

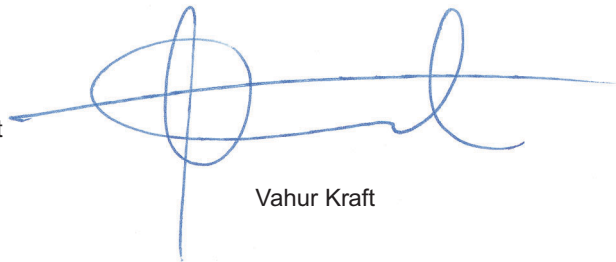
APPROVAL OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001 BY THE EXECUTIVE MANAGEMENT OF EESTI PANK

The Executive Management of Eesti Pank prepared the Financial Statements of Eesti Pank, consisting of the Balance Sheet, Profit and Loss Statement, 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 decision on the performance of the financial year and submit results to the Riigikogu (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 5 April 2002 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 Sutt

BALANCE SHEETS AS OF 31 DECEMBER 2001 AND 2000 (EEK THOUSAND)

	Item	2001	2000*	2000
ASSETS				
Foreign assets		16,122,349	16,967,301	16,966,615
Gold	1	40,438	37,890	37,890
Convertible foreign currency assets	2	14,624,053	15,485,940	15,485,254
Participation in the IMF	3	1,440,277	1,426,497	1,426,497
Special Drawing Rights (SDR's)	3	610	289	289
Other claims on the IMF	3	16,971	16,685	16,685
Domestic assets		259,593	253,102	253,788
Loans and other claims	4	66,523	64,789	64,789
government		1,106	2,997	2,997
credit institutions		8,208	9,830	9,830
other		57,209	51,962	51,962
Shares	5	73	308	308
Other assets	6	4,631	4,215	24,833
Fixed assets	7	188,366	183,790	163,858
Total assets		16,381,942	17,220,403	17,220,403
LIABILITIES				
Foreign liabilities		1,463,164	1,484,469	1,481,743
Foreign debt		19,668	54,123	51,397
IMF kroon accounts	3	1,441,279	1,429,394	1,429,394
Accounts of non-residents	8	2,217	952	952
Domestic liabilities		12,031,648	13,344,756	13,347,482
Notes and coins in circulation		8,066,512	7,277,353	7,277,353
Accounts of credit institutions and other current liabilities	9	3,843,820	5,929,717	5,929,717
accounts of credit institutions		3,714,887	5,718,485	5,718,485
other		128,933	211,232	211,232
Convertible foreign currency deposits	3	7,801	7,322	7,322
Provisions	10	79,553	97,700	97,700
Other liabilities	11	33,962	32,664	35,390
EQUITY		2,887,130	2,391,178	2,391,178
Capital and reserves	12	2,356,178	2,141,275	2,232,851
Profit for the year		530,952	249,903	158,327
Total liabilities and equity		16,381,942	17,220,403	17,220,403

*Adjusted to conform with accounting principles used in 2001

The following notes on pages 96 to 110 form an integral part of these Financial Statements.

STATEMENTS OF PROFIT AND LOSS FOR THE YEARS ENDED 31 DECEMBER 2001 AND 2000 (EEK THOUSAND)

	Item	2001	2000*	2000
Foreign net interest income and similar items	13	726,529	611,548	514,420
Domestic net interest income and similar items	14	-116,112	-131,046	-131,061
Interest and similar income		6,448	5,215	5,233
Interest and similar expense		-122,560	-136,261	-136,294
Other operating income		-	-	1,579
Operating expenses	15	-163,352	-190,530	-186,542
staff related costs		-69,403	-66,244	-71,600
costs of making money		-5,650	-20,174	-20,520
depreciation		-23,568	-26,765	-26,765
renovation costs		-	-	-1,773
general administration costs		-64,731	-77,347	-65,884
Profit before provisions and exceptional items		447,065	289,972	198,396
Provisions	10	-	-97,700	-97,700
Exceptional items	16	83,887	57,631	57,631
Net profit for the year		530,952	249,903	158,327

*Adjusted to conform with accounting principles used in 2001

The following notes on pages 96 to 110 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2001 AND 2000 (EEK THOUSAND)

	Item	Statutory capital	Reserve capital	Special reserve	Revaluation reserves	Net profit/loss for the period	Total
Balance at 31 December 1999		100,000	480,000	1,605,234	35,441	-79,400	2,141,275
Revaluation of investments	12	–	–	–	147,579	–	147,579
Transfers	12	–	–	129	-56,132	–	-56,003
Appropriation of 1999 loss	12	–	-79,400	–	–	79,400	0
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
Transfers	12	–	–	123,541	-123,541	–	0
Appropriation of 2000 profit	12	–	99,400	23,927	–	-123,327	0
Distribution to the State budget		–	–	–	–	-35,000	-35,000
Net profit for the period		–	–	–	–	530,952	530,952
Balance at 31 December 2001		100,000	500,000	1,752,831	3,347	530,952	2,887,130
Adjusted balance at 31 December 2000*							
Revaluation of investments		–	–	–	-147,579	147,579	0
Transfers		–	–	–	56,003	-56,003	0
Balance at 31 December 2000*		100,000	400,600	1,605,363	35,312	249,903	2,391,178
Transfers		–	–	31,965	-31,965	–	0
Appropriation of 2000 profit	12	–	99,400	23,927	–	-123,327	0
Adjusted appropriation of 2000 profit*		–	–	91,576	–	-91,576	0
Distribution to the State budget		–	–	–	–	-35,000	-35,000
Net profit for the period		–	–	–	–	530,952	530,952
Balance at 31 December 2001		100,000	500,000	1,752,831	3,347	530,952	2,887,130

*Adjusted to conform with accounting principles used in 2001

The following notes on pages 96 to 110 form 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 internationally accepted accounting principles 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 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 Estonian kroon by gold and convertible foreign currency assets.

In accordance with the Central Bank 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.

CHANGES IN THE ACCOUNTING PRINCIPLES

The following changes have been made in the accounting principles since the beginning of 2001, which have affected the performance of Eesti Pank:

- Gains and losses related to financial transactions are recorded in the Profit and Loss Statement. In 2000, realised income and expenses of financial transactions were recorded in the Profit and Loss Statement, whereas unrealised gains and losses were credited or charged to reserves.
- Income and expenses of financial transactions are recorded in the Profit and Loss Statement from the trade date of transactions not from the settlement date when the transaction is recognised in the Balance Sheet.

Besides the above, some items of the Balance Sheet and the Profit and Loss Statement have been reclassified.

In order to better understand the Financial Statements, the 2000 Balance Sheet, Profit and Loss Statement and Statement of Changes in Equity have been presented as previously reported and in comparable formats in accordance with the accounting principles used in 2001, which have not affected

the equity and the total balance sheet in 2000. The comparative figures of 2000 in the notes to the Financial Statements have been restated in accordance with the accounting principles used in 2001.

The aim of the changes in the accounting principles is broader application of internationally accepted accounting principles suitable for a central bank in the preparation of the Financial Statements and recognising financial transactions, and arising gains and losses as similarly as possible to the principles of foreign exchange reserve management.

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

INCOME AND EXPENSES

Income and expenses are accounted for in the Profit and Loss Statement in the relevant reporting period on an accrual basis regardless of when cash was received or paid.

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 settlement date of transactions. Foreign currency assets and liabilities are translated into Estonian kroons at the Eesti Pank official exchange rate valid on the balance sheet date. All foreign exchange gains and losses are reflected in the Profit and Loss Statement.

Official exchange rates used on 31 December 2001 and 2000 were as follows:

	2001	2000
DEM	8.0000	8.0000
USD	17.6918	16.8198
SDR	22.0901	21.8788
EUR	15.6466	15.6466

Due to the final changeover to the euro by 12 countries, Eesti Pank stopped quoting the withdrawn national currencies of the euro area (including DEM) from 1 March 2002.

GOLD

Gold reserves are valued at the market rate at the end of the year, equal to the Eesti Pank's daily quotation of the Estonian kroon and gold. Gains and losses arising from changes in the market value are recognised in the Profit and Loss Statement

INVESTMENTS IN CONVERTIBLE FOREIGN CURRENCY ASSETS

Foreign treasury bills and other quoted securities denominated in convertible currencies are recorded at their year-end market value. Gains and losses from changes in the market value of securities are recognised in the Profit and Loss Statement.

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

Reverse repurchase agreements are recorded as loans issued with collateral security. The difference between purchase and resale prices is recorded on an accrual basis as interest income in the Profit and Loss Statement.

DERIVATIVE TRANSACTIONS

Derivative financial instruments include foreign exchange forwards, currency swaps and futures, which are treated as off-balance sheet items. Gains and losses from derivative instruments are reflected on an accrual basis in the Profit and Loss Statement.

INVESTMENTS IN SHARES

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

FIXED ASSETS

Fixed assets with acquisition cost over 5,000 kroons are recorded at cost, less depreciation, which is calculated on a straight-line basis over the estimated useful lives of the assets at the following rates:

	2001	2000
Buildings	3%	3%
Computers	33%	33%
Software	50%	50%
Other	20%	20%

Building renovation costs are charged to the Profit and Loss Statement as expenses. Where the expenditure results in an increase to the external floor area of the building or a change in its use, such costs are capitalised. Provisions are made where it is known or probable that the value in use of the assets is less than the value recorded in the accounts.

In order to provide a full picture of the bank's investments in fixed assets, since 2001, prepayments for fixed assets are reported under the item Fixed assets, whereas in previous years these were included under the item Other assets.

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 the available information about Eesti Pank, its intentions and risks as of the date of approval of the Financial Statements.

PROVISIONS FOR LOANS AND OTHER ASSETS

Loans and other assets are reassessed periodically and specific provisions are established against those considered to be bad or doubtful. Loan and 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 recognised in the Profit and Loss Statement at their date of delivery to the Bank.

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 Profit and Loss Statement and as a liability in the Balance Sheet.

POST-BALANCE-SHEET DATE EVENTS

Eesti Pank's Financial Statements reflect significant circumstances affecting the valuation of assets and liabilities between the balance sheet date of 31 December 2001 and the date of the Financial Statements approval by the Executive Management of Eesti Pank on 5 April 2002.

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 31.12.1999	8,250.171	4,485.6969	37,008
Revaluation	–	–	882
Balance as of 31.12.2000	8,250.171	4,592.6530	37,890
Revaluation	–	–	2,548
Balance as of 31.12.2001	8,250.171	4,901.5180	40,438

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 the foreign exchange reserves: demand and time deposits, bonds, spot transactions, repurchase and reverse repurchase contracts and derivatives (forwards, swaps and futures).

EEK thousand

	Balance as of 31.12.2001	Remaining maturity structure				
		Up to 3 months	3-12 months	1-3 years	3-5 years	over 5 years
Convertible foreign currency	14,624,053	8,262,882	0	2,891,469	1,914,973	1,554,729
Cash and current accounts	28,454	28,454	–	–	–	–
Time deposits	100,653	100,653	–	–	–	–
Securities	11,233,407	4,872,236	–	2,891,469	1,914,973	1,554,729
Securities held under reverse-repurchase agreements	3,257,206	3,257,206	–	–	–	–
Changes in the value of derivatives	4,333	4,333	–	–	–	–
	Balance as of 31.12.2000	Up to 3 months	3-12 months	1-3 years	3-5 years	over 5 years
Convertible foreign currency	15,485,940	8,042,121	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	–	–	–	–
Changes in the value of derivatives	686	686	–	–	–	–

The decrease of Eesti Pank's convertible foreign currency assets in 2001 by 0.9 billion kroons mostly resulted from changes in the monetary policy operational framework, which allowed credit institutions to cut their required reserves at the central bank and replace them with foreign assets corresponding to certain quality criteria. Foreign currency assets increased by income earned from them.

Eesti Pank's foreign currency reserves are required to back up notes and coins in circulation, the accounts of credit institutions and other Balance Sheet liabilities of the bank. 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 2001 financial instruments denominated in euros accounted for 81% of the total 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 nearly 100%.

	Balance as of 31.12.2001		Balance as of 31.12.2001	
	Convertible foreign currency (EEK thousand)	Structure	Convertible foreign currency (EEK thousand)	Structure
Total	14,624,053	100%	15,485,940	100%
EUR	11,857,572	81%	13,035,919	84%
USD*	2,758,161	19%	2,430,938	16%
DEM	901	0%	901	0%
Other foreign currencies*	7,419	0%	18,182	0%
*Foreign currency swaps (see item 17)				
Total	3,072,925	100%	1,681,646	100%
EUR-USD	2,879,579	94%	1,681,646	100%
Other	193,346	6%	–	–

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 or P1 for bonds with up to one-year maturity and AA- or Aa3 for bonds with maturity of more than a year. Therefore, Eesti Pank's foreign currency reserves were placed in the markets of government bonds of developed industrial countries with an average maturity of 2.2 years.

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

PARTICIPATION IN THE IMF

Eesti Pank acts as a fiscal agent between the Republic of Estonia and the IMF and as a 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 in the assets' 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 which guarantee the liabilities recorded in the item "IMF kroon accounts".

EEK thousand

Participation in IMF (assets)	2001	2000
Balance at the beginning of the year	1,426,497	1,390,096
Currency translation differences	13,780	36,401
Balance at the end of the year	1,440,277	1,426,497
IMF kroon accounts (liabilities)		
Balance at the beginning of the year	1,429,394	1,392,930
Interests accrued	11,591	19,166
Currency translation differences	13,741	36,443
Interest paid	-13,447	-19,145
Balance at the end of the year	1,441,279	1,429,394

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 (SDR's)	2001	2000
Balance at the beginning of the year	289	21,227
Interests and other income accrued	947	962
Purchases of SDR's	99,675	86,893
Loan repaid to the IMF (STF)	-85,768	-86,898
Interest and other expenses paid	-14,583	-21,094
Currency translation differences	50	-801
Balance at the end of the year	610	289

In 2000–2001, pursuant to Memorandums of Economic Policies, the Republic of Estonia has agreed to Stand-by Arrangements (SBA) for a total amount of 29.4 million SDR, including 12.5 million SDR in 2001, mainly as short-term balance of payments support. Eesti Pank has paid charges 0.25% per annum for these facilities.

OTHER CLAIMS ON THE IMF

Since March 1997, 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) of the IMF by the Republic of Estonia.

EEK thousand

Other claims on IMF	2001	2000
Balance at the beginning of the year	16,685	15,327
Additions	135	973
Currency translation differences	151	385
Balance at the end of the year	16,971	16,685

CONVERTIBLE FOREIGN CURRENCY DEPOSITS

The convertible foreign currency 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 related to Estonia's participation in financing the PRGF of the IMF. Estonia participates in it since 2001.

EEK thousand

Convertible foreign currency deposits	2001	2000
Balance at the beginning of the year	7,322	27,083
Additions	135	589
Purchases of SDR's	99,152	86,353
Interests accrued	624	328
Currency translation differences	163	-447
Loan repaid to the IMF (STF)	-85,768	-86,898
Interests and other expenses paid	-13,827	-19,686
Balance at the end of the year	7,801	7,322

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 an 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 2001 was 235.4 million kroons.

Item 4 – Loans and other Claims

In 2001 loans and other claims to credit institutions decreased by 2.2 million kroons, mainly due to repayments of intermediary loans. Loans issued to the staff of Eesti Pank increased by 5.0 million kroons. Set out below is an analysis of the loan movements followed by additional explanations:

EEK thousand

	Balance as of 31.12.2001	Repaid	Extended	Balance as of 31.12.2000	Repaid	Extended	Balance as of 31.12.1999
Total	66,523	-27,834	29,568	64,789	-34,264	34,960	64,093
Claims to Government	1,106	-13,482	11,591	2,997	-19,616	19,713	2,900
Interests (STF)	1,106	-13,482	11,591	2,997	-19,616	19,713	2,900
Loans to Estonia credit institutions	8,208	-2,723	1,101	9,830	-3,821	1,388	12,263
Eesti Ühispank (Union Bank of Estonia)	6,265	–	422	5,843	–	535	5,308
Intermediary loans	0	-2,588	–	2,588	-3,455	–	6,043
Interests	1,943	-135	679	1,399	-366	853	912
Other loans	57,209	-11,629	16,876	51,962	-10,827	13,859	48,930
Staff loans	56,895	-8,821	13,851	51,865	-8,051	11,125	48,791
Interests	314	-2,808	3,025	97	-2,776	2,734	139

GOVERNMENT OF THE REPUBLIC OF ESTONIA

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 (North-Estonian Bank Ltd.) 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. 0.4 million kroons were transferred to the deposit account in 2001, recorded as exceptional income (see Item 16).

INTERMEDIARY LOANS

In November 2001, Estonian credit institutions fully repaid the loans granted to by the Finnish export crediting institution Vientiluotto OY. Eesti Pank acted as an intermediary for these loans.

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 a maximum of ten years. Pursuant to the Central Bank Act, employees of Eesti Pank and Members of the Board could not borrow from any other credit institution apart from Eesti Pank.

Item 5 – Shares

Shares held by Eesti Pank:

	Balance as of 31.12.2001			Balance as of 31.12.2000		
	Amount of shares	Percentage holding	EEK thousand	Amount of shares	Percentage holding	EEK thousand
Total			73			308
Bank for International Settlements						
Voting shares	200	N/A ¹	2	700	N/A ¹	8
Tallinna Väärtpaberibörs (Tallinn Stock Exchange)						
Shares nominal value 10,000 EEK	8	1.1	71	34	5.2	300

¹N/A - not available

TALLINN STOCK EXCHANGE

On 21 March 2001 the general shareholders' meeting of the Tallinn Stock Exchange (TSE) endorsed issuing new shares to the Finnish HEX Group. In May 2001 Eesti Pank sold 26 TSE shares to the HEX Group for 45,000 kroons per share. Eesti Pank still holds eight TSE shares amounting to 1.1% holding in TSE. The bank earned 0.9 million kroons of exceptional income from the sale of TSE shares (see Item 16).

BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

Pursuant to the decision of the BIS general meeting on 8 January 2001, Eesti Pank sold 500 non-voting shares to BIS for 16,000 CHF per share. After selling back its non-voting shares, Eesti Pank retained its current status and rights in BIS, having 200 voting shares. Eesti Pank earned 82 million kroons of exceptional income from the sale of BIS shares (see Items 16 and 17).

Item 6 – Other assets

This item includes various prepayments for services and goods to be provided in early 2002, as well as other current assets.

Item 7 – Fixed assets

Details of movement in fixed assets during 2001 and 2000 are as follows:

EEK thousand

	Buildings	Computers	Furniture and fixtures	Software	Vehicles	Total
Cost						
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
Additions	4,676	9,259	3,461	4,657	–	22,053
Disposals	–	-3,390	-1,280	-2,228	-2,147	-9,045
Balance as of 31.12.2001	142,661	49,581	70,701	17,944	2,162	283,049
Depreciation						
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
Charge for the year	4,214	7,524	9,405	1,927	498	23,568
Disposals	–	-3,383	-1,217	-2,224	-1,733	-8,557
Balance as of 31.12.2001	17,142	36,892	52,637	12,926	1,597	121,194
Net book value as of:						
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
Balance as of 31.12.2001	125,519	12,689	18,064	5,018	565	161,855
Prepayments for fixed assets						
Balance as of 31.12.1999	447	–	11	10,788	–	11,246
Balance as of 31.12.2000	1,253	–	227	18,452	–	19,932
Balance as of 31.12.2001	2,991	–	5	23,515	–	26,511

The cost of fixed assets acquired in 2001 amounted to 22.1 million kroons. In the year 2001 construction and reconstruction work continued at 4 Sakala Street, as well as construction of the automated management system of technical equipment. The procurement of hardware includes computers, servers, printers and various supplies. Purchases of furniture and fittings were comprised mostly of office machinery, security devices and furniture. Software purchases included expenditures on system software and additional user licences for existing software.

Unlike in 2000, this item also reflects prepayments for fixed assets. By the end of 2001 such prepayments amounted to 23.5 million kroons, mostly for the acquisition of inter-bank settlement system and accounting software, which will be put into use in early 2002.

Item 8 – Accounts of non-residents

This item includes non-interest-bearing demand deposit accounts held with Eesti Pank by the World Bank and the Nordic Investment Bank and used for facilitating external loans into the Republic of Estonia.

Item 9 – Accounts of credit institutions and other current liabilities

This item includes the clearing accounts of credit institutions with Eesti Pank. 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 are rewarded with the deposit interest rate of the European Central Bank, which in 2001 fluctuated between 3.75% and 2.25% and in 2000 between 2.00% and 3.75% (see Item 14).

In 2001, the resources on the credit institutions' clearing accounts decreased by 2.1 billion kroons. From January 2001, changes in the monetary policy operational framework allowed credit institutions to meet up to 25% of their mandatory reserve requirement, which until then had to be kept at the central bank, with foreign assets corresponding to certain quality criteria; from July 2001 the share of foreign assets was increased to 50%.

The item includes also resources on the account of the Deposit Guarantee Fund, bearing interest. Since July 2001, assets of the Deposit Guarantee Fund are not included in the Balance Sheet of Eesti Pank. Under an agreement, Eesti Pank manages the assets of the Deposit Guarantee Fund strictly apart from the assets of the bank (see Item 14).

Since the end of 2001 this item reflects also the resources on the account of the Financial Supervision Authority, which are made up of supervision fees paid by subjects of financial supervision. No interest is paid on the amounts on the Financial Supervision Authority's account.

Item 10 – Provisions

EEK thousand

	Sampo Pank	Other	Total
Balance as of 31.12.1999	–	500	500
Provisions	97,700	–	97,700
Release of provisions	–	-500	-500
Balance as of 31.12.2000	97,700	–	97,700
Recovered the loss of the realisation of risk assets	-18,147	–	-18,147
Balance as of 31.12.2001	79,553	–	79,553

SAMPO PANK (OPTIVA PANK)¹

Under the 29 June 2000 purchase and sale agreement of shares, Eesti Pank is obliged to share the potential loss arising from the realisation of the risk assets of Sampo Pank, being divided between the seller and the buyer at the ratio of 75:25. The risk assets consist of the non-liquid assets owned by the Sampo Pank, the market value of which was difficult to assess before sale to the new investor. Eesti Pank's disbursements on the basis of its contractual obligations are limited to the sale price of the shares and the guarantee commitment to cover the potential decrease in value of Sampo Pank's risk assets (see Item 17).

In accordance with the agreement, the deadline for the realisation of the risk assets was extended to the end of 2002.

Item 11 – Other liabilities

This item includes sundry other accruals for 2001 costs.

This item includes also a liability to exchange one-kroon coins issued in 1992, 1993 or 1995, which were withdrawn from circulation from 1 June 1998.

¹ Due to change of ownership, Optiva Pank was renamed into Sampo Pank on 29 December 2000; below the name Sampo Pank is used.

Item 12 – Capital and reserves

Capital and reserves are recorded as follows:

EEK thousand

	Balance as of 31.12.2001	Appropriation of 2000 profit	Transfers	Balance as of 31.12.2000	Revaluation adjustments	Covering of 1999 loss	Transfers	Balance as of 31.12.1999
Total	2,356,178	123,327	0	2,232,851	147,579	-79,400	-56,003	2,220,675
Statutory capital	100,000	–	–	100,000	–	–	–	100,000
Reserve capital	500,000	99,400	–	400,600	–	-79,400	–	480,000
Special reserve	1,752,831	23,927	123,541	1,605,363	–	–	129	1,605,234
Revaluation reserve	0	–	-118,352	118,352	206,307	–	–	-87,955
Gold revaluation reserve	0	–	-5,061	5,061	882	–	–	4,179
Fixed assets revaluation reserve	3,347	–	-128	3,475	–	–	-129	3,604
Translation reserve	0	–	–	0	-59,610	–	-56,003	115,613

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.

Due to the changes in the accounting principles in 2001 concerning the reporting of financial transactions related income and expenditure, unrealised income and expenditure are no longer recorded in reserves and thus, year 2000 balances of revaluation reserves of investments in securities and gold were adjusted and 123.4 million kroons transferred to the special reserve (see Statement of Changes in Equity).

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 disposal of revalued assets.

Item 13 – Foreign net interest income and similar items

Due to changes in accounting principles, the 2000 net income from foreign assets and liabilities is restated in comparable figures.

EEK thousand

	2001	2000
Total	726,529	611,548
Net interest income		
Time deposits	7,592	8,930
Securities	434,967	549,222
Securities held under reverse-repurchase agreements	145,687	151,704
Dividends (BIS shares)	741	2,396
Foreign currency swaps	4,118	–
Foreign exchange gains	20,784	–
Other income	116,909	2,439
Net interest expenses		
Foreign currency swaps	–	-39,883
Foreign exchange losses	–	-58,725
Securities sold under agreements to repurchase	-3,156	-3,337
Other expenses	-1,113	-1,198

The nearly 19% growth in net interest income and other similar items was due to the considerable decrease in foreign exchange revaluation and foreign currency swap transaction losses. Most of net income in 2001 was earned from investments into government bonds of leading industrial countries and reverse repurchase transactions.

This item reflects mainly net income from transactions with government bonds gained in managing Eesti Pank's foreign exchange reserves, including reverse repurchase transactions, gains arising from changes of foreign exchange rates and gold price, interest income from time deposits, income from foreign currency swaps and dividends. Other income includes the results of reserve management by the external manager, mostly consisting of income from government bonds. Expenses consist of interest expense from repurchase transactions and other expenses involving mostly interests paid to the IMF on the Stand-by Arrangement loan (SBA) and on intermediary loans from Vientiluotto OY.

Item 14 – Domestic net interest income and similar items

This item includes mostly interest expense paid for resources on the clearing accounts of credit institutions and income arising from servicing credit institutions' clearing accounts. 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.

In 2001 Eesti Pank's net interests and other net income increased by 14.9 million kroons. This resulted mainly from the reduction of remuneration of resources on the clearing accounts of credit institutions, due to the decline of credit institutions' deposits in Eesti Pank, thanks to the opportunities provided in the monetary policy operational framework and the lowering of the European Central Bank's interest rates in 2001 (see Item 9).

EEK thousand

	2001	2000
Total	-116,112	-131,046
Interest income	3,701	3,555
Interest expense	-10,584	-3,919
Remuneration of credit institutions deposits and other fees		
Interest expense	-111,462	-132,342
Fees from payment services	1,264	1,079
Other income	1,483	581
Other expense	-514	-

Item 15 – Operating expenses

In 2001, the operating expenses have been re-classified and the 2000 operating expenses have been restated in a comparable format. The main difference arises from renovation costs and other operating income (the sale of commemorative coins and numismatic products, rent of buildings and equipment, the sale of Eesti Pank publications) being included under general administration costs. Previously, these expenses and income were stated in relatively small items under of the Profit and Loss Statement. General administration costs also include costs related to the management of financial assets (foreign exchange reserves), which were previously entered under the net income from foreign assets and liabilities. General administration costs contain also the costs of training and business trips, which were formerly reported under the personnel costs. The aim of the re-classification is to show similar expenses and income under one and the same item of the Profit and Loss Statement.

Compared to 2000 operating expenses decreased by approximately 14% in 2001. The costs of manufacturing notes and coins, legal and expert services, arbitration and depreciation costs decreased considerably in 2001.

Personnel costs, including payroll costs together with taxes, increased by 4.8%. Guarantees and contributions are made up of one-time benefits, pension scheme compensations and tax costs of fringe benefits calculated from housing loans. In 2001 the management transportation costs compensation policy was changed and now a monetary compensation is provided, unlike the previous practice when the bank rented automobiles.

EEK thousand

	2001	2000
Staff related costs	-69,403	-66,244
Salaries	-50,416	-47,988
Guarantees and contributions	-1,760	-1,586
Social taxes	-17,227	-16,670

In 2001 Eesti Pank continued participation in the voluntary pension scheme of its staff and members of the Board of Eesti Pank, contributing 0.4 million kroons (0.3 million kroons in 2000). In addition to this, Eesti Pank pays special merit pension to two individuals in sign of recognition of their special merits in developing the Estonian monetary and banking system. The special merit pension amounts to 1.6 times the Estonian average monthly wage and it is paid from the beginning of the recipient's qualification for the old age pension.

The cost of manufacturing notes and coins has decreased by 14.5 million kroons in 2001 compared to 2000. In 2001, the 1-kroon coins were minted to replenish the existing stocks and to meet the cash demand. This item also reflects income earned from the sale of commemorative coins minted in previous years and numismatic products (presentation pockets, albums and booklets for sample notes and coins).

Depreciation costs have decreased, mostly due to disposals of completely depreciated fixed assets, which diminished the depreciation calculation basis, and purchasing of fixed assets mainly in the second half of 2001.

General administration costs decreased by 12.6 million kroons compared to 2000, mostly consisting of legal and arbitration costs. Communication and transportation costs decreased as well, mainly due to the reduced communication tariffs and termination of the lease contracts of transport vehicles in mid-2001.

Property renovation and administration costs increased in 2001 mostly due to renovation work at 4 Sakala Street – preparation of premises for the Financial Supervision Authority and maintenance on the façade of the building. Minor repairs were also carried out in buildings at 11 and 13 Estonia Boulevard.

EEK thousand

	2001	2000
General administration costs	-64,731	-77,347
Property renovation and administration costs	-11,221	-7,792
Software maintenance cost	-6,941	-6,361
Post, telecommunication and transportation costs	-6,213	-8,108
Public relations and publications	-5,651	-4,589
Legal and arbitration costs	-2,892	-18,365
Training and business trips costs	-7,162	-7,073
Foreign exchange reserve management costs	-12,772	-12,050
Miscellaneous	-11,879	-13,009

Public relation and publication costs increased mostly due to procurement of market information, promotion of Estonia in the European Union and printing of additional publications during the euro cash changeover campaign.

Item 16 – Exceptional items

These include income and expense arising from single transactions of an exceptional nature. In 2001 this item included the following:

EEK thousand

	2001	2000
Total	83,887	57,631
Income from sale of Bank for International Settlements shares (see item 5)	81,755	–
Income from sale of Tallinn Stock Exchange shares (see item 5)	941	–
Recovery of loans from Eesti Hoiupank/Hansapank previously provided for	62	661
Deposit with Eesti Ühispank (see item 4)	422	535
Recovery of other loans previously provided for	707	–
Income from sale of Optiva Pank shares	–	65,609
Recovery of losses derived from Optiva Pank's risk assets realisation	–	-9,674
Income from release of provisions	–	500

0.1 million kroons was recovered from loans totalling 74.4 million kroons pursuant to the guarantee agreement signed by Eesti Hoiupank (Estonian Savings Bank) in 1996 and acquired by Eesti Pank in the same year.

Item 17 – Off-balance sheet items

EEK thousand

	Balance as of 31.12.2001	Balance as of 31.12.2000
Off-balance sheet items total	3,615,545	3,005,641
Derivatives	3,293,983	2,554,114
Forwards	221,058	872,468
Foreign currency swaps (see item 2)	3,072,925	1,681,646
Contingencies and commitments	321,562	451,527
Guarantee to the European Investment Bank	102,428	119,991
Guarantee to cover the loss from realisation of Sampo Pank's risk assets (see item 10)	201,892	284,360
Uncalled share capital (75%) of BIS (see item 5)	12,881	42,827
Contracts of printing banknotes and minting coins	4,361	4,349

DERIVATIVES

As of 31 December 2001, Eesti Pank had remaining forward contracts with Estonian credit institutions, made in 1995, amounting to EEK 0.2 billion kroons (0.9 billion kroons in end-2000), maturing in March 2002. The forward contracts were concluded for selling DEM at the exchange rate of EEK 8.001–8.002.

At the end of 2001 the volume of foreign exchange swaps outstanding was 3.1 billion kroons, maturing in early 2002 (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 Sampo (Optiva) Pank to renew the debt commitment, and with the European Investment Bank to

guarantee loans amounting to 10 million euros, maturing in 2006. Sampo Pank's outstanding debt to the European Investment Bank amounted to 102.4 million kroons at the end of 2001 (120.0 million kroons at the end of 2000).

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 12.9 million kroons as of 31 December 2001 (see Item 5).

PRINTING OF BANKNOTES AND MINTING OF COINS

At the end of 2001 the contractual liabilities of Eesti Pank for printing banknotes and minting coins in 2002 and 2003 amounted to 4.4 million kroons (4.3 million kroons in end-2000).