

**FINANCIAL STATEMENTS
FOR 1999 OF EESTI PANK**

BALANCE SHEET AS OF 31 DECEMBER 1999

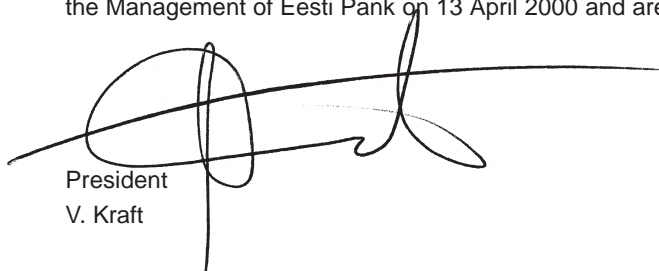
(EEK THOUSAND)

	Notes	1999	1998
ASSETS			
Foreign assets		14,724,200	11,784,875
Gold	1	37,008	31,836
Convertible foreign currency assets	2	13,260,542	10,862,880
Participation in IMF	3	1,390,096	876,257
Special Drawing Rights (SDR's)	3	21,227	894
Other claims on IMF	3	15,327	13,008
Domestic assets		410,487	489,978
Loans	4	64,093	57,282
government		2,900	2,762
credit institutions		12,263	14,990
other		48,930	39,530
Shares	5	145,308	265,609
Other assets	6	16,822	18,519
Fixed assets	7	184,264	148,568
Total assets		15,134,687	12,274,853
LIABILITIES			
Foreign liabilities		1,399,824	889,899
Foreign debts	4	6,074	9,997
IMF kroon accounts	3	1,392,930	879,550
Accounts of non-residents	8	820	352
Domestic liabilities		11,593,588	9,108,477
Notes and coins in circulation	9	6,648,776	5,390,674
Accounts of credit institutions and other current liabilities	10	4,847,253	3,679,595
accounts of credit institutions		4,823,548	3,675,672
other		23,705	3,923
Securities (certificates of deposit issued)	11	30,000	
Convertible foreign currency deposits	12	27,083	6,428
Provisions for guarantees	13	500	500
Other liabilities	14	39,976	31,280
Equity		2,141,275	2,276,477
Capital and reserves	15	2,220,675	1,734,454
Loss/Profit for the year	16-21	-79,400	542,023
Total liabilities and equity		15,134,687	12,274,853
Off-balance sheet items	23		

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999 (EEK THOUSAND)

	Notes	1999	1998
Foreign			
Foreign net interest income and similar items	16	156,706	622,726
Domestic			
Domestic net interest income and similar items	17	-36,564	-6,963
Interest and similar income		4,548	16,580
Interest and similar expense		-41,112	-23,543
Other operating income	18	1,437	8,016
Other operating expenses	19	-186,932	-158,617
staff related costs		-69,516	-64,593
costs of making money		-32,073	-13,205
depreciation		-28,049	-27,440
renovation costs		-4,999	-10,036
general administration costs		-52,295	-43,343
Profit before value adjustments and exceptional items		-65,353	465,162
Provisions for bad and doubtful loans/other assets	20	-110,000	-953
Exceptional items	21	95,953	77,814
Loss/Profit for the year		-79,400	542,023
Appropriation of profit	22		
Transfers to Reserve capital			136,000
Transfers to Special reserve			406,023
Distribution to the State budget			
Total appropriations			542,023

The financial statements, including the notes, on the pages 96 to 111 have been approved by the Management of Eesti Pank on 13 April 2000 and are signed on their behalf by:


President
V. Kraft


Director
V. Laid

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 1998 AND 1999 (EEK THOUSAND)

	Statutory and reserve capital	Special reserve	Revaluation reserve	Translation reserve	Net profit/loss for the period	Total
Balance at 31 December 1997	274,000	1,006,591	33,704	114,442	452,364	1,881,101
Revaluation of investments			-6,109			-6,109
Transfers		128	-128			0
Currency translation differences				-50,538		-50,538
Net gains and losses not recognised in the income statement	0	128	-6,237	-50,538	0	-56,647
Appropriation of 1997 profit	170,000	192,364			-362,364	0
Transfer to the State budget					-90,000	-90,000
Net profit for the period					542,023	542,023
Balance at 31 December 1998	444,000	1,199,083	27,467	63,904	542,023	2,276,477
Revaluation of investments			-107,511			-107,511
Transfers		128	-128			0
Currency translation differences				51,709		51,709
Net gains and losses not recognised in the income statement	0	128	-107,639	51,709	0	-55,802
Appropriation of 1998 profit	136,000	406,023			-542,023	0
Transfer to the State budget						0
Net loss for the period					-79,400	-79,400
Balance at 31 December 1999	580,000	1,605,234	-80,172	115,613	-79,400	2,141,275

NOTES TO THE FINANCIAL STATEMENTS OF EESTI PANK

Principles of Accounting

General Principles

The Financial Statements have been prepared in accordance with the Central Bank Act of the Republic of Estonia and the Statutes of Eesti Pank. The Estonian Accounting Act, from which Eesti Pank is exempted, and International Accounting Standards have been adopted where 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 principles of accounting below.

The Financial Statements and notes have been prepared using accounting policies consistent with those used in recent 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 Act of the Republic of Estonia, Eesti Pank is not subject to paying taxes to the State budget or to local budgets, except for taxes connected with individuals.

The principal accounting policies adopted for the preparation of the Financial Statements are set out below.

Income and Expenses

Realised income and expenses are accounted for in the profit and loss account 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 profit and loss account.

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 profit and loss account.

Official exchange rates used at 31 December 1999 and 1998 were as follows:

	1999	1998
DEM	8.0000	8.0000
USD	15.5618	13.4104
SDR	21.3205	18.8442
EUR	15.6466	

At the beginning of 1999 Eesti Pank changed its currency quotation principle and the euro was included among currencies on the official exchange rate list.

On 1 January 1999 Eesti Pank established the official exchange rate of the Estonian kroon (EEK) against the single European currency – the euro (EUR). 1 EUR = 15.6466 EEK, equivalent to the official exchange rate of the Estonian kroon against the German mark 1 DEM = 8 EEK.

Gold

Gold reserves are valued at the market rate at the end of the year. 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. Unrealised revaluation gains and losses are credited or charged to reserves.

In case of repurchase agreements, securities sold are retained in the financial statements and the counterparty liabilities reflected as loans with security collateral at the realisation value of the securities. The loan is repaid upon the repurchase of securities. The interest paid and the difference between sell and buyback prices are reflected as expenses in the profit and loss account evenly over the life of the repurchase agreement. Repurchase agreements increase the liquidity of the bank's foreign exchange reserves with minimum risk.

In case of reverse repurchase agreements, purchased securities are accounted for as deposits in assets with financial institutions at the purchase value. Interest received and the difference between purchase and resell prices are reflected as income in the profit and loss account evenly over the life of the reverse repurchase agreement.

Derivative Transactions

Derivative financial instruments including foreign exchange forwards and currency swaps are treated as off balance sheet items. Derivatives are disclosed in the notes to the financial statements. Income and expenses from derivative instruments are reflected in the profit and loss account upon their maturity. Foreign currency swaps are used to hedge foreign currency exchange risks in foreign reserves management.

Investments in Shares

Investments in shares are included 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:

	1999	1998
Buildings	3%	3%
Computers	33%	33%
Software	50%	50%
Other	20%	20%

Building renovation costs are charged to the profit and loss account as expenses except 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.

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 measures to recover them have been taken.

Provisions for Guarantees

Provisions for guarantees are established as liabilities in the balance sheet where it is considered probable that future events will result in payments being made by the Bank under the terms of guarantees. Such provisions are recorded as expenses of the reporting period.

Item 1 – Gold

Movements in the Bank'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

Item 2 – Convertible foreign currency assets

These comprise the Bank's convertible foreign exchange reserves denominated in convertible foreign currency, together with accrued interest where applicable. To manage the foreign exchange reserves the following financial instruments are used: demand and term deposits, securities, spot, forward and swap transactions, repurchase and reverse repurchase contracts.

During 1999 Eesti Pank's convertible foreign currency assets increased by EEK 2.4 billion, totalling EEK 13.3 billion by the end of the year. The increase arose from convertible foreign currency purchased from Estonian credit institutions, the income earned on government bonds, short-term investments and exchange rate movements due to the decrease in the value of the German mark and the euro against the British pound and the US dollar. The foreign currency reserves were reduced by the revaluation of unrealised bonds and other quoted securities.

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.

The proportion of assets denominated in euros and German marks within the Bank's foreign currency reserves was 82% of the total foreign currency assets at the end of 1999. Considering also foreign currency positions from foreign exchange swap transactions, the share of the euro and its component currencies in Eesti Pank's foreign currency reserves was more than 94%.

Eesti Pank's foreign currency reserves' management rules 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. Therefore in compliance with these rules, 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.

The introduction of the euro on 1 January 1999 brought along conversion of EMU member states' foreign exchange positions and bonds denominated in these currencies. 78% of bonds denominated in German marks were converted into euros for EEK 2.7 billion and foreign reserves on current accounts for EEK 0.1 billion on 1 January 1999. In total, at the beginning of the year, 26% of Eesti Pank's foreign currency reserves were converted into the single European currency.

In compliance with technicalities of the conversion, short-term instruments like repos and reverse repos and swap transactions as well as bonds denominated in German marks maturing in January 1999 were not initially converted. The cash flows arising from these transactions were converted into euros pursuant to maturities during 1999.

In January 1999 Eesti Pank signed an agreement with an asset management company J. P. Morgan Investment Management Inc to invest part of the Bank's foreign currency reserves. J. P. Morgan Investment Management Inc was chosen following an international tender. According to the 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. At the end of 1999 EEK 1.4 billion, ie 10.5% of the foreign reserves assets were at the disposal of the external fund manager.

At the end of July 1999 an agreement between Eesti Pank and *Deutsche Bank AG* was concluded, authorising sale and buyback transactions with bonds borrowed from Eesti Pank on conditions fixed in the agreement in order to earn additional income. By the end of 1999 *Deutsche Bank AG* had lent bonds with fixed interest rates denominated in the euro with a total market value of EEK 0.6 billion.

Item 3 – Relations with International Monetary Fund (IMF)

Participation in 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 in the assets' side of the balance sheet and equals 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 a resolution of the *Riigikogu* on 22 April 1999. Estonia's new quota, SDR 65.2 million (EEK 1.4 billion), entered into force on 15 July 1999.

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.

Between 1995 and 1999 pursuant to Memorandums of Economic Policies, the Republic of Estonia agreed to three Stand-by Agreements (SBA) for the total amount of SDR 44 million, mainly as short-term balance of payment support with the stated intention not to draw upon them. Eesti Pank has paid charges 0.25% per annum for these facilities.

Between 1993–1995 A Systemic Transformation Facility (STF) of EEK 429.2 million was granted

by the IMF to the Government of the Republic of Estonia which has been relent 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 was started in 1998. The balance at the end of 1999 was EEK 392.4 million.

Other claims on IMF

This item reflects amounts which originate from the surcharge (currently 0.4%) added to the interest rate of SBA and STF for strengthening the IMF's financial position and financing the Enhanced Structural Adjustment Facility (ESAF) of the IMF. The total claim reached EEK 15.3 million at the end of 1999 (at the end of 1998 – EEK 13.0 million).

Item 4 – Loans

In 1999 loans to credit institutions decreased by nearly EEK 4 million, due mainly to repayments of intermediary loans. Loans issued to the staff of Eesti Pank increased by EEK 9.4 million. Set out below is an analysis of the loan movements followed by additional explanations:

	<i>EEK thousand</i>			
	Balance as of 31.12.1998	New loans extended	Loans repaid	Balance as of 31.12.1999
Loans to Estonian credit institutions	14,505	757	-3,911	11,351
Eesti Ühispank	4,551	757		5,308
Intermediary loans	9,954		-3,911	6,043
Other loans	39,365	15,379	-5,953	48,791
Staff loans	39,365	15,379	-5,953	48,791
Total	53,870	16,136	-9,864	60,142

Eesti Ühispank

According to an agreement between Eesti Pank and Põhja-Eesti Pank (Eesti Ühispank) Eesti Pank obtained a legal claim over Põhja-Eesti Pank's assets with the principle value of EEK 238.6 million. These assets are administered by Eesti Ühispank. In 1997 Eesti Ühispank opened a deposit in the name of Eesti Pank and transferred 90% of the sums received from the recovery of these assets under the agreement. The deposit earns interest of 9% a year. In 1999, these recovered assets amounted to EEK 0.8 million which was recorded as an exceptional item (see Item 21).

Intermediary loans

In 1999 the intermediary loans have decreased by about 40%, due to the repayment of loans granted to the Estonian commercial banks by a Finnish financial organisation *Vientiluotto OY*. Eesti Pank acts as an intermediary. The final maturity date for these intermediary loans falls in November 2001.

In the liabilities' side of the balance sheet, the balance of foreign debts to *Vientiluotto OY*, including the accrued interest at the end of 1999 and 1998, were EEK 6.1 and 9.9 million, respectively.

Loans to the employees of Eesti Pank

Home purchasing loans secured by property and consumer loans to the employees of Eesti Pank are provided for a maximum of 25 and 2 years, respectively. In addition, study loans were granted for 10 years.

Item 5 – Shares

Shares held by Eesti Pank comprise the following:

	1999		1998	
	Percentage holding	EEK thousand	Percentage holding	EEK thousand
Hansapank				
1,086,553 shares nominal value 10 EEK			1.8	10,289
Optiva Pank				
23,876,865 shares nominal value 10 EEK	57.9	145,000	57.9	255,000
Bank for International Settlements (BIS)				
700 shares including 200 voting shares	N/A ¹	8	N/A	8
SWIFT				
1 share nominal value 5,000 BEF			N/A	12
Väärtpaberite Keskepositoorium (Central Depository for Securities)				
20 shares nominal value 10,000 EEK	7.1	200	7.1	200
Tallinna Väärtpaberibörs (Tallinn Stock Exchange)				
10 shares nominal value 10,000 EEK	3.0	100	3.0	100
Total		145,308		265,609

¹ N/A - not available

Optiva Pank

In November 1998, Eesti Pank acquired at a cost of EEK 255 million a controlling interest in Optiva Pank as part of a bank support and restructuring exercise.

The basis of accounting in the 1998 financial statements was to include the investment at its historic cost. This was due to it being too early to assess the impact of Eesti Pank's ownership and whether there was any decline in the value of the investment which was other than temporary.

The investment in Optiva Pank is not consolidated as the intention of Eesti Pank is to dispose of its holding to a strategic investor as soon as possible whilst ensuring the stability of financial system. The unaudited consolidated financial statements of Optiva Pank as at 31 December 1999 showed Optiva Pank as having total assets of EEK 3,498.1 million and equity of EEK 317.2 million.

In respect of Eesti Pank's equity share in Optiva Pank at the end of 1999 the management considered the reorganisation and restructuring processes during 1.5 years and have made a provision of 110 million EEK, to reduce the investment to a prudent estimate of its realisable value (see Item 20).

Eesti Pank believes that the interests of the Estonian banking system would be best served if its equity share in this bank were to be purchased by an appropriate strategic investor. Eesti Pank is firmly committed to the privatisation of its equity stake and will continue its effort to seek an appropriate investor for Optiva Pank.

Market conditions permitting, the management believes that the sale will be concluded before June 30, 2000.

Hansapank

In December Eesti Pank sold its holding in Hansapank, totalling 1,086,553 shares with nominal value of EEK 10 per share for EEK 99.3 million. By deciding to sell these shares, Eesti Pank followed its strategic objective of fully divesting of its holdings in commercial banks. The sales profit of EEK 88.9 million is reflected under exceptional items in 1999. The sale transaction was conducted under a mandate with Trigon Capital Ltd. Eesti Pank obtained the shares in Hansapank upon the merger of Eesti Hoiupank and Hansapank in the summer of 1998.

SWIFT

On 14 May 1999 Eesti Pank agreed with the proposal made by the SWIFT (Society for World Interbank Financial Telecommunications) Board of Directors to buy back shares from all shareholders having less than five shares. On 1 July 1999 Eesti Pank sold back to SWIFT one share with nominal value BEF 5,000 for EEK 24,823 (BEF 64,000). The profit of EEK 12,397 was reflected under exceptional items in 1999.

Item 6 – Other assets

This item includes the difference between the nominal value and selling price of the Eesti Pank certificates of deposit sold to banks, prepayments for services and goods, to be provided in 2000 and the cost of Eesti Pank sundry assets.

Item 7 – Fixed assets

Details of movements in fixed assets during 1999 are as follows:

	<i>EEK thousand</i>					
	Buildings	Computers	Furniture and fixtures	Software	Vehicles	Total
Cost or valuation of fixed assets						
Balance as of 31.12.98	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 31.12.99	136,512	45,183	75,517	15,568	4,479	277,259
Depreciation						
Balance as of 31.12.98	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 31.12.99	8,808	29,772	40,243	11,796	2,376	92,995
Net book value as of:						
31.12.98	97,032	14,483	30,270	5,015	1,768	148,568
31.12.99	127,704	15,411	35,274	3,772	2,103	184,264

In 1999, fixed assets increased by EEK 35.7 million as compared to 1998. In September Eesti Pank's training and management centre in Kuressaare was completed, at the cost of EEK 16.0 million. Building and construction work was carried out in the bank buildings at 11 Estonia Avenue and 4 Sakala Street and on the training centre in Maardu for EEK 8.0 million, 1.5 million and 8.6 million, respectively. EEK 16.5 million was spent on furniture and fittings for the new buildings and premises.

Item 8 – Accounts of non-residents

This item includes non-interest bearing accounts held with Eesti Pank by the central banks of the CIS countries which are used for settling transactions between Estonia and those countries through Eesti Pank.

Item 9 – Notes and coins in circulation

This item shows banknotes and coins issued for circulation by Eesti Pank. An analysis of the notes and coins in circulation is shown on pages 68 to 71 of the Annual Report.

Item 10 – Accounts of banks and other current liabilities

This includes the clearing accounts of credit institutions with Eesti Pank. Between 1 July 1996 and the end of June 1999 Eesti Pank has paid interest on the amount by which average balance on a credit institution's clearing account with Eesti Pank exceeded its minimum reserve requirement for a reporting month. Beginning from 1 July 1999 Eesti Pank pays interest on monthly average balance of credit institutions deposits held with the central bank. As of 1 January 1999 Eesti Pank remunerates credit institutions' deposits with the central bank with the deposit interest rate of the European Central Bank effective on the last banking day of the reporting month, instead of the discount rate of *Deutsche Bundesbank*.

Item 11 – Securities

The short-term certificates of deposit (CDs) raised during the year are 28 day discountable paper issued to Estonian commercial banks in amounts of EEK 100,000 nominal value each. CDs for EEK 30 million were outstanding at the end of 1999.

Item 12 – Convertible foreign currency deposits

The convertible foreign currency account shows demand deposits of the Republic of Estonia held with Eesti Pank. The account is used to service the Systemic Transformation Facility (STF) provided to the Republic of Estonia. In addition, the account includes the claim on the International Monetary Fund, the share of STF loan, which has been recognised since March 1997, due to the participation of the Republic of Estonia in financing the IMF Enhanced Structural Adjustment Facility (ESAF; see Item 3).

Item 13 – Provisions for guarantees

In 1999 no new provisions have been made for the guarantees.

Item 14 – Other liabilities

This item includes sundry other accruals for 1999 costs such as salary costs, unpaid holiday, social tax and health insurance. A liability of EEK 16.8 million was recorded in 1998 due to the fact that the Estonian one-kroon coin issues of 1992, 1993 and 1995 were withdrawn from circulation from 1 June 1998. At the end of 1999 the liability to exchange these one-kroon coins amounted to EEK 12.4 million.

Item 15 – Capital and reserves

Capital and reserves can be analysed as follows:

	<i>EEK thousand</i>				
	Balance as of 31.12.1998	Transfers	Appropriation of 1998 profit	Revaluation adjustments	Balance as of 31.12.1999
Statutory capital	100,000				100,000
Reserve capital	344,000		136,000		480,000
Special reserve	1,199,083	128	406,023		1,605,234
Revaluation reserve	24,728			-112,683	-87,955
Gold revaluation reserve	-993			5,172	4,179
Fixed assets reserve	3,732	-128			3,604
Translation reserve	63,904			51,709	115,613
Total	1,734,454	0	542,023	-55,802	2,220,675

In accordance with the Central Bank Act of the Republic of Estonia at least 25% of 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 special reserves, based on a decision of the Board of Eesti Pank. The remaining profit is transferred to the State budget.

Pursuant to the resolution of the *Riigikogu* in 1996, Eesti Pank was allowed to continue increasing the reserve capital up to EEK 500 million.

In 1992, Eesti Pank covered from the special reserve the losses arising from revaluation of rouble assets and liabilities at the time of monetary reform as well as the losses of 1992, amounting in aggregate to more than half a billion kroons. In accordance with the 1993 Decision of the Board of Eesti Pank, the Eesti Pank reserves have to be restored from the profits of the Bank during the following ten years. In addition, pursuant to the Resolution of the *Riigikogu* of 21 December 1995 Eesti Pank's reserve capital was increased at the expense of the special reserve by EEK 229.4 million, covering, thus, the EEK 170.2 million losses of 1994 and equalising the reserve capital with the statutory capital. The appropriations to special reserves during 1993–1999 amounted to EEK 738.8 million. For the full restoration of special reserve another EEK 16.7 million of additional appropriations has to be made.

The revaluation reserve includes the unrealised difference between the cost and market price of foreign securities. At the end of 1999 the market price of the foreign securities was lower than their cost.

The fixed assets reserve reflects the revaluation of fixed assets. The transfer from this reserve to the special reserve reflects the realisation of the revalued amount in line with depreciation on the related assets.

The translation reserve reflects the results of translating the assets and liabilities denominated in foreign currencies into kroons at the balance sheet date. The appreciation of certain foreign currencies, particularly that of the British pound and US dollar against the German mark and the euro has made the translation reserve increase in 1999.

Item 16 – Foreign net interest income and similar items

This includes mainly realised net income from transactions with securities gained in managing Eesti Pank's foreign reserves, interest income from time deposits, dividends less interest expense

of intermediary loans from *Vientiluotto OY* as well as realised expenses on foreign exchange transactions.

The decrease in Eesti Pank's net income is due to significant changes in developed countries' bond markets caused by global economic trends. At the turn of 1998 and 1999 global economic prospects improved considerably, initiating changes in the interest rate dynamics in developed countries – the downward trend was reversed, meaning also a downfall in the bond value. As fixed income government bonds of developed industrial countries constitute the largest part of Eesti Pank's foreign currency reserves, a sharp interest increase brought along a temporary clear drop in the productivity of foreign reserves. Although indices reflecting the dynamics of bond markets showed negative yield, Eesti Pank was able to avoid net losses from foreign currency reserve investments and secure annualised positive yield on the reserves.

Eesti Pank's conservative investment guidelines aimed at potential risk free and liquid placement of foreign currency reserves, following international best practice, continue preferring the above principles to high risk with assumably higher yield. Elaborating its investment guidelines, the central bank adheres to its main task to uphold the stability of the national currency and invest the foreign currency reserves in low risk and high liquidity government bonds of developed industrial countries.

There were no transactions with gold in 1999.

Item 17 – Domestic net interest income and similar items

This includes income and expenses arising from managing domestic credit institutions' clearing accounts, 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 CDs issued by the Bank. Net interest earned by Eesti Pank has decreased by about EEK 30 million against 1998. The underlying reason being the payment of interest on monthly average balance of all credit institutions deposits held with the central bank as of 1 July 1999 (see Item 10).

Item 18 – Other operating income

This includes income as regards various charges for non-banking services and services not related to Eesti Pank's main functions. In 1999, this item reflects income earned from the sale of commemorative coins and numismatic products, income from rent of buildings and equipment as well as other charges for various services, eg the sale of Eesti Pank publications.

Item 19 – Other operating expenses

Other operating expenses have been analysed by principal category, consistent with the way in which the Bank's Management budgets for and monitors costs.

Staff costs include salaries together with taxes as well as business trip and training expenses.

Beginning from this year Eesti Pank participates in the voluntary pension scheme of its staff and Board of Eesti Pank members, paying each calendar year 1/3 of the investment (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 1999 Eesti Pank contributed EEK 0.2 million to the voluntary pension scheme of its employees.

The cost of making notes and coins are expensed in the year incurred and increased in 1999 compared against 1998. The new design 100kroon notes with heightened security features and 10- and 20sent coins were made to replenish the existing stocks and to meet the cash demand in 1999. In addition, Eesti Pank minted a golden coin with the nominal value of EEK 15.65 to commemorate the 80th anniversary of Eesti Pank and the introduction of the euro as the single European currency and a one-kroon commemorative coin to mark the 130th anniversary of Estonian song festivals and made several bonistic products (presentation pockets, albums and booklets for sample notes and coins). The sale of commemorative coins yielded income recorded under other operating income (see Item 18).

Depreciation costs have mainly increased due to the renovation of buildings increasing their gross carrying amount and the purchases of computers, software and other equipment.

Renovation costs have halved in 1999 compared to 1998 as the need for major renovation projects reduced in 1999.

Maintenance and administrative costs increased slightly in 1999 compared to 1998. Mainly due to the higher prices for communication services, growing maintenance costs as new and renovated buildings have come in to use, increasing information costs (costs of periodicals, higher printing costs and added volume of Eesti Pank's publications), increasing legal and professional expenditure. Conventions dedicated to the 80th anniversary of Eesti Pank and the anniversary of the Estonian kroon added maintenance and administrative costs in 1999 as well.

Item 20 – Provisions for bad and doubtful loans and other assets

A provision of EEK 110 million has been made to reduce the investment in Optiva Pank to a prudent estimate of its realisable value (see Item 5).

Item 21 – Exceptional items

These include items of income and expense arising on transactions of an unusual or infrequent nature. In 1999 this included the following items:

	<i>EEK thousand</i>
Income from sale of Hansapank shares	88,962
Recovery of loans from Hoiupank/Hansapank previously provided for	5,256
Deposit with Eesti Ühispank	757
Recovery of other loans previously provided for	966
Income from sale of SWIFT shares	12
Total	95,953

EEK 5.3 million was recovered from loans totalling EEK 74.4 million pursuant to the guarantee agreement signed by Eesti Hoiupank in 1996. EEK 0.8 million of recovered loans were transferred to the deposit account with Eesti Ühispank. EEK 1.0 million arose from the release of provisions

of previous years in 1999, including EEK 0.8 million in connection with the provision of the Painküla Starch Plant.

Item 22 – 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 currency 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 profits 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.

According to the Central Bank Act of the Republic of Estonia the loss of the year of EEK 79.4 million shall be covered from the reserve capital.

Item 23 – Off-balance sheet items

Contingencies and Commitments

Derivatives

As of 31 December 1999, Eesti Pank had remaining forward contracts amounting to EEK 1.0 billion (EEK 1.1 billion in 1998), maturing on various dates up to 2002. Under these contracts, which are with Estonian commercial banks, Eesti Pank is committed to sell DEM at future specified dates for between 8.001 and 8.002. Such contracts were offered until March 1995.

At the end of 1999 the volume of foreign exchange swaps outstanding was EEK 1.6 billion, maturing in early 2000. These swaps were purchased to manage foreign currency positions.

Guarantee to the European Investment Bank

On 27 November 1995, Eesti Pank entered into an agreement with the European Investment Bank and now Optiva Pank, whereby it guaranteed loans amounting to euro 10 million which mature in 2006.

Other guarantees

In August 1996, Eesti Pank issued a letter of warranty for compensating the injured party for medical treatment costs up to an amount of EEK 500,000 relating to a traffic accident involving one of the Bank's cars which took place on Merivälja Street in Tallinn at the beginning of 1996. This amount is expected to be recovered from the employee of the Bank involved.

Uncalled share capital of Bank for International Settlements (BIS)

There exists a commitment in respect of the uncalled share capital of BIS since 1930. This liability represents an amount unpaid for the BIS shares and denominated in Swiss gold francs which kroon equivalent was EEK 39.7 million as of 31 December 1999 (see Item 5).

Printing banknotes and minting coins

At the end of 1999 the contractual liabilities of Eesti Pank for printing banknotes and minting coins in 2000 amounted to EEK 18.1 million (EEK 19.5 million in 1998).



AS PricewaterhouseCoopers
Narva mnt. 9A
10117 Tallinn
Estonia
Telephone +(372) 6 141 800
Facsimile + (372) 6 141 900
www.pwcglobal.com/ee/

AUDITOR'S REPORT

To Riigikogu and to the Board of Eesti Pank

We have audited the financial statements of Eesti Pank (the bank) for the year ended 31 December 1999 as set out on pages 96 to 111. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements give a true and fair view of the financial position of Eesti Pank as at 31 December 1999 and of the results of its operations for the year then ended in accordance with the accounting principles adopted by Eesti Pank and the Law of the Central Bank of the Republic of Estonia.

A handwritten signature in black ink, appearing to read 'Urmas Kaarlep'.

Urmas Kaarlep
Partner

A handwritten signature in black ink, appearing to read 'Gordon Latimir'.

Gordon Latimir
Partner

14 April 2000