

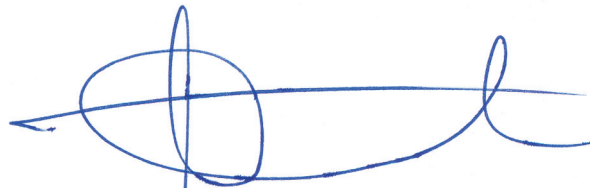
APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 BY THE EXECUTIVE BOARD OF EESTI PANK

The Executive Board of Eesti Pank has prepared the Annual Accounts of Eesti Pank, consisting of the Balance Sheet, Profit and Loss Account, Statement of Changes in Equity, and Notes to the Annual Accounts. The Executive Board has submitted the Annual Accounts with the Auditor's Report to the Supervisory Board of Eesti Pank for approval.

The Annual Accounts have been prepared in compliance with the Eesti Pank Act, the Statute of Eesti Pank, and the internal guidelines for preparing the Annual Accounts, and they give a true and fair view of the assets, liabilities, equity, and performance of Eesti Pank.

On 28 March 2005, all members belonging to the Executive Board of Eesti Pank on that day signed the Annual Accounts.

Chairman of the Executive Board

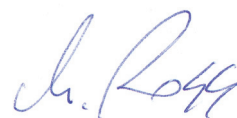


Vahur Kraft

Members of the Executive Board



Rein Minka



Märten Ross



Andres Sutt

BALANCE SHEET AS AT 31 DECEMBER 2004 AND 2003 (EEK THOUSAND)

	Item	31/12/04	31/12/2003
ASSETS			
Foreign assets		21,787,426	18,397,027
Gold	1	41,400	42,739
Convertible foreign currency	2	20,562,047	17,139,726
SDR account with IMF	3	953	969
Participation in IMF	3	1,161,271	1,202,326
Other claims on IMF	3	10,882	11,267
Participation in ECB	4	10,873	–
Domestic assets		284,890	300,366
Loans and other claims	5	53,520	56,973
Shares	6	73	73
Other assets	7	17,070	23,818
Fixed assets	8	214,227	219,502
Total assets		22,072,316	18,697,393
LIABILITIES AND EQUITY CAPITAL			
Foreign liabilities		1,672,277	1,687,372
Foreign debt	2	506,705	480,827
IMF kroon accounts	3	1,161,184	1,202,237
Accounts of non-residents	9	4,388	4,308
Domestic liabilities		16,713,513	13,505,761
Banknotes and coins in circulation		8,895,053	8,324,146
Accounts of credit institutions and other current liabilities	10	7,776,968	5,126,210
accounts of credit institutions		7,701,894	5,062,641
other		75,074	63,569
Liabilities in foreign currency	3	4,883	5,056
Other liabilities	11	36,609	50,349
Equity capital		3,686,526	3,504,260
Capital and reserves	12	3,435,323	3,228,509
Net profit		251,203	275,751
Total liabilities and equity capital		22,072,316	18,697,393

The notes on pages 101 to 115 form an integral part of the Annual Accounts.

PROFIT AND LOSS ACCOUNT FOR THE YEARS 2004 AND 2003 (EEK THOUSAND)

	Item	2004	2003
Net interest income and other net income on foreign assets and liabilities	13	477,501	440,374
Net interest cost and other net cost on domestic assets and liabilities	14	-56,801	-42,064
Interest income and other income		11,829	12,565
Interest cost and other cost		-68,630	-54,629
Other operating income	15	20,043	8,062
Operating expenses	16	-189,488	-178,601
Staff costs		-78,805	-76,945
Banknotes and coins production costs		-15,405	-10,018
General administrative expenses		-69,546	-65,787
Depreciation of fixed assets		-25,733	-25,851
Profit before write-downs and extraordinary income		251,255	227,771
Extraordinary income		-	47,766
Income and expenses from write-downs		-52	214
Extraordinary income and net changes in write-downs	17	-52	47,980
Net profit	18	251,203	275,751

The notes on pages 101 to 115 form an integral part of the Annual Accounts.

STATEMENT OF CHANGES IN EQUITY (EEK THOUSAND)

	Fixed capital	Reserve capital	Special reserve	Revaluation reserves	Profit	Total
Balance at the end of 2002	100,000	500,000	2,168,911	3,219	601,379	3,373,509
Transfers	-	-	3,219	-3,219	-	-
Distribution of the 2002 profit	-	-	456,379	-	-456,379	-
Transfers into the state budget	-	-	-	-	-145,000	-145,000
Net profit of 2003	-	-	-	-	275,751	275,751
Balance at the end of 2003	100,000	500,000	2,628,509	-	275,751	3,504,260
Distribution of the 2003 profit	-	-	206,813	-	-206,813	-
Transfers into the state budget	-	-	-	-	-68,938	-68,938
Net profit of 2004	-	-	-	-	251,203	251,203
Balance at the end of 2004	100,000	500,000	2,835,323	-	251,203	3,686,526

The notes on pages 101 to 115 form an integral part of the Annual Accounts.

NOTES TO THE ANNUAL ACCOUNTS OF EESTI PANK

ACCOUNTING POLICIES USED IN THE ANNUAL ACCOUNTS

General principles

The Annual Accounts have been prepared in accordance with the Eesti Pank Act, the Statute of Eesti Pank, the accounting guidelines of the European Central Bank, and Eesti Pank's internal guidelines for preparing the Annual Accounts. The Governor of Eesti Pank defines the accounting principles for Eesti Pank's Annual Accounts and presentation thereof pursuant to the accounting guidelines of the European Central Bank. As to issues not covered by the guidelines, international financial reporting standards are applied.

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

Pursuant to Subsection 30(7) of the Eesti Pank Act, Eesti Pank does not pay income tax or any other taxes related to its economic activities to the state budget or local budgets, except taxes related to natural persons. Pursuant to Section 21 of the Value Added Tax Act enforced on 1 May 2004, Eesti Pank is registered as a taxable person with limited liability as of 14 May 2004 and calculates the value added tax from the supply of intra-Community acquisition or imports of goods and services.

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

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

Recording of Transactions in a Foreign Currency

Transactions in a foreign currency are recorded on the basis of the official daily fixings of Eesti Pank as quoted by Eesti Pank at the transaction date. Assets and liabilities denominated in foreign currencies are translated into Estonian kroons at the official daily fixings effective on the balance sheet date. All gains and losses arising from translation are recorded in the Profit and Loss Account as income and expenses of the accounting period.

The official daily fixings applied on 31 December 2004 and 2003 were as follows:

	2004	2003
USD	11.4711	12.40960
SDR	17.8109	18.44059
EUR	15.6466	15.64664

Financial Assets and Liabilities

The Balance Sheet of Eesti Pank has been structured so that assets and liabilities as well as related gains and losses are separated according to residency (domestic and foreign). Such Balance Sheet structure allows monitoring the backing of the Estonian kroon by gold and convertible foreign currency. Foreign exchange transactions are related, in particular, to foreign reserves management. Transactions in Estonian kroons are mainly related to currency circulation, market operations, and the daily operating activities of Eesti Pank.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. If the fair value of financial assets and liabilities differs significantly from their book value, these differences have been shown separately in the Notes on the Annual Accounts.

There were no significant differences between the fair value and book value of the financial assets and liabilities of Eesti Pank as at 31 December 2004 and 31 December 2003.

Gold

Gold reserves are valued at the market value prevailing at the year-end, equal to Eesti Pank's daily fixing of the Estonian kroon and gold. Changes in the market value of gold at the end of the accounting period compared to the beginning of the period are recognised in the Profit and Loss Account under the item "Net Interest Income and Other Net Income on Foreign Assets and Liabilities".

Investments in Convertible Foreign Currency

Foreign debt instruments and other quoted securities denominated in convertible foreign currencies are recorded at their year-end fair value. Gains and losses from changes in the fair value of securities are recognised in the Profit and Loss Account under the item "Net Interest Income and Other Net Income on Foreign Assets and Liabilities".

Repurchase transactions (sale/repurchase transactions) are recorded as collateralised loans taken at the fair value, i.e. securities are recorded as assets on the Balance Sheet of Eesti Pank and the repurchase sum as a liability. The fair value has been estimated on the basis of the discounted cash flow method. The change in the fair value is recorded on an accrual basis in the Profit and Loss Account under the item "Net Interest Income and Other Net Income on Foreign Assets and Liabilities".

Reverse repurchase transactions (purchase/resale transactions) are recorded as collateralised loans granted at the fair value. The fair value has been estimated on the basis of the discounted cash flow method. The change in the fair value is recorded on an accrual basis in the Profit and Loss Account under the item "Net Interest Income and Other Net Income on Foreign Assets and Liabilities". Securities used as collateral for reverse repurchase transactions are not recorded on the Balance Sheet of Eesti Pank.

Derivative Instruments

Derivative instruments are used to manage foreign exchange risks and interest rate risks and they include foreign exchange forwards, swaps, and futures. Derivative instruments are recorded on the Balance Sheet at

their fair value on the transaction date under “Convertible Foreign Currencies” (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 “Net Interest Income and Other Net Income on Foreign Assets and Liabilities” in the Profit and Loss Account. Eesti Pank does not apply hedge accounting to derivative instruments.

Investments in Shares

Investments in shares are recorded at their fair value if their value can be reliably assessed. The assessment of the fair value of shares is not reliable if they are not actively traded and there are no alternative methods to assess their value in a reliable way. In this case shares are recorded at their adjusted acquisition cost (initial acquisition cost less provision for any impairment in value other than temporary below balance sheet value). Profits and losses on the sale of shares are recorded in the Profit and Loss Account after all conditions of sale are fulfilled. Dividend income is recorded as income for the period.

Fixed Assets

Fixed assets are assets with useful life over a year and acquisition cost in excess of 5,000 kroons. Fixed assets are recorded at their acquisition cost, including purchase price and other expenditure directly related to bringing assets to the location and condition necessary for their intended use. Land, buildings, IT hardware, software, and other assets with long-term useful lives are recorded as fixed assets on the Balance Sheet. Prepayments for fixed assets are also recorded as fixed assets.

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

	2004	2003
Buildings	3%	3%
Utility systems of buildings	20%	20%
Hardware	33%	33%
Software	20–50%	20–50%
Other fixed assets	20%	20%

The need to differentiate between software depreciation rates arose due to the introduction of application software with high acquisition cost and different useful life.

The gross carrying amount of an improved asset has been increased by improvement costs if exterior dimensions of the buildings or facilities have increased, or the purpose of the existing buildings or facilities has changed. Current repair costs are recognized as expense of the period. If it is known or expected that the fair value of an asset is permanently lower than the book value, the asset has been reported at the lower value.

Development costs are recognised as expenses in the Profit and Loss Account in the period when they incur.

Write-downs of Loans and Other Claims

Allowance is made for uncollectible loans and other claims. Expenses of the accounting period arising from the allowance are recorded in the Profit and Loss Account while respective assets on the Balance Sheet are reduced.

A general allowance is set up for losses of the loan portfolio to cover potential but unidentified losses in the loan portfolio. The general allowance is applied only to low-risk loans. It reflects the estimates of the Executive Board of Eesti Pank on the volume of potential losses, based on the risk group of the loans and previous experience.

Loans and other claims are accounted on the Balance Sheet until they are received or written off. Loans and other claims are written off only after all measures prescribed by the law to recover them have been exhausted, or if such recovery is economically not feasible. Loans previously written off but collected during the accounting period are recorded as an offsetting entry under expenses.

Liabilities

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

Banknotes and Coins in Circulation

Banknotes and coins in circulation are banknotes and coins issued by Eesti Pank at their nominal value and reflected on the Balance Sheet as a liability to the holder of banknotes and coins. Production costs of banknotes and coins are recorded in the Profit and Loss Account when the bank's payment obligation to the supplier arises.

Income and Expenses

Income and expenses are recorded in the Profit and Loss Account during the accounting period on an accrual basis regardless of when cash was received or paid.

Estimates

Preparing the Annual Accounts in conformity with generally accepted accounting principles requires the Executive Board to provide estimates regarding the aspects affecting the assets and liabilities of Eesti Pank and income and expenses during the accounting period as at the balance sheet date. These estimates are based on the available information about Eesti Pank, its intentions and risks as at the date of preparation of the Annual Accounts.

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 Board of Eesti Pank.

ITEM 1 – GOLD

Changes in the value of Eesti Pank's gold reserves are as follows:

	Amount (ounces)	Market price (EEK per ounce)	Market value (EEK thousand)
Balance at the end of 2003	8,250,171	5,180,3880	42,739
Revaluation	–	–	-1,339
Balance at the end of 2004	8,250,171	5,018,0400	41,400

ITEM 2 – CONVERTIBLE FOREIGN CURRENCY ASSETS, FOREIGN CURRENCY LIABILITIES

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

EEK thousand

	Balance at the end of 2003	Structure of remaining maturity				
		up to 3 months	3–12 months	1–3 years	3–5 years	over 5 years
Convertible foreign currency assets	17,139,726	4,307,985	7,952,153	3,241,949	658,722	978,917
Cash and current accounts	348,506	348,506	–	–	–	–
Time deposits	2,117,811	2,117,811	–	–	–	–
Debt securities	12,831,741	–	7,952,153	3,241,949	658,722	978,917
Reverse repurchase agreements	1,742,145	1,742,145	–	–	–	–
Fair value of derivative instruments	99,523	99,523	–	–	–	–
	Balance at the end of 2004	up to 3 months	3–12 months	1–3 years	3–5 years	over 5 years
Convertible foreign currency assets	20,562,047	14,272,032	2,543,989	1,913,911	752,223	1,079,892
Cash and current accounts	391,732	391,732	–	–	–	–
Time deposits	–	–	–	–	–	–
Debt securities	17,191,651	10,902,096	2,543,901	1,913,911	751,852	1,079,892
Reverse repurchase agreements	2,926,978	2,926,978	–	–	–	–
Fair value of derivative instruments	51,686	51,226	89	–	371	–

	Balance at the end of 2003	Structure of remaining maturity				
		up to 3 months	3–12 months	1–3 years	3–5 years	over 5 years
Foreign debt	480,827	480,827	–	–	–	–
Repurchase agreements	448,091	448,091	–	–	–	–
Fair value of derivative instruments	32,736	32,736	–	–	–	–
	Balance at the end of 2004	up to 3 months	3–12 months	1–3 years	3–5 years	over 5 years
Foreign debt	506,705	506,705	–	–	–	–
Repurchase agreements	489,728	489,728	–	–	–	–
Fair value of derivative instruments	12,630	12,630	–	–	–	–
Other liabilities	4,347	4,347	–	–	–	–

In 2004, Eesti Pank's net foreign exchange reserves increased by 3.4 billion kroons, totalling 20.1 billion kroons at the end of the year. During 2004 the amount of Estonian kroons purchased from Eesti Pank for foreign currency was 38.3 billion, while the amount of Estonian kroons sold to Eesti Pank for foreign currency totalled 35.4 billion. The net gain of 2.9 billion kroons on transactions in line with the principles of the currency board arrangement was additionally channelled into circulation. The foreign exchange reserves increased due to the growth in the volume of Estonian kroons in circulation and the fair value of the reserves.

Eesti Pank's foreign exchange reserves are required to back up banknotes and coins in circulation, the funds in the accounts of credit institutions with Eesti Pank, and other Balance Sheet liabilities of Eesti Pank. Therefore, conservative risk limits established to the assets backing the Estonian kroon are followed, which prioritise maintaining the assets and their liquidity while earning investment income.

At the end of 2004, financial instruments denominated in euros accounted for 92% of the total foreign exchange reserves. Adding also the foreign exchange positions from foreign exchange swap transactions, the share of the euro in Eesti Pank's foreign exchange reserves was nearly 100%.

EEK thousand

	Balance at the end of 2004		Balance at the end of 2003	
	Convertible foreign currency (EEK thousand)	Structure	Convertible foreign currency (EEK thousand)	Structure
Total	20,562,047	100%	17,139,726	100%
EUR	18,862,308	92%	15,665,203	92%
USD	1,678,725	8%	1,437,889	8%
Other currencies	21,014	0%	36,634	0%

	Balance at the end of 2004		Balance at the end of 2003	
	Foreign debt (EEK thousand)	Structure	Foreign debt (EEK thousand)	Structure
Total	-506,705	100%	-480,827	100%
EUR	-4,241	1%	-333	0%
USD	-495,010	98%	-449,654	94%
Other currencies	-7,454	1%	-30,840	6%

Off-balance sheet net position

Total	-1,202,368	100%	-850,661	100%
USD	-1,393,670	116%	-1,172,786	138%
Other currencies	191,302	-16%	322,125	-38%

The guidelines for managing Eesti Pank's foreign exchange reserves allow only transactions with highly rated international banks and financial institutions and limit any credit risk the bank can take in managing its foreign assets. The issuer risk is allowed for the following minimum credit ratings assigned by international rating agencies (S&P/Moody's): A-1 or P-1 for bonds with the maturity of up to one year and AA- or Aa3 for bonds with the maturity of over one year. In 2004, Eesti Pank's foreign exchange reserves were mainly placed in the markets of low-risk government bonds of leading industrial countries of the euro area and the United States with an average maturity of slightly over one year.

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

Special Drawing Rights (SDR)

Each IMF member has an SDR account with the IMF, used to conduct borrowing and other similar operations between the member state and the IMF. The following table reflects the dynamics in the account the Republic of Estonia holds with the IMF.

EEK thousand

SDR account in IMF	2004	2003
Balance at the beginning of the year	969	1 013
Interest and other income	35	68
Exchange rate differences	-51	-112
Balance at the end of the year	953	969

Participation in 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 debt instruments. A quota has been established for each IMF member determining its participation (subscription) and voting power in the IMF. Participation in the IMF is recorded under assets on the Balance Sheet and equals to the country's quota. At the end of 2004 the quota of the Republic of Estonia was 65,200,000 SDRs.

The Republic of Estonia has paid its subscription in government debt instruments deposited with Eesti Pank, which are recorded under the item "IMF Kroon Accounts". These debt instruments do not bear interest.

EEK thousand

Participation in IMF (assets)	2004	2003
Balance at the beginning of the year	1,202,326	1,323,081
Exchange rate differences	-41,055	-120,755
Balance at the end of the year	1,161,271	1,202,326
IMF kroon accounts (liabilities)		
Balance at the beginning of the year	1,202,237	1,322,983
Exchange rate differences	-41,053	-120,746
Balance at the end of the year	1,161,184	1,202,237

Other Claims on IMF

Since March 1997 this item has reflected the amounts that the IMF has reserved to strengthen its financial situation. The source of these amounts is the percentage added to the interest rate of the Stand-by Arrangement (SBA) and the Systemic Transformation Facility (STF).

EEK thousand

Other claims on IMF	2004	2003
Balance at the beginning of the year	11,267	12,399
Exchange rate differences	-385	-1,132
Balance at the end of the year	10,882	11,267
Eesti Pank, SBA-related claims	5,999	6,211
Government, STF-related claims	4,883	5,056
Total	10,882	11,267

Liabilities in Foreign Currency

The item reflects the Republic of Estonia's claim on the IMF, which is recorded on the Balance Sheet of Eesti Pank as the bank's liability to the Government of the Republic of Estonia. The claim is related to the participation of the Republic of Estonia in strengthening the financial situation of the IMF through premium calculated on the Systemic Transformation Facility (STF).

In previous periods the item included also demand deposits of the Republic of Estonia with Eesti Pank.

EEK thousand

Liabilities in foreign currency	2004	2003
Balance at the beginning of the year	5,056	5,564
Exchange rate differences	-173	-508
Balance at the end of the year	4,883	5,056

ITEM 4 – PARTICIPATION IN THE EUROPEAN CENTRAL BANK

The item reflects participation of Eesti Pank in the European Central Bank (ECB).

On 1 May 2004, the Republic of Estonia joined the European Union and consequently Eesti Pank became a member of the ESCB (European System of Central Banks). In accordance with Article 28 of the Statute of the ESCB and the ECB Eesti Pank became a subscriber of the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which must be adjusted every five years. The share of the Republic of Estonia in the ECB's capital is 0.1784% and was calculated in accordance with Article 29 of the Statute of the ESCB, on the basis of population and GDP data provided by the European Commission. As the Republic of Estonia does not participate in the euro area, the transitional provisions of Article 48 of the Statute apply. Consequently, Eesti Pank was required to pay-up a minimal contribution of 7% of its subscribed capital to the ECB upon entry to the ESCB on 1 May 2004 amounting to 694,916 euros (10.9 million kroons). Eesti Pank is obliged to pay the remaining 93% upon Estonia's entry to the Eurosystem.

ITEM 5 – LOANS AND OTHER CLAIMS

The following is a more detailed overview of the change in loans and other claims in 2004 followed by additional explanations:

	<i>EEK thousand</i>				
	Balance at the end of 2004	Increase	Decrease	Change in write-down	Balance at the end of 2003
Total	53,520	10,219	-13,621	-52	56,973
Guarantee Fund	147	147	-124	-	124
Loans	53,373	10,072	-13,497	-52	56,849
To Employees of Eesti Pank	53,191	8,144	-11,581	-52	56,679
Accrued interest	182	1,928	-1,916	-	170

Guarantee Fund

In 2002, Eesti Pank entered into an asset management agreement with the Guarantee Fund under which the Guarantee Fund pays a service fee to Eesti Pank for the Fund's asset placement. The item records the service charge for the fourth quarter of 2004, which the Guarantee Fund paid in 2005.

Loans to the Employees of Eesti Pank

Housing loans secured by real estate have been granted to the employees of Eesti Pank for a maximum of 25 years and consumption loans for up to two years. The Supervisory Board of Eesti Pank establishes the interest rates on housing and consumption loans. The interest rate on housing loans is based on the reserves' interest rate Eesti Pank pays to credit institutions plus a risk margin. The reserves' interest rate equals ECB deposit interest rate, which was 1.0% in 2004. The interest rate on consumption loans is comparable to the interest rate charged by Estonian credit institutions under similar conditions. In addition, study loans were granted for a maximum of ten years. Pursuant to the Eesti Pank Act, employees of Eesti Pank and Members of the Supervisory Board were not allowed to borrow from any other credit institution apart from Eesti Pank before the year 2002.

Additional information on write-downs of loans is provided under Item 17.

ITEM 6 – SHARES

Shares held by Eesti Pank:

	Balance at the end of 2004		Balance at the end of 2003	
	Participation (%)	EEK thousand	Participation (%)	EEK thousand
Total		73		73
Bank of International Settlements (BIS)				
200 voting shares	N/A	2	N/A	2
Tallinna Börs (Tallinn Stock Exchange)				
8 shares with nominal value EEK 10,000	1.1	71	1.1	71

N/A - not available

Tallinn Stock Exchange

Eesti Pank holds eight shares on the Tallinn Stock Exchange, amounting to a 1.1% holding.

Bank for International Settlements (BIS)

Eesti Pank holds 200 voting shares in the Bank for International Settlements.

ITEM 7 – OTHER ASSETS

This item includes various prepayments for services and goods to be provided in 2005, liabilities of the Financial Supervision Authority to Eesti Pank for services provided as well as stocks and other current assets.

ITEM 8 – FIXED ASSETS

Changes in fixed assets in 2004:

EEK thousand

	Buildings	Hardware	Furniture and fittings	Software	Vehicles	Total
Historical cost						
Balance at the end of 2003	197,020	63,515	79,789	43,824	553	384,701
Acquired	8,433	4,344	4,957	3,153	0	20,887
Disposals	0	-899	-1,970	-479	-553	-3,901
Balance at the end of 2004	205,453	66,960	82,776	46,498	0	401,687
Accumulated depreciation						
Balance at the end of 2003	26,720	47,925	64,871	26,669	543	166,728
Acquired depreciation	6,811	9,691	4,835	6,376	10	27,723
Disposals	0	-870	-1,909	-479	-553	-3,811
Balance at the end of 2004	33,531	56,746	67,797	32,566	0	190,640
Residual value						
Balance at the end of 2003	170,300	15,590	14,918	17,155	10	217,973
Balance at the end of 2004	171,922	10,214	14,979	13,932	0	211,047
Prepayments for fixed assets						
Balance at the end of 2003	372	0	262	895	0	1,529
Balance at the end of 2004	3,180	0	0	0	0	3,180
Total fixed assets						
Balance at the end of 2003	170,672	15,590	15,180	18,050	10	219,502
Balance at the end of 2004	175,102	10,214	14,979	13,932	0	214,227

The cost of fixed assets acquired in 2004 amounted to 20.9 million kroons. The main item acquired was the gallery joining the extension at Sakala 4/6, Tallinn taken into use in November and renovation of the building at Estonia pst 13, Tallinn. Hardware procurement included computers, servers, printers, and various accessories. Purchases of furniture and fittings mainly included security devices and business machines. Software purchases included mainly system software and additional user licences for existing software.

As at the end of 2004, prepayments for fixed assets had been made primarily for hardware, security devices, and the design of the building of Eesti Pank at Sakala 6, Tallinn.

ITEM 9 – 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 intermediating foreign loans from the above organisations to the Republic of Estonia.

ITEM 10 – ACCOUNTS OF CREDIT INSTITUTIONS AND OTHER CURRENT LIABILITIES

This item includes the settlement accounts of credit institutions with Eesti Pank. The deposits of credit institutions increased by 2.6 billion kroons in 2004. Eesti Pank has imposed the deposit interest rate of the European Central Bank effective on the last banking day of the accounting month as the interest rate on the monthly average balance of credit institutions' deposits held with the central bank. In 2004, the deposit interest rate of the ECB was 1.0% (see Item 14).

Since 2002 this item reflects also the funds in the account of the Financial Supervision Authority held with Eesti Pank, which subjects of financial supervision pay as supervision fees. Interest has been paid on the funds in the Financial Supervision Authority's account since January 2004.

ITEM 11 – OTHER LIABILITIES

This item includes liabilities for miscellaneous expenses for settlements related to economic activities in 2004 with payments due in 2005.

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

ITEM 12 – CAPITAL AND RESERVES

Changes in capital and reserves in 2004:

EEK thousand

	Balance at the end of 2004	Distribution of the 2003 profit	Balance at the end of 2003
Total	3,435,323	206,813	3,228,509
Capital	100,000	–	100,000
Reserve capital	500,000	–	500,000
Special reserve	2,835,322	206,813	2,628,509

According to Section 30 of the Eesti Pank Act, at least 25% of the annual profit must be allocated for increasing both statutory and reserve capital. After these allocations, part of the profit can be allocated for establishing and supplementing foundation capital and funds for specific purposes, based on the decision of the Supervisory Board of Eesti Pank. The remaining profit is transferred to the state budget.

ITEM 13 – NET INTEREST INCOME AND OTHER NET INCOME ON FOREIGN ASSETS AND LIABILITIES

EEK thousand

	2004	2003
Total	477,501	440,374
Income		
Time deposits	5,257	8,491
Debt instruments	401,060	302,311
Reverse repurchase agreements	57,557	91,389
Dividends (BIS shares)	849	807
Foreign currency derivative instruments	7,266	14,114
Exchange rate gains	–	18,647
Other income	13,706	6,898
Expenses		
Repurchase agreements	-3,673	-2,269
Exchange rate losses	-4,519	–
Other expenses	-2	-14

This item reflects net income from transactions with government debt instruments gained in managing Eesti Pank's foreign exchange reserves, including reverse repurchase transactions, gains arising from fluctuations in exchange rates and gold price, interest income from time deposits, income from currency exchange transactions, and dividends.

In 2004, the rate of return of net foreign exchange reserves was 2.69%, which slightly exceeded the forecast (2.44%). The main reason was a delay in the upward cycle of interest rates. The interest rates on two-year and longer debt instruments fell, shorter rose by about a few basis points.

Reserves displayed extraordinary growth in 2004, contributing significantly to higher-than-forecast net return.

ITEM 14 – NET INTEREST COST AND OTHER NET COST ON DOMESTIC ASSETS AND LIABILITIES

This item includes mostly interests paid for funds in the settlement accounts of credit institutions and income from servicing credit institutions' settlement accounts. The item reflects also the interest earned on the loans to the employees of Eesti Pank.

EEK thousand

	2004	2003
Total	-56,801	-42,064
Interest income	1,916	2,831
Interest cost	-468	-1
Remuneration of credit institutions' deposits and other service charges		
Interest cost	-67,924	-54,303
Income on settlement services	8,941	8,401
Other income	971	1,333
Other cost	-237	-325

In 2004, net interest cost and other net cost increased by 14.7 million kroons compared to 2003. This resulted mainly from the growth in the interest paid on the clearing accounts of credit institutions due to growing credit institutions' depositing (see Item 10). The income from settlement services remained at the level of 2003.

ITEM 15 – OTHER OPERATING INCOME

EEK thousand

	2004	2003
Operating income	20,043	8,062
Expenses compensated by Financial Supervision Authority	7,956	4,520
Income from the sale of coins and numismatic-bonistic products	10,465	1,080
Rent income	700	620
Income from the sale of assets	304	368
Other income	618	1,474

Most of other operating income comprises income for services provided to the Financial Supervision Authority in the amount of 8.0 million kroons. Pursuant to the cooperation protocol between the Financial Supervision Authority and Eesti Pank, the Financial Supervision Authority reimbursed, in monthly payments, 100% of the cost of the support services provided by Eesti Pank in 2004. In 2003, Eesti Pank covered 50% of the costs of support services provided to the Financial Supervision Authority. The agreement for 2005 is similar to that of 2004.

In 2004, sales revenue from numismatic products accounted for 10.5 million kroons, including 8.4 million kroons for products manufactured in 2004 and 2.1 million kroons for products manufactured in earlier years.

Income from the rent of the training centres of Eesti Pank is recorded under "Rent Income". Income from the sale of assets reflects income from the sale of fixed assets and stocks unnecessary for Eesti Pank.

Most of other income in 2004 comprises the sales revenue of the canteen of Eesti Pank and of the publications of Eesti Pank. Other income declined due to the transfer of the canteen to a new operator on 1 May 2004.

ITEM 16 – OPERATING EXPENSES

Compared to 2004, operating expenses increased by 6.1% in 2004. Compared to 2003, real estate renovation and administrative expenses, information technology maintenance costs and public relations and publications expenses increased.

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

The estimated cost of the services provided by Eesti Pank to the Financial Supervision Authority in 2004 was about 8.0 million kroons. In 2004, the Financial Supervision Authority covered fully to Eesti Pank the costs of services and depreciation related to servicing.

In 2004, staff costs increased by 2.4% compared to 2003. Staff costs include mainly wages and salaries together with taxes. Wages and salaries increased due to a change in the structure of positions and personal development of the employees.

EEK thousand

	2004	2003
Staff costs	-78,805	-76,945
Wages and salaries	-57,589	-56,181
Compensation and benefits	-1,694	-1,723
Social security tax	-19,245	-18,771
Unemployment insurance tax	-277	-270

Compensations and benefits include one-time benefits, pension insurance compensations, and the tax expenses of fringe benefits related to the interest rates on housing loans. The expenditure on compensations and benefits was lower in 2004 compared to the same period a year before, as the lower interest rate imposed by the Minister of Finance reduced the fringe benefits calculated on the loans to the staff as well as the taxes paid on them.¹

Eesti Pank had 233 staff members at the end of 2003, while the respective figure was 231 at the end of 2004.

In 2004, Eesti Pank participated in the voluntary pension investments of its staff and members of the Supervisory Board of Eesti Pank, contributing the total of 0.6 million kroons. In addition, Eesti Pank pays a special merit pension to two individuals in recognition of their special merits in the development of the Estonian monetary and banking system. The special merit pension amounts to 1.6 times the Estonian average monthly wage. In 2003, the costs of the special merit pension stood at 0.3 million kroons.

The production costs of banknotes and coins have increased by 5.4 million kroons in 2004 against 2003. The production costs of banknotes and coins included the cost of manufacturing banknotes and coins for 5.3 million kroons and the production costs of numismatic products for 8.9 million kroons. In 2004, 50-sent and 1-kroon coins were minted as well as gold collector coins dedicated to the Olympic Games and silver coins dedicated to the anniversary of the Estonian flag. No banknotes were printed in 2004.

General administrative expenses have increased by 3.8 million kroons compared to 2003, mostly due to the increase in IT maintenance costs.

Compared to 2003, IT maintenance costs increased by about 3.8 million kroons. Software maintenance costs increased due to the maintenance of new software modules and a price rise in maintenance cost. Data communication costs grew arising from the ECB Governing Council's decision on payment of core network maintenance costs. Eesti Pank reimbursed the core network maintenance costs to the ECB in the amount of 1.5 million kroons in 2004.

Public relations and publications costs increased by 1.4 million kroons in 2004. The growth was primarily caused by bigger advertising and research costs related to the euro and the cost of EU publications.

Real estate repair and administration expenses have increased by 1.2 million kroons compared to 2003. The growth was caused by growing energy expenditure and current repair costs.

Training and mission expenses remained at the level of 2003. Training expenses decreased by 0.2 million kroons and mission expenses increased by 0.3 million kroons.

Business trip expenses are the travel expenses incurred by the officials on assignment, accommodation expenses, subsistence allowances, and conference or seminar participation fees. The growth in the number of assignments abroad resulted mainly from the significant increase in participation in different committees and working groups of the European System of Central Banks and the European Union. While all in all, 66 bank employees were sent on 164 EU-related assignments in 2003, as many as 92 bank employees were sent to 326 assignments in 2004. Mission expenses related to these assignments increased by 1.5 million kroons in 2004 against 2003.

¹ The interest rate was 4% in 2004.

The main cost items among other expenses were office expenses totalling 4.2 million kroons, and the cost of seminars and events organised by the bank totalling 3 million kroons.

EEK thousand

	2004	2003
General administrative expenses	-69,546	-65,787
Real estate repair and administrative expenses	-13,875	-12,610
Software maintenance expenses	-13,406	-9,572
Communications and transportation expenses	-2,826	-3,468
Public relations and publications expenses	-6,597	-5,177
Legal services, expertise and court expenses	-954	-1,413
Training and business trip expenses	-10,052	-9,942
Foreign exchange reserve management expenses	-10,157	-12,761
Other expenses	-11,679	-10,844

ITEM 17 – EXTRAORDINARY INCOME AND NET CHANGES IN WRITE-DOWNS

This item includes extraordinary income and expenses as well as income and expenses arising from the establishment of provisions and write-downs of loans.

EEK thousand

	2004	2003
Extraordinary income and net change in write-downs	-52	47,980
Extraordinary income	–	47,766
Income from the sale of BIS shares	–	45,741
Income from uncollectible debt recovery into the deposit with Eesti Ühispank	–	1,819
Income from other uncollectible debt recoveries	–	206
Net change in the write-downs of loan portfolio	-52	214
Income on the write-down of Eesti Pank's loan portfolio	63	284
Expenses of the write-down of Eesti Pank's loan portfolio	-115	-70

In accordance with generally accepted accounting principles and in order to reflect the loans issued by Eesti Pank as fairly and objectively as possible, a write-down of the loan portfolio of Eesti Pank was made in 2002. Due to the decline in the risk rates of housing and consumption loans in 2004, income on the write-down totalled 63,000 kroons. Due to the rise in study loans the respective write-down was raised by 115,000 kroons. The write-down of the loan portfolio delivered 52,000 kroons in net expenses in 2004.

ITEM 18 – PROFIT DISTRIBUTION

The Profit Distribution Strategy of Eesti Pank is based on the principle of avoiding too rapid decrease of Eesti Pank's own capital and net foreign exchange reserves against main economic indicators before joining the European Economic and Monetary Union.

Having evaluated the Profit Distribution Strategy in April 2004, the Supervisory Board of Eesti Pank decided to continue with the strategy and transfer 68.9 million kroons from the profit of 2003 to the state budget and 206.8 million kroons to the special reserve fund.

ITEM 19 – DERIVATIVE INSTRUMENTS

EEK thousand

Derivative instruments	Contractual value	Market value	
		Assets	Liabilities
Total as at 31 December 2003	4,298,407	99,523	-32,736
Forward transactions in foreign currency	677,157	25,604	-22,422
Swap transactions in foreign currency	3,326,350	72,203	-10,075
Futures transactions	294,900	1,716	-239
Total as at 31 December 2004	4,145,056	51,686	-12,630
Forward transactions in foreign currency	675,972	19,041	-11,978
Swap transactions in foreign currency	3,460,919	30,988	-413
Futures transactions	8,165	1,657	-239

The contract value of outstanding foreign exchange swaps used for risk hedging in managing the foreign exchange reserves amounted to 3.5 billion kroons at the end of 2004. The swaps matured in early 2005. The contract value of forward transactions amounted to 676 million kroons at the end of 2004, and they matured at the beginning of 2005. The contract value of future transactions was 8.2 million kroons at the end of 2004 and they also matured in early 2005.

ITEM 20 – CONTINGENT LIABILITIES

	Balance at the end of 2004	Balance at the end of 2003
Contingent liabilities	154,408	10,598
Uncalled share capital (75%) of BIS	8,352	9,035
Uncalled share (93%) of ECB participation	144,456	–
Contractual obligations to produce banknotes and coins	1,600	1,563

Bank for International Settlements (BIS)

Since 1930 Eesti Pank has a contingent liability to the Bank for International Settlements regarding the uncalled part of the share capital (75%) of BIS denominated in Swiss gold francs, equalling to 8.4 million kroons as at 31 December 2004 (see Item 6).

European Central Bank (ECB)

Arising from Estonia's accession to the European Union and Eesti Pank becoming a member of the European System of Central Banks, Eesti Pank became a subscriber of the capital of the ECB. Eesti Pank paid up a minimal contribution of 7% of its subscribed capital to the ECB amounting to 694,916 euros (10.9 million kroons; see Item 4). Eesti Pank is obliged to pay the remaining 93% amounting to 9.2 million euros (144 million kroons) upon Estonia's entry to the Eurosystem.

Printing of Banknotes and Minting of Coins

At the end of 2004 the contractual liabilities of Eesti Pank for printing banknotes and minting coins in 2005 amounted to 1.6 million kroons.