

TALLINNA ÄRIPANGA AS
ANNUAL REPORT FOR 2002

CONTENTS

	p
1. INTRODUCTION.....	4
1.1 GENERAL INFORMATION.....	4
1.2 AUDITOR.....	4
1.3 STATEMENT BY THE MANAGEMENT BOARD.....	5
2. ACTIVITY REPORT.....	6
2.1 DESCRIPTION OF THE GROUP.....	6
2.2 SUPERVISORY AND MANAGEMENT BOARD OF TALLINNA ÄRIPANK AS AT 31.12.2002.....	6
2.3 LARGER SHAREHOLDERS IN TALLINNA ÄRIPANK AS AT 31 DECEMBER 2002.....	7
2.4 SIGNIFICANT EVENTS IN 2002.....	7
2.5 OBJECTIVES FOR 2003.....	8
2.6 RISKS.....	8
2.6.1 <i>Credit risk</i>	9
2.6.2 <i>Market risk</i>	10
2.6.3 <i>Liquidity risk</i>	11
2.6.4 <i>Country risk</i>	12
2.6.5 <i>Operational risk</i>	13
2.6.6 <i>Internal control system</i>	14
2.7 DIVIDEND POLICY.....	14
2.8 EMPLOYEES.....	15
2.9 REQUIREMENTS.....	16
2.9.1 <i>Capital adequacy</i>	16
2.9.2 <i>Net position of currencies</i>	17
2.9.3 <i>Liquidity</i>	18
2.9.4 <i>Risk concentration</i>	19
2.10 FINANCIAL RATIOS.....	20
2.11 CONSOLIDATED BALANCE SHEETS 1999-2002.....	21
2.12 RATINGS.....	21
2.13 LITIGATION.....	21
3. ANNUAL FINANCIAL STATEMENTS.....	22
3.1 CONSOLIDATED BALANCE SHEETS AND OFF-BALANCE SHEET TRANSACTIONS.....	22
3.2 CONSOLIDATED INCOME STATEMENTS.....	24
3.3 CONSOLIDATED CASH FLOW STATEMENTS.....	25
3.4 STATEMENT OF CHANGES IN EQUITY OF TALLINNA ÄRIPANK AND THE GROUP.....	26
NOTES TO THE ANNUAL FINANCIAL STATEMENTS.....	27
NOTE 1. ACCOUNTING POLICIES.....	27
NOTE 2. RECEIVABLES FROM CENTRAL BANK.....	31
NOTE 3. RECEIVABLES FROM CREDIT INSTITUTIONS.....	31
NOTE 4. RECEIVABLES FROM CLIENTS WITH THE CREDIT INSTITUTION.....	32
NOTE 5. LEASING RECEIVABLES.....	32
NOTE 6. OVERDUE RECEIVABLES AND LOANS.....	34
NOTE 7. RECEIVABLES BY GEOGRAPHIC REGION AS AT 31.12.2002.....	35
NOTE 8. RECEIVABLES BY INDUSTRY AS AT 31.12.2002.....	36

NOTE 9. INVESTMENTS	38
NOTE 10. NON-CURRENT ASSETS	40
NOTE 11. OTHER ASSETS.....	41
NOTE 12. ACCRUED INCOME AND PREPAID EXPENSES	41
NOTE 13. PAYABLES TO CREDIT INSTITUTIONS.....	41
NOTE 14. DEPOSIT ACCOUNTS.....	42
NOTE 15. OTHER LIABILITIES AND ACCRUED EXPENSES	42
NOTE 16. DEBT SECURITIES	43
NOTE 17. SUBORDINATED DEBTS	43
NOTE 18. SHARE CAPITAL	43
NOTE 19. INTEREST INCOME.....	44
NOTE 20. INTEREST EXPENSE	44
NOTE 21. NET TRADING INCOME	44
NOTE 22. SALARIES, WAGES AND SOCIAL TAXES	45
NOTE 23. GENERAL ADMINISTRATIVE EXPENSES	45
NOTE 24. INCOME TAX CALCULATED AND ACTUALLY PAID, CONTINGENT INCOME TAX LIABILITY	46
NOTE 25. OFF-BALANCE SHEET LIABILITIES.....	46
NOTE 26. RELATED PARTIES	47
NOTE 27. FAIR VALUES OF FINANCIAL INSTRUMENTS	47
AUDITOR'S REPORT.....	49
4. PROFIT DISTRIBUTION PROPOSAL	50
5. SIGNATURES TO THE ANNUAL REPORT FOR 2002.....	51

1. INTRODUCTION

1.1 General information

Company's name:	TALLINNA ÄRIPANGA AS
Address:	Vana-Viru 7, Tallinn 10111
Registered in:	Republic of Estonia
Registration date:	30.12.1991
Registration number:	10237984
Register:	Estonian commercial register

1.2 Auditor

Auditor's name:	Taivo Epner
Auditor's licence:	issued on 07.12.1992, licence No 167
Audit company:	KPMG Estonia AS
Audit company's registration number:	10096082
Audit company's address:	Ahtri 10A, Tallinn 10151

The annual financial statements of Tallinna Äripank for 2002 have been prepared as at 31 December 2002. They cover the period from 01 January 2002 to 31 December 2002. The reporting currency is the Estonian kroon and the financial disclosures have been made in EEK, million.

1.3 Statement by the management board

The management board acknowledges its responsibility for the preparation, integrity and fair presentation of the annual financial statements of Tallinna Äripanga AS for 2002 and confirms that to the best of its knowledge, information and belief:

- the annual report for 2002 comprises the preface, activity report, the annual financial statements, auditor's report, the profit distribution proposal and contains the information as established in Decree 25 "The Order for Preparing the "Official Report" in Credit Institutions" established by the President of the Bank of Estonia on 19.10.1999;
- financial disclosures and supplementary information presented in the annual report for 2002 are true and complete. No omissions have been made that would impact their content and meaning;
- the accounting policies applied at the preparation of the annual accounts comply with generally accepted accounting principles. The annual report for 2002 complies with the Estonian Accounting Act and decrees by the Bank of Estonia. The annual financial statements give a true and fair view of the financial position of Tallinna Äripanga AS and the results of operations;
- all significant events that occurred between the balance sheet date and the date on which the financial statements were authorised for issue (06.05.2003) have been properly recognised and disclosed. Tallinna Äripanga AS is a going concern;
- the official annual report for 2002 and the auditor's report will be released on 9 May 2003;
- the official annual report for 2002 will be presented to the general meeting of shareholders for approval on 24 May 2003;
- the annual report for 2001 was approved at the general meeting of shareholders on 18 May 2002.

Valeri Haritonov
Chairman of the board

Andrei Zukov
Member of the board

Tatjana Levitskaja
Member of the board

06.05.2003

2. ACTIVITY REPORT

2.1 Description of the Group

Below is the general information of companies belonging to the consolidation group of Tallinna Äripanga AS (hereinafter also referred to as "Tallinna Äripank"):

Parent company:

Tallinna Äripanga AS, address: Vana-Viru 7, Tallinn 10111, banking, registered on 30.12.1991, registration number 10237984, register: commercial register at Tallinn City Court.

Subsidiary:

TBB Liisingu AS, address: Estonia pst 3/5, Tallinn, leasing, registered on 16.07.1999, registration number 10570483, register: commercial register at Tallinn City Court, share capital EEK 800,000, participation held by Tallinna Äripank is 100%

No differences exist between the Group of Tallinna Äripanga AS and the consolidation group.

2.2 Supervisory and management board of Tallinna Äripank as at 31.12.2002

Supervisory board:

Viljar Veski, chairman of the supervisory board, adviser at the management board of Tallinna Äripanga AS

Number of shares: 398,330

Valeri Lvovski, supervisory board member, director of AS BEM-Mark

Number of shares: 5,303

Aleksander Udaltsov, supervisory board member, vice president of ZAO Luxe du Monde

Number of shares: 0

Madis Kiisa, supervisory board member, Laus ja Partnerid OÜ, attorney at law

Number of shares: 0

Sergei Gorny, supervisory board member, first deputy of the chairman of the management board of ALMAZJUVELIREXPOT

Number of shares: 0

Management board:

Valeri Haritonov, chairman of the management board

Number of shares as at 31.12.2002: 115,071. Number of shares at annual accounts preparation: 116,231.

Andrei Zukov, management board member

Number of shares as at 31.12.2002: 115,497. Number of shares at annual accounts preparation: 116,757.

Tatjana Levitskaja, management board member

Number of shares as at 31.12.2002: 115,069. Number of shares at annual accounts preparation: 116,229.

2.3 Larger shareholders in Tallinna Äripank as at 31 December 2002

Below are the names, countries of origin and participation of shareholders who hold at least 5% interest in Tallinna Äripank:

Shareholder	Country	Number of shares as at 31.12.2002	Interest %	Number of shares at annual accounts preparation	Interest %
ALMAZ Trading USA Inc	USA	839 202	9.9%	1 029 202	9.9%
Modern Energy Ltd.	USA	827 647	9.8%	827 647	7.9%
AS Grand Marketing	Estonia	825 881	9.8%	1 035 881	9.9%
AS BEM-Mark	Estonia	824 222	9.8%	824 222	7.9%
AS Exact Consulting	Estonia	804 496	9.5%	864 496	8.3%
AS BB-Invest	Estonia	765 063	9.1%	765 063	7.3%
Danasano AS	Estonia	750 458	8.9%	925 458	8.9%
Leonarda Invest AS	Estonia	727 373	8.6%	897 373	8.6%
Asparagos OÜ	Estonia	661 146	7.8%	871 146	8.3%
Lingard OÜ	Estonia	488 822	5.8%	868 822	8.3%
Other	Estonia	928 803	11.0%	1 533 803	14.7%
		8 443 113	100.00%	10 443 133	100.00%

2.4 Significant events in 2002

- The general meeting of shareholders held on 18 May 2002 approved the annual financial statements for 2001, made a resolution for increasing share capital by EEK 20 million through issuing new shares. As a result, the share capital amounts to EEK 84,431,130.
- In June 2002 Tallinna Äripank closed its Pärnu branch.

- The Bank's loan portfolio increased by 1.34 times. Term deposits and other term liabilities exceeded the level in 2001 by 1.25 times.
- Tallinna Äripank obtained the credit card licence for EUROCARD/MASTERCARD and the debit card licence for MAESTRO/CIRRUS and began to issue own bank cards.
- On 25 March 2002 Tallinna Äripank made a successful 1-year debt securities issue totalling EEK 20 million.
- In the financial year, the balance sheet total of the subsidiary TBB Liisingu AS grew from EEK 40.5 million to EEK 57.3 million.
- Tallinna Äripank began to accept American Express travel cheques and commercial cheques in foreign currencies.
- For improving client service, new correspondent banks were found; i.e. AIKB Novaja Moskva, Joint Investment Bank (Moscow).

2.5 Objectives for 2003

The objectives are:

to continue the activities of Tallinna Äripank as a niche bank providing its clients all traditional banking services and complex solutions;

to expand Bank's loan activities and involve more resources through increase in deposits;

to further develop Bank's IT systems;

to continue activities on markets for precious metals by expanding choice of services and increasing the Bank's revenue base.

2.6 Risks

RISK MANAGEMENT PRINCIPLES

Banking business involves risks. In managing these risks, Tallinna Äripank adheres to the legal Acts of the Republic of Estonia, instructions by the Bank of Estonia, generally accepted banking principles and its "Risk Management Methodology." Based on the "Risk Management Methodology," monitoring over a 10-day period is performed to examine whether the established norms are observed. In addition, the management board of the Bank and the Assets and Liabilities Management Committee receive analytical reports on how the norms for financial risks as established in the "Risk Management Methodology" are observed. The report also contains summary efficiency data.

Financial risks in the Bank are managed by the Assets and Liabilities Management Committee (hereinafter referred to as ALCO) and the credit committee:

- ALCO is responsible for the optimum management of Bank's resources to ensure maximum efficiency at present risk exposure;

- The credit committee assesses client's credit risks and manages the Bank's loan portfolio risks. The optimum volume of the loan portfolio is calculated monthly and is compared with the Bank's factual loan portfolio.

The risk management system should avoid, hedge and/or limit risks to minimise potential losses.

The management board of the Bank is fully responsible for implementing the risk policy and for probable losses from different risks.

A sufficient share in equity is held ready for covering probable risks.

2.6.1 Credit risk

Credit risk arises from probable losses that may arise from failure or inability by the client to fulfil contractual obligations on time, or owing to other reasons (e.g. insufficient collateral).

In loan activities Tallinna Äripank observes the Estonian legal acts, statutory documents established by the Bank, including the credit policy set by the management board.

The Bank's credit committee decides whether to assume credit risks or not. The Bank's supervisory board shall also approve granting of credit exceeding 10% of the Bank's own funds.

The Bank assumes risks under the following principles:

- 1) a risk must be measurable ;
- 2) a risk shall have a collateral as required;
- 3) a collateral shall have a security as required;
- 4) risks must be dispersed between industries and regions, maturity dates and collaterals;
- 5) an efficient monitoring system shall ensure that problems are detected in their early stage to avoid and minimise loan losses.

Credit risk is assessed both before loans are granted and based on the quarterly monitoring performed thereafter.

Measurement of credit risk involves the following:

- evaluation of credit clients' operations;
- evaluation of management's and owners' risk exposure;
- evaluation of collateral;
- evaluation of security for the collateral;
- evaluation and analysis of business plans and cash flow projections;
- client's reliability;
- positive client record;
- evaluation of the borrower's country risk under the Basel committee methodology.

Loans issued are fully covered with Bank's own funds and other facilities (e.g. purpose-oriented loans and demand deposits). A borrower's obligations to the Bank cannot exceed 10% of the Bank's own funds, except for the cases where the supervisory board so decides. Loans granted to one specific industry cannot exceed 25% of the loan portfolio.

Loan portfolio is monitored monthly, whereby all loans and clients are individually assessed. During this, the Bank pays attention as to how terms and conditions of the loan agreement are observed, including the timely settlement of payments, client's financial position, condition of the collateral and presentation of information and documentation required by the Bank.

In assessing client's financial position and timely settlement of contractual payments, a 5-point scale is used: a scale from A to E, where A represents the best practice and E stands for the weakest. Collateral provided by clients is also separately assessed in accordance with its type, value, change in the value, liquidity and insurance.

Regardless the size of the client, the Bank also pays attention to whether the loan is repaid as a bullet-loan or proportionally. Bullet-loans are separately reviewed.

Clients, whose liabilities to the Bank exceed 10% of the Bank's net own funds, are also under closer observation.

Based on the above, the Bank's loan portfolio is assessed during monitoring activities.

The Bank's management quarterly evaluates the recoverability of doubtful loans and receivables in compliance with the above principles. Special loan provisions are formed separately for every loan client, which together form the provision for the Bank's loan portfolio.

The client's loan portfolio consists of two parts:

- 1) the general loan provision, which depends on the client's credit rating;
- 2) open risk position or the provision not covered with loan collateral, which depends on possible changes in collateral value.

The loan portfolio is first assessed by the loan department, who prepares an overview of the portfolio and makes relevant recommendations. Based on this, the management board decides on the scope of loan provisions. The internal control function, financial authority and international auditor examine loans and provisions established for loans.

2.6.2 Market risk

Market risk is defined as a potential loss that may arise from unfavourable trends on financial markets– changes in currency exchange rates, interest rates and value of securities. Market risks affect most of the banking services: loans, deposits and derivatives.

The following three sub-risks are essential for the Bank:

- currency risk;
- interest risk;
- volatility risk.

The Bank uses the following tools for managing market risks:

- borrowed funds in foreign currency are matched with assets in the same currency;

- regulation for net open currency position as established by the Bank of Estonia; limits have been established for individual currency positions and financial instruments;
- observance of the established norms under the “Risk Management Methodology;”
- long-term loans issued in Estonian kroons are pegged with euros. The risk for changes in collateral value is hedged through lending only 65% of the collateral appraisal value;
- foreign currency risks are hedged with derivatives (forward and swap transactions);
- creating linkage between the results from evaluating different risks.

Management of market risks is the responsibility of the Assets and Liabilities Management Committee (ALCO), loan department and foreign settlements department.

2.6.3 Liquidity risk

Liquidity shows the ability of the Bank to fulfil its obligations at any time, and the Bank’s ability to monitor daily the probable net position of receivables and payables and maintain a sufficient amount of liquid assets in the Bank’s account and in efficient and safe placement.

Liquidity risk results from differences in the maturity dates of assets and liabilities, marketability of assets for covering losses, general asset structure and liabilities’ interest sensitivity.

The Bank uses the following liquidity risk management tools:

- the basis for monitoring the liquidity risk is the requirement for the minimum reserve established by the Bank of Estonia;
- observance of the “Prudential norms for credit institutions” established by the Bank of Estonia
- using of the integral liquidity ratio, which is calculated every 10 days under three factors;
- observance of coefficients and limits (both by the Bank and the Bank of Estonia) – established in “Risk Management Methodology”, “Liquidity Management Methodology”;
- analysis of stress-tests developed by the Bank;
- availability of sufficient cash on hand;
- forecasting of deposit and loan volumes, preparation of loan repayment schedules;
- balancing of open currency positions;
- the stability of Bank’s resources is ensured through competitive and attractive interest rates for term deposits;
- establishing a time limit for cancelling a term deposit (30-day notice in advance);
- establishing a linkage between different risk evaluation results.

Liquidity risk management is the responsibility of ALCO and finance director. ALCO monitors, control and transfers assets for attaining the optimum balance sheet structure to retain an acceptable liquidity level that would also be sufficient for non-scheduled financial needs: profitable investments and loan transactions, compensation for seasonal and unpredictable fluctuations in loan demand, supplement to unexpected deposit cancellations. ALCO discusses the strategic liquidity risk issues not less frequently than once every month.

Liquidity and liquidity risk management are the responsibility of a team that comprises ALCO members as well as staff from accounting and foreign settlement departments.

The team daily examines the Bank's liquidity and presents activity reports to the Bank's management board.

2.6.4 Country risk

For international credit institutions like Tallinna Äripank it is essential to assess country risks. The country risk comprises two components: economic and political risks.

The economic risk is determined by the general economic and financial management level in the country (both on macro- and microeconomic level), competitiveness on world market, external accounts and stability of national currency.

The political risk is determined by political stability, relations with neighbouring states and security guarantees. In assessing political risk main attention is paid on how the above factors may affect property right.

Economic and political risks are interrelated and should be assessed together.

Country risk is defined as follows:

- currency conversion risk (national currency);
- fund transfer risks;
- country default risk.

Country risk management tools are as follows:

- *Currency conversion risk*
 - the Bank does not perform operations with currencies of these countries, which have currency conversion limitations;
 - the Bank does not perform operations with currencies of these countries, which international image is unclear or unstable;
 - the Bank does not invest its assets in countries, which have currency conversion limitations.
- *Fund transfer risks*
 - all currency sale and purchase operations are carried out through dealing system REUTERS 2000.
 - the Bank does not open correspondent accounts in these countries, which have high political and/or economic risks.
- *Country default risks*
 - The risk is managed with strict selection criteria for correspondent banks.

Limit system

- A country limit system is used for managing country risks. The limits have been divided into A and B zone countries.
- The limits of country risks are approved by ALCO and the Bank's management board.
- The limits for country risks are adjusted when necessary but not less frequently than once every year.

All the above risks are analysed, managed and controlled by ALCO and the Bank's management board. If necessary, supervisory board members with necessary experience are also involved.

2.6.5 Operational risk

Operational risk is a risk that through external or internal factors may negatively impact the Bank's operations and that might lead to losses. It comprises the following risks:

- IT risk;
- procedures risk;
- personnel risk;
- legal risk.

For hedging operational risk Tallinna Äripank has established a control system that ensures multiple controls over transactions made.

IT risk factors are minimised through the internal information protection system and procedure rules that prevent access to the Bank's information system.

For hedging possible *procedure risks*, the Bank uses different procedure rules that should provide contractual back-up to Bank's products, ensure the functioning of control procedures and guarantee true and fair reporting of business transactions.

The functioning and the efficiency of the system is the responsibility of the Bank's internal control function and the lawyer, who perform regular compliance reviews and analyses for identifying probable risks.

Personnel risk is minimised through selection criteria. The selection principles aim at assessing the employee's professional capacity, qualification and loyalty.

Competence limits have been established for employees. If these are exceeded and the Bank suffers a loss, the employee is held personally liable for the damage and shall compensate the damage caused to the Bank.

Legal risks are minimised through standard agreements. All terms and conditions in these agreements are consulted with the Bank's lawyer and if necessary, legal expertise is requested. Most loan agreements are also verified at Estonian notary offices.

All operational risks are examined and administered by the Bank's management board, internal control service, lawyer and IT department.

2.6.6 Internal control system

The internal control system covers the entire operational area of the Group. The internal control system co-ordinates the activities of the supervisory board, management board and personnel and should ensure efficient attainment of established goals, compliance of reporting with real facts and observance of effective legal acts. The internal control system and its functioning are the responsibility of the Bank's management.

An efficient internal control system can be achieved through co-ordinated activities between the management board, supervisory board and the internal control department.

Every management level performs specific tasks in the internal control system. The supervisory board supervises the activities of the Bank and its subsidiaries, controls the activities of the management board, establishes the strategy for the consolidation group as well as general risk management criteria.

The management board arranges daily business activities, establishes the competence for each management level, prepares job descriptions and internal procedure rules. Management board members are also responsible for carrying out activity plans and for the observance of procedure rules.

The internal control function should ensure that the company's assets are retained, the interests of shareholders, customers and creditors are protected, and that the legal acts regulating the activities of the Bank and that generally accepted banking principles are observed. To attain the objective, the internal control function examines internal documents, seeks to identify shortcomings in Bank's operations, examines the cases whenever tasks are not performed as required or competence is exceeded, draws attention to these cases and makes proposals for eliminating the shortcomings. The internal control function operates in accordance with the work plan approved by the supervisory board of Tallinna Äripank.

2.7 Dividend policy

The dividend policy serves the general objective to retain shareholder investments and increase their value. Therefore dividend payments are made under the following principles:

- the Group's result for the financial year shall be positive; i.e. the Group should generate profit;

- retention of the necessary and sufficient capitalisation level;
- observance of the requirement for necessary reserves.

2.8 Employees

	2002		2001	
	Group	Bank	Group	Bank
Average number of employees	49	44	52	48
Total salaries and wages (in EEK, million)	6.6	6.3	5.4	5.3

2.9 Requirements

2.9.1 Capital adequacy

The capital adequacy report has been prepared in compliance with the Appendix 1 “Guideline for calculating capital adequacy of credit institutions and reporting requirements under solo and consolidated base” to the Decree No 12 “Prudential norms for credit institutions” established by the President of the Bank of Estonia on 02 July 2002.

(in EEK, million)

	2002		2001 *	
	Group	Credit institution	Group	Credit institution
1. First level own funds	88.4	88.4	86.3	86.3
1.1 Contributed share capital	84.4	84.4	76.8	76.8
1.2 General banking reserve	-	-	-	-
1.3 Other reserves	1.2	1.2	0.8	0.8
1.4 Accumulated profit / loss	0.7	0.7	1.9	1.9
1.5 Profit for financial year	3.0	3.0	6.8	6.8
1.6 Minority interest (only in consolidated report)	-	-	-	-
1.7 Unrealised exchange differences (only in consolidated report)	-	-	-	-
1.8 Badwill (only in consolidated report)	-	-	-	-
1.8 Own shares (minus)	-	-	-	-
1.9 Intangible assets (minus)	(0.9)	(0.9)	-	-
1.11 Loss for financial year (minus)	-	-	-	-
2. Second level own funds	26.9	26.9	31.9	31.9
3. Total gross own funds (1+2)	115.3	115.3	118.2	118.2
4. Deduction from gross own funds	-	1.0	-	0.9
5. Total net own funds (3-4)	115.3	114.3	118.2	117.3
6. Third level own funds	-	-	-	-
7. Risk weighted assets	339.4	305.1	321.7	302.9
7.1 I category ((credit risk 0%)	46.7	46.6	39.6	39.6
7.2 II category (credit risk 20%)	262.4	262.4	167.1	167.1
7.3 III category (credit risk 50%)	65.1	63.2	189.5	189.1
7.4 IV category (credit risk 100%)	254.4	221.0	193.5	174.9
8.2 Risk weighted off-balance sheet transactions	6.3	6.3	5.6	5.6
8.1 Group I	6.3	6.3	5.6	5.6
8.2 Group II	-	-	-	-
9. Capital requirement for covering the currency risk	-	-	1.4	1.4
10. Capital requirement for covering the trading portfolio risk	-	-	-	-
10.1 Capital requirement for covering the interest position risk	-	-	-	-
10.2 Capital requirement for covering the share position risk	-	-	-	-
10.3 Capital requirement for covering commodities risk	-	-	-	-
10.4 Capital requirement for covering option risk	-	-	-	-
10.5 Capital requirement for covering trading portfolio transfer risk	-	-	-	-
10.6 Capital requirement for covering trading portfolio's credit risk	-	-	-	-
11. Capital requirement for positions open to trading portfolio's credit risk exceeding the risk concentration limit	-	-	-	-

Capital adequacy				
12. (5.+6.)/(7.+8.+9.*10 + 10.*12,5+11.*12,5)	0.33	0.37	*0.35	*0.36

The capital adequacy figures for 2001 have been restated in accordance with the Appendix 1 “Guideline for calculating capital adequacy and reporting requirements for credit institutions under solo and consolidated base” to the Decree No 12 “Prudential norms for credit institutions” established by the President of the Bank of Estonia on 02 July 2002.

In capital adequacy calculations the equity comprises the audited profit for 2002 less planned dividends and income tax on dividends of EEK 3.1 million (see Chapter 4 Profit distribution proposal).

2.9.2 Net position of currencies

Net positions of currencies have been computed in accordance with the Appendix 1 “Guideline for calculating capital adequacy and reporting requirements for credit institutions under solo and consolidated base” to the Decree No 12 “Prudential norms for credit institutions” established by the President of the Bank of Estonia on 02 July 2002.

Below are the net positions of currencies that exceed the 1% level of net own funds as at 31.12.2002.

GROUP

(EEK, million)

Currency	Balance sheet position		Off-balance sheet position		Net position
	long	short	long	short	
EEK + EUR	312.9	313.6	-	3.1	-3.8

CREDIT INSTITUTION

(EEK, million)

Currency	Balance sheet position		Off-balance sheet position		Net position
	long	short	long	short	
EEK + EUR	278.5	279.2	-	7.6	-8.3

2.9.3 Liquidity

Liquidity has been calculated in accordance with Appendix 5 “Guideline for calculating liquidity and reporting requirements in credit institutions” to the Decree No 12 “Prudential norms for credit institutions” established by the President of the Bank of Estonia on 02 July 2002.

Below are the Bank’s and Group’s receivables and liabilities by their maturity dates as at 31.12.2002.

RECEIVABLES AND LIABILITIES BY MATURITY DATES

(EEK, million)

Receivables, liabilities/maturity date	Payable at demand	overdue	up to 1 month	1-3 months	3-12 months	1-2 years	2-5 years	more than 5 years
1. Receivables of the credit institution	354.4	-	72.6	21.9	27.1	34.2	61.2	28.2
2. Group’s receivables	357.0	1.6	73.2	23.1	15.1	34.4	93.8	35.7
Incl. cash and receivables from banks	330.6	-	34.0	-	1.0	-	-	-
Customer receivables	8.8	-	8.8	22.4	13.1	34.4	93.8	35.7
Other receivables	17.6	1.6	30.4	0.7	1.0	-	-	-
1. Liabilities of the credit institution	337.4	-	47.8	35.1	42.5	28.0	3.4	71.1
2. Group’s liabilities	336.8	-	47.8	35.1	38.0	28.1	33.2	76.2
Incl. payables to banks	149.4	-	-	-	-	-	-	-
Payables to customers	94.8	-	3.1	15.4	30.3	22.8	33.2	49.3
Debt securities issued	-	-	-	19.2	-	-	-	-
Other liabilities	92.6	-	44.7	0.5	7.7	5.3	-	26.9

2.9.4 Risk concentration

The risk concentration report has been prepared in compliance with the Appendix 3 “Guideline for calculating risk concentration and reporting requirements for credit institutions under solo and consolidated base” to the Decree No 12 “Prudential norms for credit institutions” established by the President of the Bank of Estonia on 02 July 2002.

(EEK, million)

	Group		Credit institution	
	Number /amount	% of net own funds	Number / amount	% of net own funds
1. Number of clients with high risk concentration	4	-	4	-
2. Debt obligations of clients with high risk concentration	100.7	87%	92.5	81%

Under the Credit Institutions Act, a risk exposure of a loan is considered high if the loan exceeds 10% of the credit institution’s own funds. Total loans with high risk exposure shall not exceed 800% of the credit institution’s own funds.

Concentration of risks with one client or related persons shall never exceed 25% of the credit institution’s or its consolidation group’s net own funds.

As at 31.12.2002 Tallinna Äripank complied with the above risk concentration requirements but within the consolidation group, the risk concentration limit for related persons was exceeded. The exceeded risk concentration limit made up 27.4% of the consolidation group’s net own assets. In the first quarter of 2003 risk concentration limits within the consolidation group were brought in compliance with the established limit.

2.10 Financial ratios

Below are the financial ratios that characterise Group's and Bank's operations in 2002 and 2001.

Ratio	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
1. ROE	6.83%	6.83%	8.20%	8.20%
2. EM	6.82	6.53	6.87	6.70
3. PM	14.45%	14.88%	14.26%	14.14%
4. AU	6.92%	7.03%	8.38%	8.66%
5. NIM	-	2.87%	-	3.31%
6. EPS	0.72	0.72	0,81*	0,81*
7. Spread	-	2.56%	-	3.08%

*these ratios have been adjusted with equity financing made in the financial year

The above ratios have been calculated as follows:

- | | |
|-------------------------------------|-------------------------------------------------------------------------------------------------|
| 1. Return on equity (ROE): | Net profit (loss) / equity (%) |
| 2. Equity multiplier (EM): | Assets / equity |
| 3. Profit margin (PM): | Profit (loss) / total income (%) |
| 4. Asset utilisation (AU): | Total income / assets (%) |
| 5. Net interest margin (NIM): | Net interest income / interest earning assets (%) |
| 6. Earnings per share (EPS), (EEK): | Net profit (loss) / average number of shares |
| 7. SPREAD: | (Interest income / interest earning assets) – (interest expense / interest earning liabilities) |

2.11 Consolidated balance sheets 1999-2002

Assets		2002		2001		2000		1999	
		Group	Bank	Group	Bank	Group	Bank	Group	Bank
1.	Cash	4.2	4.2	4.8	4.8	6.8	6.8	11.8	11.8
2.	Receivables	578.4	548.6	542.9	524.4	488.6	478.7	324.5	328.1
3.	Shares and other securities	0.0	0.0	9.9	9.9	14.3	14.3	0.4	0.4
4.	Shares in subsidiary companies	0.0	1.0	0.0	0.9	0.0	0.5	0.0	0.1
5.	Intangible assets	0.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0
6.	Tangible assets	25.6	25.5	28.9	28.9	32.3	32.3	12.7	12.7
7.	Other assets	15.6	10.3	0.1	0.1	0.9	0.9	17.9	14.6
8.	Accrued income and prepaid expenses	4.8	4.6	3.1	2.6	5.7	5.5	16.1	15.5
9.	Total assets	629.5	595.1	589.7	571.6	548.6	539.0	383.4	383.2

Liabilities and equity		2002		2001		2000		1999	
		Group	Bank	Group	Bank	Group	Bank	Group	Bank
1.	Payables	398.3	363.3	465.2	445.0	432.8	419.9	283.2	283.2
2.	Issued debt securities	19.2	19.2	0.0	0.0	0.0	0.0	0.0	0.0
3.	Other liabilities	89.3	88.4	3.2	3.2	3.6	3.6	5.4	5.2
4.	Accrued expenses and unearned income	3.4	4.9	3.1	5.2	2.4	5.7	1.4	1.4
5.	Subordinated loans	26.9	26.9	31.9	31.9	30.3	30.3	28.0	28.0
6.	Total liabilities	537.1	502.7	503.4	485.3	469.1	459.5	318.0	317.8
7.	Total equity	92.4	92.4	86.3	86.3	79.5	79.5	65.4	65.4
8.	Total liabilities and equity	629.5	595.1	589.7	571.6	548.6	539.0	383.4	383.2

2.12 Ratings

As of 31 December 2002 Tallinna Äripank did not have an international rating.

2.13 Litigation

As at 31 December 2002 no lawsuits that might cause significant future losses had been initiated against Tallinna Äripank or the consolidation group company AS TBB Liising.

3. ANNUAL FINANCIAL STATEMENTS

The annual financial statements of Tallinna Äripank consist of the balance sheet, income statement, cash flow statement, changes in equity statement and notes to the annual financial statements.

3.1 Consolidated balance sheets and off-balance sheet transactions

BALANCE SHEETS AS AT 31.12.2002 AND 31.12.2001

(EEK, million)

ASSETS		Note	31.12.2002		31.12.2001	
			Group	Bank	Group	Bank
1	Cash		4.2	4.2	4.8	4.8
2	Receivables		578.4	548.6	542.9	524.4
2.1	Receivables from Central Bank	2	41.7	41.7	34.7	34.7
2.2	Receivables from credit institutions	3,6,7,8	319.7	319.7	347.7	347.7
2.3	Receivables from customers with credit institutions	4,6,7,8	172.9	193.3	129.9	149.0
2.4	Receivables from customers with leasing companies	5,6,7,8	50.2	-	37.5	-
2.5	Other receivables		-	-	0.3	-
2.6	Allowance for doubtful receivables and loans	4,6	-6.1	-6.1	-7.2	-7.0
3	Shares and other securities	9	-	-	9.9	9.9
4	Shares in subsidiary companies	9	-	1.0	-	0.9
5	Intangible assets		0.9	0.9	-	-
5.1	Other intangible assets	10	0.9	0.9	-	-
6	Tangible assets	10	25.6	25.5	28.9	28.9
7	Other assets	11	15.6	10.3	0.1	0.1
8	Accrued income and prepaid expenses	12	4.8	4.6	3.1	2.6
9	Total assets		629.5	595.1	589.7	571.6

BALANCE SHEET AS AT 31.12.2002 AND 31.12.2001

(EEK, million)

LIABILITIES AND EQUITY		Note	31.12.2002		31.12.2001	
			Group	Bank	Group	Bank
1	Liabilities		398.3	363.3	465.2	445.0
1.1	Payables to credit institutions	13	149.4	149.4	279.8	279.8
1.2	Payables to clients with credit institutions	14	213.9	213.9	165.2	165.2
1.3	Other payables	15	35.0	-	20.2	-
2	Issued debt securities	16	19.2	19.2	-	-
3	Other liabilities	15	89.3	88.4	3.2	3.2
4	Accrued expenses and unearned income	15	3.4	4.9	3.1	5.2
5	Subordinated loans	17	26.9	26.9	31.9	31.9
6	Total liabilities		537.1	502.7	503.4	485.3
7.1	Share capital	18	84.4	84.4	76.8	76.8
7.2	Other reserves		1.2	1.2	0.8	0.8
7.3	Accumulated profit (loss)		6.8	6.8	8.7	8.7
7.4	incl. profit for financial year		6.1	6.1	6.8	6.8
7	Total equity		92.4	92.4	86.3	86.3
8	Total liabilities and equity		629.5	595.1	589.7	571.6

OFF-BALANCE SHEET TRANSACTIONS AS AT 31.12.2002

(EEK, million)

	Group		Credit institution	
	Receivables	Liabilities	Receivables	Liabilities
1. Non-cancellable transactions	30.9	55.0	30.9	55.0
1.1 Guarantees and other similar non-cancellable transactions	30.9	55.0	30.9	55.0
Incl. financial guarantees	30.9	31.4	30.9	31.4
2. Cancellable transactions	-	3.1	-	7.6
2.1 Credit and overdraft facilities	-	3.1	-	7.6

3.2 Consolidated income statements

INCOME STATEMENTS FOR 2002 AND 2001

(EEK, million)

ENTRY		Note	2002		2001	
			Group	Bank	Group	Bank
1	Interest income	19	25.3	23.4	31.6	30.4
1.1	Interest income from activities of credit institutions		20.2	23.4	28.4	30.4
1.2	Interest income from leasing activities		4.9	-	3.1	-
1.3	Other interest income		0.2	-	0.1	-
2	Interest expense	20	9.0	8.0	14.4	13.8
2.1	Interest expense from activities of credit institutions		7.7	8.0	13.5	13.8
2.2	Interest expense from leasing activities		1.3	-	0.9	-
3	Net interest income/loss (+/-)		16.3	15.4	17.2	16.6
4	Income from securities (excl. profit / loss under the equity method)		1.7	1.7	-	-
5	Profit/loss under the equity method (+/-)		-	0.1	-	0.4
6	Net service fees		1.0	1.0	4.8	4.9
6.1	Income from service fees		5.0	5.0	9.1	9.2
6.2	Cost of service fees		4.0	4.0	4.3	4.3
7	Net profit/loss from financial transactions (+/-)	21	9.9	9.9	6.3	6.3
8	Administrative expenses		13.6	12.8	12.2	11.9
8.1	Wages and salaries	22	6.6	6.3	5.4	5.3
8.2	Social taxes	22	2.2	2.1	1.8	1.7
8.3	Other administrative expenses	23	4.8	4.4	5.0	4.9
9	Change in value of tangible and intangible assets (+/-)	10	-5.1	-5.1	-4.6	-4.6
10	Change in value of receivables and off-balance sheet liabilities (+/-)	6	-2.4	-2.4	-4.6	-4.4
11	Other operating income and expenses		-1.7	-1.7	-0.1	-0.5
11.1	Other operating income		0.3	0.3	0.7	0.3
11.2	Other operating expenses		2.0	2.0	0.8	0.8
12	PROFIT FOR FINANCIAL YEAR		6.1	6.1	6.8	6.8

3.3 Consolidated cash flow statements

CASH FLOW STATEMENTS FOR 2002 AND 2001

(EEK, million)

	Group		Bank	
	2002	2001	2002	2001
A. CASH FLOW FROM OPERATING ACTIVITIES				
Net profit	6.1	6.8	6.1	6.8
+ non-monetary expenses and losses from long-term financial investments, tangible and intangible assets or financing activities	8.5	11.1	8.5	10.9
- non-monetary income and profits from long-term financial investments, tangible and intangible assets or financing activities	-5.0	-0.3	-5.1	-0.7
-change in assets	-39.3	-31.4	-23.0	-22.3
-change in liabilities	-0,6	32.7	-16,8	24.2
Net cash used in operating activities	-30.3	18.9	-30,3	18.9
B. CASH FLOW FROM INVESTING ACTIVITIES				
+ payments		0.7		0.7
- disbursements	-3.1	-1.9	-3.1	-1.9
Net cash used in investing activities	-3.1	-1,2	-3.1	-1,2
C. CASH FLOW FROM FINANCING ACTIVITIES				
+ payments	39.2		39.2	
- disbursements				
Net cash flow from financing activities	39.2	-	39.2	-
D. NET CHANGE IN CASH AND EQUIVALENTS*	5.8	17.7	5.8	17.7
E. CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	40.4	22.7	40.4	22.7
F. CASH AND CASH EQUIVALENTS AT END OF YEAR	46.2	40.4	46.2	40.4

* The correspondent account with the Bank of Estonia and other banks is treated as cash equivalent.

Both Tallinna Äripank and the Group have not paid income tax on dividends in 2002 and 2001. No non-monetary transactions have been made either.

3.4 Statement of changes in equity of Tallinna Äripank and the Group

STATEMENT OF CHANGES IN EQUITY FOR 2002

As no differences between the equity of the Bank and the Group exist, the below statement is applicable for both.

Credit institution and the Group

(EEK, million)

	Share capital	Reserves	Accumulated profit/ (loss)	Profit for financial year	Total
As at 01.01.2001	63.4	0.1	1.9	14.1	79.5
Transfer to reserves	-	0.7	-	-0.7	-
Fund issue	13.4	-	-	-13.4	-
Profit for financial year	-	-	-	6.8	6.8
As at 31.12.2002	76.8	0.8	1.9	6.8	86.3
Transfer to reserves	-	0.4	-	-0.4	-
Fund issue	7.6	-	-1.2	-6.4	-
Profit for financial year	-	-	-	6.1	6.1
As at 31.12.2002	84.4	1.2	0.7	6.1	86.3

Notes to the annual financial statements

Note 1. Accounting policies

General information – Tallinna Äripank (hereinafter the “Bank”) commenced operations in December 1991. The Bank’s main office is in Tallinn and it has a branch in Narva. The Bank’s main areas of operation include depositing, lending to the public and other banks, transferring payments and foreign currency exchange both for its customers and for trading purposes.

The reporting currency is the Estonian kroon (EEK), if not stated otherwise. The financial disclosures have been presented in EEK, million. The Estonian kroon was established in summer 1992 and it is pegged to Euros at the rate of 1 EUR = 15.64664 EEK.

Bases of preparation – The consolidated financial statements include the financial statements of the Bank and its subsidiary TBB Liisingu AS. The financial statements of companies, where the Bank holds a significant participation, have been consolidated. A participation is deemed significant if the Bank in another company holds more than 50% of voting shares or controls its operations. The financial statements of Tallinna Äripanga Group include the financial statements of TBB Liisingu AS (participation 100%, established on 02.07.1999). As at 31 December 2002, the bank did not have any associated companies. The consolidated annual financial statements comply with the Estonian Accounting Act, regulations issued by the Bank of Estonia and with generally accepted banking principles. Below is a summary of these principles.

Consolidation – In material aspects, the consolidated financial statements are in line with the accounting principles of the Bank. The internationally accepted consolidation principles have been applied. Under these, the balance sheets and income statements of the parent and its subsidiaries are combined line-by-line, whereas intra-group balances and transactions are eliminated.

In the Bank’s financial statements, investments in subsidiaries are carried under the equity method. Under the method, the investment made in the subsidiary is adjusted by the Bank’s share of profit, and reduced by the subsidiary’s loss or profit allocation that corresponds to the Bank’s share in the subsidiary.

Interest, fees and commissions – Interest income is carried on an accrual basis. Interest income is not recognised on non-performing loans in which interest is unlikely to be collected. No accrual interest is calculated on these loans until the liability has been settled.

Commissions and other income are charged to income when the transaction takes place. Commissions, fees and other expenses are expensed when they occur.

Foreign currency – Foreign currency transactions are translated into Estonian kroons at the exchange rate quoted by the Bank of Estonia on the transaction date. Monetary assets and liabilities are restated by using the Bank of Estonia closing exchange rate as a basis. Revaluation gains and losses are carried in the income statement in the period when they arise.

The exchange rates of main currencies as at 31 December 2002 and 2001 were as follows:

	2002	2001
USD	14.93642	17.69182
RUB	0.46764	0.57959

Provision for loan losses – Loans represent the unpaid loan principal less provision for loan losses.

Non-performing loans are defined as loans in which contractually due interest or principal is overdue and the management therefore believes that the contractual interest or outstanding principal will not be collected.

The Bank grants commercial and consumer loans in all its operating areas. The economic situation on the market may impact the client's ability to repay the loan. This has been considered in establishing the provision for loan losses. The provision for loan losses has been reported in accordance with International Accounting Standards and it shows the estimated amount of probable losses incurred by the balance sheet date. For non-performing loans a special provision is formed in the outstanding amount which is deemed irrecoverable. This provision is established by also considering the realisable value of assets held as collateral for these loans.

The provision for loan losses comprises the following:

- a special provision for non-performing loans;
- a special provision for probable losses on guarantees;
- a special provision for probable losses on high-risk loans.

The provision has been established by considering all known factors that affect loan collectability and collateral values. Ultimate losses may differ from initial assessments. These assessments are periodically reviewed and if adjustments are necessary, the amounts are charged to period income or expenses in which they become known. Owing to the lack of reliable information on client's financial position, it is difficult to estimate probable losses. However, the management has put maximum effort in estimating loan losses and believes that the estimated loss as presented in the financial statements is justified and does not significantly deviate from the guidelines set by the Bank of Estonia for the provisions of loan losses.

Investments – The Bank's investments are classified into long- and short-term investments.

In the Bank's financial statements, long-term financial investments in shares of subsidiary companies are carried in accordance with the principles as described under "Consolidation." Other long-term financial investments in shares have been carried at acquisition cost less impairments in value.

Short-term financial investments contain trading securities and fund units that are carried at market value. All related realised and unrealised gains and losses have been reported in the income statement under “Net gain/loss from financial transactions.”

Non-current assets – In the balance sheet, non-current assets are carried at cost, less accumulated depreciation. If the fair value of the non-current asset is constantly lower than its carrying amount, the difference between the values is expensed.

Non-current assets are depreciated under the straight-line principle in accordance with their useful lives:

Buildings	50 years
Cars	7 years
Office equipment	4-10 years
Leasehold improvements	over the lease term

Assets whose acquisition cost exceeds EEK 5,000 are non-current assets. Gains and losses from sales of non-current assets are reported as income or expense for the period.

Income tax - In accordance with the effective Estonian Income Tax Act, from 1 January 2000 income tax is not levied on profits earned but dividends distributed. The tax rate is 26/74 of the amount distributed as the net dividend. Because of fundamental change in the principles of taxation, the term tax base of assets and liabilities has lost its substance and deferred income tax liabilities and assets no longer arise.

Until 31 December 2002, when the dividend had been declared accumulated profits were reduced by the corporate income tax payable on dividends. In accordance with the Estonian Accounting Standards Board guideline, which became effective from 1 January 2003, the income tax payable on dividends in subsequent periods is recognised as the corporate income tax expense of the period where the dividend is declared.

The maximum income tax liability that could arise at the distribution of dividends is disclosed in Note 24.

Operating and finance leases – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor – Finance lease receivables are recorded in the amount of the Group’s net investment in the leases. Gain on finance lease agreements is allocated over lease periods based on the constant rate of return and in compliance with the Group’s net investment outstanding.

Rental income from operating leases is recognised under the straight-line principle over the lease term.

Derivatives – The Bank uses derivatives, including forward and swap contracts to manage the exposure to foreign exchange risks arising from operating activities.

Foreign currency forward contracts enable to purchase/sell foreign currency in a specified quantity at a specified price on a specified future date.

Foreign currency swap contracts contain the obligation to exchange the cash flows in one currency for another.

According to IAS 39 (*revised 2000*), all transactions with derivatives are carried at fair value from 1 January 2001. For establishing the fair value for foreign currency derivatives, the Bank used the discounted cash flow method. All gains and losses from changes in the value of derivatives are carried in the income statement. The Bank does not use the hedge accounting principles for derivatives.

As at 31 December 2002 and 2001, the Bank did not have any derivative liabilities.

Fair value of financial instruments – The fair value of financial instruments is found by using as a basis the available market information, other estimations and assumptions as explained in Note 27. The estimations take account of risks and other factors such as interest rates, credit risk and prepayments especially in situations where no active market for these instruments exists. Changes in assumptions or market situation may have a significant impact on fair value.

Regulatory requirements – Tallinna Äripank is subject to the regulatory requirements established by the Bank of Estonia. The requirements establish the following:

- minimum equity;
- capital adequacy;
- liquidity;
- mandatory and other reserves;
- foreign currency positions;
- restrictions on investments;
- risk concentration.

Non-observance of these requirements might lead to restrictions on Bank's activities and cancellation of the banking licence. The management believes that the Bank is in compliance with all applicable laws and regulations.

Note 2. Receivables from Central Bank

In accordance with the requirements of the Bank of Estonia, the Bank must hold a mandatory reserve account that is computed using a determined percentage from client deposits with the Bank. As at 31 December 2002 and 2001, the Bank was in compliance with the compulsory reserve requirement. As at 31.12.2002, balances due from Central Bank comprise EEK 41.7 million (as at 31.12.2001, the respective figure was EEK 34.7 million).

Note 3. Receivables from credit institutions

Amounts due from credit institutions break down as follows:

(in EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Demand deposits with:				
OECD banks	225.3	225.3	158.0	158.0
Estonian banks	0.3	0.3	0.9	0.9
CIS banks	57.5	57.5	137.5	137.5
Non-OECD banks	1.6	1.6	3.4	3.4
Total demand deposits	284.7	284.7	299.8	299.8
Term deposits with:				
OECD banks	1.0	1.0	-	-
Estonian banks	29.9	29.9	0.1	0.1
CIS banks	-	-	35.4	35.4
Non-OECD banks	-	-	4.4	4.4
Total term deposits	30.9	30.9	39.9	39.9
Overnight loans with:				
Estonian banks	4.1	4.1	8.0	8.0
Total overnight loans	4.1	4.1	8.0	8.0
Total	319.7	319.7	347.7	347.7

As at 31 December 2002 and 2001, the average interest rate for term deposits was 1.8% and 9% respectively. The maturity dates are in 2003.

Note 4. Receivables from clients with the credit institution
Loans to customers

(in EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Companies	161.6	182.0	119.8	138.9
Private individuals	11.3	11.3	10.1	10.1
Total loans to customers	172.9	193.3	129.9	149.0
Minus: Provision for loan losses	-6.1	-6.1	-7.2	-7.0
Loans to customers, net	166.8	187.2	122.7	142.0

Note 5. Leasing receivables

Group receivables by industry:

(in EEK, million)

	Group	
	2002	2001
Agriculture	26.3	15.7
Retail and wholesale	7.2	6.7
Real estate	6.7	5.8
Manufacturing	4.0	4.6
Private industry	3.2	1.9
Other	2.8	2.8
Total finance lease receivables	50.2	37.5

All finance lease agreements have been concluded with legal entities registered in Estonia and their resident private individuals.

Group's receivables for the years ending on 31 December are as follows:

(EEK, million)	
2003	12.5
2004	11.9
2005	11.0
2006	8.0
2007	3.7
2008	1.3
2009	1.2
2010	0.3
2011	0.2
2012	0.1
Total	50.2

The Group has not established provisions for finance lease receivables as at 31 December 2002. The Agriculture and Rural Life Crediting Foundation has guaranteed agricultural loans in the amount of EEK 2,217 thousand. The guarantee will realise if the Group suffers loss from the disposal of the collateral in case of client's insolvency.

Gross investment and unearned lease income as at 31 December 2002:

	31.12.2002	31.12.2001
	Group Present value of minimum lease payments (EEK, million)	Group Present value of minimum lease payments (EEK, million)
Gross investments		
Due within 1 year	16.7	16.8
Due within 1-5 years	41.3	27.8
Due in more than 5 years	3.6	1.5
Less: unearned interest income	(11.4)	(8.6)
Present value of minimum lease payments receivable	50.2	37.5
Analysis by temporal structure:		
Long-term receivables (due in more than 1 year)	37.7	24.2
Short-term receivables (due in less than 1 year)	12.5	13.3

Note 6. Overdue receivables and loans
Overdue receivables and loans in 2002

(in EEK, million)

Overdue	Group			Credit institution		
	up to 30 days overdue	30 - 60 days overdue	over 60 overdue	Up to 30 days overdue	30 - 60 days overdue	over 60 days overdue
1. Loans	13.2	6.2	9.0	7.7	3.7	7.8
Total	13.2	6.2	9.0	7.7	3.7	7.8

Changes in the provision for doubtful receivables and loans in 2002
Bank

(in EEK, million)

	Provision at beginning of year	Written off in financial year	Collected in financial year	Written off the balance sheet	Provision at end of year
Loans	7.0	1.4	0.0	2.3	6.1
Total	7.0	1.4	0.0	2.3	6.1

Group

(in EEK, million)

	Provision at beginning of year	Written off in financial year	Collected in financial year	Written off the balance sheet	Provision at end of year
Loans	7.2	1.4	0.0	2.5	6.1
Total	7.2	1.4	0.0	2.5	6.1

Note 7. Receivables by geographic region as at 31.12.2002

 (in EEK,
million)

Bank

Region	Receivables in the balance sheet			Incl. overdue items	Doubtful receivables	Off-balance sheet receivables	Region (%)
	Loans	Securities	Other				
Estonia	213.5	1.0	2.4	19.2	6.1	93.5	50.9%
USA	53.6	-	0.1	-	-	-	8.8%
Switzerland	175.7	-	-	-	-	-	28.8%
Latvia	0.2	-	-	-	-	-	0.0%
Germany	5.2	-	-	-	-	-	0.9%
Lithuania	1.5	-	-	-	-	-	0.2%
Holland	0.2	-	-	-	-	-	0.0%
Russia	57.5	-	-	-	-	-	9.4%
England	0.4	-	-	-	-	-	0.1%
Ireland	5.2	-	-	-	-	-	0.9%
Total	513.0	1.0	2.5	19.2	6.1	93.5	100.0%

 (in EEK,
million)

Group

Region	Receivables in the balance sheet			Incl. overdue items	Doubtful receivables	Off-balance sheet receivables	Region (%)
	Loans	Securities	Other				
Estonia	243.3	-	2.4	28.4	6.1	89.0	52.8%
USA	53.6	-	0.1	-	-	-	8.5%
Switzerland	175.7	-	-	-	-	-	27.7%
Latvia	0.2	-	-	-	-	-	0.0%
Germany	5.2	-	-	-	-	-	0.8%
Lithuania	1.5	-	-	-	-	-	0.2%
Holland	0.2	-	-	-	-	-	0.0%
Russia	57.5	-	-	-	-	-	9.1%
England	0.4	-	-	-	-	-	0.1%
Ireland	5.2	-	-	-	-	-	0.8%
Total	542.8	0.0	2.5	28.4	6.1	89.0	100.0%

Note 8. Receivables by industry as at 31.12.2002

Bank				(EEK, million)			
Industry	Receivables in the balance sheet			Incl. overdue items	Doubtful receivables	Off-balance sheet receivables	Industry (%)
	Loans	Securities	Other				
Agriculture, hunting, forestry	19.4	-	0.3	6.2	-	-	3.2%
Fishery	1.7	-	0.1	1.7	0.8	-	0.3%
Manufacturing	27.8	-	0.7	-	-	10.1	6.3%
Energetics, gas and water supply	0.4	-	-	-	-	-	0.1%
Construction	1.1	-	-	0.8	0.7	60.4	10.1%
Retail and wholesale, repairs of motor vehicles, commodities and home appliances	27.2	-	0.1	7.7	4.1	3.9	5.1%
Hotels and restaurants	0.8	-	-	0.9	0.4	-	0.1%
Transport, warehousing and communications	0.1	-	-	-	-	0.3	0.1%
Finance	349.1	1.0	0.1	-	-	7.1	58.6%
Real estate, rental and business service	49.1	-	0.9	-	-	0.7	8.3%
Other state and social services	25.0	-	0.2	-	-	10.1	5.8%
Private individuals	11.3	-	0.1	1.9	0.1	0.9	2.0%
Total	513.0	1.0	2.5	19.2	6.1	93.5	100.0%

Group

(in EEK, million)

Industry	Receivables in the balance sheet			Incl. overdue items	Doubtful receivables	Off-balance sheet receivables	Industry (%)
	Loans	Securities	Other				
Agriculture, hunting, forestry	45.7	-	0.3	13.9			7.3%
Fishery	1.7	-	0.1	1.7	0.80		0.3%
Manufacturing	31.8		0.7	0.5		10.1	6.7%
Energetics, gas and water supply	0.4	-					0.1%
Construction	1.1	-		0.8	0.7	60.4	9.7%
Retail and wholesale, repairs of motor vehicles, commodities and home appliances	34.4	-	0.1	8.7	4.1	3.9	6.1%
Hotels and restaurants	0.8	-		0.9	0.4		0.1%
Transport, warehousing and communications	1.1	-				0.3	0.2%
Finance	328.7		0.1			2.6	52.2%
Real estate, rental and business service	55.8	-	0.9			0.7	9.0%
Education	0.4	-					0.1%
Health service	1.0	-					0.2%
Other state and social services	25.4	-	0.2			10.1	5.6%
Private individuals	14.5	-	0.1	1.9	0.1	0.9	2.4%
Total	542.8	0.0	2.5	28.4	6.1	89.0	100.0%

Note 9. Investments
I. Long-term financial investments

 (in EEK,
million)

	31.12.2002			31.12.2001		
	Group	Bank	Participation %	Group	Bank	Participation %
1. Shares in subsidiary companies						
TBB Liisingu AS	-	1.0	100.00%	-	0.9	100.00%
Total	-	1.0	-	-	0.9	-
2. Other long-term financial investments						
ZAO Almaz Press	-	-	-	9.8	9.8	3.70%
Total	-	-	-	9.8	9.8	-
Total long-term financial investments	-	1.0	-	9.8	10.7	-

II. Short-term financial investments

 (in EEK,
million)

	31.12.2002			31.12.2001		
	Group	Bank	Participation %	Group	Bank	Participation %
Ordinary shares of Hansapank	-	-	-	0.1	0.1	-
Total	-	-	-	0.1	0.1	-

In October 2002 the shares in ZAO Almaz Press were sold. Gain from the transaction amounted to EEK 1.7 million.

Investment in the subsidiary TBB Liisingu AS has been reported under the equity method as follows:

(in EEK, million)

As at 31.12.1999	0.1
Increasing of the subsidiary's share capital	0.5
Loss under the equity method	-0.1
As at 31.12.2000	0.5
Profit under the equity method	0.4
As at 31.12.2001	0.9
Increasing of the subsidiary's share capital	-
Profit under the equity method	0.1
As at 31.12.2002	1.0

As at 31.12.2002 and 2001, the Bank had 80,000 shares in the subsidiary company with the par value of EEK 10 each. The subsidiary's equity as at 31.12.2002 and 2001 was EEK 1.0 and EEK 0.9 million respectively. The equity comprises the following:

Equity	31.12.2002	31.12.2001
Share capital at par value	0.8	0.8
Mandatory capital reserve	0.1	-
Accumulated profit/loss	-	-0.3
Profit for financial year	0.1	0.4
Total equity	1.0	0.9

Note 10. Non-current assets

Tangible assets breaks down as follows:

(in EEK, million)

	Leasehold improvements	Buildings	Vehicles	Office equipment	Prepayments	Total
Acquisition cost						
As at 31 December 2000	19.6	0.5	0.6	20.0	0.7	41.4
Additions	0.6	-	-	1.3	-	1.9
Disposals	-	-	-	-	-0.7	-0.7
As at 31 December 2001	20.2	0.5	0.6	21.3	-	42.6
Additions	-	-	-	-	2.8	2.8
Reclassification from prepayments for non-current assets	0.1	-	-	1.8	-1.9	0.0
Reclassification	-	-	-	-	-0.7	-0.7
Disposal and write-offs	-0.7	-	-	-0.2	-	-0.9
As at 31 December 2002	19.6	0.5	0.6	22.9	0.2	43.8
Accumulated depreciation						
As at 31 December 2000	-2.3	-0.1	-0.2	-6.5	-	-9.1
Depreciation for financial year	-0.8	-	-0.1	-3.7	-	-4.6
As at 31 December 2001	-3.1	-0.1	-0.3	-10.2	-	-13.7
Depreciation for financial year	-1.1	-	-0.1	-3.9	-	-5.1
Disposal and write-offs	0.3	-	-	0.2	-	0.5
As at 31 December 2002	-3.9	-0.1	-0.4	-13.9	-	-18.3
Net book value						
As at 31 December 2001	17.1	0.4	0.3	11.1	-	28.9
As at 31 December 2002	15.7	0.4	0.2	9.0	0.2	25.5

The above assets are held for the own use by Tallinna Äripank and have not been pledged to third parties.

Intangible assets

Intangible assets as at 31 December 2002 contain the costs made for obtaining the licence for the credit card EUROCARD/MASTERCARD and debit card MAESTRO/CIRRUS. These costs make up EEK 1 million and are depreciated over 5 years. Costs made implementing new systems totalled EEK 2.2 million.

Note 11. Other assets

Other assets distribute as follows:

(EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Cash in transit	0.2	0.2	-	-
Other assets	15.4	10.1	0.1	0.1
Total	15.6	10.3	0.1	0.1

Other assets as at 31.12.2002 comprise Bank and Group receivables from agricultural companies in the net amount of EEK 9.8 million. The receivables were acquired during restructuring of the loan provided to AS Lacto. At annual accounts preparation, the receivables were reclassified as long-term loans.

Note 12. Accrued income and prepaid expenses

Accrued income and prepaid expenses break down as follows:

(in EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Interest	2.5	2.5	0.5	0.5
Prepaid expenses	2.3	2.1	2.6	2.1
Total	4.8	4.6	3.1	2.6

Note 13. Payables to credit institutions

Payables to credit institutions distribute as follows:

(in EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Call deposits	149.4	149.4	279.8	279.8
Total	149.4	149.4	279.8	279.8

Payables to other credit institutions contain call deposits provided by non-OECD banks. As at 31 December 2002, the amount mostly contains the deposits of a particular CIS bank. Total payables to credit institutions make up 23.7% and 25.1% of the total Group and Bank liabilities and equity. Considering the deposit's importance in the balance sheet structure, it has a significant effect both on the Bank's and Group's consolidated financial position and liquidity management.

As at 31 December 2001 deposit concentration provided by other credit institutions consisted mainly of two banks with EEK 250 million and EEK 29.8 respectively; i.e. representing 89% and 11% of the total payables to credit institutions. Total payable to these credit institutions made up 47% and 49% of the Bank's and Group's liabilities and equity.

Note 14. Deposit accounts

Deposits by business sector:

(in EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Privately held companies	78.7	78.7	56.5	56.5
Private individuals	45.4	45.4	54.5	54.5
State companies			-	-
Other	89.8	89.8	54.2	54.2
Total	213.9	213.9	165.2	165.2

Deposits by their maturity dates:

(in EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Demand deposits	94.8	94.8	69.9	69.9
Due in 3 months	18.5	18.5	49.0	49.0
Due in 3–12 months	30.3	30.3	26.0	26.0
Due in 1 - 5 years	26.1	26.1	15.9	15.9
Due in more than 5 years	44.2	44.2	4.4	4.4
Total	213.9	213.9	165.2	165.2

Note 15. Other liabilities and accrued expenses

Other liabilities and accrued expenses distribute as follows:

(in EEK, million)

	31.01.2002		31.01.2001	
	Group	Bank	Group	Bank
Payments in transit	1.1	1.1	3.2	3.2
Other liabilities	123.2	87.3	21.4	3.3
Accrued expenses	1.4	2.9	0.3	0.3
Interest payable	2.0	2.0	1.6	1.6
Total	127.7	93.3	26.5	8.4

Other liabilities contain the Bank's payables to shareholders in the amount of EEK 20 million (also see Note 18) and liabilities to customers arising from sales-repurchase agreements on precious metals amounting to EEK 66.7 million. In addition, the Group's other liabilities contain

EEK 35 million obtained from the Rural Development Foundation for financing agricultural companies through AS TBB Liising.

Note 16. Debt securities

On 25 March 2002 Tallinna Äripank issued discount bonds in the amount of EEK 20 million. The redemption date is on 18 March 2003.

Note 17. Subordinated debts

The Bank has subordinated debts in the amount of USD 1.8 million. As at 31 December 2001, the provider of the subordinated loan was Metropol Bank operating in Moscow. On 5 September 2002, Metropol Bank assigned the claim from Tallinna Äripank to Pennygold Trading Supplies. In 2002 the annual loan interest was 5.9%. The maturity date of the loan is on 20 October 2010. Under the agreement, interest payments are made quarterly but the payments can be deferred if the Bank does not expect profit for the period.

Under the guidelines by the Bank of Estonia, subordinated debts can be included in equity if certain criteria have been met. The subordinated debt to Pennygold Trading Supplies meets the established criteria.

Note 18. Share capital

In 2002 the share capital of Tallinna Äripank was increased by EEK 7.6 million through equity financing. The Bank issued 767,555 new shares with the par value of EEK 10 each.

As at 31 December 2002 and 2001 the share capital of Tallinna Äripank consisted of 8,443,113 and 7,675,558 shares respectively with the par value of EEK 10 each.

The individual participation of all shareholders is below 10%. (see page 7)

As at 31 December 2002 and 2001 the Bank has not repurchased its own shares. In the financial year, no dividends were paid. No proposal for dividend distribution has been made either.

The shareholders of Tallinna Äripank at their meeting held on 18 May 2002 decided to increase share capital by EEK 20 million by issuing new shares. Payments for the shares were made after their subscription. As the increase of share capital could not be entered in the commercial register before the end of the financial year, the payments made for the shares were recorded under other liabilities as payables to shareholders. The increase of share capital by EEK 20 million was approved on 22 January 2003. As a result, the share capital amounts to EEK 104.4 million, which was entered in the commercial register on 17 February 2003.

Note 19. Interest income

Interest income is composed as follows:

(in EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Interest on loans	16.6	17.7	12.4	13.4
Interest on deposits	2.9	2.9	15.7	15.7
Interest from leasing activities	4.3	-	3.1	-
Other	1.5	2.8	0.4	1.3
Total	25.3	23.4	31.6	30.4

As at 31 December 2002 and 2001, the weighted average interest rate on loans was 9.96 % and 10.8 % respectively.

Note 20. Interest expense

Interest expense is composed as follows:

(in EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Interest expense on loans	3.6	2.6	2.5	2.5
Interest expense on deposits	3.8	3.8	10.9	10.9
Other	1.6	1.6	1.0	0.4
Total	9.0	8.0	14.4	13.8

In 2002, the average interest for customer term and demand deposits was 4.6% and 1.4% respectively. In 2001, the respective average interest rates were 6 % and 2%.

Note 21. Net trading income

(in EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Foreign exchange gain	3.1	3.1	3.0	3.0
Gain on transactions with precious metals	6.6	6.6	2.9	2.9
Gain on transactions with securities	0.2	0.2	0.4	0.4
Total	9.9	9.9	6.3	6.3

Tallinna Äripanga AS actively trades on international markets for precious metals. Precious metals produced in Russia are mediated to the European and US large banks and corporations. In 2002 trading with precious metals was more active when compared to 2001.

Note 22. Salaries, wages and social taxes

Salaries, wages and social taxes distribute as follows:

(in EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Salaries to management	1.5	1.3	1.0	0.9
Salaries to employees	5.1	5.0	4.4	4.4
Social taxes	2.2	2.1	1.8	1.7
Total	8.8	8.4	7.2	7.0

In 2002 and 2001 the average number of employees in the Bank was 44 and 48 respectively. Over the same period, the Group employed 49 and 52 people.

Note 23. General administrative expenses

General administrative expenses are as follows:

(in EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Security	0.8	0.8	0.8	0.8
Rent	0.6	0.6	0.7	0.7
Utilities	0.3	0.3	0.4	0.4
Maintenance and repairs	0.4	0.4	0.3	0.3
Transport	0.2	0.2	0.2	0.2
Business travel expenses	0.1	0.1	0.1	0.1
Communications	0.4	0.4	0.6	0.6
Office supplies	0.2	0.2	0.4	0.4
Marketing	0.4	0.2	0.4	0.4
Representation costs	0.1	0.1	0.1	0.1
Training	0.2	0.2	0.2	0.2
Other	1.1	0.9	0.8	0.7
Total	4.8	4.4	5.0	4.9

Note 24. Income tax calculated and actually paid, contingent income tax liability

At 31 December 2002, undistributed profits amounted to EEK 6.8 million. The income tax liability that would arise if all of the undistributed profits were distributed as dividends amounts to EEK 1.8 million. Thus, the maximum amount that could be distributed as the net dividend is EEK 5 million.

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the dividend tax reported in the income statement for 2003 cannot exceed the distributable profits of 31 December 2002.

Note 25. Off-balance sheet liabilities

Off-balance sheet liabilities are as follows:

(in EEK, million)

	31.12.2002		31.12.2001	
	Group	Bank	Group	Bank
Unpaid credit agreements	3.1	7.6	3.6	4.7
Guarantees	55.0	55.0	22.8	22.8
Total	58.1	62.6	26.4	27.5

Operating lease liability

Tallinna Äripank and Grand Marketing AS have signed a leasing agreement on an office building in Tallinn. The term of the agreement is 30 years (until 2030). Under the agreement, the Bank is obliged to perform repairs in the building for EEK 14,486 thousand, which will be offset with rental payments over 10 years. As at 31 December 2000, the Bank had fully met the repair obligation. Rental payments comprise 65% of average effective rental prices in the area within 10 years from the beginning of the rental period and over 5 years thereafter.

Note 26. Related parties

Related parties are shareholders, employees, supervisory and management board members, their close family members and companies in which they have a controlling interest.

Group (in EEK, million)

	31.12.2002		31.12.2001	
	Amount	Interest rate	Amount	Interest rate
Loans to shareholders and management	0.9	5.7%	6.6	8–12%
Group's finance lease receivables	1.6	0–5.7%	0.7	0–8%
Shareholders' term deposits	-	-	-	-
Commission from transactions with precious metals	-	-	5.1	-

Bank (in EEK, million)

	31.12.2002		31.12.2001	
	Amount	Interest rate	Amount	Interest rate
Loans to shareholders, management	0.9	5.7%	6.6	6–13%
Loans to AS TBB Liising	20.4	6–11%	19.1	6–8%
Term deposits	-	-	-	-
Commission from transactions with precious metals	-	-	5.1	-

Tallinna Äripanga AS rents office premises from its shareholder AS Grand Marketing (see Note 25).

For performing the transactions with precious metals, Tallinna Äripanga AS acquires precious metals from companies associated with the shareholder ALMAZ Trading USA Inc. In 2002, precious metals were acquired for USD 7.7 million. As at 31.12.2002, the Bank has no liabilities to related parties from transactions with precious metals.

Note 27. Fair values of financial instruments

The Group has estimated the fair value of financial instruments in accordance with the requirements International Accounting Standard 39 "Financial Instruments: Recognition and Measurement".

The fair value of short-term financial instruments contained in the balance sheet does not significantly differ from their carrying value. Financial instruments in the balance sheet comprise cash, receivables from the Bank of Estonia, deposits with other banks, loans to customers, shares

in companies, where the Bank holds less than 10% participation, liabilities to other banks and financial institutions, customer accounts and other current liabilities and assets.

The fair values of investments in shares of subsidiary companies, non-current assets, other assets and liabilities (having no contractual nature) have not been determined as these are not financial instruments under IAS 39.

Estimated fair values are intended to approximate the amounts at which the instruments could be exchanged between willing parties. But these should not be considered attainable in case of immediate settlement of the instruments.

AUDITOR'S REPORT



4. PROFIT DISTRIBUTION PROPOSAL

The audited net profit of Tallinna Äripanga AS for 2002 amounts to EEK 6,084 thousand.

Resolution by the management board:

to distribute the net profit for 2002 in the amount of EEK 6,084 thousand as follows:

- transfer to capital reserve	304 thousand kroons
incl. mandatory capital reserve	304 thousand kroond
- dividends	3,133 thousand kroons
- retained earnings	2,647 thousand kroons

Valeri Haritonov
Chairman of the board

Andrei Zukov
Member of the board

Tatjana Levitskaja
Member of the board

5. SIGNATURES TO THE ANNUAL REPORT FOR 2002

The management board of Tallinna Äripanga AS has prepared the activity report and the annual financial statements for 2002. The supervisory board has reviewed the annual report, which contains the activity report, the annual financial statements, the profit distribution proposal and the auditor's report, and has approved its presentation to the general meeting of shareholders.

All members of the management board and supervisory board have signed the annual report.

	Date	Signature
--	------	-----------

Management board:

Valeri Haritonov	chairman
------------------	----------

Andrei Zukov	member
--------------	--------

Tatjana Levitskaja	member
--------------------	--------

Supervisory board:

Viljar Veskiväli	chairman
------------------	----------

Valeri Lvovski	member
----------------	--------

Aleksander Udaltsov	member
---------------------	--------

Madis Kiisa	member
-------------	--------

Sergei Gorny	member
--------------	--------