

TALLINNA ÄRIPANGA AS

**PUBLIC CONSOLIDATED ANNUAL
REPORT FOR THE YEAR ENDED
31 DECEMBER 2005**

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1. INTRODUCTORY NOTES

1.1 General Information

Name of the Entity:	TALLINNA ÄRIPANGA AS
Location and address:	7 Vana-Viru Str., 10111 Tallinn
Country of registration:	The Republic of Estonia
Date of Registration:	30.12.1991
Registration number:	10237984
Register:	Commercial Register of the City Court of Tallinn
Phone:	+372 66 88 000
Facsimile:	+372 66 88 001
E-mail:	info@tbb.ee

1.2 Auditor

Name of the auditor:	Veiko Hintsov
Auditor's certification valid since:	13.12.1995, license number 328
Audit firm:	AS Deloitte Audit Eesti
Registration number of the audit firm:	10687819
Location and address:	2 Roosikrantsi Str., 10119 Tallinn

The Annual Report of Tallinna Äripanga AS for the 2005 financial year is prepared as at 31 December 2005 and covers the period from 1 January 2005 to 31 December 2005. The report is prepared in Estonian kroons (EEK) and presented in millions of units.

1.3 Management Declaration

The Management Board declares its responsibility for the preparation of the Annual Report of Tallinna Äripanga AS for the 2005 financial year and declares to its best knowledge that:

- The Annual Report for the 2005 financial year consists of Introductory Notes, Management Report and Annual Accounts, supplemented by Management Board's Proposal for Profit Distribution and Independent Auditor's Report, and discloses information required by the Standards of Preparing a Public Report applicable to credit institutions.
- Financial data and additional information contained in the Annual Report for the 2005 financial year is valid and complete. Nothing significant has been omitted from the Annual Report for the 2005 financial year that could affect the substance or interpretation of the information disclosed.
- The Annual Accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted in the European Union. The Annual Accounts meet the regulatory requirements of the Standards of Preparing a Public Report, approved by the Eesti Pank (Bank of Estonia). The Annual Accounts present a true and fair view of the financial position, economic performance and cash flows of Tallinna Äripanga AS.
- All known significant circumstances that occurred up to the preparation date, 26 April 2006, have been taken into consideration and disclosed in the Annual Accounts. Tallinna Äripanga AS carries its activities as a going concern.
- Public Annual Report for the 2005 financial year and the Independent Auditor's Report will be published 19 May 2006, as latest.
- Public Annual Report for the 2005 financial year will be presented to the Shareholders' General Meeting on 2 June 2006.
- The Shareholders' General Meeting approved the Annual Report for the 2004 financial year on 17 June 2005.

Valeri Haritonov
Chairman of the Board

Andrei Zukov
Member of the Board

Tatjana Levitskaja
Member of the Board

2. MANAGEMENT REPORT

2.1 Description of the Group of the Financial Institution

General information regarding the entities belonging to the Group of Tallinna Äripanga AS (also referred to as “Tallinn Business Bank” and “the Bank”) is presented as follows:

Ultimate Parent Company:

Tallinna Äripanga AS, location: 7 Vana-Viru Str., 10111 Tallinn, banking, registered on 30.12.1991, registration number 10237984, registered at Commercial Register of the City Court of Tallinn.

Subsidiary:

TBB Liisingu AS, location: 7 Vana-Viru Str., 10111 Tallinn, leasing and similar financial activities, registered on 16.07.1999, registration number 10570483, registered at Commercial Register of the City Court of Tallinn, share capital 800 000 EEK, fully owned by Tallinn Business Bank.

Subsidiary:

TBB Kinnisvara AS, location: 5 Vana-Viru Str., 10111 Tallinn, real estate operations, registered on 1.09.2005, registration number 11162243, registered at Commercial Register of the City Court of Tallinn, share capital 800 000 EEK, fully owned by Tallinn Business Bank.

There are no differences between the consolidated Entity of Tallinna Äripanga AS and the consolidation group. Therefore, in this Annual Report the concept of “the Group” is used in the meaning of the consolidated Entity.

2.2 Supervisory Council and Management Board of Tallinn Business Bank as at 31 December 2005

Supervisory Council:

Viljar Veskiväli, Chairman of the Supervisory Council, Counsellor of the Board of Tallinn Business Bank

Number of shares owned: 438 173

Valeri Lvovski, Member of the Supervisory Council, director of AS BEM-Mark

Number of shares owned: 5 833

Aleksander Udaltsov, Member of the Supervisory Council, vice-president of ZAO Luxe du Monde

Number of shares owned: 0

Madis Kiisa, Member of the Supervisory Council, attorney at law in Laus ja Partnerid OÜ Law Office

Number of shares owned: 0

Sergei Gorny, Member of the Supervisory Council, the first deputy chairman of the Management Board of ALMAZJUVELIREXPORT

Number of shares owned: 0

Management Board:

Valeri Haritonov, Chairman of the Management Board

Number of shares owned as at 31.12.2005: 139 570. Number of shares owned as of the date of report: 139 570.

Andrei Zukov, Member of the Management Board

Number of shares owned as at 31.12.2005: 472 431. Number of shares owned as of the date of report: 151 465.

Tatjana Levitskaja, Member of the Board

Number of shares owned as at 31.12.2005: 139 567. Number of shares owned as at the date of report: 139 567.

2.3 Principal Shareholders of Tallinn Business Bank as at 31 December 2005

The list of Tallinn Business Bank shareholders with ownership of at least 5%, their country of residence and the share of ownership is presented below:

Shareholder	Country	Number of shares as at 31.12.2005	Participation %	Number of shares at the date of report	Participation %
Trienta OÜ	Estonia	2 286 014	9,95%	2 286 014	9,95%
AS Grand Marketing	Estonia	2 278 992	9,92%	2 278 992	9,92%
ALMAZ Trading USA Inc	USA	2 264 298	9,86%	2 264 298	9,86%
Statik LLC	USA	2 189 176	9,53%	2 189 176	9,53%
Danasano AS	Estonia	2 036 056	8,86%	2 036 056	8,86%
Leonarda Invest AS	Estonia	1 974 268	8,59%	2 295 234	9,99%
Nensli OÜ	Estonia	1 970 234	8,58%	1 970 234	8,58%
Asparagos OÜ	Estonia	1 932 733	8,41%	1 932 733	8,41%
Lingard OÜ	Estonia	1 911 454	8,32%	1 911 454	8,32%
Others	Estonia	4 132 167	17,98%	3 811 201	16,58%
Total		22 975 392	100,00%	22 975 392	100,00%

2.4 Significant events in 2005

- The Shareholder's General Meeting held on 17 June 2005 approved the Annual Report for the 2004 financial year and resolved dividend disbursement in the amount of 3.0 million EEK.
- On 6 July 2005, it was decided to expand business and to establish a new subsidiary TBB Kinnisvara AS with share capital of 800 000 EEK. The subsidiary was registered in Commercial Register on 1 September 2005.
- Consolidated growth of the Bank's customers' deposits constituted 81 163 thousand EEK.
- On 14 September 2005, establishment of a new subsidiary ZAO TBB Leasing (ЗАО ТББ Лизинг) in Russia was decided. Contribution to share capital of the subsidiary was made in 2006.
- In December 2005, a new product, charge card Deebet Plus, was launched.

2.5 Development Patterns for Tallinn Business Bank for Year 2006

- Ensure that Tallinn Business Bank is operating as a niche-bank, providing its customers with all general banking services and complex solutions;
- Enwide the Bank's lending activity;
- Proceed operations in the precious metals market.

2.6 Risks

General Principles of Risk Management

Banking is connected with the acceptance of risks. When managing risk, the requirements of the legislation of the Republic of Estonia and the restrictions established by the Bank of Estonia along with the Accounting Principles Generally Accepted in Estonia and the approved Group's Risk Management Methodology were taken into consideration. In compliance with the Risk Management Methodology, decade monitoring is performed in order to control the compliance with the Bank's internal standard rating. The Management Board of the Bank, the Assets-Liabilities and Risk Management Committee are provided with an analytical report on the compliance with financial risks standard rating according to the Risk Management Methodology. In addition, summary figures on the effectiveness are presented.

Management of financial risks is performed by the Bank's Assets-Liabilities and Risk Management Committee (hereinafter also referred to as ALRMC) and the Credit Committee:

- the objective of ALRMC is to guarantee good management of the Group's resources in order to ensure maximum profitability at acceptable risk level;
- the Credit Committee assesses the risks associated with customers and the management of risks associated with the Bank's credit portfolio. Every month the optimum portfolio volume is calculated and compared with the actual volume of the Bank's credit portfolio.

The objective of the risk management system is prevention of risks, hedging of risks and/or setting limits for the amount of contingent losses.

Implementation of the Group's risk policy and responsibility for losses arising from all types of risks is the responsibility of the Management Board.

In order to cover each accepted risk, a sufficient amount of shareholder's equity is maintained.

2.6.1 Credit risk

Credit risk arises from the probability of a loss as a result of customers' improper fulfilment or failure of fulfilment of legal commitments (e.g. loan agreements) or by other factors (including shortage of collateral).

In its lending business, Tallinn Business Bank follows the legislation of the Republic of Estonia and the Tallinn Business Bank directives, including the Bank's credit policy approved by its Management Board.

The Credit Committee makes the decision regarding the acceptance of credit risk. The Supervisory Council should accept the decision regarding the acceptance of credit risk that exceeds 10% of the Bank's equity.

The principles of risk acceptance are as follows:

- 1) the risk should be measurable;
- 2) the risk should be pledged as required;
- 3) the pledge should be insured;
- 4) the risks should be diversified between different economic areas and regions, also through differences in maturities and pledges;
- 5) an effective monitoring system should guarantee the detection of possible problems at early stages, in order to prevent and reduce credit losses.

The assessment of credit risk is performed before placing the loan and later during quarterly monitoring.

The measurement of credit risk includes the following steps:

- analysis of customers' previous activities;
- assessing the risk associated with the Management Board and shareholders;
- assessing the pledge;
- security of the pledge;
- analysis and assessing business plans and estimates for future cash flows;
- reliability and reputation of potential customers;
- positive credit history;
- assessing the borrower's risk of country of incorporation using the methodology of the Basel Committee.

Loans granted as well as loans are to be granted are fully covered by the Group's equity and borrowings (including special-purpose loans and demand deposits). The obligations of a borrower cannot exceed 10% of the Bank's shareholders equity, unless the approval of the Supervisory Council of the Bank is received. The share of loans granted to one economic or industrial sector in the Bank's loan portfolio may not exceed 25%.

During the monitoring of the Group's loan portfolio, which is performed every month, every loan and customer is reviewed individually. In this assessment, the Group pays attention to meeting the terms of the loan agreements, including timeliness of repayments, customer's financial position, the condition of pledges and submission of necessary information and documentation to the Group.

In assessing the timeliness of repayments and the customers' financial position, the scoring system of five is in use, from A to E, where A indicates the strongest and E the weakest customer. The pledges are assessed separately taking into consideration their type, value, change in value, liquidity of the pledge and its securities.

Regardless the size of the customer, attention is given to the repayment of the loan amount, whether it takes place in the whole amount at the end of the lending period (e.g. bullet-loans) or by making proportional payments. Bullet-loans are granted with special attention.

In addition, customers whose obligations to the Group exceed 10% of Bank's shareholders' equity are monitored more carefully.

Using the aforementioned preliminary data, the monitoring of the Bank's loan portfolio is performed.

Using the aforementioned principles, the Bank's management quarterly assesses the probability of repayment of loans granted and loans assessed as doubtful. Allowance for loan receivables is made for each customer individually, which forms the Bank's total allowance for loan receivables.

Loan officers, who make proposals for allowances, perform the first revision of the loan portfolio. On the basis of this information, the Bank's Management Board makes a decision regarding the level of the allowance for the Bank's loan portfolio. Loan monitoring and estimated allowances are inspected by the Bank's internal controls, the Financial Supervisory Authority and auditors.

2.6.2 Market risk

Market risk indicates probability of loss, which is derived from adverse financial market movements, changes in foreign currency exchange rates and interest rates and also in prices of securities. Market risk possesses a macroeconomic nature. Market risk affects majority of the Bank's services, including lending, depositing and derivatives.

For the Group there are three main market risk variables:

- 1) currency risk;
- 2) interest rate risk;
- 3) risk of volatility.

In managing its market risk, the Group applies the following principles:

- denominating existing financial assets in the same currency;
- managing open net currency positions according to regulative acts of the Bank of Estonia through setting internal limits for foreign currencies and financial instruments;
- continuous monitoring of internal rules on basis of Risk Management Methodology;
- repayments of long-term loans denominated in Estonian kroons are tied to Euro. In order to reduce the risk of changing market prices of pledges, the Group raises loans up to 65% of pledge's value;
- in order to reduce the currency risk, derivatives (such as forward and swap contracts) are in use;
- integration of different risk assessment results.

The managing of market risk in the Group is the responsibility of ALRMC along with the Lending Department and International Settlements Department.

2.6.3 Liquidity risk

Liquidity indicates the ability of the Group to meet its obligations and its ability to improve or retain any adverse levels of liquidity through changing the structure of assets and liabilities in a timely manner by involving additional external funds, and improving its financial stability through increase in earnings.

Liquidity risk arises from the differences in maturities of assets and liabilities and how quickly assets could be settled to cover liabilities, from the assets' structure and sensitivity of liabilities to interest fluctuation.

In managing its liquidity risk, the Group applies the following principles:

- the basis for liquidity risk management is the regulatory act of the Bank of Estonia on the statutory reserve;
- following of the requirements on the Banks Reliability Rating set by the Bank of Estonia;
- using the Bank's integral liquidity ratio that is calculated every 10 days on the basis of three various factors;
- following ratios and limits (as set by the Bank of Estonia and also the Group's internal limits) based on the Risk Management Methodology and Liquidity Management Methodology;
- analysing the results of stretch tests created by the Group;
- defining sufficient levels of cash balances and retaining it;
- predicting volumes of loans and deposits and scheduling loan repayments;
- balancing the open currency position;
- gaining stability of the Group's base of resources base through setting competitive and attractive interest rates on time deposits;
- temporary restrictions on termination of time deposits (30-days notification);

- integration of different risk assessment results.

Management of liquidity risk is the responsibility of ALRMC and the financial director. ALRMC performs asset monitoring, control and re-allocation, in order to achieve the optimum balance structure by maintaining an acceptable level of liquidity, also maintaining of liquidity reserve which allows the Group to meet non-planned financial needs: providing background for profitable investment and lending transactions, smoothing of occasional and seasonal fluctuations of loan demand and withdrawal of deposits.

Strategic issues of liquidity risk management are discussed by ALRMC at least once a month.

Daily management of liquidity risk is the responsibility of the working group consisting of ALRMC, accounting and international settlements department specialists.

This working group assesses the Bank's liquidity levels continuously (i.e. daily) and once a week it presents report on its activities to the Management Board.

2.6.4 Country risk

It is critically important for any internationally operating bank (including the Group of Tallinn Business Bank) to adequately assess the risk of country of residence. Country risk consists of two components: economic and political risks.

Economic risk refers to the degree of general economic and financial management in a country (both in macro aspects and on an entity level), country's competitive position on the international market, the balance of payments, stability of national currency etc.

The level of political risk is determined as the stability of the political system, relationships with adjoining states and security. When assessing the political risk, the effect of the aforementioned factors on proprietary rights is considered.

In the real world economic and political risks are interrelated and when assessing them, one should use the integral approach.

Country risk can be defined as follows:

- Risk of conversion (devaluation of national currency);
- Risk of transfer of monetary resources;
- National insolvency risk (default risk).

In order to reduce country risks the Group uses following methods:

- *Risk of conversion*
 - The Group does not operate with foreign currencies, which the conversion ability is limited;
 - The Group does not transact with countries with unclear or unstable international image;
 - The Group does not invest into countries where the currency conversion is limited.
- *Risk of translation of monetary resources*
 - All transactions with currencies are performed through the dealer-system REUTERS 2000;
 - The Bank does not open correspondent accounts in countries, which political and/or economic risk levels are high.
- *National insolvency risk*
 - This risk is kept under control by implementing tough criteria for choosing correspondent banks.

System of limits in use

- The country risk system of limits is in use for managing country risks. Limits are divided into two groups: countries of zone A and B.
- ALRMC and the Management Board of the Bank approve the country risk limits.
- Revision of the country risk limits is ordinarily performed at least once a year. When required, revision of those limits is performed more frequently.

The analysis, management and control of all of the aforementioned risks are the responsibility of ALRMC and the Management Board of the Bank. When required, experienced members of the Bank's Supervisory Council are involved in this work.

2.6.5 Operational Risk

Operational risk refers to internal or external factors, which can adversely influence the Group's activities and result in losses. Operational risk consists of following components:

- Information technology risk;
- Procedural risk;
- Personnel risk;
- Legal risk;
- External risks.

In order to reduce the operational risk there is a control system for the administration of transactions in the Group, which ensures multiple controls over the performed transactions. According to the recommendations of the Financial Supervision Authority, issued on 1 September 2005, the Group has established a workgroup for operational risk management. The workgroup's responsibility is to gather the information regarding operational risk, to perform control and to analyze, as well as to develop related methodology and to compose and implement

the operational risk policies. The Group uses operating risk monitoring system that requires monthly controls over damage sustains and incidents exceeding 50 000 EEK. Operational risk index, calculated on basis of the results of monitoring, is provided to the Bank's internal control department and to ALRMC for their information and check-up. Operational risk reports are presented to the Financial Supervision Authority quarterly.

In order to minimize the *information technology risk*, there are internal systems of information protection and procedures in place, which prevent unauthorised access to the Group's internal information.

In order to reduce *procedure risk*, the Group uses procedures, which are designed to ensure that products are covered with agreements, control actions and are properly accounted for. A procedure manual and product card is compiled for every activity and product.

Operations and effectiveness of the aforementioned system is under supervision of the Bank's internal control and a lawyer, who regularly audit and analyze signed contracts and agreements in process in order to identify potential risks.

Personnel risk is managed through setting principles of employment and placement of staff. The basis for employment is the assessment of future employees' professional skills, qualification and loyalty.

Responsibility limits are set for employees. Trespassing these limits that cause damage to the Group, raises substantial liability of the employee in the extent of the loss.

Legal risk. In performing transactions the Group uses standard agreement forms. All aspects of the agreements are coordinated with the lawyer and when required, legal expertise is engaged. The majority of agreements, which refer to the security of loans, are reviewed in the notary's offices.

External Risks, related to the Group's premises and communication systems burgle, are protected by IT security systems, internal rules to ensure the security and videotape recording system. Systems' external risks are determined and archived. The Bank's administrative division's responsibility is to ensure physical security and control over criminal risks.

Control and management of all operational risks is the responsibility of the Bank's Management Board, internal control, lawyer and IT department.

2.6.6 Internal control system

The internal control system covers the activities of the Group of Tallinn Business Bank taken as a whole. The internal control system a co-operation of the Supervisory Council, Management Board and staff and it enables the most effective achievement of general goals set, fairness of accounting information and compliance with legal regulations. The maintaining and functioning of the internal control system is the responsibility of the Bank's Management Board.

Every managerial level performs its specific functions. The Supervisory Council performs supervision of the Bank's and subsidiaries' activities by controlling Management Boards' activities, approving the strategy of the Group and general risk management methodology.

The task of the Management Board is coordinating daily business activities, including defining the responsibilities of each managerial level, approval of job descriptions and internal rules. In addition, the Management Board is responsible for the fulfilment of valid action plans and procedures.

The objective of the internal control department is the supervision of keeping the Group's assets, protecting the interests of the Bank's shareholders, depositors and creditors, and the supervision of compliance of the Group's operations with regulatory acts and good banking routine. In order to achieve its objectives, the internal control department performs tasks, such as the control of internal documentation, identification of deficiencies in the Group's activities, investigation of cases of breaking internal rules, infringement of duties and exceeding authority limits along with drawing attention to these cases and making proposals regarding the elimination of these deficiencies. In performing its tasks the internal control department follows the work plan approved by the Supervisory Council of Tallinn Business Bank.

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, by profit distribution the following principles are followed:

- The result of the Group's financial year should be positive, i.e. the Group should earn a profit;
- Preservation of capitalisation level required for maintaining operations in a small bank;
- Compliance with requirements on the level of reserves.

2.8 Employees

	2005		2004	
	Group	Bank	Group	Bank
Average number of employees	55	48	52	48
Total salary amount (in millions EEK)	9.5	8.7	9.1	8.5

2.9 Standard Norms

2.9.1 Adequacy of Capital

The statement of capital adequacy is presented in terms of the requirements of the Decree No 12 of the President of the Bank of Estonia dated 2 July 2002 Prudential Ratios of Credit Institutions, appendix 1 Principles of Calculating Capital Adequacy of Credit Institutions on Solo and Consolidated Basis.

(In millions EEK)

	2005		2004	
	Group	Bank	Group	Bank
1 Core capital of the first level	257.4	252.6	231.2	230.7
1.1 Paid-in capital	229.8	229.8	229.8	229.8
1.2 General banking reserves	-	-	-	-
1.3 Other reserves	2.2	2.1	1.9	1.9
1.4 Retained earnings	2.0	1.3	-	-0.5
1.5 Profit for the financial year	23.7	19.7	-	-
1.6 Minority of shareholders (only in consolidated statements)	-	-	-	-
1.7 Unrealised foreign currency exchange differences (only in consolidated statements)	-	-	-	-
1.8 Negative goodwill (only in consolidated statements)	-	-	-	-
1.9 Treasury shares (less)	-	-	-	-
1.10 Intangible property (less)	-0.3	-0.3	-0.5	-0.5
1.11 Loss for the financial year (less)	-	-	-	-
2 Core capital of the second level	23.8	23.8	20.6	20.6
3 Total gross core capital (1+2)	281.2	276.4	251.8	251.3
4 Deductions from gross core capital	-	1.6	-	0.8
5 Total net core capital (3-4)	281.2	274.8	251.8	250.5
6 Core capital of the third level	-	-	-	-
7 Risk weighted assets	387.3	373.2	385.2	359.2
7.1 I category (credit risk of 0%)	63.3	63.3	46.9	46.9
7.2 II category (credit risk of 20%)	159.5	159.5	217.9	217.9
7.3 III category (credit risk of 50%)	128.1	119.8	126.1	117.8
7.4 IV category (credit risk of 100%)	291.3	281.4	278.6	256.7
8 Off-balance sheet liabilities weighted by credit risk	5.9	5.9	4.2	4.2
8.1 Group I	5.9	5.9	4.2	4.2
8.2 Group II	-	-	-	-
9 Capital requirements for the coverage of the currency risk	0.1	-	0.1	-
10 Capital requirements for the coverage of the risks associated with trading portfolio	-	-	-	-
10.1 Capital requirements for the coverage of the interest position risks	-	-	-	-
10.2 Capital requirements for the coverage of the securities position risks	-	-	-	-
10.3 Capital requirements for the coverage of the commodity risks	-	-	-	-
10.4 Capital requirements for the coverage of the risks associated with options	-	-	-	-
10.5 Capital requirements for the coverage of the transferring risk of trading portfolio	-	-	-	-
10.6 Capital requirements for the coverage of the credit risk of trading portfolio	-	-	-	-
Capital requirements for the trading portfolio credit risk from open position which exceeded the marginal rate of loan concentration	-	-	-	-
11 Capital adequacy	-	-	-	-
12 (5.+6.)/(7.+8.+9.*10 + 10.*12,5+11.*12,5)	0.71	0.72	0.64	0.69

2.9.2 Net Currency Positions

Net currency positions are calculated in accordance with the requirements of the Decree No 12 of the President of the Bank of Estonia dated 2 July 2002, Prudential Ratios of Credit Institutions, appendix 1 Principles of Calculating Capital Adequacy of Credit Institutions on Solo and Consolidated Basis.

As at 31 December 2005 and 2004 the Group and the Bank did not have any net currency positions that exceeded 1% of the share capital.

2.9.3 Liquidity

Liquidity is calculated in accordance with the requirements of the Decree No 12 of the President of the Bank of Estonia dated 2 July 2002, Prudential Ratios of Credit Institutions, appendix 5 Principles of Calculating Liquidity of Credit Institutions and Procedure for Reporting on Solo and Consolidated Basis.

Claims and liabilities for the Bank and the Group as at 31 December 2005 are presented according to their maturity as follows:

CLAIMS AND LIABILITIES ACCORDING TO MATURITY

(In millions EEK)

Claims and liabilities	On demand	Overdue	Till 1 month	1-3 months	3-12 months	1-2 years	2-5 years	Exceeding 5 years
1. Bank's claims	195.4	1.0	110.0	46.8	108.6	23.5	42.5	77.8
2. Group's claims	198.0	1.5	112.4	46.9	73.7	18.8	53.6	102.9
incl. Cash and claims to banks	192.2	-	104.9	31.3	2.4	7.8	-	-
Claims to customers	3.1	1.5	6.1	14.6	67.2	10.9	53.6	102.9
Securities	-	-	-	-	-	-	-	-
Other claims	2.7	-	1.4	1.0	4.1	0.1	-	-
1. Bank's liabilities	180.0	-	27.5	18.7	95.8	18.5	29.1	47.7
2. Group's liabilities	165.5	-	27.5	20.3	87.6	22.0	47.7	49.1
incl. Debts to banks	-	-	-	-	-	-	-	-
Debts to customers	160.2	-	13.1	10.9	78.7	15.7	23.9	49.1
Bonds issued	-	-	-	-	-	-	-	-
Other debts	5.3	-	14.4	9.4	8.9	6.3	23.8	-

2.9.4 Loan concentration

The loan concentration report is compiled in accordance with the requirements of the Decree No 12 of the President of the Bank of Estonia dated 2 July 2002, Prudential Ratios of Credit Institutions, appendix 3 Principles of Calculating Exposures Incurred by Credit Institutions and Procedure for Reporting on Solo and Consolidated Basis.

(In millions EEK)

	Group		Bank	
	quantity/ amount	% of net share capital	quantity/ amount	% of net share capital
1. Number of customers with high loan concentration	1	-	1	-
2. Claims to customers with high risk concentration	36.1	12.8%	35.2	12.8%
3. Claims to related parties	6.9	2.5%	4.9	1.8%

According to Credit Institutions Act, a loan is considered to be highly risky if it exceeds 10% of the credit institution's share capital, and the total amount of loans with high risk concentration may not exceed 800% of the share capital of the credit institution.

Loans to one customer or a group of related parties can never exceed 25% of net share capital of the Bank or it's the Group.

As at 31 December 2005, both, Tallinn Business Bank and the Group, complied with the aforementioned risk concentration limits.

2.10 Financial Ratios

Main financial ratios that describe the operating activities of the Group and the Bank in 2005 and 2004 financial years are presented below. Balance sheet ratios are calculated using period-end data.

Ratios	31.12.2005		31.12.2004	
	Group	Bank	Group	Bank
1. ROE	9.58%	8.04%	2.99%	2.99%
2. EM	2.65	2.59	3.90	3.73
3. PM	36.80%	33.79%	10.79%	9.94%
4. AU	9.81%	9.20%	7.09%	8.07%
5. NIM	-	4.12%	-	2.29%
6. EPS*	1.03	0.86	0.23	0.23
7. Spread	-	3.20%	-	1.69%

** The ratio has been adjusted with the bonus share issuance, which took place on the third quarter of 2004 and with the share issuance, which took place on fourth quarter of 2004.

The ratios presented are calculated using the following formulas:

- | | |
|------------------------------|---|
| 1. Return on Equity (ROE): | Net profit (loss) / share capital (%) |
| 2. Equity Margin (EM): | Assets / share capital |
| 3. Profit Margin (PM): | Net profit (loss) / gross income (%) |
| 4. Assets Utilisation (AU): | Total revenue / assets (%) |
| 5. Net Interest (NIM): | Net interest income / interest bearing assets (%) |
| 6. Earnings per Share (EPS): | Net profit (loss) / average number of shares (EEK) |
| 7. Spread: | (Interest income / interest bearing assets) – (interest expense / interest bearing liabilities) (%) |

2.11 Consolidated Balance Sheets Tallinn Business Bank and the Group for the Periods 2001-2005

(In millions EEK)

ASSETS	31.12.2005		31.12.2004		31.12.2003		31.12.2002		31.12.2001	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank
1. Cash	4.7	4.7	5.4	5.4	8.5	8.5	4.2	4.2	4.8	4.8
2. Claims	593.8	593.5	627.2	606.2	671.1	639.9	578.4	548.6	542.9	524.4
3. Shares and other securities	-	-	-	-	-	-	-	-	9.9	9.9
4. Shares of subsidiaries	-	1.6	-	0.8	-	1.3	-	1.0	-	0.9
5. Intangible assets	0.3	0.3	0.5	0.5	0.7	0.7	0.9	0.9	-	-
6. Tangible assets	21.5	21.5	23.9	23.9	24.7	24.7	25.6	25.5	28.9	28.9
7 Investment property	15.3	-	-	-	-	-	-	-	-	-
7. Other assets	2.1	1.6	10.2	1.1	5.2	0.9	15.6	10.3	0.1	0.1
8. Accruals and prepaid expenses	5.0	2.8	2.9	2.8	4.1	3.4	4.8	4.6	3.1	2.6
9. TOTAL ASSETS	642.7	626.0	670.1	640.7	714.3	679.4	629.5	595.1	589.7	571.6

LIABILITIES AND EQUITY	31.12.2005		31.12.2004		31.12.2003		31.12.2002		31.12.2001	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank
1. Debts	351.6	341.5	311.2	282.9	295.5	260.2	398.3	363.3	465.2	445.0
2. Bonds issued	-	-	-	-	-	-	19.2	19.2	-	-
3. Other liabilities	5.7	4.2	97.6	97.6	277.2	277.2	89.3	88.4	3.2	3.2
4. Accruals and customers' prepayments	3.9	3.6	3.7	3.4	2.6	3.0	3.4	4.9	3.1	5.2
5. Subordinated debt	23.8	23.8	20.6	20.6	22.3	22.3	26.9	26.9	31.9	31.9
6. Total liabilities	385.0	373.1	433.1	404.5	597.6	562.7	537.1	502.7	503.4	485.3
7. Shareholders equity	257.7	252.9	237.0	236.2	116.7	116.7	92.4	92.4	86.3	86.3
TOTAL LIABILITIES AND EQUITY	642.7	626.0	670.1	640.7	714.3	679.4	629.5	595.1	589.7	571.6

2.12 Ratings

As at 31 December 2005, Tallinn Business Bank was not internationally rated.

2.13 Court Cases

As at 31 December 2005, Tallinn Business Bank along with its subsidiaries TBB Liisingu AS and TBB Kinnisvara AS, were not involved in any court or arbitration cases, which could lead to significant losses in the future.

3. ANNUAL ACCOUNTS

The Annual Accounts of Tallinn Business Bank consist of balance sheets, statements of profit and loss, cash flow statements, statement of changes in shareholders' equity and notes to the Annual Accounts.

3.1 Consolidated Balance Sheets and Off-Balance Sheet Items of Tallinn Business Bank and the Group

BALANCE SHEETS AS AT 31 DECEMBER 2005 AND 31 DECEMBER 2004

(In millions of EEK)

ASSETS	Note	31.12.2005		31.12.2004	
		Group	Bank	Group	Bank
1 Cash		4.7	4.7	5.4	5.4
2 Claims		593.8	593.5	627.2	606.2
2.1 Due from Central Bank	2	57.5	57.5	40.8	40.8
2.2 Due from other banks	3,7,8	276.4	276.4	324.4	324.4
2.3 Claims to Bank's customers	4,7,8	190.8	266.8	197.7	247.9
2.4 Claims to leasing customers	5,7,8	76.6	-	71.5	-
2.5 Allowances for loan losses	6,7,8	-7.5	-7.2	-7.2	-6.9
3 Shares and other securities		-	1.6	-	0.8
3.1 Other shares and securities	7,8,9	-	1.6	-	0.8
4 Intangible assets		0.3	0.3	0.5	0.5
4.1 Other intangible assets	10	0.3	0.3	0.5	0.5
5 Tangible assets	10	21.5	21.5	23.9	23.9
6 Investment property	9	15.3	-	-	-
7 Other assets	11	2.1	1.6	10.2	1.1
8 Accrued income and prepaid expenses	12	5.0	2.8	2.9	2.8
9 TOTAL ASSETS		642.7	626.0	670.1	640.7

LIABILITIES AND EQUITY	Note	31.12.2005		31.12.2004	
		Group	Bank	Group	Bank
1 Debt obligations		351.6	341.5	311.2	282.9
1.1 Due to other banks	13	-	-	37.4	37.4
1.2 Due to customers	14	326.7	341.5	245.5	245.5
1.3 Other dues	15	24.9	-	28.3	-
2 Other liabilities	15	5.7	4.2	97.6	97.6
3 Accrued expenses and customers prepayments	15	3.9	3.6	3.7	3.4
4 Subordinated debt	16	23.8	23.8	20.6	20.6
5 TOTAL LIABILITIES		385.0	373.1	433.1	404.5
6 Share capital	17	229.8	229.8	229.8	229.8
7 Other reserves		2.2	2.1	1.9	1.9
8 Retained earnings		2.0	1.3	-	-0,5
9 Net profit for the period		23.7	19.7	5.3	5.0
10 TOTAL EQUITY		257.7	252.9	237.0	236.2
11 TOTAL LIABILITIES AND EQUITY		642.7	626.0	670.1	640.7

OFF-BALANCE SHEET TRANSACTIONS AS AT 31 DECEMBER 2005
As at 31.12.2005

(in millions of EEK)

	Note	Group		Bank	
		Claims	Liabilities	Claims	Liabilities
1. Irreversible transactions	24	2.2	18.7	2.2	18.7
1.1 Guarantees and similar irreversible transactions		2.2	14.0	2.2	14.0
incl. financial guarantees		-	-	-	-
1.2 Other irreversible transactions		-	4.7	-	4.7
2. Reversible transactions	24	-	16.0	-	25.5
2.1 Unused amounts of credit lines and overdrafts		-	16.0	-	25.5

As at 31.12.2004

(in millions of EEK)

	Note	Group		Bank	
		Claims	Liabilities	Claims	Liabilities
1. Irreversible transactions	24	1.2	17.8	1.2	17.8
1.1 Guarantees and similar irreversible transactions		1.2	13.9	1.2	13.9
incl. financial guarantees		-	-	-	-
1.2 Other irreversible transactions		-	3.9	-	3.9
2. Reversible transactions	24	-	6.6	-	10.9
2.1 Unused amounts of credit lines and overdrafts		-	6.6	-	10.9

3.2 Consolidated Statements of Profit and Loss for Tallinn Business Bank and the Group

STATEMENTS OF PROFIT AND LOSS FOR 2005 AND 2004 FINANCIAL YEARS

(In millions of EEK)

	Note	2005		2004	
		Group	Bank	Group	Bank
1 Interest income	18	33.9	31.3	22.9	20.5
1.1 Interest income from banking operations		28.5	31.3	17.8	20.5
1.2 Interest income from lease operations		4.3	-	4.1	-
1.3 Other interest income		1.1	-	1.0	-
2 Interest expense	19	7.4	6.5	7.4	6.2
2.1 Interest expense from banking operations		6.5	6.5	6.2	6.2
2.2 Interest expense from lease operations		0.9	-	1.2	-
3 Net interest income/expense (+/-)		26.5	24.8	15.5	14.3
4 Gains from securities		-	-	-	-
4.1 Gain/loss from equity method (+/-)		-	-	-	-
5 Net income from fees and commissions		4.9	5.2	4.6	4.6
5.1 Fees and commissions income		9.7	10.0	9.2	9.2
5.2 Fees and commissions expense		4.8	4.8	4.6	4.6
6 Net income/expense from financial transactions (+/-)	20	9.8	9.8	7.5	7.5
6.1 Income/profit		9.8	9.8	7.8	7.8
6.2 Expense/loss		-	-	0.3	0.3
7 Administration expenses		18.2	16.9	17.8	16.5
7.1 Salaries and wages	21	9.5	8.7	9.1	8.5
7.2 Social security taxes	21	3.1	2.9	3.1	2.8
7.3 Other administrative expenses	22	5.6	5.3	5.6	5.2
Changes in value of investment property, tangible and intangible assets (+/-)		-1.2	-4.5	-4.9	-4.9
8.1 Income/profit	9	3.3	-	-	-
8.2 Expense/loss	10	-4.5	-4.5	-4.9	-4.9
Changes in value of claims and off-balance sheet liabilities (+/-)		-2.2	-2.2	-3.1	-3.1
9.1 Income/profit	6	1.1	1.1	11.2	11.2
9.2 Expense/loss		-3.3	-3.3	-14.3	-14.3
10 Other operating income / expense		5.1	4.5	3.5	3.1
10.1 Other operating income		11.0	6.1	9.2	4.6
10.2 Other operating expense		5.9	1.6	5.7	1.5
11 Earnings before taxes (+/-)		24.7	20.7	5.3	5.0
12 Income tax expense		1.0	1.0	-	-
12.1 Income tax for the financial year		1.0	1.0	-	-
13 Net profit for the financial year		23.7	19.7	5.3	5.0

3.3 Consolidated Cash Flow Statements for Tallinn Business Bank and the Group

CASH FLOW STATEMENTS FOR 2005 AND 2004 FINANCIAL YEARS

(In millions of EEK)

	Note	2005		2004	
		Group	Bank	Group	Bank
Cash flows from operating activities					
Net profit for the financial year		23.7	19.7	5.3	5.0
Adjustments for:					
Depreciation expense and impairment losses	10	4.5	4.5	4.9	4.9
Change in value of investment property	9	-3.3	-	-	-
Allowance for loan losses	6	1.9	1.9	10.8	10.8
Unrealised loss from the revaluation of the subordinated loan		3.2	3.2	-1.7	-1.7
Income tax expense in the reported period		1.0	1.0	-	-
Changes in assets related to the operating activities		55.6	28.4	35.8	29.7
Changes in liabilities related to the operating activities		-51.2	-34.5	-162.8	-156.4
Net cash flows from operating activities		35.4	24.2	-107.7	-107.7
Cash flows from investing activities					
Acquisition of tangible and intangible assets	10	-1.9	-1.9	-5.1	-5.1
Proceeds from disposal of tangible and intangible assets	10	-	-	1.2	1.2
Establishment of a subsidiary	9	-	-0.8	-	-
Acquisition of investment property	9	-12.0	-	-	-
Net cash flows used in investing activities		-13.9	-2.7	-3.9	-3.9
Cash flows from financing activities					
Dividends paid		-3.0	-3.0	-	-
Income tax paid on dividends		-1.0	-1.0	-	-
Monetary contribution to share capital		-	-	115.0	115.0
Cash flows from financing activities		-4.0	-4.0	114.9	114.9
Net change in cash		17.5	17.5	3.4	3.4
Cash and cash equivalents, beginning of year		46.4	46.4	43.0	43.0
Cash and cash equivalents, end of year		63.9	63.9	46.4	46.4

Cash and cash equivalents presented in these Annual Accounts comprise the balances of correspondent accounts in the Bank of Estonia and in other Estonian banks.

	2005	2004
Petty cash	4.7	5.4
Correspondent account in the Bank of Estonia	57.5	40.8
Demand deposits in Estonian commercial banks	1.7	0.2
Total	63.9	46.4

3.4 Consolidated Statements of Shareholders' Equity for Tallinn Business Bank and the Group

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY FOR 2005 AND 2004 FINANCIAL YEARS
Bank

(In millions of EEK)

	Share capital	Reserves	Retained earnings	Net profit for the financial year	Total
Opening balance 31.12.2003	104.4	1.5	4.1	6.7	116.7
Allocation of net profit for the year into reserves	-	0.4	-	-0.4	-
Allocation of net profit for the year into retained earnings	-	-	6.3	-6.3	-
Shares issued	115.0	-	-	-	115.0
Bonus share issuance	10.4	-	-10.4	-	-
Net profit for the year	-	-	-	5.3	5.3
Closing balance 31.12.2004	229.8	1.9	-	5.3	237.0
Effect of changes in accounting policies	-	-	-0.5	-0.3	-0.8
Restated balance 31.12.2004	229.8	1.9	-0.5	5.0	236.2
Allocation of net profit for the year to reserves	-	0.2	-	-0.2	-
Allocation of net profit for the year into retained earnings	-	-	4.8	-4.8	-
Dividends paid	-	-	-3.0	-	-3.0
Net profit for the year	-	-	-	19.7	19.7
Closing balance 31.12.2005	229.8	2.1	1.3	19.7	252.9

Group

(In millions of EEK)

	Share capital	Reserves	Retained earnings	Net profit for the financial year	Total
Opening balance 31.12.2003	104.4	1.5	4.1	6.7	116.7
Allocation of net profit for the year to reserves	-	0.4	-	-0.4	-
Allocation of net profit for the year into retained earnings	-	-	6.3	-6.3	-
Shares issued	115.0	-	-	-	115.0
Bonus share issuance	10.4	-	-10.4	-	-
Net profit for the year	-	-	-	5.3	5.3
Closing balance 31.12.2004	229.8	1.9	-	5.3	237.0
Allocation of net profit for the year to reserves	-	0.3	-	-0.3	-
Allocation of net profit for the year into retained earnings	-	-	5.0	-5.0	-
Dividends paid	-	-	-3.0	-	-3.0
Net profit for the year	-	-	-	23.7	23.7
Closing balance 31.12.2005	229.8	2.2	2.0	23.7	257.7

Notes to the Annual Accounts

Note 1. Summary of Significant Accounting Policies

General Information

Tallinna Äripanga AS (hereinafter “the Bank”) was established and commenced its operations in December 1991. The Bank’s main office is located in Tallinn, and it has a branch in Narva. Its 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 consolidated annual accounts comprise the Bank and its subsidiaries TBB Liisingu AS (100% ownership, established on 02.07.1999) and TBB Kinnisvara AS (100% ownership, established on 01.09.2005) financial statements. On 21 December 2005, another subsidiary, ZAO TBB Leasing (ЗАО ТББ ЛИЗИНГ; 99% ownership) was registered in Russia. The monetary contribution to share capital was made in 2006.

The Bank does not have any affiliated companies as at 31 December 2005.

The accompanying consolidated financial statements and separate financial statements of the Bank are presented in millions of the national currency of Estonia, the kroon (“EEK”), if not stated otherwise.

Basis of Preparation

The Group entities perform their accounting and prepare statements for regulatory purposes in accordance with the Estonian accounting principles. The accompanying Annual Accounts are compiled by using the accounting records, together with appropriate adjustments and reclassifications necessary for true and fair presentation in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (the EU). In certain instances, the reported amounts relating to the previous accounting period have been restated to conform to the current year presentation requirements.

The Consolidated Annual Accounts are prepared under the historical cost convention as modified by the remeasurement to fair value of securities available for sale, financial assets and financial liabilities held at fair value through profit and loss and all financial derivatives.

The accounting policies have been consistently applied by all Group entities.

The following is the summary of the main principles used in preparation of the Consolidated Annual Accounts.

Consolidation

Subsidiaries

All entities controlled by the ultimate parent company are considered to be subsidiaries. Control is considered to be effective when the ultimate parent company has, directly or indirectly through subsidiaries, 50% of voting power in the subsidiary or the ultimate parent company is controlling the operating and financial policies of the subsidiary in some other way.

The Consolidated Annual Accounts include all subsidiaries that are controlled by the ultimate parent company. When an entity began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. In the ultimate parent company's separate financial statements, the investments are recorded at the historical cost.

Separate financial statements of the ultimate parent company as at 31 December 2004 reported the investment into the shares of TBB Liisingu AS by applying equity method of accounting and amounted to 1 569 th EEK. Since 2005, the investment is presented at its historical cost of the investment is 800 th EEK.

Due to the new accounting principles the opening balance as at 31.12.2004 is restated: the balance sheet value of the investment is decreased by 769 th EEK and due to this the net profit for the financial year of 2004 is restated by 274 th EEK and retained earnings are restated by 495 th EEK.

Transactions and Balances Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised gains and losses from intra-group transactions, are eliminated in preparing the Consolidated Annual Accounts. Unrealised losses are eliminated in the same way as unrealised gains, except for that they are only eliminated if there is no evidence of impairment.

Foreign Currency

Transactions denominated in foreign currency are translated into EEK at the official exchange rate quoted by the Bank of Estonia at the date of the transaction.

Monetary items denominated in foreign currencies and those non-monetary items that are carried at fair value are retranslated into Estonian kroons at the official foreign currency exchange rates prevailing on the balance sheet date. Non-monetary items, which are not carried at fair value, are not retranslated; instead, foreign currency exchange rates prevailing on the transaction date are used. Gains and losses from foreign currency transactions are recorded in the statement of profit and loss on net basis.

The exchange rates of the principal transaction currencies at 31 December 2005 and 2004 were as follows:

	2005	2004
USD	13.22060	11.47110
RUB	0.45999	0.41382

Derivative Financial Instruments

In accordance with the requirements of IAS 39, all derivative contracts are reported on the balance sheet at their fair value; all contracts with positive value as assets and all contracts with negative value as liabilities. Fair value of derivative instruments is reported on balance sheet as „Other assets“ or „Other liabilities“. The Group uses discounted cash flow method for determination of fair value of currency and interest derivative contracts.

For determination of fair value of shares and other derivative instruments, the Group uses market prices (option pricing or discounted cash flow models are used for determination of market prices). All gains and losses resulted from changes in fair value of derivative financial instruments are recognised in the statement of profit and loss as „Net income/expenses from financial activities“.

As at 31 December 2005 and 2004, the Bank did not have any derivative financial instrument related receivables or payables.

Hedging

The Group accounts for hedges using fair value method – hedges with the risks attributable to changes in market value of recognised assets or liabilities that could affect the net profit of the Group.

The criteria for classifying a derivative instrument as a hedge include:

- the hedge transaction is expected to be effective in achieving offsetting changes in market value or cash flows attributable to the hedged risks,
- the effectiveness of the hedge can be reliably measured,
- there is adequate documentation of the hedging relationships at the inspection of the hedge.

Derivatives classified as fair value hedges are carried at their fair value with the change in fair value recognised in the statement of profit and loss. The carrying amount of the hedged assets or liabilities is adjusted for changes in fair value attributable to the hedged risk and the gain or loss associated with that re-measurement is recognised in the statement of profit and loss on the same line („Net income/expenses from financial activities“) with the hedging derivative’s changes.

When a hedge ceases to be effective, hedge accounting is discontinued and the adjustment to the carrying amount of hedged instruments starts to be amortised immediately.

Offsetting

The Group offsets financial assets and financial liabilities, when:

- there is a legally enforceable right to set off the recognised amounts;
- the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Recognition of Income and Expense

Interest income and expenses are recognised in the statement of profit and loss on accrual basis of accounting using the effective interest rate. Interest income includes coupons earned on fixed interest investments and trading securities, and accrued discount and premium on treasury bills and other discounted investments.

Dividend income is recognised when the shareholder’s right to receive payment is established. Dividend liability is recognised on the date fixed by the annual shareholders’ meeting.

Interest income from overdue loans or other loans, the interest collection of which is considered unlikely, is not recognised as income. For the overdue loans, the Group stops the accrued interest calculation and continues when the previous indebtedness is paid.

Fees and commissions and other income are recognised when relevant transactions are completed. Non-interest expenses are recognised at the time the transaction occurs.

The Group has analysed recognition of fees and commissions in accordance with IAS 18 Revenue, and has made a decision that the current recognition of fees and commissions does not significantly influence the information presented in the Annual Accounts and therefore the Group continues application of fees and commissions recognition method.

Fees and commissions paid and other expenses are recognised at the time the transaction occurs.

Financial Assets

Financial assets are any assets that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

Ordinary purchase or sale of financial assets is recognised using trade date accounting, other than for loans.

Financial assets are impaired if their carrying amounts are greater than their estimated recoverable amounts. The amount of impairment loss for assets carried at amortised cost is calculated as the difference between the assets' carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of financial asset is identified, it is recognised in statement of profit and loss.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash, balances with Central bank, and correspondent accounts in other Estonian commercial banks.

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

Claims: Loans and Receivables, Placements with Other Banks, Other Off Balance Sheet Borrowings and Allowance for Loan Losses

Loans, receivables and placements with other banks are stated at the amortised cost, net of allowance for possible losses.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Interest is accrued and credited to income based on the principal amount outstanding using effective interest rate method. All loans and receivables are recognised when cash is disbursed to borrowers.

When a borrower is unable to make payments as they became due or, in opinion of the management, there is an indication that a borrower will not be able to make payments as they become due, an allowance is recognised.

The amount of allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate. The amount necessary to adjust the allowance to its assessed levels, after write-offs, is charged to the profit and loss statement line „Changes in values of claims and off balance sheet 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 group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of a borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it has become probable that the borrower will bankrupt or other financial reorganisation;
- disappearance of active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets 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 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 has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's 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 statement of profit and loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. Loans are written off against the related account "Changes in values of claims and off balance sheet liabilities" in the statement of profit and loss. If the reason for allowance is no longer deemed appropriate, the redundant allowance charge is released into income. The relevant amount and recoveries of loans and advances previously written off are reflected in the statement of profit and loss through "Loan recoveries."

Leasing

The Group is a lessor.

The Group provides mostly finance leases. A finance lease is a long term lease transaction under which all material rights and obligations related to the use of the leased asset transfer to the lessee. Finance lease receivables are recognised as loans to customers. Lease payments less the reduction of the outstanding receivable are recorded as income as calculated under the effective interest method to provide a constant rate of return on the net investment in the leases.

Investment Property

Land or buildings acquired for the purpose of earning rentals 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 property is stated at its fair value. Investment property is revalued on each balance sheet date according to the estimated discounted net future cash flows from the investment and is not depreciated. Gains and losses arising from the change in fair value are recorded in the statement of profit and loss for the financial year.

Tangible Assets

Tangible assets are stated at historical cost less accumulated depreciation. If the fair value of a tangible asset is lower than its carrying amount due to circumstances that are not considered to be temporary, the tangible asset is written down to its fair market value.

Depreciation is calculated using the straight-line method based on the estimated useful lives of tangible assets as follows:

Buildings	50 years
Vehicles	7 years
Office equipment	4-10 years
Improvement of rented tangible assets	Taking into consideration terms of rent agreement

All assets in excess of 5 000 EEK are recognised on the balance sheet. Gains and losses on disposal of tangible assets are recognised in the statement of profit and loss at the moment of disposal.

Intangible Assets

An asset is an intangible asset when it has useful life of more than one year and is controlled by the Group, the cost of the asset can be measured reliably and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. Intangible assets are recorded at cost, which comprises purchase price and other directly attributable expenditures. Amortisation is calculated on the straight-line method with annual rate determined on basis of asset's useful lifetime.

Income Tax

According to the Estonian Income Tax Act, the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on the distribution of profits. Resident legal entities are, since 1 January 2003, liable to income tax on all dividends paid and other profit distributions irrespective of the recipient (Income Tax Act, section 50). The tax rate applicable since 1 January 2006 is 23/77 on the actual dividends paid.

The contingent tax liability that may occur if all distributable retained earnings should be paid out as dividends is not reported on the balance sheet. The income tax due on dividend distribution is expensed in the statement of profit and loss when dividends are declared.

The maximum possible tax liability which would become payable if the retained earnings were fully distributed is presented in note 23.

The tax due on a dividend distribution may be reduced by up to 23/77 calculated on dividends received from subsidiaries.

Regulatory Requirements

The Bank is subject to the regulatory requirements set by the Bank of Estonia. The main requirements include:

- minimum owner's equity;
- capital adequacy;
- liquidity;
- mandatory and other reserves;
- foreign currency positions;
- restrictions on investments;
- loan concentration.

The sanctions for non-compliance with the laws and regulations may include restrictions of the Bank's activities and the withdrawal of their banking license. The management believes that the Bank is in compliance with all applicable laws and regulations.

Changes in Accounting Policies and Presentation Principles

In 2005, the opening balances have been restated as described below.

Until 2004 the subsidiaries were recorded by using the equity method, but since 2005 the subsidiaries are recorded on the balance sheet accounts in their historical cost value. Due to this change in the accounting policies, the comparative financial statements are restated as follows:

	Initial opening balance EEK	Restatement EEK	Restated opening balance EEK
Balance sheet account:			
3.1 Other shares and securities	1.6	-0.8	0.8
8 Retained earnings	0	-0.5	-0.5
9 Net profit for the period	5.3	-0.3	5.0
Statement of profit and loss account:			
4.1 Gain from equity method	0.3	-0.3	0
11 Earnings before taxes	5.3	-0.3	5.0
13 Net profit for the financial year	5.3	-0.3	5.0

Note 2. Due from Central Bank

In accordance with the regulations of the Bank of Estonia, the Bank must hold a separate account with it a compulsory reserve deposit. The base components of calculation of the reserve comprise all balance sheet liabilities of the credit institution acquired via the inclusion of external funds and off-balance sheet liabilities - financial guarantees issued to cover the liabilities of resident financial institutions belonging to the reporting credit institution's consolidating group. The compulsory reserve is computed using a determined percentage of the average monthly balance of customers' deposits. During 2005 and 2004 the Bank was in compliance with the compulsory reserve requirement. As at 31 December 2005 the balance due from the Central Bank amounted to 57.5 millions EEK (31 December 2004: 40.8 millions EEK).

Note 3. Due from Other Banks

Amounts due from other credit institutions are presented as follows:

	(In millions EEK)			
	31.12.2005		31.12.2004	
	Group	Bank	Group	Bank
Demand deposits:				
with OECD banks	48.7	48.7	57.6	57.6
with Estonian banks	1.7	1.7	0.2	0.2
with CIS countries' banks	79.1	79.1	107.2	107.2
with non – OECD banks	0.5	0.5	0.1	0.1
Total demand deposits	130.0	130.0	165.1	165.1
Time deposits:				
with OECD banks	60.2	60.2	1.3	1.3
with Estonian banks	11.2	11.2	-	-
with CIS banks	39.1	39.1	-	-
Total time deposits	110.5	110.5	1.3	1.3
Overnight loans:				
to Estonian banks	4.6	4.6	12.0	12.0
to OECD banks	31.3	31.3	146.0	146.0
Total overnight loans	35.9	35.9	158.0	158.0
Total	276.4	276.4	324.4	324.4

As at 31 December 2005 and 2004 the average interest rate on time deposits was 2.62% and 1.6%, respectively. Agreed maturity dates of term deposits are in 2007.

Note 4. Claims to the Customers of the Bank

Loans granted:

	(In millions EEK)			
	31.12.2005		31.12.2004	
	Group	Bank	Group	Bank
Legal entities	165.1	241.1	168.0	218.2
Individuals	25.7	25.7	29.7	29.7
Total loans granted	190.8	266.8	197.7	247.9
Less: allowance for loan losses	-7.2	-7.2	-6.9	-6.9
Total loans granted, net	183.6	259.6	190.8	241.0

Bank Balances include loans granted to related parties (note 25).

Note 5. Claims to Leasing Customers

Analysis of claims according to fields of activities:

	(In millions EEK)	
	31.12.2005	31.12.2004
Finance lease	64.7	57.5
Loans	11.9	14.0
Total due from customers	76.6	71.5
Less: allowance for loan losses	-0.3	-0.3
Total due from customers, net	76.3	71.2

Analysis of claims according to business sectors:

	(In millions EEK)	
	31.12.2005	31.12.2004
Agriculture	24.4	23.7
Real estate	23.5	14.9
Manufacturing	1.3	2.3
Individuals	15.9	13.4
Other	11.5	17.2
Total due from customers	76.6	71.5
Less: allowance for loan losses	-0.3	-0.3
Total due from customers, net	76.3	71.2

All finance lease agreements are concluded with legal entities registered in Estonia and with individuals whose residency is in Estonia.

Annual payments for Group claims for the period ending 31 December are as follows

	(In millions EEK)
2006	18.9
2007	17.2
2008	9.6
2009	8.6
2010	5.7
2011	3.9
2012	3.2
2013	3.1
2014	2.5
2015	3.9
Total	76.6

As at 31 December 2005 allowance for finance lease losses amounted to 0.3 millions EEK. Maaelu Edendamise Sihtasutus guaranteed collaterals for loans granted to the sector of agriculture in the amount of 8.3 millions EEK. Guarantee would be realised in case the Group suffers losses from the sale of collateral in case of customer's insolvency.

Analysis of gross investments and future rental income at 31 December 2005 and 2004 is presented as follows:

	(In millions EEK)	
	Present value of a claim	
	31.12.2005	31.12.2004
Gross investments' maturities		
Less than 1 year	20.8	19.7
1 – 5 years	46.8	43.6
Over 5 years	10.5	5.5
Less: interest income of future periods	-13.4	-11.3
Total present value of claims	64.7	57.5

Maturity analysis:

Long-term claims (over 1 year)	48.1	41.6
Short-term claims (less than 1 year)	16.6	15.9

Note 6. Overdue and Non-Performing Loans

Overdue claims and loans:

(In millions EEK)

Overdue	Group			Bank		
	Less than 30 days	30 - 60 days	over 60 days	Less than 30 days	30 - 60 days	over 60 days
Loans	9.0	3.5	29.0	0.3	-	20.4
Total	9.0	3.5	29.0	0.3	-	20.4

Movement of non-performing loans and allowance for loan losses in 2005 financial year was as follows:

Bank

(In millions EEK)

	31.12.2004	Expensed during financial year	Received during financial year	Written-off	31.12.2005
Loans	6.9	3.0	1.1	1.6	7.2
Total	6.9	3.0	1.1	1.6	7.2

Group

(In millions EEK)

	31.12.2004	Expensed during financial year	Received during financial year	Written-off	31.12.2005
Loans	7.2	3.0	1.1	1.6	7.5
Total	7.2	3.0	1.1	1.6	7.5

In 2005 there was expensed and wrote-off other assets in total amount 0.3 million EEK.

Note 7. Loan Concentration by Regions as at 31.12.2005

Bank		(in millions EEK)					
Region	In Balance Sheet					Off	Percentage
	Loans	Securities	Other claims	Inc. overdue	Doubtful receivables	balance sheet liabilities Loans	of region (%) Securities
Estonia	268.7	1.6	1.3	20.7	7.2	44.2	53.5%
USA	23.8	-	-	-	-	-	4.0%
Switzerland	1.1	-	-	-	-	-	0.2%
Latvia	0.3	-	-	-	-	-	0.1%
Germany	110.9	-	-	-	-	-	18.8%
Lithuania	0.5	-	-	-	-	-	0.1%
The Netherlands	0.8	-	-	-	-	-	0.1%
Russia	129.4	-	-	-	-	-	21.8%
Great Britannia	3.3	-	-	-	-	-	0.6%
Belgium	2.1	-	-	-	-	-	0.4%
Ukraine	1.3	-	-	-	-	-	0.2%
Italy	1.0	-	-	-	-	-	0.2%
Total	543.2	1.6	1.3	20.7	7.2	44.2	100.0%

Group		(in millions EEK)					
Region	In Balance Sheet					Off	Percentage
	Loans	Securities	Other claims	Inc. overdue	Doubtful receivables	balance sheet liabilities Loans	of region (%) Securities
Estonia	269.3	-	1.3	41.5	7.5	34.7	52.7%
USA	23.8	-	-	-	-	-	4.1%
Switzerland	1.1	-	-	-	-	-	0.2%
Latvia	0.3	-	-	-	-	-	0.1%
Germany	110.9	-	-	-	-	-	19.1%
Lithuania	0.5	-	-	-	-	-	0.1%
The Netherlands	0.8	-	-	-	-	-	0.1%
Russia	129.4	-	-	-	-	-	22.2%
Great Britannia	3.3	-	-	-	-	-	0.6%
Belgium	2.1	-	-	-	-	-	0.4%
Ukraine	1.3	-	-	-	-	-	0.2%
Italy	1.0	-	-	-	-	-	0.2%
Total	543.8	-	1.3	41.5	7.5	34.7	100.0%

Note 8. Claims by Economic Sectors as at 31 December 2005

Bank	(in millions EEK)						
	In Balance Sheet					Off- balance sheet liabilities Loans	Percenta- ge of sector Securities
	Loans	Securities	Other claims	Inc. overdue	Doubtful receivables		
Economic sector							
Agricultural, hunting industry and forestry	45.7	-	0.1	1.8	1.0	-	7.8%
Manufacturing	34.7	-	0.5	18.6	5.7	12.2	8.0%
Building	-	-	-	-	-	5.2	0.9%
Retail and wholesale, maintenance of motor vehicles, motorcycles, consumer and white goods	13.1	-	-	-	0.4	10.8	4.0%
Transportation services, warehousing and communication systems	0.2	-	-	-	-	1.1	0.2%
Financial services	328.7	0.8	0.2	-	-	1.6	56.2%
Real estate, renting and business support	62.0	0.8	0.1	-	-	8.3	12.1%
Other business activities	12.4	-	0.2	-	-	-	2.1%
Health care	5.3	-	-	-	-	-	0.9%
Other state, social and service institutions	15.4	-	0.1	-	-	-	2.6%
Individuals	25.7	-	0.1	0.3	0.1	5.0	5.2%
Total	543.2	1.6	1.3	20.7	7.2	44.2	100.0%

Group	(in millions EEK)						
	In Balance Sheet					Off- balance sheet liabilities Loans	Percenta- ge of sector Securities
	Loans	Securities	Other claims	Inc. overdue	Doubtful receivables		
Economic sector							
Agricultural, hunting industry and forestry	70.1	-	0.1	11.2	1.3	-	12.1%
Manufacturing	36.0	-	0.5	18.6	5.7	12.2	8.4%
Building	-	-	-	-	-	5.2	0.9%
Retail and wholesale, maintenance of motor vehicles, motorcycles, consumer and white goods	13.1	-	-	-	0.4	10.8	4.1%
Transportation services, warehousing and communication systems	11.5	-	-	0.2	-	1.1	2.2%
Financial services	279.5	-	0.2	-	-	0.2	48.3%
Real estate, renting and business support	58.6	-	0.1	-	-	0.2	10.2%
Other business activities	12.5	-	0.2	-	-	-	2.2%
Health care	5.3	-	-	-	-	-	0.9%
Other state, social and service institutions	15.7	-	0.1	-	-	-	2.7%
Individuals	41.5	-	0.1	11.5	0.1	5.0	8.0%
Total	543.8	-	1.3	41.5	7.5	34.7	100.0%

Note 9. Investments

Long-term investments into the shares:

(In millions EEK)

	31.12.2005			31.12.2004		
	Group	Bank	Participation %	Group	Bank	Participation %
Shares of subsidiary						
TBB Liisingu AS	-	0.8	100%	-	0.8	100.0%
TBB Kinnisvara AS	-	0.8	100%	-	-	-
Total	-	1.6	-	-	0.8	-
Total long-term investments	-	1.6	-	-	0.8	-

As at 31.12.2005 the Bank holds:

- TBB Liisingu AS 8 000 shares with nominal value of 100 EEK per share;
- TBB Kinnisvara AS 800 shares with nominal value of 1 000 EEK per share.

The subsidiaries shareholder's equity as at 31.12.2005 and 2004 comprises of:

TBB Liisingu AS

(In millions EEK)

Shareholder's equity	31.12.2005	31.12.2004
Share capital in nominal value	0.8	0.8
Obligatory reserve	0.2	0.2
Retained earnings	0.6	0.3
Net profit for the financial year	0.9	0.3
Total Shareholder's equity	2.5	1.6

TBB Kinnisvara AS

(In millions EEK)

Shareholder's equity	31.12.2005	31.12.2004
Share capital in nominal value	0.8	-
Net profit for the financial year	3.1	-
Total Shareholder's equity	3.9	-

Property Investments

In 2005 TBB Kinnisvara AS acquired a land that is recorded in the balance sheet accounts as property investment.

Analyses of the property investment balance changes:

Acquisition cost	12.0 million EEK
Gain from revaluation	3.3 million EEK
Balance as at 31.12.2005	15.3 million EEK

Note 10. Tangible assets

Tangible assets movement is presented as follows:

Bank:

(In millions EEK)

	Improvements to rented tangible assets	Buildings	Motor vehicles	Office equipment	Prepayments	Total tangible assets
<u>Historical cost</u>						
As at 31 December 2003	19.7	0.5	1.7	24.7	0.7	47.3
Acquisitions	-	-	-	-	4.8	4.8
Disposals and writing off tangible assets	-	-	-1.2	-7.7	-	-8.9
Reclassification from prepayments	0.7	-	-	4.4	-5.1	-
As at 31 December 2004	20.4	0.5	0.5	21.4	0.4	43.2
Acquisitions	-	-	-	-	2.0	2.0
Disposals and writing off tangible assets	-	-	-0.2	-1.0	-	-1.2
Reclassification from prepayments	-	0.1	-	1.3	-1.4	-
Reclassification	-	-	-	-	-0.1	-0.1
As at 31 December 2005s	20.4	0.6	0.3	21.7	0.9	43.9
<u>Accumulated depreciation</u>						
As at 31 December 2003	-5.0	-0.2	-0.3	-17.1	0.0	-22.6
Charge for the period	-1.1	-	-0.2	-3.4	-	-4.7
Disposals and writing off tangible assets	-	-	0.3	7.7	-	8.0
As at 31 December 2004	-6.1	-0.2	-0.2	-12.8	0.0	-19.3
Charge for the period	-1.2	-	-0.1	-3.0	-	-4.3
Disposals and writing off tangible assets	-	-	0.2	1.0	-	1.2
As at 31 December 2005	-7.3	-0.2	-0.1	-14.8	-	-22.4
<u>Net book value</u>						
As at 31 December 2003	14.7	0.3	1.4	7.6	0.7	24.7
As at 31 December 2004	14.3	0.3	0.3	8.6	0.4	23.9
As at 31 December 2005	13.1	0.4	0.2	6.9	0.9	21.5

The assets above are held for Tallinn Business Bank's own use and have not been pledged to third parties.

As at 31 December 2005 the net book value of Group's tangible assets amount to 21.5 millions EEK, including office equipment belonging to TBB Liisingu AS, which net book value as at 31 December 2005 was 25.4 thousand EEK.

Intangible assets

As at 31 December 2005 under intangible assets were reported expenses incurred in order to receive a licensed for EUROCARD/MASTERCARD and MAESTRO/CIRRUS, administration systems for credit and debit cards respectively. These expenses will be depreciated over a five-year period. Depreciation charge for the 2005 financial year amounted to 0.2 millions EEK and the net book value is 0.3 million EEK.

Note 11. Other Assets

Other assets are presented as follows:

	(In millions EEK)			
	31.12.2005		31.12.2004	
	Group	Bank	Group	Bank
Cash in transit	1.2	1.2	0.7	0.7
Other assets	0.9	0.4	9.5	0.4
Total	2.1	1.6	10.2	1.1

Note 12. Accruals and Prepaid Expenses

Accruals and prepaid expenses are presented as follows:

	(In millions EEK)			
	31.12.2005		31.12.2004	
	Group	Bank	Group	Bank
Interests	1.3	1.3	1.6	1.6
Prepaid expenses	3.7	1.5	1.3	1.2
Total	5.0	2.8	2.9	2.8

Note 13. Due to Other Credit Institutions

Due to other credit institutions are presented as follows:

	(In millions EEK)			
	31.12.2005		31.12.2004	
	Group	Bank	Group	Bank
Demand deposits	-	-	37.4	37.4
Total	-	-	37.4	37.4

As at 31 December 2005 amounts due to other credit institutions contain demand deposits with non-OECD banks and forms up 13.8 th EEK.

Note 14. Due to Bank's Customers

Due to Bank's customers are divided between sectors as follows:

	(In millions EEK)			
	31.12.2005		31.12.2004	
	Group	Bank	Group	Bank
Legal entities	179.8	194.6	94.8	94.8
Individuals	87.8	87.8	80.3	80.3
Other	59.1	59.1	70.4	70.4
Total	326.7	341.5	245.5	245.5

In balance account „Other“ is recorded the loans Bank gained from Maaelu Edendamise Sihtasutuste for targeted financing of the agricultural enterprises.

Following is presented the analysis of deposits according to their maturities:

(In millions EEK)

	31.12.2005		31.12.2004	
	Group	Bank	Group	Bank
Demand deposits	160.3	175.1	127.7	127.7
Deposits with maturity less than 3 months	23.9	23.9	15.7	15.7
Deposits with maturity 3 months – 1 year	77.4	77.4	33.9	33.9
Deposits with maturity 1 - 5 years	17.4	17.4	18.3	18.3
Deposits with maturity over 5 years	47.7	47.7	49.9	49.9
Total	326.7	341.5	245.5	245.5

Note 15. Other Liabilities and Accrued Expenses

Other liabilities and accrued expenses are presented as follows:

(In millions EEK)

	31.12.2005		31.12.2004	
	Group	Bank	Group	Bank
Money in transit	4.2	4.2	2.3	2.3
Other liabilities	26.4	-	28.3	-
Liabilities arising from transactions with precious metals	-	-	95.3	95.3
Accrued expenses	2.5	2.2	2.2	1.9
Interest liabilities	1.4	1.4	1.5	1.5
Total	34.5	7.8	129.6	101.0

Under the Group's other liabilities are presented resources received by TBB Liisingu AS from Maaelu Edendamise Sihtasutus in the total amount of 24.9 (as at 31 December 2004: 28.3) millions EEK for the purpose of financing the agricultural sector and 1.5 million EEK the prepayments made by customers of TBB Kinnisvara AS.

Note 16. Subordinated Debt

The Bank has a subordinated debt in the amount of 1.8 millions USD. As at 31 December 2001 the borrower was Metropol Bank operating in Moscow. Metropol Bank has transferred its claim against Tallinn Business Bank to Pennygold Trading Supplies, Ireland, at 5 September 2002. In 2005 the annual interest rate of the loan was 5.9% and the maturity date was 20 October 2010. According to the loan agreement, interest payments are to be made on a quarterly basis, but payments could be delayed if the Bank earned no profit for particular period.

According to regulations of the Bank of Estonia, the subordinated loan could be included in the shareholder's equity if it conforms to some criteria. The subordinated loan from Pennygold Trading Supplies complies with these requirements.

Note 17. Share Capital

As at 31 December 2005 and 2004 the share capital of Tallinn Business Bank consisted of 22 975 392 shares with a nominal value of 10 EEK.

Individual participation of all shareholders was below 10% (see page 6).

As at 31 December 2005 and 2004 the Bank redeemed and held no own shares.

Note 18. Interest Income

Interest income is presented as follows:

	(In millions EEK)			
	2005		2004	
	Group	Bank	Group	Bank
From loans	14.1	16.9	13.0	15.7
From deposits	14.4	14.4	4.8	4.8
From lease operations	4.3	-	4.1	-
Other	1.1	-	1.0	-
Total	33.9	31.3	22.9	20.5

As at 31 December 2005 and 2004 the weighted average interest rate for loans granted was 6.44% and 6.82% respectively.

As at 31 December 2005 and 2004 the average interest rate on time deposits was 2.62% and 1.9% respectively.

As at 31 December 2005 and 2004 the average interest rate on finance lease agreements was 6.80% and 7.65% respectively.

Note 19. Interest Expenses

Interest expense is presented as follows:

	(In millions EEK)			
	2005		2004	
	Group	Bank	Group	Bank
From loans	4.2	3.3	4.7	3.5
From deposits	3.2	3.2	2.7	2.7
Total	7.4	6.5	7.4	6.2

In 2005 the average interest rate on customers' time and demand deposits was 3.28% and 0.25% respectively. In 2004 the average interest rate on customers' time and demand deposits was 3.3% and 0.25% respectively.

Note 20. Net Profit from Financial Transactions

	(In millions EEK)			
	2005		2004	
	Group	Bank	Group	Bank
Net gains from currency exchange transactions	3.8	3.8	4.9	4.9
Net gains from transactions with precious metals	6.0	6.0	2.0	2.0
Net gains from security transactions	-	-	0.6	0.6
Total	9.8	9.8	7.5	7.5

Tallinn Business Bank is dealing as an intermediary on the international precious metals market places. The main activity is the intermediation in transactions of precious metals produced in Russia to European and US large banks and corporations. The gain from transactions with precious metals consists of contractual intermediation fees. In purchase and sales transactions with precious metals where the Bank is performing as an intermediary, all risks are transferred to the seller. As at 31 December 2005 the Bank has not non-closed intermediary deals with precious metals (31.12.2004 it was in amount of 95.3 millions EEK (refer to Note 15).

Note 21. Salaries and Wages and Social Security Expense

Salaries and wages and social security expenses are presented as follows:

	(In millions EEK)			
	2005		2004	
	Group	Bank	Group	Bank
Management remuneration	2.8	2.5	2.9	2.7
Employee's salaries	6.7	6.2	6.2	5.8
Social security	3.1	2.9	3.1	2.8
Total	12.6	11.6	12.2	11.3

During 2005 and 2004 financial years the average number of employees for Bank was 48 and 48, for the Group 55 and 52 respectively.

Note 22. Other Administrative Expenses

Other administrative expenses are presented as follows:

(In millions EEK)

	2005		2004	
	Group	Bank	Group	Bank
Security services	0.8	0.8	0.8	0.8
Rent	0.5	0.5	0.6	0.6
Common utilities	0.4	0.4	0.3	0.3
Maintenance and repairs	0.4	0.4	0.4	0.4
Transportation	0.5	0.5	0.4	0.4
Expenses related to business trips	0.2	0.2	0.2	0.2
Communication expenses	0.5	0.5	0.5	0.5
Office goods	0.5	0.5	0.4	0.4
Marketing	0.3	0.2	0.3	0.3
Representational costs	0.1	0.1	0.1	0.1
Education expenses	0.1	0.1	0.1	0.1
Other expenses	1.3	1.1	1.5	1.1
Total	5.6	5.3	5.6	5.2

Note 23. Accrued and Paid Income Tax Amounts and Potential Income Tax on Dividends

The Bank's retained earnings that may be distributed as of 31 December 2005 amounted to 21.0 millions EEK. The maximum possible income tax liability which would become payable if the retained earnings was fully distributed as net dividends are 6.3 millions EEK.

When calculating the maximum possible tax liability, the fact that the net amount of paid out dividends along with amount of income tax on dividends couldn't exceed the amount of retained earnings as at 1 January 2006 was considered.

Note 24. Off-balance Sheet Liabilities

Off-balance sheet liabilities are presented as follows:

(In millions EEK)

	31.12.2005		31.12.2004	
	Group	Bank	Group	Bank
Not paid out loan amounts	16.0	25.5	6.6	10.9
Other irreversible transactions	4.7	4.7	3.9	3.9
Guarantees	14.0	14.0	13.9	13.9
Total	34.7	44.2	24.4	28.7

Operating lease liability

Tallinn Business Bank and AS Grand Marketing have signed a rental agreement for office space located in Tallinn, which matures after 30 years (till 2030). According to this agreement the Bank has an obligation to perform office renovation work in the amount of 14 486 thousand EEK, which will be offset with rental payment amounts during 10 years. As at 31 December 2000 the Bank exercised its renovation obligation in the full amount. Rent payments comprise 65% of the average rent prices for the region during the next 10 years since the beginning of the rental period and during the next five years.

Note 25. Related Parties

Related parties are shareholders, members of the Supervisory Council and the Management Board, their relatives and the companies in which they hold majority interest.

Group

(in millions EEK)

	31.12.2005		31.12.2004	
	Amount	Interest rate	Amount	Interest rate
Loans to shareholders, members of the Management Board and other related parties	6.9	4%	4.2	4%
Balance of OÜ Rendmark Kinnisvara bank account	-	-	2.4	0.3%
Loans to OÜ Rendmark Kinnisvara	-	-	11.0	10.0%
Remuneration of the members of Supervisory and Management Boards during the period	2.8	x	2.9	x

Bank

in millions EEK)

	31.12.2005		31.12.2004	
	Amount	Interest rate	Amount	Interest rate
Loans to shareholders	4.9	4-6.9%	1.7	4%
Loans to AS TBB Liising	49.2	1-11%	50.2	1-11%
Loans to AS TBB Kinnisvara	26.9	6.0%	-	-
Balance of OÜ Rendmark Kinnisvara bank accounts	-	-	2.4	0.3%
Loans to OÜ Rendmark Kinnisvara	-	-	11.0	10.0%
Remuneration of the members of Supervisory and Management Boards during the period	2.5	x	2.7	x

Transactions that took place between Tallinn Business Bank and AS TBB Liising in 2005 financial year:

(in millions EEK)

	2005	2004
Repayment of loans to the bank	4.8	4.3
Repayment of finance lease claims to AS TBB Liising	-	0.5
Interest income from AS TBB Liising	2.7	2.7
Fees and commissions gained from AS TBB Liising	0.3	0.3

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Transactions that took place between Tallinn Business Bank and AS TBB Kinnisvara in 2005 financial year: (in millions EEK)

	2005	2004
Loans received from the bank	26,9	-
Fees from AS TBB Kinnisvara	0.2	-

Transactions that took place between Tallinn Business Bank and former associated enterprise OÜ Rendmark Kinnisvara in 2005 financial year: (in millions EEK)

	2005	2004
Repayment of loans to the bank	-	3.0
Interest income from OÜ Rendmark Kinnisvara	-	1.2
Penalties received from OÜ Rendmark Kinnisvara	-	4.2

Tallinn Business Bank rents office space from its shareholder AS Grand Marketing (refer to Note 24).

AUDITOR'S OPINION**Deloitte.**

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Tallinna Äripanga AS:

We have audited the annual accounts of Tallinna Äripanga AS ("the Bank") and its subsidiaries ("the Group") for the year ended 31 December 2005. The annual accounts are the responsibility of the Bank's Management Board. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual accounts present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2005, the result of their operations and their cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by European Union and with the guideline for preparation of "Public Accounts" established by the Bank of Estonia.



Veiko Hintsov
Certified auditor
26 April 2006



AS Deloitte Audit Eesti

4. PROPOSAL FOR PROFIT DISTRIBUTION

The audited net profit of Tallinna Äripanga AS for the 2005 financial year was 19 723 thousand EEK.

Decision of Management Board:

To distribute the net profit for the 2005 financial year in the amount of 19 723 thousand EEK as follows:

- to the reserve capital	986 th EEK
incl. statutory reserve	986 th EEK
- to the retained earnings	18 737 the EEK

Valeri Haritonov
Chairman of the Board

Andrei Zukov
Member of the Board

Tatjana Levitskaja
Member of the Board

5. BOARD'S AND COUNCIL SIGNATURES TO THE ANNUAL REPORT

The Management Board has prepared the management report and the annual accounts of Tallinna Äripanga AS for the financial year ended 31 December 2005 on 26 April 2006.

The Supervisory Council of Tallinna Äripanga AS has reviewed the annual report, prepared by the Management Board, consisting of the management report, the annual accounts, the Management Board's proposal for profit distribution and the independent auditor's report, and has approved the annual report for presentation on the Shareholders' General Meeting.

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

Name	Position	Signature	Date
Valeri Haritonov	Chairman of the Board	_____	_____
Andrei Zukov	Member of the Board	_____	_____
Tatjana Levitskaja	Member of the Board	_____	_____
Viljar Veski	Chairman of the Council	_____	_____
Valeri Lvovski	Member of the Council	_____	_____
Aleksander Udaltsov	Member of the Council	_____	_____
Madis Kiisa	Member of the Council	_____	_____
Sergei Gorny	Member of the Council	_____	_____