



ANNUAL ACCOUNTS OF EESTI PANK

For the Financial Year Ended on 31 December 2002


APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 BY THE EXECUTIVE MANAGEMENT OF THE BANK

The Executive Management of Eesti Pank has prepared the Annual Accounts of Eesti Pank, consisting of the Balance Sheet, Income Statement, Statement of Changes in Equity and Notes to the Annual Accounts. The Executive Management has submitted the Annual Accounts 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 Annual Accounts are prepared in compliance with Bank of Estonia Act, the Statute of Eesti Pank, and other internal guidelines for the preparation of Annual Accounts. The Annual Accounts give a true and fair view of the assets, liabilities, equity and performance of Eesti Pank.

On 25 March 2003 all members of the Executive Management of Eesti Pank on that day have signed the Annual Accounts.

Chairman of the Executive Management



Vahur Kraft

Members of the Executive Management



Rein Minka



Märten Ross



Andres Sutt

Balance Sheet as of 31 December 2002 and 2001 (EEK thousand)

	Item	31.12.2002	31.12.2001
ASSETS			
Foreign assets		16,407,441	16,122,349
Gold	1	42,267	40,438
Convertible foreign currency assets	2	15,028,681	14,624,053
Special Drawing Rights (SDR's)	3	1,013	610
Participation in the IMF	3	1,323,081	1,440,277
Other claims on the IMF	3	12,399	16,971
Domestic assets		261,190	259,593
Loans and other claims	4	69,220	66,523
government		–	1,106
credit institutions		9,083	8,208
other		60,137	57,209
Shares	5	73	73
Other assets	6	9,168	4,631
Fixed assets	7	182,729	188,366
Total assets		16,668,631	16,381,942
LIABILITIES AND EQUITY			
Foreign liabilities		1,516,277	1,463,164
Foreign debt	2	189,095	19,668
IMF kroon accounts	3	1,322,983	1,441,279
Accounts of non-residents	8	4,199	2,217
Domestic liabilities		11,778,845	12,031,648
Notes and coins in circulation		8,112,958	8,066,512
Accounts of credit institutions and other current liabilities	9	3,619,172	3,843,820
accounts of credit institutions		3,565,070	3,714,887
other		54,102	128,933
Convertible foreign currency deposits	3	5,564	7,801
Provisions	10	–	79,553
Other liabilities	11	41,151	33,962
Equity		3,373,509	2,887,130
Capital and reserves	12	2,772,130	2,356,178
Profit for the year		601,379	530,952
Total liabilities and equity		16,668,631	16,381,942

The following notes on pages 116 to 131 form an integral part of these Annual Accounts.

Income Statement for the years 2002 and 2001 (EEK thousand)

	Item	2002	2001*	2001
Foreign net interest income and similar items	13	815,018	726,529	726,529
Domestic net interest income and similar items	14	-62,511	-116,112	-116,112
Interest and other income		12,177	6,448	6,448
Interest and other expense		-74,688	-122,560	-122,560
Other operating income	15	8,548	1,206	–
Operating expenses	16	-182,360	-164,558	-163,352
Personnel expenses		-68,403	-69,403	-69,403
Banknote and coin production costs		-15,649	-5,940	-5,650
General administrative expenses		-71,245	-65,647	-64,731
Depreciation of fixed assets		-27,063	-23,568	-23,568
Profit before provisions and extraordinary items		578,695	447,065	447,065
Extraordinary income		23,896	83,887	83,887
Provisions		-1,212	–	–
Extraordinary items and net changes in provisions	17	22,684	83,887	83,887
Net profit for the year	18	601,379	530,952	530,952

* Adjusted to confirm with accounting principles used in 2002.

The following notes on pages 116 to 131 form an integral part of these Annual Accounts.

Statement of changes in equity (EEK thousand)

	Statutory capital	Reserve capital	Special reserve	Revaluation reserves	Profit	Total
Balance at the end of 2000	100,000	400,600	1,605,363	126,888	158,327	2,391,178
Adjusted balance at the end of 2000*						
Revaluation of investments	–	–	–	-147,579	147,579	–
Transfers	–	–	–	56,003	-56,003	–
Balance at the end of 2000*	100,000	400,600	1,605,363	35,312	249,903	2,391,178
Transfers	–	–	31,965	-31,965	–	–
Appropriation of 2000 profit	–	99,400	23,927	–	-123,327	–
Adjusted appropriation of profit	–	–	91,576	–	-91,576	–
Distribution to the State budget	–	–	–	–	-35,000	-35,000
Net profit for the 2001	–	–	–	–	530,952	530,952
Balance at the end of 2001	100,000	500,000	1,752,831	3,347	530,952	2,887,130
Transfers	–	–	128	-128	–	–
Appropriation of 2001 profit	–	–	415,952	–	-415,952	–
Distribution to the State budget	–	–	–	–	-115,000	-115,000
Net profit for the 2002	–	–	–	–	601,379	601,379
Balance at the end of 2002	100,000	500,000	2,168,911	3,219	601,379	3,373,509

* Adjusted to confirm with accounting principles used in 2001.

The following notes on pages 116 to 131 form an integral part of these Annual Accounts.

NOTES TO THE ANNUAL ACCOUNTS OF EESTI PANK

ACCOUNTING POLICIES

General Principles

The Annual Accounts have been prepared in accordance with Bank of Estonia Act and the Statute of Eesti Pank. The Accounting Act and internationally accepted accounting principles have been adopted where the Executive Management considers them to be appropriate and applicable to the activities of a central bank.

Annual Accounts have been prepared on a historical cost basis, except in cases explained under relevant items.

Pursuant to Bank of Estonia Act, Eesti Pank is not subject to paying taxes to the state budget or local budget, except for taxes related to individuals.

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

In 2002 a few changes have been introduced in the presentation of the Income Statement. Other operating income is now a separate item as the amount of income became significant in 2002.

The main accounting principles applied in preparation of the Annual Accounts of Eesti Pank are presented below.

Income and Expenses

Income and expenses are recognised for in the Income Statement on an accrual basis regardless of when cash was received or paid.

Foreign Currency Transactions

Foreign currency transactions are recorded at the official foreign currency exchange rates quoted by Eesti Pank as at the transaction date. Assets and liabilities denominated in foreign currencies are translated into Estonian kroons using the official foreign currency exchange rates prevailing on the balance sheet date. All foreign exchange gains and losses are recorded in Income Statement as gains or losses for the period.

Official exchange rates used on 31 December 2002 and 2001 were as follows:

	2002	2001
USD	14.93642	17.69182
SDR	20.29266	22.09014
EUR	15.64664	15.64664

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.

Financial Assets and Liabilities

The Balance Sheet of Eesti Pank has been structured so that the domestic and foreign assets and liabilities as well as related gains and losses are separated. The Balance Sheet structure demonstrates the backing of the Estonian kroon by gold and convertible foreign currency assets. Foreign exchange transactions are mostly related to foreign exchange reserve management. Transactions in Estonian kroons – with currency circulation, market operations and daily operations of Eesti Pank.

Gold

Gold reserves are valued at the market value 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 Income Statement.

Investments in Convertible Foreign Currency Assets

Foreign treasury bills and other quoted securities denominated in convertible foreign currencies are recorded at their year-end fair value¹. Gains and losses from changes in the fair value of securities are recognised in the Income Statement under the item 'Foreign net interest income and similar items'.

Repurchase agreements are recorded as loans taken with collateral security at the fair value. The fair value has been estimated using the discounted cash flow method. The change in the fair value is recorded on an accrual basis in the Income Statement under the item 'Foreign net interest income and similar items'.

Reverse repurchase agreements are recorded as loans issued with collateral security at the fair value. The fair value has been estimated using the discounted cash flow method. The change in the fair value is recorded on an accrual basis in the Income Statement under the item 'Foreign net interest income and similar items'.

Derivative Financial Instruments

Derivative financial instruments are used to manage foreign exchange risks and interest rate risks and they include foreign exchange forwards, currency swaps and futures. The derivative contracts are carried on the balance sheet at the fair value on the trade date under 'Convertible foreign currency deposits' (contracts with positive value) and 'Foreign debt' (contracts with negative value). The change in the fair value is recorded on an accrual basis under the item 'Foreign net interest income and similar items' in the Income Statement. Eesti Pank does not apply hedge accounting to derivative instruments.

Investments in Shares

Investments in shares are recorded at the fair value if the estimation is reliable. The estimation of the fair value of shares will not be reliable if they are not actively traded and there are no alternative methods to estimate their value in a reliable way. In this case investments in shares are accounted for at their adjusted purchase price (initial purchase price less provisions for any impairment in value other than temporary below balance-sheet value). Profits and losses on the disposal of investments in shares are recognised when the sale becomes unconditional. Dividend income is recorded as income for the period.

Fixed Assets

Fixed assets are assets with the useful life over a year and with acquisition cost over 5,000 kroons. Fixed assets are recorded at their acquisition cost, including purchase price and other directly associated expenditures related to taking the asset into use. Land, buildings, computers, software and other assets with long-term useful lives are recorded as fixed assets on the balance sheet. Prepayments for fixed assets are recorded under the item 'Fixed assets'.

¹ Fair value denotes either market value or presumed market value comprised of the present value of future cash-flows.

Land and objects of art and culture are not depreciated. The fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets at the following rates:

	2002	2001
Buildings	3%	3%
Computers	33%	33%
Software	20-50%	50%
Other	20%	20%

Governor's Regulation structured depreciation rates for software in 2002. The need arose due to the introduction of software with high acquisition cost and long-term useful life in 2002. Building renovation costs are charged to the Income 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. Current repair costs are recognised as periodic expenditure. 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. Development costs are recognised as expenses in the period when they are incurred in the Income Statement.

Leasing

Operating lease payments are recorded as periodic costs and the asset leased in terms of operating lease is not recorded on the balance sheet. Lease transaction is accounted for as an operating lease for all the cases where both of the following conditions are met:

- The lessee can terminate the lease before the end of the lease term without making additional payments;
- ownership of the asset is not transferred to the lessee during or at the end of the lease period.

If the above-mentioned conditions are not met, the transaction is recorded as finance lease.

Estimates

Preparing the Annual Accounts pursuant to generally accepted accounting principles presumes the Executive Management to provide estimates that influence assets and liabilities of Eesti Pank and income and expenses during the accounting period as of the balance sheet date. These estimates are based on the available information about Eesti Pank, its intentions and risks as of the date of compilation of the Annual Accounts.

Provisions for loans and other assets

Loans and other receivables are reassessed periodically and allowance is made against those considered to be bad or doubtful. Allowance for doubtful receivables and loans is recorded as expenses of the reporting period in the Income Statement and in the Balance Sheet as a deduction against the assets concerned.

General provision is set up to cover loan losses of the loan portfolio. The loan-loss provision is established to cover anticipated unidentified losses. The general provision reflects the estimates of the Executive Management of Eesti Pank of the loan loss, based on the risk group of the loans and previous experience. General provision is calculated multiplying the debt with the risk-group-based provision rate. General provisions set up only to cover possible losses from low risk loans. 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. Loans previously written off but collected during the reporting period are recorded as an offsetting entry under expense.

Liabilities

All known liabilities and provisions are recorded in the Balance Sheet, if the reliable estimate can be made of the amount and they are likely to be realised. Contingent liabilities, sureties, and, guarantees are disclosed as off-balance sheet items. If the possibility of an outflow of resources is remote, associated details are not disclosed in the Notes to the Annual Accounts.

Notes and Coins in Circulation

Notes and coins in circulation are notes and coins issued by Eesti Pank at their nominal value reflected in the Balance Sheet as a liability in favour of the holder of notes and coins. The cost of producing notes and coins is recognised in the Income Statement at the date of delivery to Eesti Pank.

Post-Balance-Sheet Events

Annual Accounts of Eesti Pank reflect significant circumstances affecting the valuation of assets and liabilities between the balance sheet date and the date the Annual Accounts are signed by the Executive Management of Eesti Pank.

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 31.12.2001	8,250.171	4,901.5180	40,438
Revaluation			1,829
Balance as of 31.12.2002	8,250.171	5,123.1910	42,267

ITEM 2 – CONVERTIBLE FOREIGN CURRENCY ASSETS, FOREIGN CURRENCY LIABILITIES

These comprise Eesti Pank's convertible foreign exchange reserves and liabilities related to the reserve management, denominated in convertible foreign currency. The following financial instruments are used to manage the foreign exchange reserves: demand and time deposits, bonds, spot transaction, derivatives (futures, forwards and swaps), repurchase and reverse repurchase contracts.

In 2002, Eesti Pank's foreign exchange reserves increased by 405 million kroons, totalling 15 billion kroons at the end of the year. The foreign exchange reserves increased due to the increase of fair value of the reserves.

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	–	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	–	–	–	–
Fair value of derivatives	4,333	4,333	–	–	–	–
	Balance as of 31.12.2002	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years
Convertible foreign currency	15,028,681	10,877,322	–	1,859,760	945,115	1,346,484
Cash and current accounts	126,485	126,485	–	–	–	–
Time deposits	135,898	135,898	–	–	–	–
Securities	7,820,646	3,669,287	–	1,859,760	945,115	1,346,484
Securities held under reverse-repurchase agreements	6,859,784	6,859,784	–	–	–	–
Fair value of derivatives	85,868	85,868	–	–	–	–

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
Foreign debts	19,668	–	–	–	–	–
Fair value of derivatives	19,668	15,125	4,543	–	–	–
	Balance as of 31.12.2002	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years
Foreign debts	189,095	189,095	–	–	–	–
Securities sold under agreements to repurchase	176,663	176,663	–	–	–	–
Fair value of derivatives	12,432	12,432	–	–	–	–

Short-term repurchase agreements (short-term lending against collateral security) at the end of 2002 added 176.7 million kroons to the foreign exchange reserves. Lending against collateral securities is recorded under the item Foreign debts.

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 Eesti Pank. Therefore, conservative risk constraints are followed protecting the asset base and the liquidity of the foreign currency reserves while earning investment returns.

At the end of 2002, financial instruments denominated in euros accounted for 89% 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 31.12.2002		Balance as of 31.12.2001	
	Convertible foreign currency (EEK thousand)	Structure	Convertible foreign currency (EEK thousand)	Structure
Total	15,028,681	100%	14,624,053	100%
EUR	13,408,338	89%	11,857,572	81%
USD	1,609,638	11%	2,758,161	19%
DEM	–	–	901	0%
Other foreign currencies	10,705	0%	7,419	0%
	Balance as of 31.12.2002		Balance as of 31.12.2001	
	Foreign debts (EEK thousand)	Structure	Foreign debts (EEK thousand)	Structure
Total	-189,095	100%	-19,668	100%
EUR	-1	0%	–	0%
USD	-185,061	98%	-20,486	104%
Other foreign currencies	-4,033	2%	818	-4%

Off-balance sheet net position

Total	-1,324,552	100%	-3,072,925	100%
USD	-1,324,552	100%	-2,879,579	94%
Other (excl EUR)	–	–	-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): A-1 or P-1 for bonds with up to one-year maturity and AA- or Aa3 for bonds with maturity of more than a year. In 2002, Eesti Pank's foreign currency reserves were placed in the markets of low-risk government bonds of leading euro-area developed industrial countries and the United States of America with an average maturity of slightly below two years.

ITEM 3 – RELATIONS WITH THE INTERNATIONAL MONETARY FUND (IMF)

Special Drawing Rights (SDR)

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. Movements on the account are as follows:

EEK thousand

Special Drawing Rights (SDR's)	2002	2001
Balance at the beginning of the year	610	289
Interests and other income accrued	763	947
Purchases of SDR's	224,218	99,675
Loan repaid to the IMF (STF)	-219,660	-85,768
Interest and other expenses paid	-4,855	-14,583
Currency translation differences	-63	50
Balance at the end of the year	1,013	610

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, primarily as short-term balance of payments support. In 2000–2001 Eesti Pank has paid charges of 0.25% per annum for these facilities. The last Stand-by Arrangement (SBA) expired in August 2001 and therefore no charges were paid in 2002.

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 on the IMF is recorded in the assets' side of the Balance Sheet and equals to the country's quota in the IMF. At the end of 2002 the quota of the Republic of Estonia was 65,200,000 SDR.

The Republic of Estonia has paid its contribution in treasury notes deposited in Eesti Pank, and these are recorded in the item 'IMF kroon accounts'.

EEK thousand

Participation in IMF (assets)	2002	2001
Balance at the beginning of the year	1,440,277	1,426,497
Currency translation differences	-117,196	13,780
Balance at the end of the year	1,323,081	1,440,277
IMF kroon accounts (liabilities)		
Balance at the beginning of the year	1,441,279	1,429,394
Interests accrued	3,013	11,591
Currency translation differences	-117,195	13,741
Interest paid	-4,114	-13,447
Balance at the end of the year	1,322,983	1,441,279

Other Claims on the IMF

Since March 1997, this item reflects amounts, which originate from the surcharge (currently ca 0.1%) added to the rate of Stand-by Arrangement (SBA) and Systemic Transformation Facility (STF), reserved to partially

finance the Poverty Reduction and Growth Facility (PRGF) of the IMF by the Republic of Estonia and Eesti Pank.

In 2002, the Republic of Estonia and Eesti Pank supported the Heavily Indebted Poor Countries' programme (HIPC) launched by the World Bank and IMF, allocating as a grant funds deposited on the IMF account since 1997 – 0.7 million kroons and 2.4 million kroons, respectively, and interest of 0.3 million kroons.

EEK thousand

Other claims on IMF	2002	2001
Balance at the beginning of the year	16,971	16,685
Additions (disposals)	-3,468	135
Currency translation differences	-1,104	151
Balance at the end of the year	12,399	16,971
Eesti Pank, SBA (loan related receivable)	6,835	9,789
Government, STF (loan related receivable)	5,564	7,182
Total	12,399	16,971

Liabilities in Foreign Currency

The item reflects the Republic of Estonia's claim on the IMF related to Estonia's participation in financing the PRGF of the IMF. In 2002 Estonia waived part of the claim on the IMF by supporting the HIPC programme (see Other Claims on the IMF). In previous periods the item included also demand deposits by the Republic of Estonia with Eesti Pank. In 2002, Eesti Pank fully returned to the Republic of Estonia demand deposits with Eesti Pank.

EEK thousand

Convertible foreign currency deposits	2002	2001
Balance at the beginning of the year	7,801	7,322
Increase(+)/decrease(-)	-1,097	135
Debited the account in Bank of Estonia	223,617	99,152
Loan repaid to the Government	-603	–
Interests accrued	606	624
Currency translation differences	-830	163
Loan repaid to the IMF (STF)	-219,660	-85,768
Interests and other expenses paid	-4,270	-13,827
Balance at the end of the year	5,564	7,801

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 acted 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 was not recorded in Eesti Pank's Balance Sheet. The item includes transactions related to servicing the STF loan. The final maturity date of the STF was January 2005. The balance at the end of 2001 was 235.4 million kroons. The Government of the Republic of Estonia repaid the loan in full in 2002.

ITEM 4 – LOANS AND OTHER CLAIMS

Set out below is an analysis of the loan movements in 2002 followed by additional explanations:

EEK thousand

	Balance as of 31.12.2002	Extended	Currency translation differences	Repaid	Provision	Written off	Balance as of 31.12.2001
Total	69,220	21,499	-24	-17,558	-1,212	-9	66,523
Claims to government	–	3,185	-24	-4,267	–	–	1,106
Agency fee	–	156		-156			–
Accrued interests	–	3,029	-24	-4,111			1,106
Loans to Estonian credit institutions	9,083	875	–	–	–	–	8,208
Eesti Ühispank (Union Bank of Estonia)	6,553	288					6,265
Accrued interests	2,530	587					1,943
Guarantee Fund	101	101					–
Loans	60,036	17,338	–	-13,290	-1,212	-9	57,209
Staff loans	59,806	14,600	–	-10,476	-1,212	–	56,894
Accrued interests	230	2,738	–	-2,814	–	-9	315

Government of the Republic of Estonia

Accrued and paid interest on STF, maturing in February, May, August and November are reflected here (see Item 3). The Government of the Republic of Estonia repaid the loan in full in 2002.

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. 0.6 million kroons of interests were transferred to the deposit account in 2002, recorded as income.

Guarantee Fund

In 2002, Eesti Pank entered into an asset management contract with the Guarantee Fund. The Fund pays Eesti Pank a contractual service charge for depositing its assets. The item records the service charge for the fourth quarter of 2002, paid by the Guarantee Fund in 2003.

Loans to the Employees of Eesti Pank

Mortgages have been provided for a maximum of 25 years and consumption loans for two years. The Board of Eesti Pank establishes the interest rate for the mortgage and consumption loan by its Decree. The interest rate of the mortgage is based on the reserves' interest rate Eesti Pank pays to credit institutions, plus a risk margin. The interest rate of the consumption loan is comparable to the interest rate charged by Estonian credit institutions under similar conditions. In addition, loans for educational expenditure were granted for a maximum of ten years. Pursuant to the Bank of Estonia Act, employees of Eesti Pank and Members of the Board could not borrow from any other credit institution apart from Eesti Pank before the year 2002.

ITEM 5 – SHARES

Shares held by Eesti Pank:

	Balance as of 31.12.2002		Balance as of 31.12.2001	
	Holding percentage	EEK thousand	Holding Percentage	EEK thousand
Total		73		73
Bank for International Settlements				
200 voting shares	N/A	2	N/A	2
Tallinna Börs (Tallinn Stock Exchange)				
8 shares nominal value à 10 000 EEK	1.1	71	1.1	71

N/A – not available

Tallinn Stock Exchange (TSE)

Eesti Pank holds eight TSE shares amounting to 1.1% holding in TSE.

Bank for International Settlements (BIS)

Eesti Pank holds 200 voting shares in BIS.

ITEM 6 – OTHER ASSETS

This item includes various prepayments for services and goods to be provided in 2003, liabilities of the Financial Supervision Authority to Eesti Pank, stocks and other current assets.

ITEM 7 – FIXED ASSETS

Details of movement in fixed assets during 2002 and 2001 are as follows:

EEK thousand

	Buildings	Computers	Furniture and fixtures	Software	Vehicles	Total
Cost						
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
Additions	1,642	14,304	4,642	20,958	–	41,546
Disposals	–	-6,155	-1,719	-138	-1,088	-9,100
Balance as of 31.12.2002	144,303	57,730	73,624	38,764	1,074	315,495
Depreciation						
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
Charge for the year	4,288	9,078	8,527	6,837	322	29,052
Disposals	–	-6,138	-1,660	-101	-1,078	-8,977
Balance as of 31.12.2002	21,430	39,832	59,504	19,662	841	141,269
Net book value as of:						
Balance as of 31.12.2001	125,519	12,689	18,064	5,018	565	161,855
Balance as of 31.12.2002	122,873	17,898	14,120	19,102	233	174,226
Prepayments for fixed assets						
Balance as of 31.12.2001	2,991	–	5	23,515	–	26,511
Balance as of 31.12.2002	6,381	–	–	2,121	–	8,502
Total fixed assets						
Balance as of 31.12.2001	128,511	12,688	18,069	28,533	565	188,366
Balance as of 31.12.2002	129,255	17,898	14,120	21,223	233	182,729

The cost of fixed assets acquired in 2002 amounted to 41.5 million kroons. The procurement of hardware included computers, servers, printers and various supplies. Purchases of furniture and fittings were comprised mostly of office machinery, security devices and furniture. Software purchases included expenditure on system software and additional user licences for existing software.

In 2002, obsolete payment and settlement system software recorded as prepayment for fixed assets as of 31 December 2001 for 9 million kroons, has been expensed. Under prepayments for fixed assets primarily prepayments for design and construction works of the additional building, automatic control system of technical devices and payment and settlement system software are recorded.

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 earn the deposit interest rate of the European Central Bank, which in 2002 dropped from 2.25% to 1.75% and in 2001 from 3.75% to 2.25% (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
Balance as of 31.12.2001	79,553
Payment for termination of the risk assets agreement	-55,945
Transfer of excess reserves to income	-23,608
Balance as of 31.12.2002	–

Sampo Pank

Under the 29 June 2000 purchase and sale agreement of shares, Eesti Pank was 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 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 were 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 2002, Eesti Pank terminated the risk asset agreement with Sampo Pank. The liabilities under the agreement for 55.9 million kroons were paid and the surplus provision of 23.6 million kroons were recorded as income in 2002 (recorded as Extraordinary Income in the Income Statement).

ITEM 11 – OTHER LIABILITIES

This item includes accruals for miscellaneous 2002 expenses with payment dates in 2003.

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

ITEM 12 – CAPITAL AND RESERVES

Movements in capital and reserves are as follows in 2002:

EEK thousand

	Balance as of 31.12.2002	Transfers	Appropriation of 2001 profit	Balance as of 31.12.2001
Total	2,772,130	–	415,952	2,356,178
Statutory capital	100,000	–	–	100,000
Reserve capital	500,000	–	–	500,000
Special reserve	2,168,911	128	415,952	1,752,831
Revaluation reserve	3,219	-128	–	3,347

Pursuant to Bank of Estonia 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.

The revaluation reserve reflects the balance of the revaluation of fixed assets in 1994. In each reporting period 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

EEK thousand

	2002	2001
Total	815,018	726,529
Income		
Time deposits	3,872	7,592
Securities	661,096	434,967
Securities held under reverse-repurchase agreements	121,363	145,687
Dividends (BIS shares)	809	741
Foreign currency derivatives	39,234	4,118
Foreign exchange gains	2,621	20,784
Other income	38	116,909
Expenses		
Securities sold under agreements to repurchase	-11,867	-3,156
Other expenses	-2,148	-1,113

The nearly 12% growth in the net interest income and similar items was primarily due to successful and prudent investment strategy. Most of net income in 2002 was earned from investments into government bonds of leading industrial countries, reverse repurchase transactions and derivatives.

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 fluctuations in foreign exchange rates and gold price, interest income from time deposits, income from currency exchange transactions and dividends.

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, agent fees for STF and interest payable on deposits placed by the Guarantee Fund.

EEK thousand

	2002	2001
Total	-62,511	-116,112
Interest income	3,325	3,701
Interest expense	–	-10,584
Remuneration of credit institutions deposits and other fees		
Interest expense	-72,741	-111,462
Fees from payment and settlement services	5,987	1,264
Other income	2,865	1,483
Other expense	-1,947	-514

In 2002, Eesti Pank's net interest and other net income increased by 53.6 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 within the opportunities provided in the monetary policy operational framework and the lowering of the European Central Bank's interest rates in 2001 and 2002 (see Item 9). In 2002, Eesti Pank launched an international interbank settlement system, which ensures high quality of settlement and speeds up the process. Fees from payment services have increased due to a larger volume of transactions and a rise in the fees. Eesti Pank is going to make the system profitable in compliance with the requirement set by the European Central Bank to the payment and settlement systems.

ITEM 15 – OTHER OPERATING INCOME

In 2002, other operating income has been separated from operating expenses.

EEK thousand

	2002	2001*
Other operating income	8,548	1,206
Income from the sale of commemorative coins and numismatic products	5,990	290
Leasing income	499	529
Income from the sale of assets	717	307
Other income	1,342	80

* Adjusted to confirm with accounting principles used in 2002.

Income from the sale of commemorative coins and numismatic products accounts for the larger part of operating income in 2002. 100-kroon face value golden commemorative coins dedicated to the tenth anniversary of the reintroduction of the Estonian kroon and 10-kroon face value silver commemorative coins dedicated to the University of Tartu were minted and sold in 2002. Also income for the material of destroyed coins was collected.

Rent income from the training centres of Eesti Pank has remained on the level of 2001 and is recorded under 'Rent income'. Income from the sale of assets reflects income from the sale of fixed assets and stocks not necessary for Eesti Pank. The growth in the income from the sale of assets derived primarily from the sale of obsolete hardware and furniture and fittings.

Most of the other income in 2002 was received from additional costs of arbitration ordered by the International Court of Arbitration to be paid to the Republic of Estonia, returned court deposits and income from the sale of publications.

ITEM 16 – OPERATING EXPENSES

In 2001, the operating expenses have been reclassified to present them in a comparable format to expenses of 2002. The main difference arises from operating income being recorded under Operating income independent from general administrative expenses and banknote and coin production costs. Previously, these expenses and income were recorded under Operating expenses of the Income Statement as items reducing expenses. In 2001, Other operating income accounted for 1,206,000 kroons, including 916,000 kroons recorded under general administrative expenses and 290,000 kroons under banknote and coin production costs.

Compared to 2001, operating expenses increased by 10% in 2002. The costs of producing notes and coins, information technology, public relations and publications as well as depreciation costs increased considerably in 2002. Costs of legal and expert services, administration of financial assets and real estate general administration costs decreased against 2001.

On 1 January 2002, the Financial Supervision Authority, an agency with a separate budget, became operational. The Financial Supervision Authority and Eesti Pank have signed a cooperation protocol, which defines services provided by Eesti Pank to the Financial Supervision Authority and pricing principles. Eesti Pank provides the Financial Supervision Authority the following services: information technology service, accounting services and real estate and administration service.

The estimated cost of the services provided by Eesti Pank to the Financial Supervision Authority was about 11 million kroons in 2002. Eesti Pank covered all costs associated with the services and depreciation in Financial Supervision Authority in 2002.

In 2001 the expenses of Eesti Pank contain the expenses of one of the predecessors of the Financial Supervision Agency – the Banking Supervision Department, having an impact on the comparability of costs, primarily on personnel costs and less on general administration costs: in 2001 the personnel expenses included 6.9 million kroons and general administrative expenses 1.1 million kroons of the costs of the Banking Supervision Department.

EEK thousand

	2002	2001
Personnel expenses	-68,403	-69,403
Salaries	-49,320	-50,416
Guarantees and contributions	-2,035	-1,760
Social taxes	-16,788	-17,227
Unemployment insurance	-260	-

In 2002 the personnel expenses decreased against 2001, mostly because of the reduction in the number of personnel. 23 employees who at the end of the year had worked in the Banking Supervision Department left Eesti Pank and were employed by the Financial Supervision Agency on 1 January 2002. Eliminating the personnel expenses of the Banking Supervision Department from the expenses of 2001, the comparative growth in the personnel costs is 10%. The personnel costs include payroll costs together with taxes. Guarantees and contributions are made up of one-time benefits, pension scheme compensations and the tax cost of fringe benefits calculated from mortgages.

In 2002 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. In addition to this, Eesti Pank pays special merit pension to two individuals in sign 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. In 2002 the costs of the special merit pension were 0.2 million kroons.

The cost of producing notes and coins has increased by 9.7 million kroons in 2002 against 2001. In 2002, the 10-cent coins were minted and the 25-kroon banknotes were printed to replenish the existing stocks and to meet the cash demand. Also commemorative coins dedicated to the tenth anniversary of the reintroduction of the Estonian kroon and the University of Tartu were minted.

General administrative expenses increased by 5.6 million kroons against 2001, mostly due to the write-off of obsolete payment and settlement system software under IT expenses.

The cost of public relations and publications went up due to the tenth anniversary of the reintroduction of the Estonian kroon.

Depreciation costs have increased by 3.5 million kroons, primarily due to the introduction of the accounting information system and payment and settlement systems software at the end of 2001 and at the beginning of 2002.

EEK thousand

	2002	2001*	2001
General and administrative expenses	-71,245	-65,647	-64,731
Property renovation and administration expenses	-10,892	-11,964	-11,221
Software maintenance expenses	-15,729	-6,941	-6,941
(Post, tele)communication and transportation expenses	-4,656	-6,307	-6,213
Public relations and publications	-8,259	-5,691	-5,651
Legal and arbitration expenses	-1,798	-2,892	-2,892
Training and business (trips) travel expenses	-7,916	-7,162	-7,162
Foreign exchange reserve management expenses	-9,591	-12,772	-12,772
Miscellaneous	-12,404	-11,918	-11,879

*Adjusted to confirm with accounting principles used in 2002.

ITEM 17 – EXTRAORDINARY ITEMS AND NET CHANGES IN PROVISIONS

This item includes income and expenses arising from establishment and reduction of allocations and provisions.

Most of the changes in allocations arose from terminating the risk asset agreement with Sampo Pank, as a result, 23.6 million kroons was recorded as income in 2002. Pursuant to generally accepted accounting principles and for fair and objective recording of loans issued by Eesti Pank, the provision was established against Eesti Pank's loan portfolio in 2002 (see Provisions for loans and other assets).

EEK thousand

	2002	2001
Extraordinary items and net changes in provisions	22,684	83,887
Extraordinary income	23,896	83,887
Income from sale of Bank for International Settlements shares	–	81,755
Income from sale of Tallinn Stock Exchange shares	–	941
Recovery of loans from Eesti Hoiupank/Hansapank previously provided for	–	62
Recovery of loans in the deposit with Eesti Ühispank	288	422
Recovery of other loans previously provided for	–	707
Income from Sampo Pank's risk assets realisation	23,608	–
Expenses		
Provision for Eesti Pank's loan portfolio	-1,212	–

ITEM 18 – PROFIT DISTRIBUTION

In 1999, the Board of Eesti Pank approved Profit Distribution Strategy for three years. The strategy is based on the principle to avoid too rapid shrinking of Eesti Pank's own capital and net foreign currency reserve against key economic indicators before joining the EMU.

Having evaluated the Profit Distribution Strategy in April 2002, the Board of Eesti Pank resolved to continue with the strategy and to transfer from the net profit of 2001 to the national budget 115 million kroons and to the special reserve fund 416 million kroons.

ITEM 19 – DERIVATIVES

EEK thousand

Derivatives	Contract amount	Market value	
		Assets	Liabilities
Total	4,640,044	85,867	-12,432
Foreign currency forwards	400,281	13,224	-12,416
Foreign currency swaps	4,105,818	72,680	-16
Futures transactions	133,944	-37	–

At the end of 2002, the contract amount of foreign exchange swaps outstanding reached 4.1 billion kroons, maturing in early 2003. The contract amount of forward transactions reached 400 million kroons in end-2002 and they matured at the beginning of 2003. The contract amount of future transactions was 134 million kroons at the end of 2002 and they matured also in early 2003.

ITEM 20 – CONTINGENCIES

EEK thousand

	Balance as of 31.12.2002	Balance as of 31.12.2001
Contingent liabilities	102,951	321,562
Guarantee to the European Investment Bank	84,864	102,428
Guarantee to cover the loss from realisation of Sampo Pank's risk assets	–	201,892
Unpaid share capital (75%) of BIS	10,875	12,881
Contracts of printing banknotes and minting coins	7,212	4,361

Guarantees to the European Investment Bank

On 27 November 1995, Eesti Pank entered into an agreement with the European Investment Bank and Sampo 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 84.9 million kroons at the end of 2001 (102.4 million at the end of 2001).

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 10.9 million kroons as of 31 December 2002 (see Item 5).

Printing of Banknotes and Minting of Coins

At the end of 2002 the contractual liabilities of Eesti Pank for printing banknotes and minting coins in 2003 reached 7.2 million kroons (4.4 million kroons in 2001).