	1.5
<b>Total comprehensive loss for the reporting period</b>		<b>-100.4</b>	<b>-6.0</b>
- attributable to the owners of the parent		-100.4	-6.0

The notes to the financial statements set out on pages 26 to 79 form an integral part of these financial statements.

### 3.4 Consolidated cash flow statement of Tallinn Business Bank Group

		(EEK million)	
	Note	2009	2008
<b>Cash flows from operating activities</b>			
<b>Pre-tax loss for the reporting period</b>		<b>-99.6</b>	<b>-8.1</b>
<b>Adjustments for:</b>			
Depreciation	10	6.4	5.1
Gain (loss) from change in value of investment property	11	79.2	16.4
Change in allowance for loan losses	7	45.1	20.0
Unrealised gain/loss from revaluation of subordinated loan		-2.3	0.8
Change in contingent income tax liability		0.7	0.6
Net interest income		-0.7	-20.6
Changes in assets related to the operating activities		1790.9	-1921.6
Changes in liabilities related to the operating activities		-1398.3	1746.5
Interest earned		27.4	57.6
Interest paid		-29.2	-34.2
<b>Net cash flows used in operating activities</b>		<b>419.6</b>	<b>-137.5</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	-6.5	-21.9
Proceeds from sale of property, plant and equipment	10	0.3	
Purchase of investment property	11	-3.5	-1.0
Proceeds from sale of investment property	11	1.0	
Exchange rate differences		-1.5	-3.6
<b>Net cash flows used in investing activities</b>		<b>-10.2</b>	<b>-26.5</b>
<b>Cash flows from financing activities</b>			
Raising of subordinated loan		-	88.8
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>88.8</b>
<b>Net change in cash</b>		<b>409.4</b>	<b>-75.2</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>737.8</b>	<b>813.0</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>1147.2</b>	<b>737.8</b>

In these financial statements, cash and cash equivalents comprise cash, a correspondent account at the Bank of Estonia and demand deposits at other banks.

		2009	2008
<i>Cash</i>		30.9	7.6
<i>Correspondent account at the Bank of Estonia</i>	5	5.7	5.0
<i>Demand deposits at banks</i>	6	1110.6	725.2
<b>Total</b>		<b>1147.2</b>	<b>737.8</b>

The notes to the financial statements set out on pages 26 to 79 form an integral part of these financial statements.

### ***3.5 Consolidated statement of changes in equity of Tallinn Business Bank Group***

(EEK million)

	Share capital	Reserves	Retained earnings	Minority interest	Currency translation reserve	Total
<b>Opening balance on 31.12.2007</b>	<b>229.8</b>	<b>5.1</b>	<b>112.1</b>	<b>5.1</b>	-	<b>352.1</b>
Change in share of minority interest	-	-	-	-5.1	-	<b>-5.1</b>
Transfers to statutory reserve capital	-	2.7	-2.7	-	-	-
Comprehensive loss for the financial year	-	-	-7.5	-	1.5	<b>-6.0</b>
<b>Closing balance on 31.12.2008</b>	<b>229.8</b>	<b>7.8</b>	<b>101.9</b>	-	<b>1.5</b>	<b>341.0</b>
Transfers to statutory reserve capital	-	1.1	-1.1	-	-	-
Comprehensive loss for the financial year	-	-	-98.9	-	-1.5	<b>-100.4</b>
<b>Closing balance on 31.12.2009</b>	<b>229.8</b>	<b>8.9</b>	<b>1.9</b>	-	-	<b>240.6</b>

More detailed information is disclosed in Note 17.

The notes to the financial statements set out on pages 26 to 79 form an integral part of these financial statements.

## **Notes to the consolidated financial statements**

### ***Note 1. General information of the Group and basis of preparation***

Tallinn Business Bank launched its operations in December 1991. The Bank's head office is located at 7 Vana-Viru Street, Tallinn. Other bank offices are located at 5a Estonia Avenue, Tallinn and at 4 Kerese Street, Narva. Its main areas of activities include depositing, lending to the public and other banks, performance of bank transactions and foreign currency operations for its customers.

The consolidated financial statements comprise the Bank and its subsidiaries (see pg. 6).

These consolidated financial statements of Tallinn Business Bank Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The principal accounting policies used are set out below.

The Consolidated Annual Report of Tallinna Äripanga AS has been authorised for issue by the Management Board of Tallinna Äripanga AS and will be presented for approval by the Supervisory Board and the shareholders.

The Group entities use mostly uniform evaluation basis and accounting methods.

In preparing the financial statements and recognising assets and liabilities, the going concern principle has been applied.

The consolidated financial statements are prepared under the historical cost convention, except for revaluation of certain assets (i.e. investment property at fair value) and financial instruments. The consolidated financial statements have been prepared on an accrual basis.

The consolidated financial statements have been prepared in millions of Estonian kroons (EEK), unless indicated otherwise.

### ***Note 2. Significant accounting judgments and estimates***

The presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union, requires management to make estimates and assumptions which impact the assets and liabilities reported as of the balance sheet date, and the related income and expenses as well as disclosures of contingent assets and liabilities. Although several financial figures presented in the financial statements have been made to the best of management's knowledge, they may not coincide with actual results. A more detailed overview of these estimates is disclosed in the respective accounting policies or notes.

Significant management estimates have primarily been used for loan allowances. The loans to clients have been valued individually and there are no recurring assumptions made on loan portfolio valuation that would individually have major impact on the results. The sum of allowance best represents the impairment on these assets and has been in detail disclosed in Note 7.

These estimates are constantly being reviewed against historical experience and other factors, including expectations of future events which are considered to be reasonable under the circumstances. Changes in estimates have a significant impact on the financial statements of the period in which the estimates were changed. Management believes that the assumptions used as the basis are appropriate, and the financial statements of the Group prepared using them present a true and fair view of the Group's financial position and the results of its operations.

The ongoing global liquidity crisis which commenced in the middle of 2007 (often also referred to as the *credit crunch*) has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in foreign exchange markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

The financial and economic environment may have a negative effect on the solvency of the Group's debtors. More complicated economic conditions of the debtors may in turn affect the cash flow forecasts prepared by the Group's management and lead to impairment losses of monetary and non-monetary assets. To the extent that information is available, management has reviewed the assumptions used for preparing cash flow forecasts for the purpose of assessing impairment losses.

Management's estimates regarding the collectibility of these loans as of the balance sheet date have been taken into consideration when determining the impairment losses for loans, as well as cash flows which may arise from the sale of real estate properties used as collateral (less any costs related to the assumption and sale of collateral). The market of several collateralised assets, especially the real estate market, has seriously been impacted by the recent volatility in the global financial markets which has led to lower liquidity of certain types of assets. Hence, the actual sales value of a collateralised asset may differ from the value used for determining the amount of an impairment loss.

The recent volatility in the global financial markets has significantly impacted the market for several types of real estate properties in Estonia. According to IAS 40, the fair value of investment property reported at fair value is adjusted on each balance sheet date, to reflect the market conditions prevailing on the balance sheet date. The fair value of investment property is the amount for which it is possible to exchange assets between knowledgeable, willing parties in an arm's length transaction. A *willing seller* is not a forced seller, prepared to sell at any price. The best indication of fair value is the price in an active market for similar properties in a similar location and condition.

Management cannot reliably estimate which is the effect of further deterioration in the Group's business environment as a consequence of the ongoing crisis on the Group's financial position in the future. Management believes that it has adopted all necessary measures to ensure the sustainability and development of the Group's business in current conditions.

---

### *Note 3. Summary of significant accounting policies*

#### **Consolidation**

##### **Subsidiaries**

All entities controlled by the parent are considered to be subsidiaries. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power in the subsidiary or the parent has power to govern the operating and financial policies of the subsidiary in any other way.

The consolidated financial statements include the financial data of all subsidiaries that are controlled by the parent. When the parent acquired or transferred control over the entity during the year, the results of the respective entity are included in the consolidated financial statements only from the date control commenced or until the date control ceased.

In the parent's separate balance sheet, investments are stated at historical cost less any impairment losses.

##### **Transactions eliminated on consolidation**

Intra-group transactions, mutual balances and unrealised gains have been eliminated when preparing the consolidated financial statements.

#### **Recognition of foreign currency transactions and balances**

##### **Functional and presentation currency**

The Group's functional and presentation currency is the Estonian kroon.

##### **Foreign currency transactions**

Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date. Monetary assets and liabilities denominated in foreign currencies, and non-monetary assets and liabilities recognised at fair value have been translated into Estonian kroons at the official foreign currency exchange rates prevailing on the balance sheet date. Such non-monetary assets and liabilities which are not carried at fair value are not translated on the balance sheet date, but are recognised using the foreign currency exchange rates prevailing on the transaction date. Gains and losses from foreign currency transactions are recorded on a net basis in the income statement.

##### **Financial statements of foreign subsidiaries**

When preparing the Group's consolidated financial statements, the financial statements of foreign entities are translated into Estonian kroons using the following procedures:

- assets and liabilities are translated into Estonian kroons at official foreign exchange rates of the Bank of Estonia prevailing on the balance sheet day;
- income statement items and cash flows are translated into Estonian kroons using the average foreign exchange rates for the reporting period;
- all exchange rate differences are recorded as a separate component in equity.

**Cash and cash equivalents**

For the Group, cash and cash equivalents comprise cash, a correspondent account at the Bank of Estonia and demand deposits at other banks.

Cash flows from operating activities are reported under the indirect method. Cash flows from investing and financing activities are reported as gross receipts and disbursements made during the financial year.

**Financial assets and financial liabilities****Financial assets**

Financial assets include cash, contractual rights to receive cash or other financial assets from other entities, contractual rights to exchange financial instruments with other entities under potentially favourable terms or to exchange them for the shares of another entity.

Financial assets are initially measured at fair value including any transaction cost (except for financial assets and derivatives acquired for the purpose of trading).

Regular way purchases and sales of financial instruments are accounted for at the settlement date. Depending on their type, financial assets and liabilities are subsequently measured at fair value, cost or amortised cost.

Financial instruments carried at fair value are revalued to their fair value. Changes in the fair value of financial assets and liabilities, as well as derivatives are recognised in the income statement for the reporting period.

Under the amortised cost method, a financial instrument is initially recognised at historical cost discounted at the effective interest rate less principal payments or any impairment losses.

The Group classifies its financial assets in the following categories:

1. Loans and receivables
2. Financial assets at fair value through profit or loss
3. Available-for-sale financial assets
4. Held-to-maturity financial assets.

Management determines the classification of financial assets at initial recognition.

As of 31.12.2008 and 31.12.2009, the Group has not classified any financial assets in the categories of *Financial assets at fair value through profit or loss*, *Available-for-sale financial assets* and *Held-to-maturity financial assets*.

**Loans and receivables****Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables arise when the Group lends money, goods or services directly to the debtor/customer without an intention of trading with the related receivable. Loans and receivables are recognised in the balance sheet when cash is paid to the borrower or a claim for payment arises, and they are derecognised only when the claim is paid off or written down regardless of whether a portion of it may have been expensed upon provisioning of the loan. Loans and receivables are carried in the financial statements at amortised cost, using the effective interest rate method.

**Lease receivables**

The Group provides mostly finance leases. Finance lease receivables include finance lease transactions and payment arrangements. A finance lease is a lease transaction under which all material risks and benefits related to the use of the leased asset are transferred to the lessee. The legal ownership of the asset may be transferred to the lessee at the end of the lease term.

Finance lease receivables are recognised at the present value of the lease payments, less principal payments plus any unguaranteed residual value of the leased asset at the end of the lease term. Finance lease payments from the lessee are divided into principal payments and finance income. Finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Initial direct costs incurred by the lessor directly attributable to the conclusion of lease agreements, are included in the initial measurement of the finance lease receivable and the effective interest rate of the lease, and they are recognised as a reduction of the rental income over the lease term. An allowance for receivables is shown with a negative sign in the respective asset item.

**Valuation of loans and receivables**

When a borrower is unable to make payments on time or the Management Board believes there is an indication that a borrower may not be able to make payments on time, an allowance is recognised.

The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, discounted at the original effective interest rate, net of any guarantees and collateral received. The amount necessary to adjust the allowance to its assessed level, after write-offs, is charged to the income statement line *Changes in the value of receivables and contingent liabilities*.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows from the financial asset or a group of financial assets that can be estimated reliably. Objective evidence that a financial asset or group of assets is impaired includes observable data that the Group has paid attention to in the case of the following loss events:

- significant financial difficulties of a borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group grants to the borrower, for economic or legal reasons relating to the borrower's financial difficulties, concessions that the lender would not otherwise consider;

- 
- it is probable that the borrower will go bankrupt or other financial reorganisation will occur;
  - disappearance of an active market for that financial asset because of economic difficulties; or
  - observable data indicates that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of these assets, although the decrease cannot yet be identified for an individual financial asset in the group, including:
    - adverse changes in the payment status of borrowers in the group;
    - national or local economic conditions that correlate with defaults on the assets in the Group.

The Group assesses the assets only on an individual basis. First, the Group assesses whether objective evidence of impairment exists. If there is objective evidence that an impairment loss on loans and receivables recognised at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the discounted present value of estimated future cash flows (excluding future credit losses that have not yet been incurred), using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset less expenditure attributable to the purchase reflects the cash flows that may result from the disposal of these assets, regardless of whether a foreclosure is probable or not.

Loans are generally taken off the balance sheet after all reasonable restructuring or collection activities have taken place, and the possibility of a further recovery is considered to be remote. Loans are written off against the related account *Change in values of receivables and contingent liabilities* in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account.

If the reason for recognising an allowance is no longer deemed appropriate, the redundant allowance charge is taken into income. The relevant amount and the recoveries of loans and advances previously written off are reflected in the income statement account *Loan recoveries*.

### **Financial liabilities**

Financial liabilities include client deposits, a loan assumed from another bank, subordinated liabilities and other liabilities.

**Customer deposits**

Deposits are initially recognised at the fair value at the settlement date, less transaction costs, and they are subsequently measured at amortised cost using the effective interest rate method and are included in the line *Payables to credit institutionsø customers*. Interest calculated on an accrual basis is reported in the respective liability item. The associated interest costs are included in the income statement line *Interest expense*.

**Payables to credit institutions**

Borrowings are initially recognised at fair value less transaction costs (at cash proceeds less transaction costs). The loans assumed are subsequently measured at amortised cost using the effective interest rate; the difference between the amounts collected (less transaction costs) and the redemption value is recognised in the income statement over the duration of the instrument, using the effective interest rate. The effective interest rate is a rate which exactly discounts the expected future cash flows to the carrying amount at the maturity. In the income statement, amortisation of transactions costs includes interest expenses. The related interest expenses are included in the income statement line *Interest expense*.

**Subordinated loan**

A subordinated loan is a loan with a maturity of at least 5 years and in case of the Bankø bankruptcy, it is paid off after the receivables of all other creditors have been paid off.

**Funds for specific purposes**

This item includes funds received through government loans and foreign aid for specific purposes. The monetary funds are included in the balance sheet item *Payables to credit institutionsø customers*. The Group has received funds for specific purposes from the Rural Development Foundation.

**Leases****Group is the lessee**

Leases of property, plant and equipment which transfer substantially all the risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases. Operating lease payments are recognised as expenses on a straight-line basis in the income statement over the lease term. The Group uses operating leases primarily for the purpose of leasing buildings/premises. Lease expenses are included in the income statement line *Administrative expenses*.

**Investment property**

Land or buildings acquired for the purpose of earning rental income or for capital appreciation, and that are not held for the Group's own use or for sale in the ordinary course of business, are reported as investment property.

Investment properties are initially recognised at cost, consisting of the purchase price and any directly attributable expenditure. Investment properties are subsequently measured at fair value, based on the market price determined annually by independent appraisers and on management estimates, which take into account comparable transactions with real estate properties in the same region or the expected discounted future cash flows of the investment. Investment property carried at fair value is not subject to depreciation. Sales proceeds related to investment properties,

administrative expenses and gains and losses from revaluation are reported in the consolidated income statement.

### **Property, plant and equipment**

In the statement of financial position, items of property, plant and equipment include buildings, vehicles, office equipment, improvements to rental premises and other assets with long-term use. Property, plant and equipment include assets with a cost of over EEK 5 000.

An item of property, plant and equipment is initially recognised at cost which consists of the purchase price (incl. import duties and other non-refundable taxes) and other costs directly attributable to the acquisition that are necessary for bringing the asset to its operating condition and location. Subsequent expenditure is capitalised only when it meets the definition of property, plant and equipment and the criteria for recognition of assets in the statement of financial position (incl. when it is probable that future economic benefits associated with the asset will flow to the Company). Other maintenance and repair costs are expensed when incurred.

Items of property, plant and equipment are stated at historical cost any less accumulated depreciation and any impairment losses.

Depreciation is calculated using the straight-line method based on the estimated useful lives of property, plant and equipment as follows:

Buildings	50 years
Vehicles	6 years
Office equipment	3-10 years
Improvement of leased premises	taking into consideration terms of the lease agreement

Gains and losses on disposal of items of property, plant and equipment are taken to profit and loss at the time of disposal.

### **Impairment of assets**

On each balance sheet date, financial assets recorded at cost or amortised cost, and property, plant and equipment, are tested for any indication of impairment. If the Bank's management suspects that the value of an asset may have fallen below its carrying amount, an impairment test is carried out.

#### *Financial assets*

Individually significant financial assets are assessed separately for impairment. The financial assets that are not individually significant and for which no objective evidence of impairment exists, are collectively assessed for impairment.

If there is any evidence that a financial asset is impaired, an impairment loss is determined as follows:

- assets carried at fair value are written down to their fair value;

- 
- financial assets carried at cost are written down to the net present value of their estimated future cash inflows (discounted at the average market rate of return from similar financial assets);
  - financial assets carried at amortised cost are written down to their net present value of the estimated future cash inflows (discounted at the financial asset's fixed effective interest rate determined at recognition).

Impairment of a financial asset is recognised as expense in the income statement for the financial year.

The impairment losses of financial assets carried at cost (shares and other equity investments, the fair value of which cannot be reliably measured), except for investments into subsidiaries, are not reversed.

If the value of financial assets carried at amortised cost increases in subsequent periods, the previously recognised impairment loss is reversed up to the amount which is the lower of the following:

- net present value of expected future cash inflows from the financial asset; and
- carrying amount measured at amortised cost had impairment loss not been previously recognised.

The amount of the reversal of impairment losses is recognised in the income statement for the financial year in the same expense account as a reverse entry.

#### *Property, plant and equipment, and intangible assets*

In the course of an impairment test, a recoverable amount is estimated for property, plant and equipment, and intangible assets. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a cash-generating unit to which the asset belongs, is determined.

The recoverable amount is the higher of the asset's net selling price and its value in use. In assessing the value in use, the estimated future cash flows from continuous use and subsequent disposal are discounted to their present value using a discount rate that reflects the expected return on similar investments.

If the recoverable amount of an asset is lower than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognised in the income statement at the time it is incurred. The Group assesses at each balance sheet date whether there are any indications that the recoverable amount of an asset has increased and for this purpose, an impairment test is performed. If it appears, as a result of the impairment test, that the recoverable amount has increased and the previously recognised impairment loss is no longer justified, the carrying amount is increased, except for goodwill, the impairment loss of which is not reversible. The reversal should not result in a carrying amount that exceeds the amortised cost which would have been had the impairment loss not been recognised on the date the impairment loss is reversed.

The amount of the reversal of an impairment loss is recognised as a reduction of the expense in the income statement.

---

As of 31 December 2009 and 31 December 2008, the recoverable amount of property, plant and equipment was equal to its carrying amount.

### **Income tax**

#### **Corporate income tax**

According to the Estonian Income Tax Act, the profit of a resident legal entity is not subject to corporate income tax; instead the tax is due on the distribution of dividends or distributions of profit in any other form as well as on disbursements from equity which exceed the monetary and non-monetary contributions to the entity's equity. According to the aforementioned Act, the dividends and profit distributed in any other form are subject to income tax with the tax rate of 21/79 on the actual distribution.

A contingent tax liability that may arise if retained earnings were paid out as dividends is not recognised in the balance sheet. The income tax on dividend distribution is expensed in the income statement when dividends are declared.

The tax due on dividend distribution may be reduced by up to 21/79 calculated on dividends received from subsidiaries.

#### **Income tax of subsidiaries registered in foreign countries**

For subsidiaries located in foreign countries, the deferred income tax liability is recorded under the balance sheet liability method, according to which the deferred tax amounts due to temporary differences are presented in the balance sheet. Temporary differences are the differences between tax bases of assets and liabilities and their carrying amounts. For calculating the deferred income tax, the rate is used which is expected to prevail in the period of asset realisation or liability settlement. The latter is based on the tax rate (and tax laws) which prevails or is expected to prevail on the balance sheet date. Deferred income tax assets are presented in the financial statements for all temporary differences eligible for reduction to the extent possible that the Company has taxable income in the future, towards which the eligible temporary difference can be used.

#### **Deferred income tax**

Deferred income tax liabilities are presented in the financial statements for all temporary differences eligible for reduction, except to the extent it is possible to control the duration of the reversal of the temporary difference and it is possible that the temporary difference does not reverse in the future.

#### **Contingent gains and losses**

A contingent loss is recognised as an expense and a liability when it is probable that an asset is impaired or a liability has been incurred, and a reasonable estimate of the amount of the resulting loss can be made. Contingent gains are neither recognised as income nor as an asset.

---

**Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the liabilities under such guarantees are recognised at the outstanding value of guarantee stated as higher of unamortized fees and provision under IAS 37, based on experience with similar transactions and judgement of the management. In the statement of comprehensive income the fee income earned on a guarantee is recognised on a straight line basis over the life of the guarantee. The amounts to be disbursed to settle the guarantee obligation are recognised in the balance sheet as a provision on the date it becomes evident that it is probable that the guarantee is to be disbursed.

**Provisions and contingent liabilities**

Liabilities arising from an obligating event before the balance sheet date that have either a legal or contractual basis or that have arisen from the Company's current operating practice (legal or constructive obligation) that require the giving up of assets, whose realisation is probable (it is more likely than not that an outflow of resources will be required to settle the obligation) and whose amount can reliably be estimated but whose timing or amount are not definitely known are recognised as provisions in the balance sheet. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows. A provision is recognised in the balance sheet in the amount which according to the management is necessary as at the balance sheet date for the meeting of the obligation arising from the provision or transfer to the third party. The provision expense and expense from change in carrying value of provisions is included within expenses in the accounting period. Provisions are not set up to cover future losses.

When it is a probable that the provision is expected to realise later than 12 months after the balance sheet date it is recorded at discounted value (present value of expected outflows), unless the discounting effect is immaterial.

Other contingent or existing liabilities (promises, guarantees and other commitments) whose realisation is less probable than non-realisation or whose accompanying costs cannot be determined reliably, that in certain circumstances may become obligations, are disclosed in the notes to the financial statements as contingent liabilities. Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

**Employee benefits**

The Group does not operate pension schemes and does not provide post-retirement benefits to their retirees. The Group has legal obligation to pay contributions to the state pension fund. The contributions to the local pension funds are treated as social security tax payments.

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these

benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### **Recognition of income and expense**

Interest income and expense are recognised on an accrual basis. Revenue is recognised when there is a reasonable assumption that the benefits attributable to the transaction will flow the Group and the revenue can be determined reliably. Revenue for services rendered in the Group's ordinary course of business is recognised at the fair value of the consideration received or receivable. Expenses are recognised when the Group has incurred an obligation in respect of the respective expense and/or the Group has received goods or services, and the latter occurs earlier.

In the income statement, **interest income and expense** is recognised for all instruments reported at amortised cost, using the effective interest rate.

The effective interest rate method is the method for calculating the amortised cost of a financial asset or a financial liability, and for allocating interest income or interest expense to the respective period. The effective interest rate is a rate which exactly discounts the expected future cash flows through the expected life of a financial instrument to the carrying amount of a financial asset or a liability. For calculating the effective interest rate, the Company evaluates all contractual conditions of a financial instrument but does not take into account future credit losses. All significant contractual service fees paid or received are included in the calculation, which is an integral part of the effective interest rate, as well as transaction costs and all other additional payments or deductions.

**Fee and commission income** is recognised at the fair value of the consideration received or paid for services rendered in the ordinary course of the Group's business. Fee and commission income is recognised on an accrual basis upon the rendering of respective service.

**Fee and commission and other expenses** are charged to expenses at the time they are incurred.

**Dividend income** is recognised when the shareholder's right to receive payment is established

### **Statutory reserve capital**

The statutory reserve comprises the capital reserve prescribed by the Estonian Commercial Code. Subject to the decision by the Annual Meeting of Shareholders, the statutory reserve can be used for covering losses if the latter cannot be covered from unregistered equity, also for increasing equity. The statutory reserve capital is formed from annual net profit allocations and it cannot be distributed to shareholders.

**New International Financial Reporting Standards and interpretations of the International Financial Interpretation Committee (IFRIC).**

The financial statements for the year 2009 have been prepared in accordance with International Financial Reporting Standards (here and hereinafter IFRS) as adopted by the European Union (hereinafter the EU). IFRS adopted by the EU do not differ from the standards issued by the International Accounting Standards Board (hereinafter IASB), other than specific hedge accounting requirements under IAS 39, which have not been enforced by the EU. The Group estimates that hedge accounting requirements of IAS 39 would not impact the Group statements had these requirements been endorsed by the EU.

The standards or interpretations applied for the first time in the reporting period include:

*IAS 1 Presentation of Financial Statements (revised)*

The revised standard requires disclosure of the statement of comprehensive income. In addition to the income statement, the statement of comprehensive income includes non-owner income and expenses included in equity, such as exchange rate differences which arise on translation of financial statements of foreign subsidiaries from their functional currency to the presentation currency. The statement of comprehensive income is presented as a separate statement. The revised presentation neither impacts the recognition of transactions and balances, nor the accounting policies.

*IFRS 7 Improving Disclosures about Financial Instruments ó amendment, issued in March 2009.*

Effective for annual periods beginning on or after 1 January 2009.

The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable the users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

By the time of preparing these financial statements, the following new IFRS and interpretations have been issued, the application of which is mandatory for the Group from the financial year beginning on or after 1 January 2009:

*IFRIC 11 IFRS 2 ó Group and Treasury Share Transactions*

As adopted by the EU, IFRIC 11 is effective for annual periods beginning on or after 1 March 2008. The application of the interpretation had no significant impact on the Group's financial statements.

*IFRIC 12 Service Concession Arrangements*

As adopted by the EU, IFRIC 12 is effective for annual periods beginning on or after 30 March 2009. The application of the interpretation had no significant impact on the Group's financial statements because the Group did not have any service concession arrangements.

---

*IFRIC 14 IAS 19 ó The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

As adopted by the EU, IFRIC 14 is effective for annual periods beginning after 31 December 2008.

The application of the interpretation did not have a significant impact on the Group's financial statements.

*IFRS 8 Operating Segments.*

Effective for annual periods beginning on or after 1 January 2009.

The application of the interpretation had no impact on the Group's financial statements.

*IAS 23 Borrowing Costs, revised in March 2007.*

Effective for annual periods beginning on or after 1 January 2009.

Prior to the revision of the standard, the Group's accounting policy was capitalisation of borrowing costs and thus the change had no impact on the Group's financial statements.

*Improvements to International Financial Reporting Standards, issued in May 2008.*

Effective for annual periods beginning on or after 1 January 2009.

The application of the interpretation had no significant impact on the Group's financial statements.

*Puttable Financial Instruments and Obligations Arising on Liquidation ó IAS 32 and IAS 1 amendment.*

Effective for annual periods beginning on or after 1 January 2009.

The amendment had no impact on the financial statements.

*Vesting Conditions and Cancellations ó amendment to IFRS 2.*

Effective for annual periods beginning on or after 1 January 2009.

The amendment had no impact on the financial statements.

*IFRIC 13 Customer Loyalty Programmes*

As adopted by the EU, IFRIC 13 is effective for annual periods beginning after 31 December 2008.

The amendment had no impact on the financial statements.

*IFRIC 15 Agreements for Construction of Real Estate.*

As adopted by the EU, IFRIC 15 is effective for annual periods beginning after 31 December 2009. The amendment had no significant impact on the financial statements.

*Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ó IFRS 1 and IAS 27 Amendment.*

Effective for annual periods beginning on or after 1 January 2009.

The amendment had no impact on the financial statements.

*Embedded Derivatives ó Amendments to IFRIC 9 and IAS 39, issued in March 2009.*

As adopted by the EU, amendments to IFRIC 19 and IAS 39 are effective for annual periods beginning on or after 31 December 2009.

The amendment had no impact on the financial statements.

---

*IFRIC 16 Hedges of a Net Investment in a Foreign Operation.*

As adopted by the EU, IFRIC 16 is effective for annual periods beginning after 30 June 2009. The amendment had no impact on the financial statements.

*IFRIC 17 Distributions of Non-cash Assets to Owners.*

As adopted by the EU, IFRIC 17 is effective for annual periods beginning after 31 October 2009. IFRIC 17 has no impact on the Group's financial statements because the Group does not distribute any non-cash assets to owners.

*IFRIC 18 Transfers of Assets from Customers.*

As adopted by the EU, IFRIC 18 is effective for annual periods beginning after 31 October 2009. IFRIC 18 has no impact on the Group's financial statements.

*Classification of Rights Issues óAmendment to IAS 32, issued in October 2009.*

Effective for annual periods beginning on or after 1 February 2010. The Group estimates that the amendment will have no impact on its financial statements.

*IAS 27 Consolidated and Separate Financial Statements, revised in January 2008.*

Effective for annual periods beginning on or after 1 July 2009. The Group is assessing the impact of the revised standard on its financial statements.

*IFRS 3 Business Combinations, revised in January 2008.*

Effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IFRS 3 has no impact on the Group because there are currently no business combinations underway at the Group.

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations amendment (and consequential amendments to IFRS 1).*

Effective for annual periods beginning on or after 1 July 2009. The amendment has no impact on the Group's financial statements.

*Eligible Hedged Items óamendment to IAS 39.*

Effective with retrospective application for annual periods beginning on or after 1 July 2009. The amendment has no impact on the Group's financial statements.

*IFRS 1 First-time Adoption of International Financial Reporting Standards, revised in December 2008.*

As adopted by the EU, the revised IFRS 1 is effective for annual periods beginning on or after 31 December 2009. The revised standard has no impact on the Group's financial statements.

*Group Cash-settled Share-based Payment Transactions ó Amendments to IFRS 2.*

Not yet adopted by the EU. The Group estimates that the amendments will have no impact on the financial statements.

*Additional Exemptions for First-time Adopters - Amendments to IFRS 1.*

Not yet adopted by the EU. The amendments have no impact on the Group's financial statements.

---

*Improvements to International Financial Reporting Standards*, issued in April 2009.

Not yet adopted by the EU.

The Group estimates that the amendment has no impact on the Group's financial statements.

*Amendments to IAS 24 Related Party Disclosures*, issued in November 2009.

Not yet adopted by the EU.

The Group is currently assessing the impact of the amended standard on the disclosures in its financial statements.

*IFRS 9 Financial Instruments Part 1: Classification and Measurement*, issued in November 2009.

Not yet adopted by the EU.

The Group is currently assessing the implications of the standard, impact on the Group and the timing of its adoption by the Group.

*IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*.

Not yet adopted by the EU.

The Group is currently assessing the impact of the interpretation on its financial statements.

*Prepayments of Minimum Funding Requirement ó Amendment to IFRIC 14*.

Not yet adopted by the EU.

The Group is currently assessing the impact of the interpretation on its financial statements.

*Limited exemption from comparative IFRS 7 disclosures for first-time adopters ó Amendment to IFRS 1*.

Not yet adopted by the EU.

The amendment has no impact on the Group's financial statements.

#### ***Note 4. Risk management***

This note includes disclosures in accordance with the requirements of International Financial Reporting Standards (IFRS), as adopted by the European Union. Further information, the requirements of which are specified in the Bank of Estonia Governor's Decree No. 8 of 2 November 2009, is separately presented in the management report, division 2.13, page 13.

Tallinn Business Bank Group is obliged to comply with the Bank of Estonia's regulatory requirements, which specify:

- minimum amount of capital;
- capital adequacy;
- liquidity;
- statutory reserve, other reserves;
- limits on investments;
- risk concentration.

---

Non-compliance with the applicable regulations may lead to restrictions in the Bank's activities or revocation of the banking license. According to the management, the Group is in compliance with all prevailing laws and regulations.

**General principles of risk management**

Risk-taking is inherent to banking. Risk is defined as a possibility of impairment of the assets of credit institutions due to the expected or unexpected circumstances during its operations. In general, there are three types of risks: credit, market and operating risk. Each of them consists of independent sub-risks: concentration risks, risks from revaluation of collaterals, country risks, liquidity risks, economic cycle risks and other risks that depend on the size of a credit institution, business strategy and the scale of business activities.

Risk management is an integral part of the management system of credit institutions, and is based on compliance with the requirements of Estonian legislation (incl. Credit Institutions Act) and the regulations of the Bank of Estonia, Financial Supervision Authority and other supervision authorities. In everyday practice, risk management is based on approved risk management methodology, credit policy, operating risks management policy and the Group's business continuity plans.

The risk management process involves identification of risks, quantitative assessments, analysis, control and the reporting system. Risk indicators i.e. quantitative ratios are used, which allow to measure the current level of risks and assess whether they are within allowed limits. These indicators also allow identifying weaknesses in the management system and determining an additional need for material and human resources for risk mitigation activities.

Indicators are used for those parts of the business process (risk areas) where violation could result in a loss for the Group.

The purpose of risk management is to mitigate risks to an acceptable level, based on the development strategy of a credit institution, risk sensitivity, and the level of risk coverage with equity.

The risk management system consists of rules and regulations, and procedure rules, compliance with which provides controllability and reliability of activities.

The risk management structure comprises:

- a. Bank's collegial management bodies**, whose responsibility is to make decisions, develop and approve internal regulative documentation, establish limits, regulations, prices and interest rates.
- b. structural units and executives** responsible for ensuring control and analysis of risks on a continuous basis;
- c. internal audit service** protects the interests of shareholders and customers by monitoring compliance with regulations, procedure rules and management's orders by employees.

**Bank's collegial bodies responsible for risk management:**

- É Bank's Supervisory Board
- É Bank's Management Board

- 
- É Credit Committee
  - É Asset and Liability Committee (ALCO)
  - É Committee on Business Continuance
  - É Work group on management of operating risk

**The Supervisory Board of the Bank** approves the Group's strategy and development directions, establishes acceptable risk levels which the Group can take.

The Supervisory Board of the Bank approves the credit policy, the policy for management of operating risk, principles of activities of the Credit Committee and its staff, and also makes other decisions which are within its competence.

**The Management Board of the Bank** elaborates the economic, methodological and organisational elements of the risk management system, ensures control over effectiveness of the system according to the requirements of the Credit Institutions Act, recommendations of the supervision authorities, decisions of the Supervisory Board of the Bank and applicable legislation. The Management Board submits the Group's plans for implementation of the Group's development strategy to the Supervisory Board, ensuring minimisation of the risk level and the necessary level of profitability and assets.

Total responsibility for the implementation of the Group's risk policy and losses from all types of risks is vested in the Bank's Management Board. Within the framework of its responsibility, the Management Board delegates the functions of risk management to committees working on a continuous basis.

**Credit Committee** - working body which decides the acceptable level of credit risk the Group can take, assesses the credit risk of customers and manages risks relating to the loan portfolio of the Bank. The optimal level of the loan portfolio is assessed on a monthly basis and compared with the factual volume of the Bank's loan portfolio.

**Asset and Liability Committee (ALCO)** is a work group for managing financial risks (incl. liquidity risk). The committee includes work group on liquidity management.

ALCO's rules of procedure, main functions, and members are established in ALCO's statutes, approved by the Bank's Management Board.

The main functions of the Committee are:

- Regular monitoring of risk ratios presented in the Risk Management Methodology
- Determination of price parameters of resources and determination of their allocation
- Optimisation of the structure of asset and liabilities
- Development of methods and procedures for management of financial risks
- Adoption of decisions to ensure the Bank's liquidity
- Approval of the main parameters for establishing the Group's limits
- Development of an interest rates policy
- Development of equity planning procedures
- Calculation of capital adequacy to cover risks, taking into account the requirements of Internal Capital Adequacy Assessment Procedures (ICAAP).

On the basis of the Risk Management Methodology, work group on liquidity management monitors compliance with the Bank's internal regulations each decade. An analytical report on

---

compliance with regulations of financial risks, prescribed in the Risk Management Methodology, is also submitted to the Management Board of the Bank. At the same time, aggregate efficiency indicators are presented.

The Committee on Business Continuance is a work group established with a goal to ensure business continuity in extraordinary situations. The members of the Committee and the business continuity plan are approved by the Management Board of the Bank.

The Work Group on Operating Risk is guided by the Operating Risk Management Policy which is approved by the Management Board of the Bank. This work group performs monthly monitoring of operating risks, calculates ratios of operating risks and notifies the Management Board of the Bank and the Financial Supervision Authority of the operating risk level.

### **Credit risk**

Credit risk results from probable losses which may arise from poor performance or non-performance of the obligations of customers arising from contracts under laws of obligations (e.g. loan agreements) or other factors (incl. insufficiency of collateral).

Credit risk makes up the largest share of the total risk of the Group and it accompanies almost all credit products, such as loans, leasing, credit cards, and guarantees.

Financial assets exposed to credit risk comprise receivables from customers and receivables from credit institutions as well as other receivables. The total position exposed to credit risk is the carrying amount of these financial assets.

In its lending activities, Tallinn Business Bank Group follows the legislation of the Republic of Estonia and the regulations of Tallinn Business Bank, including the credit policy approved by the Management Board. Assumption of credit risk is decided by the Credit Committee on a collegial basis. Assumption of credit risk exceeding 10% of the equity of the Bank must be accepted by the Supervisory Board.

The Group's principles for assumption of risk are as follows:

- 1) risk must be assessable;
- 2) risk must be appropriately collateralised;
- 3) collateral must be appropriately insured;
- 4) risk must be spread between different economic sectors and regions, maturities and collaterals;
- 5) the detection of possible problems must be ensured in the earliest stage possible with a strong system of supervision.

Credit risk is assessed before granting a loan as well as during subsequent monitoring performed on a quarterly basis.

Measurement of the credit risk includes following activities:

- assessment of the activities of the clients until now;
- assessment of the risk level of client's management and owners;
- assessment of collaterals;

- 
- security of collaterals;
  - analysis and assessment of the business plan and cash flow forecasts presented;
  - reliability and reputation of a potential client;
  - positive credit history;
  - assessment of the country risk of the loan applicant with the Basel II committee methodology.

Loans that have been granted or will be granted are covered fully from the Group's own funds and funds raised (incl. loans intended for specific purposes and demand deposits). Loans granted to one borrower (except for subsidiaries) may not exceed 10% of the equity of the Bank, except when approved by the Supervisory Board of the Bank. Loan volume (except for investment in a subsidiary) granted to one economic sector or industry may not exceed 25% of the loan portfolio.

Monitoring of the loan portfolio is performed on a quarterly basis, during which each loan and customer is reviewed individually. The Group pays attention to the performance of the conditions of the contract, including the making of payments on due dates, the financial position of the customer, the position of the collateral, and presentation of the information and documentation needed by the Group.

**Criterion 1: payment discipline**

1. payment of interest and principal on time; maximum deviation of 7 days from the schedule (up to 3 times p.a.) or one late payment of 7 - 15 days once a year.
2. late interest and principal payments; interest was capitalised or the schedule was revised due to the customer's solvency issues; deviations from the schedule: 8 - 15 days (up to 3 times p.a.) or 15 - 30 days once a year.
3. late interest and principal payments; interest was capitalised or the schedule was revised due to the customer's solvency issues; deviations from the schedule: 30 - 60 days (up to 2 times p.a.).
4. late interest and principal payments; interest was capitalised or the schedule was revised due to the customer's solvency issues, deviations from the schedule: 60 - 90 days.
5. late interest and principal payments; interest was capitalised or the schedule was revised due to the customer's solvency issues, deviations from the schedule: more than 90 days.

**Criterion 2: financial position**

1. good financial position, ability to make loan principal and interest payments and highly probable that this situation will prevail in the future.
2. stable financial positions, but specific financial data needs attention.
3. financial data casts doubt over the ability of the borrower to make proper loan payments.
4. financial data refers to the inability of the borrower to make proper loan payments.
5. financial position of the borrower demonstrates inability to make loan payments.

The basis for the rating of the financial position of the borrower: liquidity (high), sales profitability, equity ratio, interest coverage coefficient, overall evaluation of the financial position.

**Criterion 3: collateral**

1. a mortgage of the first ranking on liquid collateral, possessory pledge, vehicle pledge
2. collateral with the rating "A" with the estimated cost of at least 125% of the loan amount, a mortgage of the second ranking on liquid assets, a securities pledge, surety of the entity equity which is three times as high as the loan amount, surety of individuals in the amount of less than EEK 0.5 million.

- 
3. a commercial pledge, illiquid real estate, surety of the entity, the equity of which is twice as high as the loan amount.
  4. a loan secured by various collaterals with the cost of 100% -125% of the loan amount.
  5. a loan secured by various collaterals with the cost of less than 100% of the loan amount.

**Formula used for loan valuation:** Loan rating = (rating for payment behaviour, rating for the financial position of the borrower, rating for collateral) / 3.

**Criterion 4: Location of the loan principal upon loan repayment**

If a rating is lowered for at least two criteria (I - III), then at the recommendation of a client service representative, the composite rating may be lowered by an additional point due to the effect from the fourth criterion.

In assessing whether payments are made on due dates and the financial positions of customers, a five-point system of A-E is used, where A describes the strongest and E the weakest customer (see Note 7). Collaterals of the customer are assessed individually, based on the type, value, and change in value, liquidity and security of the collateral.

Relationship between loan ratings and credit quality of the customers

- 1 = Class A
- 2 = Class B
- 3 = Class C
- 4 = Class D
- 5 = Class E

Despite of the size of the customer, attention is paid to the repayment schedule - whether in a lump sum at the end of the contract (the so-called bullet loan) or in proportional amounts. Special attention is paid to bullet loans.

The value of collateral is determined on the basis of its market price. In case of problematic loans, the Group revalues the cost of the collateral to determine its cost in the real estate market under the conditions of falling prices. The price of collaterals before and after revaluation is used for assessment of problematic receivables and calculation of internal requirements for capital adequacy (ICAAP, Pillar II).

More attention is paid to customers with liabilities to the Group exceeding 10% of the Group's net own funds.

The Group's loan portfolio is assessed on the basis of the source information mentioned above. The Credit Committee assesses the amount of uncollectable loans and probability of collection of receivables on a quarterly basis. A separate allowance for loans is set up for each loan receivable with loss characteristics, which aggregates to the total allowance for the Bank's loan portfolio.

The loan portfolio is initially assessed by the employees of loan department whose overviews and proposals are used by the Credit Committee to make decisions regarding the need and amount of the allowance for loans. Monitoring of loans and allowance is inspected by the internal control service of the Bank, the Financial Supervisory Authority and the auditor.

The analysis *Group's receivables from customers* is specified by the following classes and sub-classes (see Note 7):

1. loans to corporate entities:
  - investment loans
  - overdraft facilities
  - other loans
2. loans to individuals:
  - housing loans
  - other loans.

Overdue receivables, impairment losses for receivables from customers and collaterals of securities are presented in Note 7, page 58.

### Risk concentration EEK million

	31.12.2009		31.12.2008	
	Number/amount	% of net assets	Number/amount	% of net assets
1. Number of customers with high risk concentration	4	-	1	-
2. Receivables from high risk concentration clients	207.0	67.8%	56.3	13.7%
Receivables from individuals related to credit institutions	14.5	4.8%	14.9	3.6%

According to the Credit Institutions Act, loan with a large risk concentration is a loan, which exceeds 10% of the credit institution's equity. The total value of granted loans with large risk concentration cannot exceed 800% of the equity of the credit institution.

As of 31 December 2009 and 2008, Tallinn Business Bank is in compliance with the aforementioned risk concentration limits. As of 31 December 2009 and 2008, the receivables of the Group and Bank are presented by economic sectors. Loans include receivables from the Bank of Estonia, customers (including lease receivables) and credit institutions.

### Receivables by economic sectors EEK million

#### 31.12.2009

Economic sector	In balance sheet						
	Receivables	Securities	Other receivables	Including overdue	Doubtful receivables	Contingent items	Percentage of sector
Agriculture, hunting and forestry	40.7	-	0.1	7.2	0.7	-	2.3%
Manufacturing	43.9	-	-	22.7	13.3	4.4	2.7%
Construction	28.8	-	0.1	6.5	3.1	13.6	2.4%
Retail and wholesale, maintenance of motor vehicles, motorcycles, commodities and home appliances	47.0	-	0.2	21.7	11.8	1.7	2.8%
Financial intermediation	1443.2	-	1.6	28.7	15.1	5.6	82.0%
Real estate	26.4	-	0.1	7.9	3.7	3.4	1.7%
Administration and related activities	34.0	-	-	-	-	0.3	1.9%
Other sectors	17.3	0.2	-	14.4	0.6	2.0	1.1%

Private persons	47.4	-	0.2	1.3	0.9	8.0	3.1%
<b>Total</b>	<b>1728.7</b>	<b>0.2</b>	<b>2.3</b>	<b>110.4</b>	<b>49.2</b>	<b>39.0</b>	<b>100.0%</b>

**31.12.2008**

Economic sector	In balance sheet						
	Receivables	Other securities	Including overdue	Doubtful receivables	Contingent items	Percentage of sector	
Agriculture, hunting and forestry	42.3	-	0.1	1.6	0.3	-	1.3%
Manufacturing	51.0	-	-	42.8	10.5	0.8	1.6%
Construction	79.3	-	0.1	0.8	-	14.5	2.9%
Retail and wholesale, maintenance of motor vehicles, motorcycles, commodities and home appliances	54.5	-	0.2	11.1	5.1	7.3	1.9%
Financial intermediation	2762.8	-	1.0	-	-	25.5	86.9%
Real estate	67.3	-	0.2	10.6	8.7	1.8	2.2%
Other sectors	39.3	-	0.1	8.0	-	0.7	1.2%
Private persons	57.2	-	0.4	8.3	0.2	8.1	2.0%
<b>Total</b>	<b>3153.7</b>	<b>-</b>	<b>2.1</b>	<b>83.2</b>	<b>24.8</b>	<b>58.7</b>	<b>100.0%</b>

See also Note 7.

**Country risk**

For credit institutions with international operations, incl. Tallinn Business Bank Group, it is essential to adequately assess country risk. Country risk consists of economic and political risk.

Country risk comprises the overall economic and financial management level in the country (on macroeconomic as well as company level), the competitive position of the country in the world market, the situation with the balance of payments, the stability of the national currency, etc.

The extent of political risk is determined by the stability of the political system, relations with neighbouring countries and security guarantees. In assessing the political risk, it is considered how the aforementioned factors may influence the proprietary rights.

Real economic and political risks are intertwined and they must be assessed as a whole.

Country risk can be defined as follows:

- conversion risk (devaluation of national currency);
- risks of transfers of monetary resources;
- risk of insolvency of the country (default).

To mitigate country risk, the Group uses following measures:

- *Conversion risk*
  - o The Group does not perform operations with currencies in countries with limited national currency conversion possibilities;
  - o The Group does not perform operations with countries with unclear or unstable international reputation;
- *Transfer risks of monetary resources*

- o All purchase and sales transactions of currencies are performed through REUTERS 2000 dealer system;
  - o the Bank does not open correspondent accounts in countries with high political and/or economic risks.
- *Risk of insolvency of the country*
    - o The risk is regulated with strict selection of the correspondent banks.

All aforementioned risks are analysed, managed and controlled by ALCO and the Management Board of the Bank. If necessary, the members of the Supervisory Board with adequate experience are involved.

Concentration of the receivables of the Group is presented below by geographic regions as of 31 December 2009 and 2008. The column "Receivables" include receivables from the Bank of Estonia, customers and credit institutions.

Receivables by regions EEK million

### 31.12.2009

Region	In balance sheet			Including overdue	Allowance for receivables	Off-balance sheet items	Percentage of region (%)
	Receivables	Securities	Other receivables				
Estonia	477.4	-	0.7	81.7	34.1	27.4	28.6%
USA	549.5	-	-	-	-	-	31.0%
Austria	307.4	-	-	-	-	-	17.4%
Switzerland	100.2	-	-	-	-	-	5.7%
Germany	89.2	-	-	-	-	-	5.0%
Russia	185.8	-	1.6	28.7	15.1	9.5	11.1%
Other countries	19.2	0.2	-	-	-	2.1	1.2%
<b>Total</b>	<b>1728.7</b>	<b>0.2</b>	<b>2.3</b>	<b>110.4</b>	<b>49.2</b>	<b>39.0</b>	<b>100.0%</b>

### 31.12.2008

Region	In balance sheet			Including overdue	Allowance for receivables	Off-balance sheet items	Percentage of region (%)
	Receivables	Securities	Other receivables				
Estonia	461.0	-	1.2	81.6	24.8	23.4	15.1%
USA	626.0	-	-	-	-	-	19.5%
Austria	687.4	-	0.2	-	-	-	21.4%
Germany	1198.1	-	-	-	-	-	37.3%
Russia	121.6	-	0.1	1.6	-	32.3	4.8%
Other countries	59.6	-	0.6	-	-	3.0	1.9%
<b>Total</b>	<b>3153.7</b>	<b>-</b>	<b>2.1</b>	<b>83.2</b>	<b>24.8</b>	<b>58.7</b>	<b>100.0%</b>

### Market risk

Market risk is described as the possibility of a loss resulting from unfavourable movements in the financial markets - changes in exchange rates, interest rates and the values of securities. Market risk has macroeconomic nature. Most of the banking services, including loans, deposits and derivatives, are influenced by market risk.

The Group has 2 main subcategories of market risk:

- 1) foreign currency risk;

---

2) interest risk;

To manage market risk, the Group adheres to the following principles:

- Assets are denominated in the same currency to cover existing currency resources;
- Net open currency position does not exceed 25% of the amount of owners equity;
- Constant observation of internal regulations according to the Risk Management Methodology;
- The repayment of long-term loans issued in Estonian kroons is tied to euro. Risk of changes in the market value of the collaterals is mitigated so that the Group lends money up to 65% of the appraisal value of the loan collateral;
- Derivatives are used for mitigating foreign currency risks (forward and swap transactions);
- Interconnection of the results of evaluation of different risks;
- A minimum level for the interest margin is established at 0.3% greater than the level of the effective interest rate of resources (deposit rate + interest rate when reserving + tax rate).

The market risk is managed by the ALCO and the employees of the loan department and the foreign settlements department. Management of mismatch of interest rates and timing between interest-earning assets and interest-bearing liabilities is performed by ALCO together with the loan department. The risk of a change in the value of the investment portfolio is evaluated separately within the framework of an internal stress analysis for capital adequacy (ICAAP). A formula is used for calculating the risk coverage which is based on a scenario of a 30% decline in prices from the carrying amount of investments.

As the Group does not have a trading portfolio, the risk of changes in share prices in trading transactions and necessity to calculate additional capital requirements is non-existent.

The tables below show assets and liabilities denominated in foreign currencies in Estonian kroon equivalent of million kroons.

**Assets and liabilities by currencies EEK million.**
**31.12.2009**

	EEK	USD	GBP	RUB	EUR	OTHER	TOTAL
<b>Assets</b>							
Cash and receivables from Central Bank	172.7	11.1	-	0.1	17.9	-	201.8
Receivables from credit institutions	1.3	849.4	6.4	9.3	343.9	10.0	1220.3
Receivables from customers - net	52.5	5.8	-	-	230.0	-	288.3
Securities	-	-	-	-	0.2	-	0.2
Other assets (Note 9)	3.3	0.4	-	-	1.7	-	5.4
<b>Total assets</b>	<b>229.8</b>	<b>866.7</b>	<b>6.4</b>	<b>9.4</b>	<b>593.7</b>	<b>10.0</b>	<b>1 716.0</b>
<b>Liabilities</b>							
Payables to credit institutions	-	-	-	-	57.1	-	57.1
Payables to clients and other payables	221.3	571.4	4.4	8.3	539.7	6.6	1351.7
Subordinated loan	-	106.5	-	-	-	-	106.5
Other liabilities (Note 15)	5.7	186.1	2.0	1.2	2.3	3.1	200.4
<b>Total liabilities</b>	<b>227.0</b>	<b>864.0</b>	<b>6.4</b>	<b>9.5</b>	<b>599.1</b>	<b>9.7</b>	<b>1 715.7</b>
<b>Net position in balance sheet</b>	<b>2.8</b>	<b>2.7</b>	<b>-</b>	<b>-0.1</b>	<b>-5.4</b>	<b>0.3</b>	<b>0.3</b>



**31.12.2008**

	EEK	USD	GBP	RUB	EUR	OTHER	TOTAL
<b>Assets</b>							
Cash and receivables from Central Bank	137.8	1.0	-	0.6	7.7	-	147.1
Receivables from credit institutions	1.4	2324.1	1.4	55.7	206.2	13.4	2602.2
Receivables from customers - net	30.1	6.2	-	74.6	276.3	-	387.2
Other assets (Note 9)	6.1	0.2	-	0.5	0.1	0.1	7.0
<b>Total assets</b>	<b>175.4</b>	<b>2331.5</b>	<b>1.4</b>	<b>131.4</b>	<b>490.3</b>	<b>13.5</b>	<b>3143.5</b>
<b>Liabilities</b>							
Payables to credit institutions	-	-	-	19.7	87.1	-	106.8
Payables to clients and other payables	234.3	562.0	0.7	40.4	323.2	11.6	1172.2
Subordinated loan	-	108.8	-	-	-	-	108.8
Other liabilities (Note 15)	6.4	1 670.5	1.3	25.0	26.1	1.0	1 730.3
<b>Total liabilities</b>	<b>240.7</b>	<b>2 341.3</b>	<b>2.0</b>	<b>85.1</b>	<b>436.4</b>	<b>12.6</b>	<b>3 118.1</b>
<b>Net position in balance sheet</b>	<b>-65.3</b>	<b>-9.8</b>	<b>-0.6</b>	<b>46.3</b>	<b>53.9</b>	<b>0.9</b>	<b>25.4</b>

Each currency's net position as of 31.12.2009 was less than 1% of the level of net own funds. The level of the Group's foreign currency net position as of the balance sheet date reflects the level of foreign currency positions during the year.

Estonian kroon and euro is not taken into account when calculating net positions, because the Estonian kroon is pegged to the Euro at a fixed exchange rate of EEK 15.6466 = EUR 1.

The table below presents a sensitivity analysis to potential reasonable changes in foreign exchange rates as of the balance sheet date.

	31.12.2009	31.12.2008
EEK thousand		
<b>Appreciation of currencies 5% (2008: 10%)</b>		
USD appreciation by 5% (2008: 10%)	135	-980
RUB appreciation by 5% (2008: 10%)	-5	4 630
CHF appreciation by 5% (2008: 10%)	45	80
Others (except for EUR) appreciation by 5% (2008: 10%)	-30	-50
<b>Total</b>	<b>145</b>	<b>3 680</b>
<b>Depreciation of currencies 5% (2008: 10%)</b>		
USD depreciation by 5% (2008: 10%)	-135	980
RUB depreciation by 5% (2008: 10%)	5	-4 630
CHF depreciation by 5% (2008: 10%)	-45	-80
Others (except for EUR) depreciation by 5% (2008: 10%)	30	50
<b>Total</b>	<b>-145</b>	<b>-3 680</b>

Cash flow interest rate risk is risk of fluctuations in future cash flows due to the changes in market interest rates. Net interest income is impacted by external factors, such as changes in the rate of EURIBOR, changes in the yield curve and competitive pressure. The Group measures net interest income risk as a potential change in income.

The following table presents an analysis of the Group's interest risk. The Group's financial assets and liabilities are reported at carrying amounts, classified by interest fixing or maturity dates, whichever occurs earlier.

**Interest-bearing assets and liabilities by interest fixing periods EEK million**
**31.12.2009**

	On demand	Up to 3 months	Between 3-12 months	Between 1-2 years	Between 2-5 years	After 5 years	Total
<b>Assets</b>							
Receivables from Central Bank	170.9	-	-	-	-	-	170.9
Receivables from credit institutions	1 110.5	-	109.8	-	-	-	1 220.3
Receivables from customers - gross	5.8	117.0	56.0	32.4	12.4	41.6	265.2
Securities	-	-	-	-	-	0.2	0.2
<b>Total assets</b>	<b>1 287.2</b>	<b>117.0</b>	<b>165.8</b>	<b>32.4</b>	<b>12.4</b>	<b>41.8</b>	<b>1 656.6</b>
<b>Liabilities</b>							
Payables to credit institutions	-	57.1	-	-	-	-	57.1
Payables to customers and other payables	845.6	291.7	176.0	10.0	14.5	13.9	1 351.7
Subordinated loan	-	-	19.6	-	86.9	-	106.5
<b>Total liabilities</b>	<b>845.6</b>	<b>348.8</b>	<b>195.6</b>	<b>10.0</b>	<b>101.4</b>	<b>13.9</b>	<b>1 515.3</b>
<b>Net interest sensitivity gap</b>	<b>441.6</b>	<b>-231.8</b>	<b>-29.8</b>	<b>22.4</b>	<b>-89.0</b>	<b>27.9</b>	<b>141.3</b>

**31.12.2008**

	Up to 3 months	Between 3-12 months	Between 1-2 years	Between 2-5 years	After 5 years	Total	Up to 3 months
<b>Assets</b>							
Receivables from Central Bank	139.5	-	-	-	-	-	139.5
Receivables from credit institutions	725.2	1 875.9	1.1	-	-	-	2 602.2
Receivables from customers - gross	6.2	182.6	54.7	98.8	26.1	16.0	384.4
<b>Total assets</b>	<b>870.9</b>	<b>2 058.5</b>	<b>55.8</b>	<b>98.8</b>	<b>26.1</b>	<b>16.0</b>	<b>3 126.1</b>
<b>Liabilities</b>							
Payables to credit institutions	-	55.8	48.4	2.6	-	-	106.8
Payables to customers and other payables	733.1	215.8	162.4	12.2	22.8	25.9	1 172.2
Subordinated loan	-	-	-	20.0	-	88.8	108.8
<b>Total liabilities</b>	<b>733.1</b>	<b>271.6</b>	<b>210.8</b>	<b>34.8</b>	<b>22.8</b>	<b>114.7</b>	<b>1 387.8</b>
<b>Net interest sensitivity gap</b>	<b>137.8</b>	<b>1 786.9</b>	<b>-155.0</b>	<b>64.0</b>	<b>3.3</b>	<b>-98.7</b>	<b>1 738.3</b>

As of 31 December 2009 and 2008 and during the respective periods, the Group did not have any financial assets or liabilities measured at fair value, therefore, the Group is not exposed to fair value or price risk.

**Liquidity risk**

Liquidity is defined as the Group's ability to fulfil its liabilities at any specific time, as well as the ability to change an unfavourable liquidity level within a certain period or at least to hold the existing level constant by changing the structure of its assets and liabilities and by raising foreign capital and increasing financial stability in the form of revenue growth.

---

Liquidity risk arises from the differences in the maturities of assets and liabilities, speed of disposal of the resources included within assets to cover liabilities, the overall asset structure and as well as the interest sensitivity of the liabilities.

In managing the liquidity risk, the Group follows the principles outlined below:

- The basis for the liquidity risk regulation of the Group is the statutory reserve requirement of the Bank of Estonia;
- Compliance with the *Prudential Norms of Credit Institutions* established by the Bank of Estonia;
- Using the Bank's integrated liquidity ratio  $\delta$  calculated every 10 days on the basis of three different factors;
- Monitoring of compliance with coefficients and limits (established by the Bank of Estonia as well as internally by the Group) - based on the Risk Management Methodology and Liquidity Management Methodology;
- Analysis of the results of stress-tests developed by the Group;
- Determining and holding of sufficient cash supply;
- Forecasting the deposit and loan volumes, preparing schedules to write off loans;
- Balancing the open currency position;
- Stability of the resource base of the Group is guaranteed by offering competitive and attractive interest rates for term deposits;
- Limitation of premature cancelling of term deposits (30 day notice);
- Interconnection of assessment results of different risks.

Liquidity risk is managed by the ALCO. ALCO performs the monitoring, control and replacement of assets with a goal to achieve the most optimal balance sheet structure while retaining an acceptable liquidity level and such liquidity reserves that would ensure satisfaction of unplanned financial needs (ensuring profitable investment and loan transactions, compensation for fluctuations in unforeseeable and seasonal loan demand, and addition to unexpectedly withdrawn deposits).

The strategic issues of liquidity risk management are discussed by ALCO on a regular basis, not less frequently than once a month.

Liquidity management and everyday management of the respective risk is the responsibility of a work group that consists of the members of ALCO and employees from accounting and foreign settlement department.

The work group controls the Group's liquidity on a continuous basis (each day) and submits a report on its activities to the Management of the Bank once a week.

**Liquidity risk (by remaining maturities) EEK million**
**31.12.2009**

	On demand	Up to 3 months	Between 3-12 months	Between 1-2 years	Between 2-5 years	After 5 years	Total
<b>Financial liabilities</b>							
Payables to credit institutions	-	27.0	3.8	28.1	-	-	58.9
Payables to customers and other payables	845.6	294.9	186.4	13.4	13.8	7.9	1 362.0
Subordinated liabilities	-	1.2	22.3	2.8	94.9	-	121.2
Other payables*	197.2	-	-	-	-	-	197.2
Guarantees and contingent liabilities**	-	2.2	22.3	10.4	1.3	2.8	39.0
<b>Total financial liabilities</b>	<b>1 042.8</b>	<b>325.3</b>	<b>234.8</b>	<b>54.7</b>	<b>110.0</b>	<b>10.7</b>	<b>1 778.3</b>
<b>Total financial assets</b>	<b>1 333.1</b>	<b>12.8</b>	<b>179.8</b>	<b>50.4</b>	<b>22.2</b>	<b>112.3</b>	<b>1 710.6</b>
<b>Net gap between remaining maturities</b>	<b>290.3</b>	<b>-312.5</b>	<b>-55.0</b>	<b>-4.3</b>	<b>-87.8</b>	<b>101.6</b>	<b>-67.7</b>

**31.12.2008**

	On demand	Up to 3 months	Between 3-12 months	Between 1-2 years	Between 2-5 years	After 5 years	Total
<b>Financial liabilities</b>							
Payables to credit institutions	-	6.7	108.3	0.7	-	-	115.7
Payables to customers and other payables	733.1	220.8	176.8	23.4	23.5	14.0	1 191.6
Subordinated liabilities	-	1.0	3.0	23.8	8.5	91.6	127.9
Other payables*	1 722.9	1.6	-	-	-	-	1 724.5
Guarantees and contingent liabilities**	-	9.4	33.8	15.3	0.2	-	58.7
<b>Total financial liabilities</b>	<b>2 456.0</b>	<b>239.5</b>	<b>321.9</b>	<b>63.2</b>	<b>32.2</b>	<b>105.6</b>	<b>3 218.4</b>
<b>Total financial assets</b>	<b>899.6</b>	<b>1 913.1</b>	<b>60.0</b>	<b>114.0</b>	<b>30.5</b>	<b>119.3</b>	<b>3 136.5</b>
<b>Net gap between remaining maturities</b>	<b>-1 556.4</b>	<b>1 673.6</b>	<b>-261.9</b>	<b>50.8</b>	<b>-1.7</b>	<b>13.7</b>	<b>-81.9</b>

\* Other payables include payments in transit, financial liabilities arising from transactions of precious metals and other payables.

\*\* Guarantees and contingent liabilities include mainly loan limits not used by customers.

The table represents undiscounted future cash flows of financial liabilities and the carrying amounts of financial assets. The Group has the following assets to cover its liabilities: cash, account balance at the Central Bank, deposits at other banks and loans to and receivables from customers. The table presents assets and liabilities which are denominated in foreign currencies in their Estonian kroon equivalents.

**Operating risk**

Operating risk is described as risk, which due to Group's internal or external factors may negatively impact the operations of the Group and lead to losses. Operating risk consists of the following:

- É IT risk;
- É procedural risk
- É staff risk;
- É legal risk;
- É external risks.

---

For mitigating operating risk, Tallinn Business Bank Group has created a control system for managing transactions, which guarantees multiple supervision of the transactions performed. Monthly monitoring of operating risk is performed in the Group according to the Policy for Operating Risk Management, which specifies monthly investigation of loss cases and incidents exceeding EEK 40 000. On the basis of the results of monitoring, an operating risk index (OR) is calculated, which shows the weighted average of IT risks, procedure, staff, legal and external risks. The operating risk index is communicated to the internal control service of the Bank and to ALCO for information and control purposes. During annual inquiries involving the members of the Management Board and employees in management positions of the Group, a map of risks is compiled, which represents a model of risk cases (scoring model). The map of risks enables to outline the zones of higher risk probability, as well as to determine ratios for weights of different risks, which are used in OR. Reports of operating risk are presented to the Financial Supervisory Authority on a quarterly basis.

To minimise the risk factors of *IT risk*, internal information security system and procedural rules have been set which eliminate non-authorized access to the main banking information.

The Group uses internal regulation rules to mitigate the *procedure risk*, which have to guarantee that all services are covered with appropriate contracts, control activities and true accounting disclosures. For every activity and product, procedural rules and product cards are prepared at the Bank.

The functionality and efficiency of this system is inspected by Bank's internal control and lawyer, who conduct regular inspections regarding contracts concluded or being concluded to ensure compliance with procedural rules and who conduct analyses for identification of possible risks.

*Staff risk* is regulated through the selection of employees and placement principles. The principle of staff selection is to assess the employee's professional suitability, qualification and loyalty.

Limits of competence are set for employees and employees are held personally monetarily liable to the extent of damages for exceeding them and causing losses for the Group.

*Legal risk.* The Group uses standard contracts for performing transactions. All terms of the contracts are coordinated with the lawyer of the Group and legal expertise is ordered, when necessary. A substantial part of the contracts related to credit guarantees is reviewed in notary's offices.

*External risks.* External risks associated with burglaries on the Group premises and in its communication systems are secured with an IT security system, internal rules and regulations for guaranteeing security and the technical equipment of a video surveillance system. External risks of systems are identified and archived. Ensuring physical security and inspection of criminal risks is part of the activities of the administrative department of the Bank.

All operating risks are managed and controlled by the operating risk workgroup and internal security service.

For calculating the capital requirement for operating risks, the Group has decided to use a base method using the adequacy rules of Basel II as the basis. Under the base method, the capital

---

requirement is 15% of the net income from the main activities of a credit institution. This choice has been made because of the nature of banking transactions and the small size of the Bank.

**Capital planning**

The Group uses risk based capital planning assuring that all risks have been covered with sufficient own funds at any moment of time. Capital planning is based on risk strategy and policy. The Group uses capital adequacy assessment calculations together with capital requirements for additional risks to plan the need for capital.

To estimate the probable need for capital, balance sheet positions are projected using risk weighed scenarios. In addition, separate buffer is kept for unexpected losses.

The own funds of a credit institution must be equivalent to at least EUR 5 million and the ratio of total regulatory capital to risk-weighted assets needs to be at least 10% or higher.

**Internal capital adequacy assessment process (ICAAP).****Own funds**

According to the Credit Institution Act, the own funds of a credit institution or a consolidation group consist of Tier 1, Tier 2 and Tier 3 own funds, from which deductions according to legislation have been made. The tiers of own funds are recognised at the balance sheet value.

**Tier 1 own funds include:**

- 1) paid-in share capital;
- 2) statutory legal reserve set up from profits according to law and articles of association;
- 3) audited retained earnings.

On a consolidated basis, the following are added to Tier 1 own funds:

- 1) minority interest;
- 2) currency translation differences on consolidation.

Unrealised profits from recognition of investment properties are deducted from profits included in the structure of Tier 1 own funds.

Share capital and reserves include only actual amounts. Only that portion of profits is included in the composition of Tier 1 own funds from which all contingent taxes and dividends have been deducted. The Group must be able to immediately and without restrictions use Tier 1 own funds to cover losses or mitigate risks.

**Tier 2 own funds include:**

- 1) subordinated liabilities;
- 2) unrealised profits from investment properties.

Subordinated liabilities that are considered as Tier 2 own funds have been given as a monetary payment to the Group in full.

According to the Credit Institutions Act, subordinated liabilities may be included in Tier 2 own funds when they meet the following conditions:

- 1) the credit institution does not issue a guarantee for the performance of such liability;

- 
- 2) the term for repayment of the subordinated liability is at least five years or repayment of the liability is subject to at least five years' notice;
  - 3) the liability does not include a covenant according to which the credit institution would, under certain circumstances, be required to repay the liability before the agreed due date, except in the case of dissolution of the credit institution.

Tallinn Business Bank is in compliance with all these requirements.

45% of unrealised profits from investment properties which was excluded from Tier 1 own funds is included in Tier 2 own funds.

Tallinn Business Bank Group does not have any Tier 3 own funds.

### **Deductions**

Significant holdings in other financial institutions, subordinated receivables and other instruments in Tier 2 funds within the meaning of the Credit Institution Act which are part of the own funds of financial institutions, are deducted from own funds. When calculating the capital adequacy of the Bank, the shares from TBB Liisingu AS have been deducted from own funds.

Of the total amount of deductions, 50 per cent is deducted from Tier 1 own funds and 50 per cent from Tier 2 own funds after all limitations enacted in the Credit Institutions Act have been implemented.

### **Limitation of own funds**

- 1) The amount of Tier 2 own funds shall not exceed Tier 1 own funds.
- 2) The total amount of subordinated liabilities included in Tier 2 own funds shall not exceed 50% of Tier 1 own funds.
- 3) The total amount of Tier 2 own funds used to cover the risks of the banking portfolio shall not exceed Tier 1 own funds used for the same purpose.
- 4) The total amount of Tier 2 own funds shall not exceed Tier 1 own funds of the credit institution.
- 5) Tier 2 own funds that exceed the limitations provided in subsections 2 to 4 shall not be included in own funds when calculating capital adequacy.

Limitations set out in subsections 1-5 are implemented before these deductions.

Tier 2 own funds which exceed the limitations presented in subsections (1) and (2) of this section shall not be taken into consideration for calculation of the minimum amount of own funds, limitations on concentration of risks and limitations on investments.

Tallinn Business Bank Group is in compliance with all restrictions outlined above.

<b>Own funds in EEK million</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>1. Tier 1 own funds</b>		
1.1 Paid-in share capital	229.8	229.8
1.2 General banking reserves	8.9	7.8
1.3 Retained earnings	100.8	109.4
1.4 Previous period's unrealised profits of investment properties	-47.6	-47.6
1.5 Minority interest		
1.6 Currency translation difference	-	1.5
1.7 Loss for the financial year	-98.9	-7.5
<b>Total Tier 1 own funds</b>	<b>193.0</b>	<b>293.4</b>
<b>2. Tier 2 own funds</b>		
2.1 Subordinated liabilities	90.8	96.9
2.2 Percentage of unrealised profits of investment properties	21.4	21.4
<b>Total Tier 2 own funds</b>	<b>112.2</b>	<b>118.3</b>
<b>3. Deductions</b>	-	-
<b>4. Own funds for capital adequacy calculations</b>	<b>305.2</b>	<b>411.7</b>

<b>Capital requirements EEK million</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>Capital requirements for credit risks under standard method</b>		
Agencies administered by government agencies, non-profit organisations and unions	0.2	0.2
Credit institutions and investment firms	33.1	52.1
Corporate entities	3.0	10.5
Retail receivables	2.7	4.3
Receivables guaranteed by real estate	18.1	22.2
Overdue receivables	3.7	3.3
Other assets	24.3	31.6
<b>Total capital requirements for credit risk and counterparty credit risk</b>	<b>85.1</b>	<b>124.2</b>
Capital requirements for currency risk	-	5.8
Capital requirement for trading risk		
Operating risk, base method	10.9	9.9
<b>Total capital requirements for operating risk</b>	<b>10.9</b>	<b>9.9</b>
<b>Capital requirement for adequacy calculation</b>	<b>96.0</b>	<b>139.9</b>

### Capital adequacy

Capital adequacy expresses the conformity of credit institution's own funds to the risks arising from the credit institution's economic activities, including the trading portfolio.

The capital adequacy ratio is the ratio of the total amount of own funds to the total amount of capital requirements multiplied by 10.

	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>Capital adequacy</b>	<b>31.79%</b>	<b>29.43%</b>

### *Note 5. Receivables from the Central Bank*

In accordance with the requirements of the Bank of Estonia, credit institutions in Estonia are required to hold statutory reserves. The components of the calculation of the reserve comprise all liabilities of credit institutions acquired through raising debt and contingent liabilities, financial guarantees issued to cover the liabilities of resident financial institutions which are part to the consolidation group. The calculation of the statutory reserve is based on the previous month's balance sheet and it has to be executed as a monthly average. In 2009 and 2008, the Bank was in compliance with this requirement. As of 31 December 2009, the receivables from the Central Bank amounted to EEK 170.9 million (31.12.2008: 139.5 EEK million). As of 31.12.2009, the reserve requirement was EEK 165.2 million (31.12.2008: EEK 134.5 million), therefore, the available funds in the Bank of Estonia as of 31.12.2009 totalled EEK 5.7 million (31.12.2008 EEK 5.0 million), which is included in cash equivalents.

	(EEK million)	
	31.12.2009	31.12.2008
Fulfilment of the minimum reserve requirement as a monthly average	168.5	138.6
Minimum reserve requirement as a monthly average	165.2	134.5
Exceeding of the minimum reserve requirement as a monthly average	3.3	4.1

In 2009, the Group earned interest in the amount of EEK 0.7 million (2008: EEK 3.9 million).

### *Note 6. Receivables from credit institutions*

Receivables from credit institutions are as follows:

	(EEK million)	
	31.12.2009	31.12.2008
<b>Demand deposits:</b>		
in OECD banks	1 049.6	661.6
in Estonian banks	13.2	1.7
in CIS countries' banks	38.0	35.4
in non - OECD banks	9.8	26.5
<b>Total demand deposits</b>	<b>1 110.6</b>	<b>725.2</b>
<b>Time deposits:</b>		
in OECD banks	-	1696.0
in Estonian banks	1.1	1.1
in CIS banks	108.6	-
<b>Total time deposits</b>	<b>109.7</b>	<b>1697.1</b>
<b>Overnight loans:</b>		
in OECD banks	-	179.9
<b>Total overnight loans</b>	<b>0.0</b>	<b>179.9</b>
<b>Total</b>	<b>1 220.3</b>	<b>2 602.2</b>

Receivables from credit institutions do not include any overdue or impaired receivables. The due dates of term deposits are in 2010.

As of 31 December 2009 and 2008, the average interest rates on time deposits were 6.85% and 1.18%, respectively.

**Note 7. Receivables from customers**

Type of loan	(EEK million)	
	31.12.2009	31.12.2008
<b>Loans to corporate entities</b>	<b>255.5</b>	<b>354.3</b>
Investment loans	158.8	203.2
Overdraft facilities	48.9	51.0
Leasings	11.9	35.5
Other loans	35.9	64.6
<b>Loans to individuals</b>	<b>48.0</b>	<b>56.3</b>
Housing loans	14.0	14.4
Other loans	34.0	41.9
<b>Total loans to customers</b>	<b>303.5</b>	<b>410.6</b>
Less: allowance for loan losses	-49.2	-24.8
<b>Total loans to customers, net</b>	<b>254.3</b>	<b>385.8</b>

**Allowance for loan losses EEK million**
**2009**

Type of loan	31.12.2008	New allowances	Reduction in allowance	Taken off balance sheet	31.12.2009
<b>Loans to corporate entities</b>	<b>24.6</b>	<b>47.1</b>	<b>2.7</b>	<b>20.6</b>	<b>48.4</b>
Investment loans	18.2	9.1	-	18.7	8.6
Overdraft facilities	4.4	20.6	0.6	1.6	22.8
Leases	-	2.1	2.1	-	-
Other loans	2.0	15.3	-	0.3	17.0
<b>Loans to individuals</b>	<b>0.2</b>	<b>0.7</b>	<b>-</b>	<b>0.1</b>	<b>0.8</b>
Housing loans	0.2	0.6	-	-	0.8
Other loans	-	0.1	-	0.1	-
<b>Total</b>	<b>24.8</b>	<b>47.8</b>	<b>2.7</b>	<b>20.7</b>	<b>49.2</b>

**2008**

Type of loan	31.12.2007	New allowances	Reduction in allowance	Taken off balance sheet	31.12.2008
<b>Loans to corporate entities</b>	<b>4.6</b>	<b>20.1</b>	<b>0.1</b>	<b>-</b>	<b>24.6</b>
Investment loans	2.3	15.9	-	-	18.2
Overdraft facilities	2.1	2.4	0.1	-	4.4
Leases	0.2	0.1	-	-	0.3
Other loans	-	1.7	-	-	1.7
<b>Loans to individuals</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.2</b>
Housing loans	0.2	-	-	-	0.2
Other loans	-	-	-	-	-
<b>Total</b>	<b>4.8</b>	<b>20.1</b>	<b>0.1</b>	<b>-</b>	<b>24.8</b>

**Receivables by type of collateral EEK million**  
**2009**

Type of loan	Mortgage	Commercial pledge	Surety	Leased assets	Uninsured	Others	Total
<b>Loans to corporate entities</b>	<b>174.4</b>	<b>13.9</b>	<b>22.1</b>	<b>9.5</b>	<b>-</b>	<b>35.6</b>	<b>255.5</b>
Investment loans	139.1	8.9	10.8	-	-	-	158.8
Overdraft facilities	32.6	5.0	11.3	-	-	-	48.9
Leases	2.7	-	-	9.2	-	-	11.9
Other loans	-	-	-	0.3	-	35.6	35.9
<b>Loans to individuals</b>	<b>28.7</b>	<b>-</b>	<b>12.7</b>	<b>2.9</b>	<b>0.3</b>	<b>3.4</b>	<b>48.0</b>
Housing loans	13.7	-	-	-	0.3	-	14.0
Other loans	15.0	-	12.7	2.9	-	3.4	34.0
<b>Total loans to customers</b>	<b>203.1</b>	<b>13.9</b>	<b>34.8</b>	<b>12.4</b>	<b>0.3</b>	<b>39.0</b>	<b>303.5</b>

**2008**

Type of loan	Mortgage	Commercial pledge	Surety	Leased assets	Uninsured	Others	Total
<b>Loans to corporate entities</b>	<b>196.9</b>	<b>19.5</b>	<b>41.9</b>	<b>33.3</b>	<b>56.0</b>	<b>6.7</b>	<b>354.3</b>
Investment loans	161.1	11.9	30.2	-	-	-	203.2
Overdraft facilities	31.8	7.5	11.7	-	-	-	51.0
Leases	2.2	-	-	33.3	-	-	35.5
Other loans	1.8	0.1	-	-	56.0	6.7	64.6
<b>Loans to individuals</b>	<b>30.8</b>	<b>-</b>	<b>12.9</b>	<b>10.3</b>	<b>0.4</b>	<b>1.9</b>	<b>56.3</b>
Housing loans	14.0	-	-	-	0.4	-	14.4
Other loans	16.8	-	12.9	10.3	0.0	1.9	41.9
<b>Total loans to customers</b>	<b>227.7</b>	<b>19.5</b>	<b>54.8</b>	<b>43.6</b>	<b>56.4</b>	<b>8.6</b>	<b>410.6</b>

**Overdue loans and receivables EEK million**
**2009**

Type of loan	Loans to corporate entities			Loans to individuals			Total
	Investment loans	Overdraft facilities	Leasing	Other loans	Housing loans	Other loans	
<b>Not overdue, incl.</b>	<b>123.0</b>	<b>11.7</b>	<b>7.4</b>	<b>6.3</b>	<b>13.0</b>	<b>33.1</b>	<b>194.5</b>
Not written down	101.2	11.7	7.4	6.3	12.3	33.1	193.1
Not written down, renegotiated*	21.1	-	-	-	-	-	21.1
Written down individually	0.7	-	-	-	0.7	-	1.4
<b>Overdue but not written down</b>	<b>9.7</b>	<b>--</b>	<b>4.5</b>	<b>0.3</b>	<b>0.4</b>	<b>0.9</b>	<b>15.8</b>
Up to 30 days overdue	3.8	-	3.0	-	0.4	-	7.2
30-60 days overdue	4.0	-	-	-	-	0.4	4.4
60-90 days overdue	-	-	-	-	-	0.5	0.5
More than 90 days overdue	1.9	-	1.5	0.3	-	-	3.7
<b>Overdue and written down individually</b>	<b>26.1</b>	<b>37.2</b>	<b>-</b>	<b>29.3</b>	<b>0.6</b>	<b>0.0</b>	<b>93.2</b>
More than 90 days overdue	26.1	37.2	-	29.3	0.6	-	93.2
<b>Total loans to customers</b>	<b>158.8</b>	<b>48.9</b>	<b>11.9</b>	<b>35.9</b>	<b>14.0</b>	<b>34.0</b>	<b>303.5</b>
Less: allowance for loan losses	-8.6	-22.8	-	-17.0	-0.8	-	-49.2
<b>Total loans to customers, net</b>	<b>150.2</b>	<b>26.1</b>	<b>11.9</b>	<b>18.9</b>	<b>13.2</b>	<b>34.0</b>	<b>254.3</b>

\*Characteristics of renegotiated loans: significant change in payment schedule, temporary lowering of interest rates or capitalisation of accumulated interests, postponement of loan due date, seizing control over the company/project by the Group.

**2008**

Type of loan	Loans to corporate entities				Loans to individuals		Total
	Investment loans	Over-draft facilities	Leasing s	Other loans	Housing loans	Other loans	
<b>Not overdue, incl.</b>	<b>170.0</b>	<b>17.0</b>	<b>29.7</b>	<b>62.6</b>	<b>13.9</b>	<b>34.2</b>	<b>327.4</b>
Not written down	169.1	17.0	29.6	62.6	13.1	34.2	325.6
Written down	0.9	-	0.1	-	0.8	-	1.8
<b>Overdue but not written down</b>	<b>23.1</b>	<b>18.6</b>	<b>5.6</b>	<b>0.2</b>		<b>7.7</b>	<b>55.2</b>
Up to 30 days overdue	5.6	5.4	2.6	-	-	0.2	13.8
30-60 days overdue	3.2	-	1.3	-	-	0.6	5.1
60-90 days overdue	-	13.2	0.4	0.2	-	-	13.8
more than 90 days overdue	14.3	-	1.3	-	-	6.9	22.5
<b>Overdue and written down individually</b>	<b>10.1</b>	<b>15.4</b>	<b>0.2</b>	<b>1.8</b>	<b>0.5</b>	<b>-</b>	<b>28.0</b>
More than 90 days overdue	10.1	15.4	0.2	1.8	0.5	-	28.0
<b>Total loans to customers</b>	<b>203.2</b>	<b>51.0</b>	<b>35.5</b>	<b>64.6</b>	<b>14.4</b>	<b>41.9</b>	<b>410.6</b>
Less: allowance for loan losses	-18.2	-4.4	-0.3	-1.7	-0.2	-	-24.8
<b>Total loans to customers, net</b>	<b>185.0</b>	<b>46.6</b>	<b>35.2</b>	<b>62.9</b>	<b>14.2</b>	<b>41.9</b>	<b>385.8</b>

As at 31.12.2008 there were no renegotiated loans.

**Receivables not overdue by credit classes EEK million**
**2009**

Type of loan	Loans to corporate entities				Loans to individuals		Total
	Investment loans	Overdraft facilities	Leasing s	Other loans	Housing loans	Other loans	
<b>Not overdue, incl.</b>	<b>123.0</b>	<b>11.7</b>	<b>7.4</b>	<b>6.3</b>	<b>13.0</b>	<b>33.1</b>	<b>194.5</b>
<b>Not written down</b>	<b>122.3</b>	<b>11.7</b>	<b>7.4</b>	<b>6.3</b>	<b>12.3</b>	<b>33.1</b>	<b>193.1</b>
credit class A	44.7	4.7	7.4	6.3	12.3	33.0	108.4
credit class B	22.5	7.0	-	-	-	0.1	29.6
credit class C	55.1	-	-	-	-	-	55.1
<b>Written down</b>	<b>0.7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.7</b>	<b>-</b>	<b>1.4</b>
credit class C	0.7	-	-	-	-	-	0.7
credit class E	-	-	-	-	0.7	-	0.7

**2008**

Type of loan	Loans to corporate entities				Loans to individuals		Total
	Investment loans	Overdraft facilities	Leasings	Other loans	Housing loans	Other loans	
<b>Not overdue, incl.</b>	<b>170.0</b>	<b>17.0</b>	<b>29.7</b>	<b>62.6</b>	<b>13.9</b>	<b>34.2</b>	<b>327.4</b>
<b>Not written down</b>	<b>160.5</b>	<b>17.0</b>	<b>29.6</b>	<b>62.6</b>	<b>13.1</b>	<b>34.2</b>	<b>317.0</b>
credit class A	83.2	11.8	29.6	62.6	13.1	34.2	234.5
credit class B	33.5	5.2	-	-	-	-	38.7
credit class C	43.8	-	-	-	-	-	43.8
<b>Written down</b>	<b>9.5</b>	<b>-</b>	<b>0.1</b>	<b>-</b>	<b>0.8</b>	<b>-</b>	<b>10.4</b>
credit class A	-	-	0.1	-	0.8	-	0.9
credit class B	0.9	-	-	-	-	-	0.9
credit class D	8.6	-	-	-	-	-	8.6

**Collateral for loans written down and overdue EEK million**
**2009**

Type of loan	Loans to corporate entities				Loans to individuals		Total
	Investment loans	Overdraft facilities	Leases	Other loans	Housing loans	Other loans	
<b>Overdue but not written down</b>	<b>20.9</b>	<b>-</b>	<b>19.8</b>	<b>0.3</b>	<b>0.5</b>	<b>3.9</b>	<b>45.4</b>
Mortgage	11.2	-	2.1	-	0.5	-	13.8
Commercial pledge	7.5	-	-	-	-	-	7.5
Surety	1.7	-	-	-	-	0.1	1.8
Leased assets	-	-	17.7	-	-	3.8	21.5
Others	0.5	-	-	0.3	-	-	0.8
<b>Written down individually</b>	<b>55.9</b>	<b>101.1</b>	<b>-</b>	<b>27.4</b>	<b>3.4</b>	<b>0.1</b>	<b>187.9</b>
Mortgage	41.4	66.6	-	-	3.4	-	111.4
Commercial pledge	-	13.5	-	-	-	-	13.5
Surety	14.5	21.0	-	-	-	-	35.5
Leased assets	-	-	-	0.2	-	-	0.2
Others	-	-	-	27.2	-	0.1	27.3
<b>Total loans to customers</b>	<b>76.8</b>	<b>101.1</b>	<b>19.8</b>	<b>27.7</b>	<b>3.9</b>	<b>4.0</b>	<b>233.3</b>

**2008**

Type of loan	Loans to corporate entities			Loans to individuals			Total
	Investment loans	Over-draft facilities	Leases	Other loans	Housing loans	Other loans	
<b>Overdue but not written down</b>	<b>48.8</b>	<b>33.4</b>	<b>8.1</b>	-	-	<b>10.2</b>	<b>100.5</b>
Mortgage	35.8	27.6	1.5	-	-	0.7	65.6
Commercial pledge	-	2.0	-	-	-	-	2.0
Surety	13.0	1.8	-	-	-	-	14.8
Leased assets	-	-	6.6	-	-	9.5	16.1
Others	-	2.0	-	-	-	-	2.0
<b>Written down individually</b>	<b>6.3</b>	<b>66.1</b>	<b>18.8</b>	-	<b>3.4</b>	<b>0.1</b>	<b>94.7</b>
Mortgage	-	31.7	-	-	3.4	-	35.1
Commercial pledge	3.1	13.4	-	-	-	-	16.5
Surety	3.2	21.0	-	-	-	-	24.2
Leased assets	-	-	18.8	-	-	-	18.8
Others	-	-	-	-	-	0.1	0.1
<b>Total loans to customers</b>	<b>55.1</b>	<b>99.5</b>	<b>26.9</b>	-	<b>3.4</b>	<b>10.3</b>	<b>195.2</b>

**Repossessed collateral**

	Agricultural equipment	Vehicles	Real estate	Other assets	Total
<b>Balance 31.12.2007</b>	<b>2.6</b>	-	-	-	<b>2.6</b>
Repossessed collateral	-	-	-	0.8	0.8
Sold assets	-1.2	-	-	-0.2	-1.4
Revaluation	-0.1	-	-	-0.4	-0.5
<b>Balance 31.12.2008</b>	<b>1.3</b>	-	-	<b>0.2</b>	<b>1.5</b>
Repossessed collateral	-	0.5	1.9	-	2.4
Sold assets	-	-	-	-0.1	-0.1
Revaluation	-0.2	-0.2	0.6	-	0.2
<b>Balance 31.12.2009</b>	<b>1.1</b>	<b>0.3</b>	<b>2.5</b>	<b>0.1</b>	<b>4.0</b>

In 2009, the Group acquired the assets held as collateral for lease agreements in the amount of EEK 2.4 million. The funds from the disposal of the assets taken over will be used towards debt reduction. On the date of preparation of the statement of financial position, agricultural equipment, vehicles and real estate properties have been revalued by an independent expert to net realisable value, using the comparable market transactions as the basis. The assets taken over are carried in the statement of financial position under *Other assets*, gains and losses from revaluation are included in the income statement items *Other operating income* and *Other operating expenses*.

**Finance lease net and gross investments**

Analysis of the gross investment of finance lease receivables and future rental income as of 31 December 2009 and 2008:

	(EEK million)	
	<b>Present value of receivables</b>	
	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>Total gross investments of receivables</b>	<b>18.4</b>	<b>58.2</b>
Up to 1 year	10.2	27.3
Between 1 and 5 years	7.9	28.0
After 5 years	0.3	2.9
Less: Future interest income	-1.6	-10.5
<b>Total present value of receivables</b>	<b>16.8</b>	<b>47.7</b>
long-term receivables (over 1 year)	7.2	20.2
short-term receivables (less than 1 year)	9.6	27.5

Receivables by economic sectors are disclosed in Note 4 *Risk management*, pg. 47.

Receivables by currencies are disclosed in Note 4 *Risk management*, pg. 49.

Receivables by due dates are disclosed in section 2.13 of Management report, pg 18.

Receivables by countries are disclosed in Note 4 *Risk management*, pg. 50.

### **Note 8. Other receivables**

*Other receivables* comprise the receivables transferred to the collection agency in the amount of EEK 34.0 million. The receivables were transferred to the collection agency together with directly related collaterals and their rights. The collection agency shall pay the Group 95% of the amount it receives (but not more than the agreed price for the receivables) and the payment obligation arises only after the receipt of cash by the collection agency. The receivables are additionally secured by mortgage of first ranking on real estate properties in favour of the Group, which market value of EEK 18.8 million has been determined by valuation reports from independent valuator ERI Kinnisvara OÜ.

### **Note 9. Other assets**

Other assets are as follows:

	(EEK million)	
	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>Financial assets, incl.</b>	<b>5.4</b>	<b>4.3</b>
Cash in transit	3.2	2.2
Interest	2.2	2.1
<b>Other assets, incl.</b>	<b>8.2</b>	<b>9.9</b>
Assets for sale	4.6	1.5
Prepaid taxes*	0.1	5.5
Prepaid expenses	1.6	1.8
Other accounts receivable	1.5	-
Other assets	0.4	1.1
<b>Total</b>	<b>13.6</b>	<b>14.2</b>

Assets for sale include collector coins and assets repossessed on the basis of the lease agreement by TBB Liisingu AS which have not yet been disposed of (see Note 7).

**Note 10. Property, plant and equipment**

Property, plant and equipment are as follows:

(EEK million)

	Improvements of leased PP&E	Buildings	Vehicles	Office equipment	Prepayments	Total PP&E
<b>Historical cost</b>						
<b>As of 31 December 2007</b>	<b>24.7</b>	<b>0.6</b>	<b>1.8</b>	<b>24.5</b>	<b>-</b>	<b>51.6</b>
Acquisitions	-	-	-	-	21.9	21.9
Fully amortised property, plant and equipment written of balance sheet	-	-	-	-4.8	-	-4.8
Reclassification from prepayment for PP&E	1.2	15.3		5.4	-21.9	-
<b>As of 31 December 2008</b>	<b>25.9</b>	<b>15.9</b>	<b>1.8</b>	<b>25.1</b>	<b>-</b>	<b>68.7</b>
Acquisitions	-	-		-	6.6	6.6
Fully amortised property, plant and equipment written of balance sheet	-	-	-	-0.3	-	-0.3
Reclassification	-	-	-	-	-0.1	-0.1
Reclassification from prepayment for PP&E	0.2	-	1.5	4.8	-6.5	-
Outflow related to sale of subsidiary	-	-	-0.3	-0.1	-	-0.4
Exchange difference	-	-	-0.1	-	-	-0.1
<b>As of 31 December 2009</b>	<b>26.1</b>	<b>15.9</b>	<b>2.9</b>	<b>29.5</b>	<b>-</b>	<b>74.4</b>
<b>Accumulated depreciation</b>						
<b>As of 31 December 2007</b>	<b>-9.3</b>	<b>-0.3</b>	<b>-0.3</b>	<b>-18.5</b>	<b>-</b>	<b>-28.4</b>
Depreciation	-1.4	-	-0.2	-3.5	-	-5.1
Fully amortised property, plant and equipment written of balance sheet	-	-	-	4.8	-	4.8
<b>As of 31 December 2008</b>	<b>-10.7</b>	<b>-0.3</b>	<b>-0.5</b>	<b>-17.2</b>	<b>-</b>	<b>-28.7</b>
Depreciation	-1.4	-0.3	-0.4	-4.3	-	-6.4
Fully amortised property, plant and equipment written of balance sheet	-	-	-	0.3	-	0.3
Outflow related to sale of subsidiary	-	-	0.1	0.1	-	0.2
<b>As of 31 December 2009</b>	<b>-12.1</b>	<b>-0.6</b>	<b>-0.8</b>	<b>-21.1</b>	<b>-</b>	<b>-34.6</b>
<b>Carrying amount</b>						
<b>As of 31 December 2007</b>	<b>15.4</b>	<b>0.3</b>	<b>1.5</b>	<b>6.0</b>	<b>-</b>	<b>23.2</b>
<b>As of 31 December 2008</b>	<b>15.2</b>	<b>15.6</b>	<b>1.3</b>	<b>7.9</b>	<b>-</b>	<b>40.0</b>
<b>As of 31 December 2009</b>	<b>14.0</b>	<b>15.3</b>	<b>2.1</b>	<b>8.4</b>	<b>-</b>	<b>39.8</b>

The items of property, plant and equipment are the assets used by Tallinna Äripanga AS and other group entities, and they have not been pledged to third parties.

### Note 11. Investment property

Investment property includes land and buildings acquired by AS TBB Invest and AS Morgan Trade, presented at fair value.

Analysis of changes in the balance of investment property:

	(EEK million)	
	31.12.2009	31.12.2008
<b>Balance at the beginning of the year</b>	<b>272.1</b>	<b>287.5</b>
Additions	3.5	0.9
Disposals	-1.0	-
Reclassification from prepayment	-	0.1
Gain from revaluation of fair value	1.3	2.9
Loss from revaluation of fair value	-80.5	-19.3
<b>Balance at the end of the year</b>	<b>195.4</b>	<b>272.1</b>

In 2009, the Group earned rental income from investment property in the amount of EEK 183 thousand and revenue in the amount of EEK 109 thousand, direct expenses related to administration of investment property amounted to EEK 1 223 thousand, incl. expenditure in the amount of EEK 353 thousand on investment property earning rental income. In 2008, rental income from investment property totalled EEK 190 thousand and direct expenses attributable to administration of investment property totalled EEK 4 671 thousand, incl. expenditure in the amount of EEK 269 thousand on investment property earning rental income.

On the date of preparation of the statement of financial position, all investment properties were revalued to fair value by an independent expert, based on comparable transactions in the market which in some cases were compared to the expected future cash flows from these investment properties. Revenue from investment properties and administrative expenses are reported in the income statement items *Other operating income* and *Other operating expenses*. Gains and losses from revaluation are reported in separate accounts in the income statement.

### Note 12. Payables to credit institutions

Payables to credit institutions are as follows:

	(EEK million)	
	31.12.2009	31.12.2008
Demand deposits	0.1	-
Loan	57.0	106.8
<b>Total</b>	<b>57.1</b>	<b>106.8</b>

As of 31 December 2009, the payables to other credit institutions contain short-term loans from Swedbank AS taken by AS TBB Invest and AS Morgan Trade in the amount of EEK 57.0 million and with the maturity in 2010. In addition to the loans taken by Leasing, the payables as of 31 December 2008 included the amounts borrowed from International Joint-Stock Bank of Russia in the amount of RUB 52.0 million (EEK 19.6 million), with the maturity in 2010.

**Note 13. Payables to customers**

Payables to customers by sectors are as follows:

	(EEK million)	
	31.12.2009	31.12.2008
Corporate entities	1023.2	839.3
Individuals	263.4	225.1
<b>Total</b>	<b>1 286.6</b>	<b>1 064.4</b>

Other liabilities and accrued expenses are as follows:

	(EEK million)	
	31.12.2009	31.12.2008
Demand deposits	845.6	733.1
Deposits with maturities of less than 3 months	288.6	203.0
Deposits with maturities between 3 months - 1 year	148.4	118.5
Deposits with maturities between 1 - 5 years	4.0	9.8
<b>Total</b>	<b>1 286.6</b>	<b>1 064.4</b>

**Note 14. Other debts**

	(EEK million)	
	31.12.2009	31.12.2008
Corporate entities	23.6	52.9
MES	41.5	54.9
<b>Total</b>	<b>65.1</b>	<b>107.8</b>

Other payables include loans from the Maaelu Edendamise Sihtasutus (MES; Rural Development Foundation) for targeted financing of agricultural entities via the Bank in the amount of EEK 35.5 million and via TBB Liisingu AS in the amount of EEK 6.0 million. Other liabilities also include a loan taken by AS Morgan Trade and AS TBB Invest from a third party in the total amount of EEK 23.6 million.

	31.12.2009	31.12.2008
Due in 3 months	3.1	12.8
Due between 3 months to 1 year	27.6	43.9
Due between 1 year to 5 year	20.5	25.2
Due after 5 years	13.9	25.9
<b>Kokku</b>	<b>65.1</b>	<b>107.8</b>

**Note 15. Other liabilities and accrued expenses**

Other liabilities and accrued expenses are as follows:

	(EEK million)	
	31.12.2009	31.12.2008
<b>Financial liabilities, incl.</b>	<b>200.4</b>	<b>1730.3</b>
- Payments in transit	13.7	60.4
- Other liabilities	2.7	2.2
- Liabilities arising from intermediation of precious metals (Note 21, 23)	180.6	1 661.9
- Interest liabilities	3.4	5.8
<b>Other liabilities (accrued expenses)</b>	<b>3.1</b>	<b>3.7</b>
<b>Total</b>	<b>203.5</b>	<b>1 734.0</b>

---

**Note 16. Subordinated liabilities**

As of 31 December 2009, the Bank has subordinated borrowings in the amount of USD 9.8 million (EEK 106.5 million) and the amount has not changed compared to earlier period.

As of 31 December 2001, the lender of the subordinated loan was Metropol Bank operating in Moscow. On 5 September 2002, Metropol Bank assigned its receivables from Tallinn Business Bank to Pennygold Trading Supplies, Ireland. The loan amount was USD 1.8 million (EEK 19.6 million), the annual interest rate was 5.9% in 2008 and the due date of the loan is 20 October 2010. According to the agreement, interest payments are made on a quarterly basis, but payments could be postponed if the Bank is not profitable in a particular period.

In December 2008, Tallinn Business Bank took a subordinated loan in the amount of USD 8.0 million (EEK 86.9 million). The lender is the shareholder of the Bank - Grand Marketing AS, Estonia. The annual interest rate is 3.2% and the maturity date is 20 November 2014. According to the agreement, interest payments are made on a monthly basis.

**Note 17. Share capital**

As of 31 December 2009 and 2008, the share capital of Tallinn Business Bank consisted of 22 975 392 ordinary shares with the nominal value of 10 EEK per share.

On 14 April 2008, AS Leonarda Invest became a shareholder with significant influence of the Tallinn Business Bank. As of 31 December 2009 and 2008, its ownership interest totalled 21.84 % and 28.42%, respectively, of the total number of the shares of the Bank. As of 31 December 2009 and 2008, the individual ownership interest of the rest of the shareholders was below 10% (see pg. 8).

As of 31 December 2009 and 2008, the Bank had not redeemed any own shares.

According to the Credit Institutions Act, the share capital of a credit institution shall be at least EUR 5 million, i.e. EEK 78.2 million. The share capital of Tallinn Business Bank is in compliance with this requirement, and hence, there is no need to make additional changes to it.

**Note 18. Contingent assets and liabilities**

	(EEK million)			
	31.12.2009		31.12.2008	
	Receivable s	Liabilities	Receivable s	Liabilities
<b>Non-cancellable transactions</b>	-	<b>32.8</b>	<b>0.7</b>	<b>50.8</b>
Guarantees and other similar non-cancellable transactions, incl. financial guarantee	-	19.9	0.7	38.9
Undrawn portion of credit and overdraft facilities	-	3.5	-	2.4
Other non-cancellable transactions	-	9.4	-	9.5
<b>Cancellable transactions</b>	-	<b>6.2</b>	-	<b>7.9</b>
Undrawn portion of credit and overdraft facilities	-	6.2	-	7.9

### Operating lease liability

Tallinna Äripanga AS and AS Grand Marketing have entered into a lease agreement for an office building located in Tallinn with the term of 30 years (until 2030). According to the lease agreement, the Bank is required to carry out repair works in the leased office building in the amount EEK 14 486 thousand, to be offset with lease payments over a 10-year period. As of 31 December 2000, the Bank has fulfilled its obligation to perform repair works in full. Lease payments make up 65% of the average rental prices of similar properties in the region during 10 years from the beginning of the rental period and during the following 5 years.

Upon premature cancellation of the operating lease agreement, the Bank has the obligation to notify of it at least three (3) months in advance. Upon premature cancellation of the operating lease agreement, the Bank is under no obligation to pay any fees, fines or compensation.

### Note 19. Interest income

Interest income is as follows:

	(EEK million)	
	<b>31.12.2009</b>	<b>31.12.2008</b>
On loans	15.3	22.8
On deposits	8.0	28.6
On lease activities	4.0	6.3
Other	0.2	0.1
<b>Total</b>	<b>27.5</b>	<b>57.8</b>

As of 31 December 2009 and 2008, the weighted average interest rate on loans granted was 2.90% and 6.89%, respectively.

As of 31 December 2009 and 2008, the average interest rate on time deposits was 6.85% and 1.18%, respectively.

As of 31 December 2009 and 2008, the average interest rate on finance lease agreements was 5.66% and 11.42%, respectively.

### Note 20. Interest expense

Interest expense is as follows:

	(EEK million)	
	<b>31.12.2009</b>	<b>31.12.2008</b>
On loans	-12.0	-17.9
On deposits	-14.8	-19.3
<b>Total</b>	<b>-26.8</b>	<b>-37.2</b>

In 2009, the average interest rates on customers' time and demand deposits were 2.69% and 0.20%, respectively. In 2008, the average interest rates on customers' time and demand deposits were 4.31% and 0.20%, respectively.

**Note 21. Fee and commission income**

	(EEK million)	
	31.12.2009	31.12.2008
Transfers	17.3	23.9
Cash transactions	2.0	4.0
Transactions with precious metals	19.8	6.1
Organisation of loans and guarantees	0.7	1.4
Bank cards	1.8	1.9
Securities transaction and administration fees	0.1	0.1
Other	3.3	3.3
<b>Total</b>	<b>45.0</b>	<b>40.7</b>

Tallinn Business Bank as an intermediary participates in international precious metal markets. The main activity is intermediation of transactions involving precious metals produced in Russia to large banks and corporations in Europe and the US. Gains from transactions with precious metals consist of commissions and financial charges. In purchase and sales transactions with precious metals in which the Bank acts as an intermediary, all related risks and responsibility lie with the seller of the metals. As of 31 December 2009, the Bank had pending intermediation transactions involving precious metals in the gross amount of EEK180.6 million (see Note 15).

**Note 22. Fee and commission expenses**

	(EEK million)	
	31.12.2009	31.12.2008
Making of transfers	-7.6	-10.7
Collecting and cash transaction fees	-0.9	-1.4
Organisation of loans and guarantees fees	-0.1	-0.1
Card services	-2.1	-2.5
Data processing fees	-3.3	-3.4
Others	-0.4	-0.8
<b>Total</b>	<b>-14.4</b>	<b>-18.9</b>

**Note 23. Net gains from financial transactions**

	(EEK million)	
	31.12.2009	31.12.2008
Net gains from currency exchange transactions	14.0	13.7
Gains from transactions with precious metals	3.5	9.0
Gains from securities transactions	-	-0.1
<b>Total</b>	<b>17.5</b>	<b>22.6</b>

**Note 24. Wages and salaries, and social security taxes**

Wages and salaries, and social security taxes are as follows:

	(EEK million)	
	<b>31.12.2009</b>	<b>31.12.2008</b>
Management remuneration	-5.8	-8.6
Employee wages and salaries	-10.4	-11.6
Social security taxes	-5.3	-6.5
<b>Total</b>	<b>-21.5</b>	<b>-26.7</b>

In 2009 and 2008, the average number of employees at the Group was 61 and 64, respectively.

**Note 25. Other administrative expenses**

Other administrative expenses are as follows:

	(EEK million)	
	<b>31.12.2009</b>	<b>31.12.2008</b>
Security services	-1.3	-1.1
Rent	-0.2	-1.6
Common utilities	-0.6	-0.5
Maintenance and repairs	-1.0	-0.8
Transportation	-0.5	-0.3
Expenses related to business trips	-0.3	-0.7
Communication and postal expenses	-0.4	-0.6
Office supplies	-0.5	-0.7
Marketing	-0.1	-0.4
Representational expenses	-0.2	-0.2
Training expenses	-0.1	-0.3
Other expenses	-2.3	-3.9
<b>Total</b>	<b>-7.5</b>	<b>-11.1</b>

**Note 26. Other operating income**

	(EEK million)	
	<b>31.12.2009</b>	<b>31.12.2008</b>
Other income and rental income on real estate properties (Note 11)	0.3	0.2
Penalties and fines	0.3	2.4
Other operating income	0.7	0.8
<b>Total</b>	<b>1.3</b>	<b>3.4</b>

**Note 27. Other operating expenses**

	(EEK million)	
	<b>31.12.2009</b>	<b>31.12.2008</b>
Guarantee Fund payments	-	-2.1
Financial Supervision Authority supervision fees	-1.0	-0.9
Expenses related to management of investment properties (Note 11)	-1.2	-4.7
Other operating expenses	-2.0	-1.6

<b>Total</b>	<b>-4.2</b>	<b>-9.3</b>
--------------	-------------	-------------

***Note 28. Accrued and paid income taxes, and contingent income tax on dividends***

The Bank's retained earnings as of 31 December 2009 amounted to EEK 1.9 million (31 December 2008: EEK 101.9 million). The maximum contingent income tax liability, which would accompany the payment of net dividends out of retained earnings is EEK 0.5 million (31 December 2008: EEK 27.1 million). When calculating the maximum contingent tax liability, it has been assumed that the net amount of distributable dividends cannot exceed the amount of retained earnings as of 1 January 2010.

***Note 29. Related parties***

In the consolidated financial statements of Tallinn Business Bank, the related parties include:

- shareholders with significant influence;
- management and members of the Supervisory Board;
- close relatives of the persons mentioned above and the related entities.

Transactions with related parties are carried out at market value. Receivables from related parties have not been written down as at 31 December 2009 and 31 December 2008 and during both periods. The Group has not issued guarantees to related parties.

<b>Group</b>	(EEK million)			
	<b>31.12.2009</b>		<b>31.12.2008</b>	
	<b>Amount</b>	<b>Interest</b>	<b>Amount</b>	<b>Interest</b>
Loan receivable from related parties	7.6	3-8.5%	5.3	3-6.5%
Remuneration of the members of Supervisory and Management Boards during the period	5.8	x	6.5	X

In 2009, loans given to related parties amounted to EEK 21.1 million (2008: EEK 13.7 million) and related parties repaid the loans in the amount of EEK 18.8 million (2008: EEK 14.6 million). The interest revenue from loans to related parties amounted to EEK 0.3 million in 2009 and EEK 0.2 million in 2008.

**Note 30. Sale of subsidiary**

On 23 December 2009, a 99% ownership interest in the company TBB Leasing, located in Russia was sold. The Management Board estimates that the above sale does not constitute discontinued operations, because it did not represent a significant operating area for the Group. As of the time of sales, the following balances were reported in the balance sheet:

	(EEK thousand)
<b>ASSETS</b>	<b>23.12.2009</b>
<b>Receivables</b>	<b>70 963</b>
Receivables from credit institutions	281
Receivables from leasing companies & customers	70 682
<b>Property, plant and equipment</b>	<b>209</b>
<b>Accrued income and prepaid expenses</b>	<b>2 819</b>
<b>TOTAL ASSETS</b>	<b>73 991</b>
<b>LIABILITIES AND EQUITY</b>	
<b>Payables</b>	<b>82 711</b>
Payables to credit institutions	17 233
Others payables	65 478
<b>Others liabilities</b>	<b>774</b>
<b>Accrued expenses and deferred income</b>	<b>3 957</b>
<b>Total liabilities</b>	<b>87 442</b>
Share capital	710
Currency translation reserve	1 852
Retained losses	-11 915
Loss for the financial year	-4 098
<b>Total equity</b>	<b>-13 451</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>73 991</b>

Adjusted sales analysis of the sold ownership interest as of the date of sale was as follows:

<b>Net assets</b>	<b>-13 451</b>
Sales price	-744
Sales proceeds	<b>14 195</b>
Adjustment through currency translation reserve	<b>1 852</b>
<b>Gain from sale of subsidiary</b>	<b>16 047</b>

---

**Income statement**

<b>Item</b>	<b>2009</b>
Interest income	3 222
Interest expense	-5 064
<b>Net interest loss</b>	<b>-1 842</b>
<b>Net fee and commission income</b>	<b>-7</b>
<b>Net loss on financial transactions</b>	<b>-1 134</b>
<b>Administrative expenses</b>	<b>-1 304</b>
Wages and salaries	-671
Social security taxes, unemployment insurance premium	-79
Other administrative expenses	-554
<b>Depreciation</b>	<b>-82</b>
<b>Change in value of receivables and contingent liabilities</b>	<b>-</b>
Profit/income	2 120
Loss/expense	-2 120
<b>Other operating income and expenses</b>	<b>-403</b>
Other operating income	-
Other operating expenses	-403
<b>Profit/loss before tax</b>	<b>-4 772</b>
<b>Income tax expense</b>	<b>-674</b>
Change in contingent income tax liabilities	-674
<b>Net loss for the financial year</b>	<b>-4 098</b>

*Note 31. Parent's unconsolidated statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement  
 EEK million*

**STATEMENT OF FINANCIAL POSITION OF TALLINN BUSINESS BANK**

<b>ASSETS</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>Cash</b>	<b>30.8</b>	<b>7.4</b>
<b>Receivables</b>	<b>1 867.1</b>	<b>3 227.3</b>
Receivables from Central Bank	170.9	139.5
Receivables from credit institutions	1 220.2	2 601.9
Receivables from customers	474.2	522.0
Other receivables	34.0	-
Allowances for receivables and loan losses	-32.2	-36.1
<b>Other assets</b>	<b>7.9</b>	<b>7.2</b>
<b>Shares and other securities</b>	<b>11.9</b>	<b>37.3</b>
<b>Property, plant and equipment</b>	<b>39.1</b>	<b>38.7</b>
<b>TOTAL ASSETS</b>	<b>1 956.8</b>	<b>3 317.9</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Payables</b>	<b>1 322.2</b>	<b>1 113.6</b>
Payables to credit institutions	0.1	-
Payables to credit institutions customers	1 322.1	1 113.6
<b>Others liabilities and accrued expenses</b>	<b>287.7</b>	<b>1 730.0</b>
<b>Subordinated liabilities</b>	<b>106.5</b>	<b>108.8</b>
<b>TOTAL LIABILITIES</b>	<b>1 716.4</b>	<b>2 952.4</b>
Share capital	229.8	229.8
Reserves	8.7	7.6
Retained earnings	1.9	128.1
<b>TOTAL EQUITY</b>	<b>240.4</b>	<b>365.5</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1 956.8</b>	<b>3 317.9</b>

---

**STATEMENT OF COMPREHENSIVE INCOME OF TALLINN BUSINESS BANK**

	<b>2009</b>	<b>2008</b>
<b>Interest income</b>	<b>32.8</b>	<b>68.5</b>
<b>Interest expense</b>	<b>-20.6</b>	<b>-22.0</b>
<b>Net interest income</b>	<b>12.2</b>	<b>46.5</b>
<b>Income from securities</b>	<b>-134.9</b>	<b>-</b>
Loss from revaluation of long-term financial investments	-134.9	-
<b>Net fee and commission income</b>	<b>30.6</b>	<b>22.0</b>
Fee and commission income	45.0	40.9
Fee and commission expense	-14.4	-18.9
<b>Net income from financial transactions</b>	<b>18.6</b>	<b>26.5</b>
<b>Administrative expenses</b>	<b>-25.8</b>	<b>-32.0</b>
Wages and salaries	-14.5	-17.7
Social security taxes, unemployment insurance premium	-4.8	-5.9
Other administrative expenses	-6.5	-8.4
<b>Depreciation</b>	<b>-6.1</b>	<b>-4.8</b>
<b>Changes in value of receivables and contingent sheet liabilities</b>	<b>-18.7</b>	<b>31.7</b>
Income/profit	14.6	2.3
Expense/loss	-33.3	-34.0
<b>Other operating income and expenses</b>	<b>-1.0</b>	<b>-3.0</b>
Other operating income	0.2	0.2
Other operating expense	-1.2	-3.2
<b>Profit/loss before taxes</b>	<b>-125.1</b>	<b>23.5</b>
<b>Income tax expense</b>	<b>-</b>	<b>-</b>
<b>Net profit/loss for the financial year</b>	<b>-125.1</b>	<b>23.5</b>
<b>Comprehensive income/loss for the financial year</b>	<b>-125.1</b>	<b>23.5</b>

**CASH FLOW STATEMENT OF TALLINN BUSINESS BANK**

	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
<b>Pre-tax profit/loss for the reporting period</b>	<b>-125.1</b>	<b>23.5</b>
<b>Adjustments for:</b>		
Depreciation and impairment	6.1	4.8
Change in allowance for loan losses	16.8	31.5
Unrealised gain/loss from revaluation of subordinated loan	-2.3	0.8
Unrealised loss from revaluation of investment in subsidiaries	134.9	-
Net interest income	-12.2	-46.5
Changes in assets related to the operating activities	1 727.3	-1 874.2
Changes in liabilities related to the operating activities	-1 233.0	1 705.6
Interest earned	34.3	68.5
Interest paid	-21.3	-20.5
<b>Net cash flows used in operating activities</b>	<b>525.5</b>	<b>-106.5</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	-6.5	-21.9
Increase of share capital of subsidiaries	-110.0	-34.8
Sale of subsidiaries	0.7	-
<b>Net cash flows used in investing activities</b>	<b>-115.8</b>	<b>-56.7</b>
<b>Cash flows from financing activities</b>		
Raising of subordinated loan	-	88.8
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>88.8</b>
<b>Net change in cash</b>	<b>409.7</b>	<b>-74.4</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>737.3</b>	<b>811.7</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>1 147.0</b>	<b>737.3</b>

In these financial statements, cash and cash equivalents include cash, a correspondent account at the Bank of Estonia and demand deposits at other banks.

	<b>2009</b>	<b>2008</b>
<i>Cash</i>	30.8	7.4
<i>Correspondent account at Bank of Estonia</i>	5.7	5.0
<i>Demand deposits at banks</i>	1 110.5	724.9
<b>Total</b>	<b>1 147.0</b>	<b>737.3</b>

---

**STATEMENT OF CHANGES IN EQUITY OF TALLINN BUSINESS BANK FOR 2009 AND 2008**


---

	Share capital	Statutory reserves	Retained earnings	Total
<b>Opening balance 31.12.2007</b>	<b>229.8</b>	<b>4.9</b>	<b>107.3</b>	<b>342.0</b>
Transfers to statutory reserve capital	-	2.7	-2.7	-
Transfers to retained earnings	-	-	23.5	23.5
<b>Closing balance 31.12.2008</b>	<b>229.8</b>	<b>7.6</b>	<b>128.1</b>	<b>365.5</b>
Transfers to statutory reserve capital	-	1.1	-1.1	-
Transfers to retained earnings	-	-	-125.1	-125.1
<b>Closing balance 31.12.2009</b>	<b>229.8</b>	<b>8.7</b>	<b>1.9</b>	<b>240.4</b>
Carrying amount of ownership interests under control and significant influence				-11.7
Value of ownership interests under control and significant influence under equity method				11.9
<b>Adjusted unconsolidated equity on 31.12.2009</b>	<b>229.8</b>	<b>8.7</b>	<b>1.9</b>	<b>240.6</b>

\* \* \*

## 4. INDEPENDENT AUDITOR'S REPORT



**AS PricewaterhouseCoopers**  
Pärnu mt. 15  
10141 Tallinn  
Estonia

Telephone +372 614 1800  
Facsimile +372 614 1900  
www.pwc.ee

### INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)\*

To the Shareholders of Tallinna Äripanga AS

We have audited the accompanying consolidated financial statements of Tallinna Äripanga AS and its subsidiaries (the Group) which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

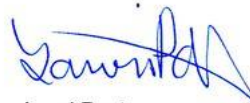
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


**Opinion**

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Tiit Raimla  
AS PricewaterhouseCoopers



Lauri Past  
Authorised Auditor

3 May 2010

---

*\* This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

## **5. PROPOSAL FOR COVERING THE LOSS**

The audited loss of the Group Tallinna Äripanga for 2009 totalled EEK 98 900 thousand.

Resolution of the Management Board:

Transfer the loss for 2009 to the balance sheet line *Retained earnings* and cover it from retained earnings.

## 6. SIGNATURES OF THE MANAGEMENT AND SUPERVISORY BOARD TO THE 2009 ANNUAL REPORT

On 30 April 2010, the Management Board prepared the management report and the financial statements of Tallinna Äripanga AS.

The Supervisory Board of Tallinna Äripanga AS has reviewed the annual report, prepared by the Management Board, consisting of the management report, the financial statements, the Management Board's proposal for covering the loss and the independent auditor's report, and has approved the annual report for presentation at the General Meeting of Shareholders.

All the members of the Management Board and the Supervisory Council have signed the annual report.

Name	Position	Signature	Date
Valeri Haritonov	Chairman of the Management Board	_____	_____
Andrei Zukov	Member of the Management Board	_____	_____
Tatjana Levitskaja	Member of the Management Board	_____	_____
Viljar Veskiväli	Chairman of the Supervisory Board	_____	_____
Rustem Usmanov	Member of the Supervisory Board	_____	_____
Aleksander Vassiljev	Member of the Supervisory Board	_____	_____
Madis Kiisa	Member of the Supervisory Board	_____	_____
Sergei Gorny	Member of the Supervisory Board	_____	_____
Arvo Sulg	Member of the Supervisory Board	_____	_____