

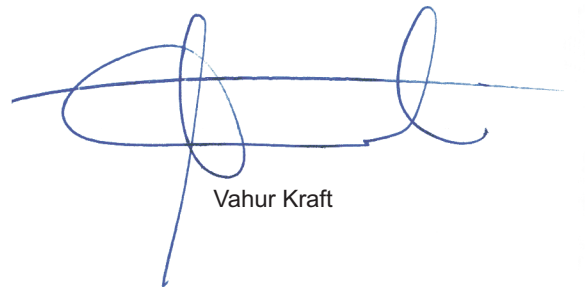
THE EXECUTIVE MANAGEMENT OF EESTI PANK'S APPROVAL OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2000

On 28 February 2001 the Executive Management of Eesti Pank prepared the Financial Statements of Eesti Pank, including the Balance Sheet, Statement of Profit and Loss, Statement of Changes in Equity and Notes to the Financial Statements. The Executive Management has submitted the Financial Statements with the Auditor's Report to the Board of Eesti Pank for review, to make its decisions on the performance of the financial year and submit results to the Riigikogu (Estonian Parliament) for approval.

The Financial Statements are prepared in compliance with the Central Bank of the Republic of Estonia Act and the Statute of Eesti Pank as well as other internal guidelines for the preparation of Financial Statements. The Financial Statements give a true and fair view of the assets, liabilities, equity and performance of Eesti Pank.

On 28 March 2001 all members of the Executive Management of Eesti Pank on that day have signed the Financial Statements:

Chairman of the Executive Management



Vahur Kraft

Members of the Executive Management



Rein Minka



Märten Ross



Andres Trink

BALANCE SHEETS AS OF 31 DECEMBER 2000 AND 1999 (EEK THOUSAND)

	Note	2000	1999
ASSETS			
Foreign assets		16,966,615	14,724,200
Gold	1	37,890	37,008
Convertible foreign currency assets	2	15,485,254	13,260,542
Participation in the IMF	3	1,426,497	1,390,096
Special Drawing Rights (SDRs)	3	289	21,227
Other claims on the IMF	3	16,685	15,327
Domestic assets		253,788	410,487
Loans and other claims	4	64,789	64,093
government		2,997	2,900
credit institutions		9,830	12,263
other		51,962	48,930
Shares	5	308	145,308
Other assets	6	24,833	16,822
Fixed assets	7	163,858	184,264
Total assets		17,220,403	15,134,687
LIABILITIES			
Foreign liabilities		1,481,743	1,399,824
Foreign debt	4	51,397	6,074
IMF kroon accounts	3	1,429,394	1,392,930
Accounts of non-residents	8	952	820
Domestic liabilities		13,347,482	11,593,588
Notes and coins in circulation	9	7,277,353	6,648,776
Accounts of credit institutions and other current liabilities	10	5,929,717	4,847,253
accounts of credit institutions		5,718,485	4,823,548
other		211,232	23,705
Securities (certificates of deposit issued)	11	–	30,000
Convertible foreign currency deposits	3	7,322	27,083
Provisions	12	97,700	500
Other liabilities	13	35,390	39,976
Equity		2,391,178	2,141,275
Capital and reserves	14	2,232,851	2,220,675
Profit/(-loss) for the year		158,327	-79,400
Total liabilities and equity		17,220,403	15,134,687

Balance Sheets are an integral part of these Financial Statements.

STATEMENTS OF PROFIT AND LOSS FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999 (EEK THOUSAND)

	Note	2000	1999
Foreign net interest income and similar items	15	514,420	156,706
Domestic net interest income and similar items	16	-131,061	-36,564
Interest and similar income		5,233	4,548
Interest and similar expense		-136,294	-41,112
Other operating income	17	1,579	1,437
Operating expenses	18	-186,542	-186,932
staff related costs		-71,600	-69,516
costs of making money		-20,520	-32,073
depreciation		-26,765	-28,049
renovation costs		-1,773	-4,999
general administration costs		-65,884	-52,295
Profit before provisions and exceptional items		198,396	-65,353
Provisions	19	-97,700	-110,000
Exceptional items	20	57,631	95,953
Net profit/(-loss) for the year		158,327	-79,400
Appropriation of profit/Covering losses	21		
Transfers to Reserve capital/Covering losses from the Reserve capital		99,400	-79,400
Transfers to Special reserve		23,927	-
Distribution to the State budget		35,000	-
Total appropriations/Covering losses		158,327	-79,400

Statements of Profit and Loss are an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999 (EEK THOUSAND)

	Statutory capital	Reserve capital	Special reserve	Revaluation reserve	Translation reserve	Net profit/loss for the period	Total
Balance at 31 December 1998	100,000	344,000	1,199,083	27,467	63,904	542,023	2,276,477
Revaluation of investments	–	–	–	-107,511	–	–	-107,511
Transfers	–	–	128	-128	–	–	–
Currency translation differences	–	–	–	–	51,709	–	51,709
Appropriation of 1998 profit	–	136,000	406,023	–	–	-542,023	–
Net loss for the period	–	–	–	–	–	-79,400	-79,400
Balance at 31 December 1999	100,000	480,000	1,605,234	-80,172	115,613	-79,400	2,141,275
Revaluation of investments	–	–	–	207,189	–	–	207,189
Transfers	–	–	129	-129	-56,003	–	-56,003
Currency translation differences	–	–	–	–	-59,610	–	-59,610
Appropriation of 1999 loss	–	-79,400	–	–	–	79,400	–
Net profit for the period	–	–	–	–	–	158,327	158,327
Balance at 31 December 2000	100,000	400,600	1,605,363	126,888	–	158,327	2,391,178

Statement of changes in equity is an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS OF EESTI PANK

PRINCIPLES OF PREPARING FINANCIAL STATEMENTS

GENERAL PRINCIPLES

The Financial Statements have been prepared in accordance with the Central Bank of the Republic of Estonia Act and the Statute of Eesti Pank. The Accounting Act, from which Eesti Pank is exempted, and International Accounting Standards have been adopted where the Management considers them to be appropriate and applicable to the activities of a central bank.

The Financial Statements have been prepared in accordance with the historical cost basis of accounting, modified to include the revaluation of certain assets and liabilities as referred to in the accounting principles below.

The Financial Statements for the year ended 31 December 2000 have been prepared using accounting policies consistent with those used in previous years. The published Balance Sheet of Eesti Pank has been structured so that the domestic and foreign assets and liabilities can be separated. In addition, the Balance Sheet structure demonstrates the backing of the kroon by gold and convertible foreign currency assets.

In accordance with the Central Bank of the Republic of Estonia Act, Eesti Pank is not subject to paying taxes to the State budget or local budgets, except for taxes related to individuals.

The Financial Statements have been prepared in thousands of Estonian kroons (EEK thousand), unless otherwise noted.

The main accounting principles applied in preparing the Financial Statements of Eesti Pank are presented below.

INCOME AND EXPENCES

Realised income and expenses, except expenses related to producing of notes and coins, are accounted for in the Statement of Profit and Loss in the relevant reporting period on an accrual basis regardless of when cash is received or paid. Unrealised gains and losses arising from market price adjustments of assets and liabilities are credited or charged to reserves and are transferred upon their realisation to the Statement of Profit and Loss.

FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are translated into kroons, the legal tender of the Republic of Estonia, using the official exchange rates of Eesti Pank valid on the day of the transaction. Foreign currency assets and liabilities are translated into Estonian kroons at the Eesti Pank official exchange rate valid on the balance sheet date. Unrealised foreign exchange gains and losses are credited or charged to reserves and are transferred upon their realisation to the Statement of Profit and Loss.

Official exchange rates used on 31 December 2000 and 1999 were as follows:

	2000	1999
DEM	8.0000	8.0000
USD	16.8198	15.5618
SDR	21.8788	21.3205
EUR	15.6466	15.6466

GOLD

Gold reserves are valued at the market rate at the end of the year, equal to Eesti Pank's daily quotation of the Estonian kroon and gold. The unrealised revaluation gains and losses are credited or charged to reserves.

INVESTMENTS IN CONVERTIBLE FOREIGN CURRENCY ASSETS

Foreign treasury bills and other quoted securities denominated in convertible currencies are recorded at their market value valid at the end of the year, revalued at the official daily exchange rate of Eesti Pank. Unrealised revaluation gains and losses are credited or charged to the reserves.

Repurchase agreements are reflected as loans taken with collateral security. The difference between sale and buyback prices is reflected as an interest expenses in the Statement of Profit and Loss.

Reverse repurchase agreements are reflected as loans issued with collateral security. The difference between purchase and resale prices is reflected as interest income in the Statement of Profit and Loss.

DERIVATIVE TRANSACTIONS

Derivative financial instruments include foreign exchange forwards and currency swaps, which are treated as off-balance sheet items. Income and expenses from derivative instruments are reflected in the statement of profit and loss accrued over the term of the contract. Foreign currency swaps are used to hedge foreign currency exchange risks in foreign reserves management.

INVESTMENTS IN SHARES

Investments in shares are accounted for at their purchase price, less provisions for any diminution in value which is considered to be other than temporary. Profits and losses on the disposal of investments in shares are recognised when the sale becomes unconditional.

FIXED ASSETS

Fixed assets are recorded at cost, less depreciation which is provided for on a straight line basis over the estimated useful lives of the assets at the following rates:

	2000	1999
Buildings	3%	3%
Computers	33%	33%
Software	50%	50%
Other	20%	20%

Building renovation costs are charged to the statement of profit and loss as expenses, where the expenditure results in an increase to the external floor area of the building or a change in its use, in which case such costs are added to fixed assets. Provisions are made where it is known or probable that the market value of the asset is less than the value recorded in the accounts.

Beginning from the year 2000, the limit of the purchase cost of fixed assets was increased from 1,000 to 5,000 kroons.

USE OF ESTIMATES

Preparing the Financial Statements pursuant to good accounting practice presumes the management to provide estimates that influence assets and liabilities of Eesti Pank as of the balance sheet date and income and expenses during the accounting period. The evaluations are based on up-to-date information about Eesti Pank, its intentions and risks as of the date of preparation of the Financial Statements. The final outcome of the transactions reflected can differ from estimates.

PROVISIONS FOR LOANS AND OTHER ASSETS

Loans and other assets are reassessed periodically and specific provisions are established against those considered to be doubtful. Loan or other asset provisions are recorded as expenses of the reporting period and are included in the Balance Sheet as a deduction against the assets concerned. Loans and other assets are maintained in the Balance Sheet until they are repaid or written off. They are written off only after all legal means to recover them have been exhausted.

LIABILITIES

All known liabilities and provisions are reflected in the Balance Sheet, if their volume can be estimated with reliability and they are likely to be realised. Potential liabilities, sureties and guarantees are accounted for as off-balance sheet items.

NOTES AND COINS IN CIRCULATION

Notes and coins in circulation are notes and coins issued by Eesti Pank in nominal value reflected in the Balance Sheet as a liability in favour of the holder of notes and coins. The cost of making notes and coins is reflected on the cash basis in the Statement of Profit and Loss.

VACATION RESERVE

Vacation expense is reflected upon the assumption of the liability, at the time the employee's right of claim arises. The earned vacation pay or its change is reflected as expenses in the Statement of Profit and Loss and as a liability in the Balance Sheet.

POST-BALANCE-SHEET DATE EVENTS

Eesti Pank's Financial Statements reflect significant circumstances influencing the valuation of assets and liabilities between the balance sheet date 31 December 2000 and the date of the Financial Statements prepared by the Executive Management of Eesti Pank 28 February 2001.

PROVISIONS

Provisions have been set up as liabilities in the Balance Sheet against guarantees and other contingencies where it is considered probable that future events will result in payments being made by the Bank under the terms of guarantees and other contingencies. The provisions are recorded as expenses of the reporting period.

Item 1 – Gold

Movements in Eesti Pank's gold reserves are as follows:

	Amount (troy ounce)	Market price (EEK per ounce)	Market value (EEK thousand)
Balance as of 31.12.1998	8,250.171	3,858.84260	31,836
Revaluation	–	–	5,172
Balance as of 31.12.1999	8,250.171	4,485.69693	37,008
Revaluation	–	–	882
Balance as of 31.12.2000	8,250.171	4,592.65300	37,890

The market price of gold is equal to the daily exchange rate of the Estonian kroon and gold determined by Eesti Pank based on market rates of the German mark and other foreign currencies on world foreign exchange markets.

Item 2 – Convertible foreign currency assets

These comprise Eesti Pank's convertible foreign exchange reserves denominated in convertible foreign currency. The following financial instruments are used to manage foreign exchange reserves: demand and time deposits, bonds, spot, forward and swap transactions repurchase and reverse repurchase contracts.

EEK thousand

	Balance as of 31.12.2000	Remaining maturity structure				
		Up to 3 months	3-12 months	1-3 years	3-5 years	over 5 years
Convertible foreign currency	15,485,254	8,041,435	1,378,202	2,664,151	1,528,962	1,872,504
Cash and current accounts	44,643	44,643	–	–	–	–
Time deposits	237,351	237,351	–	–	–	–
Securities	9,737,811	2,293,992	1,378,202	2,664,151	1,528,962	1,872,504
Securities held under reverse-repurchase agreements	5,465,449	5,465,449	–	–	–	–
	Balance as of 31.12.1999	Up to 3 months	3-12 months	1-3 years	3-5 years	over 5 years
Convertible foreign currency	13,260,542	7,501,952	1,026,565	2,048,945	1,325,186	1,357,894
Cash and current accounts	73,374	73,374	–	–	–	–
Securities	7,695,618	1,937,028	1,026,565	2,048,945	1,325,186	1,357,894
Securities held under reverse-repurchase agreements	5,491,550	5,491,550	–	–	–	–

During 2000 Eesti Pank's convertible foreign currency assets increased by 2.2 billion kroons, totalling 15.5 billion kroons by the end of the year. The increase arose from convertible foreign currency purchased from Estonian credit institutions and from realised and unrealised income earned on investments.

The end-of-2000 short-term repurchase transactions (short-term loans with collateral securities) increased foreign exchange reserves by 48.8 million kroons. Loans with securities collateral are recorded under "Foreign debt" in the Balance Sheet.

Eesti Pank's foreign currency reserves are required to secure full convertibility of the kroon into other selected currencies. Therefore, whilst investing the foreign currency reserves, conservative risk constraints are followed protecting the asset base and the liquidity of the reserves in earning investment returns.

At the end of 2000 financial instruments denominated in euros consisted of 84% of the total convertible foreign currency assets. Considering also the foreign currency positions from foreign exchange swap transactions, the share of the euro in Eesti Pank's foreign currency reserves was about 95%.

	Balance as of 31.12.2000		Balance as of 31.12.1999	
	Convertible foreign currency (EEK thousand)	Structure	Convertible foreign currency (EEK thousand)	Structure
Total	15,485,254	100%	13,260,542	100%
EUR	13,035,919	84%	10,832,722	82%
USD*	2,430,252	16%	1,715,189	13%
DEM	901	0%	42,998	0%
Other foreign currencies*	18,182	0%	669,633	5%
*Foreign currency swaps (see Item 22)				
Total	1,681,646	100%	1,600,923	100%
EUR-USD	1,681,646	100%	1,220,203	76%
EUR-GBP	–	–	380,720	24%

Eesti Pank's foreign currency reserves' management guidelines allow only transactions with highly rated international banks and financial institutions and limit firmly any credit risk the Bank can take in managing its foreign assets. The issuer risk is permissible for the following minimum credit ratings assigned by international rating agencies (S&P/Moody's) – A1/P1 for bonds with up to one-year maturity and AA-/Aa3 for bonds with maturity of more than a year. Therefore in compliance with these guidelines, Eesti Pank's foreign currency reserves have been placed in low risk government bonds of developed industrial countries with an average maturity of slightly below two years.

In reserve management co-operation with the asset management companies J.P. Morgan Investment Management Inc and Deutsche Bank AG was continued. According to a 1999 agreement, the asset manager will manage foreign reserves pursuant to the same rules as Eesti Pank, creating an alternative reference of performance and ensuring access to world-class know-how. 1.4 billion kroons, ie 8.2% of the foreign reserve assets were at the disposal of the external fund manager at the end of 2000. Pursuant to an agreement concluded in 1999 between Eesti Pank and Deutsche Bank AG, the latter was authorised to conduct repurchase transactions with bonds on behalf of Eesti Pank. By the end of 2000 Deutsche Bank AG had lent bonds with fixed interest rates denominated in the euro with a total market value of 0.7 billion kroons.

Item 3 – Relations with the International Monetary Fund (IMF)

PARTICIPATION IN THE IMF

Eesti Pank acts between the Republic of Estonia and the IMF as a fiscal agent and depository of IMF's kroon deposits and treasury notes. Each IMF Member State has a quota determining its subscription,

access to financing and voting power in the IMF. The participation in the IMF is recorded on the asset side of the Balance Sheet and equals to the country's quota in the IMF. The Republic of Estonia has paid its contribution in treasury notes deposited in Eesti Pank and which guaranteed the liabilities recorded in the item "IMF kroon accounts". The participation of the Republic of Estonia in the IMF was increased by SDR 18.7 million in accordance with the resolution of the Riigikogu (Estonian Parliament) on 22 April 1999. Estonia's new quota, SDR 65.2 million (1.4 billion kroons), entered into force on 15 July 1999.

EEK thousand

Participation in the IMF (assets)	2000	1999
Balance at the beginning of the year	1,390,096	876,257
Additions	–	380,277
Currency translation differences	36,401	133,562
Balance at the end of the year	1,426,497	1,390,096
IMF kroon accounts (liabilities)		
Balance at the beginning of the year	1,392,930	879,550
Interests accrued	19,166	16,177
Additions	–	380,277
Currency translation differences	36,443	133,637
Interest paid	-19,145	-16,711
Balance at the end of the year	1,429,394	1,392,930

SPECIAL DRAWING RIGHTS (SDRs)

Each IMF Member State has an SDR account with the IMF used to conduct borrowing and other related operations between the Member State and the IMF.

EEK thousand

Special Drawing Rights (SDRs)	2000	1999
Balance at the beginning of the year	21,227	894
Interests and other income accrued	962	597
Purchases of SDRs	86,893	95,548
Loan repaid to the IMF (STF)	-86,898	-58,866
Interest and other expenses paid	-21,094	-17,228
Currency translation differences	-801	282
Balance at the end of the year	289	21,227

Between 1995 and 2001, pursuant to Memorandums of Economic Policies, the Republic of Estonia agreed to four Stand-by Arrangements (SBA) for a total amount of 73.4 million SDR, including 29.4 million SDR in 2000 and 2001, mainly as short-term balance of payments support. This source has not been drawn upon. Eesti Pank has paid charges of 0.25% per annum for these facilities.

OTHER CLAIMS ON THE IMF

This item reflects amounts which originate from the surcharge (currently 0.4%) added to the rate of Stand-by Arrangement (SBA) and Systemic Transformation Facility (STF), reserved for strengthening the IMF's financial position and partially to finance the Poverty Reduction and Growth Facility (PRGF)¹ of the IMF by the Republic of Estonia.

¹ Previous Enhanced Structural Adjustment Facility (ESAF) of the IMF.

EEK thousand

Other claims on IMF	2000	1999
Balance at the beginning of the year	15,327	13,008
Additions	973	577
Currency translation differences	385	1,742
Balance at the end of the year	16,685	15,327

CONVERTIBLE FOREIGN CURRENCY DEPOSITS

The convertible foreign exchange account reflects demand deposits by the Republic of Estonia with Eesti Pank. The account is used for the Systemic Transformation Facility (STF) servicing transactions. The item includes also part of the claim on the IMF equal to the STF. Since March 1997 this has been recorded in the Balance Sheet as the Republic of Estonia participates in financing the PRGF of the IMF.

EEK thousand

Convertible foreign currency deposits	2000	1999
Balance at the beginning of the year	27,083	6,428
Additions	589	577
Purchases of SDRs	86,353	94,674
Interests accrued	328	27
Currency translation differences	-447	940
Loan repaid to the IMF (STF)	-86,898	-58,866
Interests and other expenses paid	-19,686	-16,697
Balance at the end of the year	7,322	27,083

Between 1993 and 1995 a Systemic Transformation Facility (STF) of 429.2 million kroons was granted by the IMF to the Government of the Republic of Estonia which has been repaid through credit institutions. Eesti Pank acts as agent for the Government in intermediating and servicing the loan. The loan was purchased by treasury notes deposited in Eesti Pank. The STF is not recorded in Eesti Pank's Balance Sheet. The final maturity date of the STF is January 2005. The repayment started in 1998. The balance at the end of 2000 was 317.9 million kroons.

Item 4 – Loans and other claims

In 2000 loans to credit institutions decreased by nearly 3 million kroons, mainly due to repayments of intermediary loans. Loans issued to the staff of Eesti Pank increased by 3.1 million kroons. Set out below is an analysis of the loan movements followed by additional explanations:

EEK thousand

	Balance as of 31.12.2000	Loans repaid	New loans extended	Balance as of 31.12.1999	Loans repaid	New loans extended	Balance as of 31.12.1998
Total	64,789	-34,264	34,960	64,093	-28,903	35,715	57,281
Claims to Government	2,997	-19,616	19,713	2,900	-16,644	16,782	2,762
Interests (STF)	2,997	-19,616	19,713	2,900	-16,644	16,782	2,762
Loans to Estonian credit institutions	9,830	-3,821	1,388	12,263	-4,419	1,692	14,990
Eesti Ühispank	5,843	–	535	5,308	–	757	4,551
Intermediary loans	2,588	-3,455	–	6,043	-3,911	–	9,954
Interests	1,399	-366	853	912	-508	935	485
Other loans	51,962	-10,827	13,859	48,930	-7,840	17,241	39,529
Staff loans	51,865	-8,051	11,125	48,791	-5,953	15,379	39,365
Interests	97	-2,776	2,734	139	-1,887	1,862	164

GOVERNMENT

Accrued and paid interests on STF, maturing in February, May, August and November are reflected here (see Item 3).

EESTI ÜHISPANK

According to Eesti Pank's agreement on claims over assets with Põhja-Eesti Pank and the deposit agreement with Eesti Ühispank, 95% of the sums received from the recovery of these assets of which the legal costs of the recovery have been deducted, is transferred to Eesti Pank's deposit account with Eesti Ühispank. The deposit earns interest of 9% a year. 0.5 million kroons were transferred to the deposit account in 2000, recorded as an exceptional item under income (see Item 20).

INTERMEDIARY LOANS

In 2000 the intermediary loans decreased by about 57%, due to the repayment of loans granted to Estonian credit institutions by a Finnish financial organisation Vientiluotto OY. Eesti Pank acts as an intermediary. The final maturity date for these intermediary loans will be November 2001.

On the liability side of the balance sheet, the balance of foreign debt to Vientiluotto OY, including the accrued interest at the end of 2000 and 1999, were 2.6 and 6.1 million kroons, respectively.

LOANS TO THE EMPLOYEES OF EESTI PANK

Housing loans with fixed asset collateral are provided for a maximum of 25 years and consumption loans for two years. In addition, study loans were granted for up to ten years. Pursuant to the Central Bank Act employees of Eesti Pank and Members of the Board cannot borrow from any other credit institution apart from Eesti Pank.

Item 5 – Shares

Shares held by Eesti Pank:

	Balance as of 31.12.2000		Balance as of 31.12.1999	
	Percentage holding	EEK thousand	Percentage holding	EEK thousand
Total		308		145,308
Optiva Pank				
23,876,865 shares nominal value 10 EEK	–	–	57.9	145,000
Bank for International Settlements				
700 shares including 200 voting shares	N/A ¹	8	N/A	8
Eesti Väärtpaberite Keskdepositoorium (Central Depository for Securities)				
20 shares nominal value 10,000 EEK	–	–	7.1	200
Tallinna Väärtpaberibörs (Tallinn Stock Exchange)				
34 shares nominal value 10,000 EEK	5.2	300	3.0	100

¹ N/A - not available

OPTIVA PANK

Pursuant to a purchase contract concluded on 29 June 2000, Eesti Pank sold its 57.9% controlling interest in Optiva Pank to Sampo Finance Ltd for 214.4 million kroons, relinquishing fully any holding in credit institutions operating in Estonia.

Eesti Pank earned 65.6 million kroons of profit on the transaction (see Item 20). Eesti Pank assumed a contractual obligation to share the potential loss of the realisation of risk assets as follows: 75% to the seller and 25% to the buyer. The risk assets are comprised of non-liquid assets, the market value of which was difficult to appraise prior to their sale to the new investor. The disbursements by Eesti Pank pursuant to its contractual obligations are limited to the sales price of the shares and the guarantee issued by Eesti Pank to Optiva Pank in April 2000. In the share purchase contract the guarantee was replaced with an equal guarantee commitment to cover the potential decrease in value of risk assets in Optiva Pank.

The contractual deadline for the realisation of the majority of the risk assets is the end of 2001. The contractual deadline can be extended by another two years, until the end of 2003.

In 2000 Eesti Pank has covered the realisation loss of 9.7 million kroons (see Item 20).

As no reliable realisation loss measurement method exists whereas the probability of loss is adequate, pursuant to international accounting standards' principle of conservatism a 100% provision of 70 million kroons was set up in April 2000 to cover the guarantee given to the potential loss in the realisation of risk assets. At the end of 2000 additional provision of 27.7 million kroons was added (see Items 12 and 19).

TALLINN STOCK EXCHANGE, ESTONIAN CENTRAL DEPOSITORY FOR SECURITIES

In September 2000 the restructuring of two Estonian securities market infrastructure units – Tallinn Stock Exchange (TSE), Estonian Central Depository for Securities (ECDS) – was completed. A group under unified management was set up. TSE acquired all shares of ECDS. TSE issued shares to the shareholders of ECDS with an exchange rate of 0.849 ECDS shares for each TSE share. The share capital of TSE was increased by 6.6 million kroons. In July 2000 Eesti Pank acquired 24 TSE shares for 20 ECDS shares, acquiring a 5.2% holding in TSE.

BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

On 11 September 2000 the Board of Directors of the Bank for International Settlements gave notice of calling in non-voting shares from central banks, other share-holding institutions and individuals. The decision was based on the fact that share-holding individuals and private financial institutions had dissenting views from those of the Bank for International Settlement – to promote inter-central-bank co-operation and enhance global financial stability. Besides, share-holding individuals and private institutions had no voting right in the BIS. On 8 January 2001 BIS convened an extraordinary general meeting, the Statutes of BIS were amended and the repurchase of non-voting shares for 16,000 CHF per share was approved.

In October 2000 Eesti Pank notified BIS of its intent to sell 500 non-voting BIS shares for 16,000 CHF per share. Upon selling back the non-voting shares, Eesti Pank will retain its current status and rights in BIS, having 200 voting shares (see Item 22).

Item 6 – Other assets

This item includes prepayments for services and goods to be provided in early 2001 as well as other current assets.

EEK thousand

	Balance as of 31.12.2000	Balance as of 31.12.1999
Other assets	24,833	16,822
Prepayments and receivables	22,527	13,428
Receivables from financial transactions	1,133	1,460
Inventories and other assets	1,173	1,934

Most of the item is expenditure on software not recorded as fixed assets. The uncapitalised fixed assets as of the end of 2000 was 19.5 million kroons. They are comprised mostly of large procurements for the inter-bank settlement system (Designated Time Net Settlement System for processing retail payments and Real Time Gross Settlement System for high value payments) and the accounting system of Eesti Pank, planned to launch in 2001.

Item 7 – Fixed assets

Details of movement in fixed assets during 2000 and 1999 are as follows:

EEK thousand

	Buildings	Computers	Furniture and fixtures	Software	Vehicles	Total
Cost						
Balance as of 31.12.1998	102,404	39,484	62,182	13,114	4,892	222,076
Additions	34,108	9,958	16,488	2,454	1,074	64,082
Disposals	–	-4,259	-3,153	–	-1,487	-8,899
Balance as of 31.12.1999	136,512	45,183	75,517	15,568	4,479	277,259
Additions	1,473	4,348	1,593	1,541	–	8,955
Disposals	–	-5,819	-8,590	-1,594	-170	-16,173
Balance as of 31.12.2000	137,985	43,712	68,520	15,515	4,309	270,041
Depreciation						
Balance as of 31.12.1998	5,372	25,001	31,912	8,099	3,124	73,508
Charge for the year	3,436	9,024	11,161	3,697	731	28,049
Disposals	–	-4,253	-2,830	–	-1,479	-8,562
Balance as of 31.12.1999	8,808	29,772	40,243	11,796	2,376	92,995
Charge for the year	4,120	8,747	10,269	3,003	625	26,764
Disposals	–	-5,768	-6,063	-1,576	-169	-13,576
Balance as of 31.12.2000	12,928	32,751	44,449	13,223	2,832	106,183
Net book value as of:						
Balance as of 31.12.1998	97,032	14,483	30,270	5,015	1,768	148,568
Balance as of 31.12.1999	127,704	15,411	35,274	3,772	2,103	184,264
Balance as of 31.12.2000	125,057	10,961	24,071	2,292	1,477	163,858

During 2000 the acquisition cost of fixed assets decreased by 7.2 million kroons. In the year 2000 construction and reconstruction work was performed at 4 Sakala Street and 11 Estonia Boulevard. The procurement of hardware and software includes computers, servers, printers, various supplies and the license cost of system software used in the Bank. Purchases of furniture and fittings were comprised mostly of office machinery, cash processing equipment and security devices.

About 7.8 million kroons of the reduction in the acquisition cost of fixed assets, mostly furniture and fittings (furniture, communication devices), was due to the increase of the minimum acquisition cost from 1,000 kroons to 5,000 kroons. The residual value of the recategorised fixed assets of 3 million kroons was recorded as an expense.

Item 8 – Accounts of non-residents

This item includes non-interest-bearing accounts in Estonian kroons held with Eesti Pank by the central banks of the CIS countries that are used for settling transactions between Estonia and those countries through Eesti Pank. The item includes also non-interest bearing demand deposit accounts by the World Bank and Nordic Investment Bank used for facilitating external loans into the Republic of Estonia.

Item 9 – Notes and coins in circulation

This item reflects banknotes and coins issued for circulation by Eesti Pank. (An analysis of the notes and coins in circulation is in the Annual Report, pp 57 to 59).

Item 10 – Accounts of credit institutions and other current liabilities

This includes the clearing accounts of credit institutions with Eesti Pank. Beginning from 1 July 1999 Eesti Pank pays interest on the monthly average balance of credit institutions' deposits held with the central bank. The credit institutions' deposits in the central bank return the deposit interest rate of the European Central Bank which in 1999 fluctuated between 1.50% to 2.75% and in 2000 increased to between 2.00% to 3.75% (see Item 16).

The item includes also resources on the account of the Deposit Guarantee Fund, bearing interest.

Item 11 – Securities

Short-term certificates of deposit (CDs) were 28day discountable securities with a nominal value of 100,000 kroons each, issued by Eesti Pank and sold to Estonian credit institutions at auctions once a month. At the end of 1999 CDs for 30 million kroons were outstanding.

As the significance of CDs has decreased in supporting financial market developments and smoothing liquidity flows arising from fluctuating cash demand, the Board of Eesti Pank decided on 25 April 2000 to terminate the issuance of CDs as of 20 May 2000; subsequently Eesti Pank called back all CDs.

Item 12 – Provisions

Due to the bankruptcy of the beneficiary, termination of the bankruptcy proceedings and deletion of the undertaking from the Commercial Register in early 2001, the letter of guarantee issued in 1996 has become invalid. Thus, the liabilities of Eesti Pank were adjusted and the provision of 1996 was fully recorded under exceptional income (see Item 20).

EEK thousand

	Optiva Pank	Other	Total
Balance as of 31.12.1998	–	500	500
Provisions	–	–	–
Balance as of 31.12.1999	–	500	500
Provisions (see Item 5)	97,700	–	97,700
Release of provisions (see Item 20)	–	-500	-500
Balance as of 31.12.2000	97,700	0	97,700

Item 13 – Other liabilities

This item includes sundry other accruals for 2000 costs and other payables.

EEK thousand

	Balance as of 31.12.2000	Balance as of 31.12.1999
Other liabilities	35,390	39,976
Salary and tax liabilities	11,105	9,972
Liabilities to exchange one-kroon coin nominal value	11,976	12,397
Payables from financial transactions	2,738	1,699
Other payables	9,571	15,908

This item includes also one-kroon coins issued in 1992, 1993 or 1995 that became invalid on 1 June 1998.

Item 14 – Capital and reserves

Capital and reserves are recorded as follows:

EEK thousand

	Balance as of 31.12.2000	Revaluation adjustments	Covering of 1999 loss	Transfers	Balance as of 31.12.1999	Revaluation adjustments	Appropriation of 1998 profit	Transfers	Balance as of 31.12.1998
Total	2,232,851	147,579	-79,400	-56,003	2,220,675	-55,802	542,023	0	1,734,454
Statutory capital	100,000	–	–	–	100,000	–	–	–	100,000
Reserve capital	400,600	–	-79,400	–	480,000	–	136,000	–	344,000
Special reserve	1,605,363	–	–	129	1,605,234	–	406,023	128	1,199,083
Revaluation reserve	118,352	206,307	–	–	-87,955	-112,683	–	–	24,728
Gold revaluation reserve	5,061	882	–	–	4,179	5,172	–	–	-993
Fixed assets reserve	3,475	–	–	-129	3,604	–	–	-128	3,732
Translation reserve	0	-59,610	–	-56,003	115,613	51,709	–	–	63,904

Pursuant to the Central Bank Act, at least 25% of the annual profit must be allocated for increasing both the statutory and reserve capital. After these allocations, part of the profit can be allocated for forming and supplementing endowments and targeted funds, based on the decision of the Board of Eesti Pank. The remaining profit is transferred to the State budget.

In compliance with the resolution of the Riigikogu in 1996, Eesti Pank was allowed to continue increasing the reserve capital up to 500 million kroons.

The revaluation reserve includes the difference between the acquisition cost and market value of unrealised government bonds. At the end of 2000 the market value of unrealised government bonds was above the acquisition cost.

The fixed assets revaluation reserve reflects the revaluation of fixed assets. The reserve has been decreased by the depreciation of the revaluation that has been transferred to the special reserve. The reserve is also adjusted upon the transfer of revalued assets.

The translation reserve reflects the results of translating the assets and liabilities denominated in foreign currencies into kroons performed monthly during the year, the net cost in the year 2000 being 59.6 million kroons. Pursuant to applicable accounting principles, all unrealised foreign exchange income and

expense arising from translating the assets and liabilities denominated in foreign currencies into kroons, will be initially recorded in reserves. Upon realisation of assets and liabilities the translation reserve is adjusted, taking the realised foreign exchange income and expense from reserves into the Statement of Profit and Loss. At the end of the year the translation reserves are adjusted with the difference of the acquisition cost and the balance sheet value of assets and liabilities denominated in foreign currencies, reflecting, thus, the unrealised exchange rate gain or loss. The resultant realised foreign exchange income and expense is transferred from the reserves to the Statement of Profit and Loss. At the end of 2000 such adjustments reached to 56 million kroons, expressed mostly in exchange rate gain from the realisation of nearly all assets denominated in Pounds sterling and adjustment of the reserves with the difference of the acquisition cost and balance sheet value of assets denominated in US dollars.

Item 15 – Foreign net interest income and similar items

The more than triple growth in net interest income and other similar items in comparison with 1999 was due to interest income earned on leading industrial countries' bonds and reverse repurchase transactions as well as realised exchange rate income (see Item 14).

Unlike 1999 when Eesti Pank was able to avoid in a very complicated situation a net loss on foreign reserve investments and ensure positive yield of reserves by year end, the foreign net interest income in 2000 was 514.4 million kroons. The income earned from foreign exchange reserve investment, being about 0.7 billion kroons in 2000 (see p 63), includes, unlike net interest and other similar items, both realised and unrealised income. The unrealised income includes primarily unrealised government bond revaluation income, recorded in reserves of the Financial Statements. When comparing foreign reserve investment income with foreign net interest and similar items reflected in the statement of Profit and Loss, it should be kept in mind that in the Statement of Profit and Loss for 2000, exchange rate income includes also exchange rate fluctuation income and expense of the previous years.

This includes mainly realised net income from transactions with government bonds gained in managing Eesti Pank's foreign exchange reserves, realised exchange rate income, interest income from time deposits and dividends less realised expenses on foreign currency swap transactions, interest expense from repurchase transactions and other expenses, involving mostly service charges from foreign reserves transactions, interest rate expense paid to the IMF on the Stand-by Arrangement loan (SBA) and interest expense of intermediary loans from Vientiluotto OY.

EEK thousand

	2000	1999
Total	514,420	156,706
Net interest income		
Time deposits	8,930	7,065
Securities	342,915	31,916
Securities held under reverse-repurchase agreements	151,704	130,986
Dividends (BIS shares)	2,396	2,184
Other income including foreign exchange revaluation gains	56,252	36,485
Net interest expenses		
Foreign currency swaps	-39,883	-43,555
Securities sold under agreements to repurchase	-3,337	-6,494
Other expenses	-4,557	-1,881

Eesti Pank established conservative investment guidelines, focusing on potentially risk free and liquid placement of foreign reserves, following international best practices and preferring the above investment

principles to potentially larger profitability involving higher risk. In drafting its investment guidelines, Eesti Pank pursues its key function to maintain the stability of the national currency and invest the foreign currency reserves as risk free and liquid as possible in bonds of leading industrial countries.

There were no transactions with gold in 2000.

Item 16 – Domestic net interest income and similar items

This includes interest expense and income arising from managing credit institutions' clearing accounts. Besides the item reflects also interest earned from loans to Eesti Pank employees, interest earned and bank charges on loans granted by Vientiluotto OY and intermediated by Eesti Pank to Estonian credit institutions, agent fees for Systemic Transformation Facility and interest payable on deposits placed by the Deposit Guarantee Fund and on CDs issued by Eesti Pank.

EEK thousand

	2000	1999
Total	-131,061	-36,564
Interest income	3,555	2,793
Interest expense	-3,919	-771
Remuneration of credit institutions deposits and other fees		
Interest expense	-132,342	-39,829
Fees from payment services	1,079	1,028
Other income	599	727
Other expense	-33	-512

In 2000 Eesti Pank's net interest income decreased by about 94.5 million against 1999. One of the main underlying reasons is that in 2000 Eesti Pank paid interest on the monthly average balance of credit institutions' deposits held with the central bank. In 1999 this was introduced beginning from 1 July due to changes in the monetary policy framework (see pp 45 to 45). Until that date only the monthly average balance of the account exceeding the monthly minimum reserve requirement was rewarded with the interest rate. Another reason lies in the roughly double growth of the European Central Bank's deposit interest rate during 2000 against 1999 (see Item 10).

Item 17 – Other operating income

This includes various income from non-banking services and services unrelated to the main functions of Eesti Pank. In 2000, this item reflects income earned from the sale of commemorative coins and numismatic products, rent of buildings and equipment, the sale of Eesti Pank publications and charges for other services.

Item 18 – Operating expenses

Operating expenses remained more or less at 1999's level. Major structural changes involved lower cost of manufacturing banknotes and coins and higher administrative and maintenance costs. Operating

expenses during 2000 have been subject to various factors compared to the period a year-ago. The key factor has been the entry into force of the Income Tax Act on 1 January 2000, amending the fringe benefits taxation methodology and tax base. Also the US dollar exchange rate growth, pushing up the cost of real-time market information purchase costs and the high legal assistance and arbitration costs as regards a claim against the Republic of Estonia in international arbitration in the USA.

Costs of business trips and training have slightly declined as cheaper means of transport and more competitive prices have been used; and communication costs as more economical technical solutions have been used.

Personnel costs, including payroll costs together with taxes and costs of business trips and training are responsible for most of the main operating expenses. The growth of payroll costs together with taxes has increased personnel costs by 3%.

EEK thousand

	2000	1999
Staff related costs	-71,600	-69,516
Salaries, guarantees and contributions	-47,935	-44,723
Social taxes	-16,249	-15,197
Other expences	-7,416	-9,596

Beginning from 1999 Eesti Pank participates in the voluntary pension scheme of its staff and members of the Board of Eesti Pank, paying each calendar year one third of the contribution to the voluntary pension scheme made by its employee or Board Member but not more than 5% of the employee's gross salary and in case of Board of Eesti Pank Members – not more than 20% of the average salary in Estonia. The Bank will discontinue paying the compensation upon the departure of the employee from the Bank staff or expiry of the term of office of the Board Member. In 2000 Eesti Pank contributed 0.3 million kroons to the voluntary pension scheme of its employees (0.2 million kroons in 1999).

The cost of manufacturing notes and coins have decreased by 11.6 million kroons in 2000 against 1999. In 2000 the newly designed 500kroon banknotes with heightened security features and one-kroon coins were made to replenish existing stocks and to meet cash demand. Apart from that, bonistic products (presentation pockets, albums and booklets for sample notes and coins) were made. The sale of commemorative coins made in previous years yielded income recorded under other operating income (see Item 17).

Depreciation costs have decreased mostly due to an increase in the fixed asset acquisition cost limit, leading to adjustment in accumulated depreciation account. The depreciation of buildings has slightly increased as a number of buildings have been reconstructed in previous years, increasing, thus, their acquisition cost and calculated depreciation (see Item 7).

Renovation costs have decreased against 1999 as major renovation projects were completed in 1998 and 1999.

Administrative and maintenance costs have displayed a growth of 13.6 million kroons against 1999, mostly at the expense of growing legal assistance and arbitration costs, cost of supplies and material. Information expenses, mainly due to the postponement of subscription of periodicals to the next year and administrative costs due to the optimisation of real estate and territorial administration, communication costs as well as IT maintenance and mailing costs have slightly decreased.

The majority of the legal, expert service and arbitration costs are comprised primarily of fees for legal services provided by US law offices in the case A.Genin vs the Republic of Estonia, represented by

Eesti Pank, for an international auditor's expert opinion and legal services by local law offices in the same case.

EEK thousand

	2000	1999
General administration costs	-65,884	-52,295
Property administration costs	-7,690	-8,259
Inventory management costs	-4,601	-429
Software maintenance costs	-6,361	-7,038
Post, telecommunication and transportation costs	-8,139	-8,887
Information expenses	-11,541	-13,476
Legal and arbitration costs	-18,365	-5,079
Miscellaneous	-9,187	-9,127

In order to regulate the accounting for fixed assets and sundry items, the limit of the acquisition cost of fixed assets was raised from 1,000 to 5,000 kroons in 2000. Thereby, the acquisition cost of fixed assets and calculated depreciation were adjusted and 3 million kroons were recorded as expenses. Besides also the acquisition cost of supplies increased.

Item 19 – Provisions

EEK thousand

	2000	1999
Total	-97,700	-110,000
Provisions for doubtful assets		
Provisions to Optiva Pank shares	–	-110,000
Provisions for contingent liabilities		
Provisions to losses derived from realisation of Optiva Pank risk assets (see Item 5)	-97,700	–

Provisions for losses from Optiva Pank's risk assets realisation arose from selling the holding in Optiva Pank (see Item 5).

Item 20 – Exceptional items

These include income and expenses arising from single transactions of an exceptional nature. In 2000 this item included the following:

EEK thousand

	2000	1999
Total	57,631	95,953
Income from sale of Optiva Pank shares (see Item 5)	65,609	–
Recovery of losses derived from Optiva Pank's risk assets realisation (see Item 5)	-9,674	–
Income from release of provisions (see Item 12)	500	–
Recovery of loans from Eesti Hoiupank/Hansapank previously provided for	661	5,256
Deposit with Eesti Ühispank	535	757
Income from sale of Hansapank shares	–	88,962
Recovery of other loans previously provided for	–	966
Income from sale of SWIFT shares	–	12

0.6 million kroons was recovered from loans totalling 74.4 million kroons pursuant to the guarantee agreement signed by Eesti Hoiupank in 1996 and acquired by Eesti Pank the same year.

Item 21 – Appropriation of profit

The Board of Eesti Pank approved a profit distribution strategy for three upcoming years in September 1999. The aim is to avoid a rapid decrease in Eesti Pank's equity and liability-free foreign exchange reserves (net foreign reserves) against key economic indices prior to Estonia's accession to the European Economic and Monetary Union. Pursuant to the strategy, 25% of Eesti Pank's net profit will be transferred to the State budget; assuming that Eesti Pank's net foreign currency reserves were at least 2% of GDP and 5% of broader monetary aggregate (M2). Both the strategy as well as the adequacy and size of key economic indices is evaluated annually.

In April 2001 the Board of Eesti Pank evaluated the profit distribution strategy and, considering the forecast on liability-free foreign exchange reserves, decided to continue pursuing the above strategy. According to this decision 35 million kroons of Eesti Pank's net profit of 2000 will be transferred to the State budget, 99.4 million kroons to the reserve capital and 23.9 million kroons to the special reserve.

According to the Central Bank Act, the 79.4-million-kroon loss for 1999 was covered from the reserve capital.

Item 22 – Off-balance sheet items

EEK thousand

	Balance as of 31.12.2000	Balance as of 31.12.1999
Off-balance sheet items total	3,042,116	2,847,315
Derivatives	2,554,114	2,633,155
Forwards	872,468	1,032,232
Foreign currency swaps (see Item 2)	1,681,646	1,600,923
Contingencies and commitments	488,002	214,160
Guarantee to the European Investment Bank	156,466	156,466
Guarantee to cover the loss from realisation of Optiva Pank's risk assets (see Item 5)	284,360	–
Uncalled share capital (75%) of BIS (see Item 5)	42,827	39,624
Contracts of printing banknotes and minting coins	4,349	18,070

DERIVATIVES

As of 31 December 2000, Eesti Pank had remaining forward contracts amounting to EEK 0.9 billion kroons (1.0 billion kroons in end-1999), maturing on various dates up to 2002. Under the contracts concluded with Estonian credit institutions, Eesti Pank is committed to sell DEM at future specified dates for EEK 8.001 and 8.002. Such contracts were offered until March 1995, 75% of them will mature in 2001.

At the end of 2000 the volume of foreign exchange swaps outstanding was 1.7 billion kroons, maturing in early 2001 (see Item 2).

CONTINGENCIES

GUARANTEE TO THE EUROPEAN INVESTMENT BANK

On 27 November 1995, Eesti Pank entered into an agreement with the European Investment Bank and Optiva Pank, to renew the debt commitment and, with the European Investment Bank, to guarantee loans amounting to 10 million euros, maturing in 2006.

BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

Since 1930 there has been a commitment as regards the uncalled share capital (75%) of BIS. This contingent liability represents an amount unpaid for the BIS shares and is denominated in Swiss gold francs, being equivalent to 42.8 million kroons as of 31 December 2000 (see Item 5).

PRINTING OF BANKNOTES AND MINTING OF COINS

At the end of 2000 the contractual liabilities of Eesti Pank for printing banknotes and minting coins in 2001 amounted to 4.3 million kroons (18.1 million kroons in end-1999).