



# Annual Accounts of Eesti Pank

for the Financial Year Ended  
31 December 2006

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APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31  
DECEMBER 2006 BY THE EXECUTIVE BOARD OF EESTI PANK

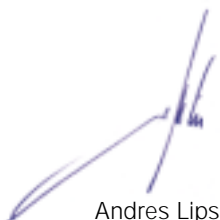
The Executive Board acknowledges its responsibility for the Annual Accounts of Eesti Pank for the financial year ended 31 December 2006.

The Annual Accounts have been prepared in accordance with the Eesti Pank Act and the accounting policies and procedures. As regards issues not covered by the above-mentioned regulations, international financial reporting standards are applied. The Annual Accounts give a true and fair view of the assets and liabilities, equity capital and economic performance of Eesti Pank.

Preparing the Annual Accounts in conformity with generally accepted accounting principles requires the Executive Board to provide estimates affecting the assets and liabilities of Eesti Pank as at the accounting date and income and expenses during the accounting period. These estimates are based on the information available about Eesti Pank, its intentions and risks as at the date of preparation of the Annual Accounts. The final outcome of the economic transactions reflected in the Annual Accounts may differ from the estimates of the Executive Board.

The Annual Accounts disclose significant events that occurred until the date of preparation of the Annual Accounts, i.e. 19 March 2007, and that affected the valuation of assets and liabilities.

On 3 April 2007, all members belonging to the Executive Board of Eesti Pank on that day signed the Annual Accounts.



Andres Lipstok  
Governor of Eesti Pank,  
Chairman of the Executive Board



Rein Minka  
Deputy Governor,  
Member of the Executive Board



Märten Ross  
Deputy Governor,  
Member of the Executive Board



Andres Sutt  
Deputy Governor,  
Member of the Executive Board

BALANCE SHEET AS AT 31 DECEMBER 2006 AND 2005 (EEK THOUSAND)

	Item	31/12/2006	31/12/2005
<b>ASSETS</b>			
Gold and gold receivables	1	62,169	56,017
Claims on non-residents denominated in foreign currency		33,933,699	26,829,177
Receivables from the IMF	2	1,176,705	1,244,068
Balances with banks, security investments and external loans	3	32,756,994	25,585,109
Intra-Eurosystem claims	4	10,873	10,873
Other assets		701,609	477,777
Tangible fixed assets	5	294,895	243,117
Other financial assets	6	3,441	3,441
Off-balance-sheet instruments revaluation differences	7	37,839	11,107
Accruals and prepaid expenses	8	308,399	163,024
Sundry	9	57,035	57,088
<b>Total assets</b>		<b>34,708,350</b>	<b>27,373,844</b>
<b>LIABILITIES</b>			
Currency in circulation	10	11,763,153	10,101,716
Liabilities to residents related to the monetary policy	11	17,086,784	11,972,685
Liabilities to other residents denominated in kroon	12	90,864	84,522
Liabilities to residents denominated in foreign currency	13	7,041	0
Liabilities to non-residents denominated in foreign currency	14	368,965	0
Liabilities to the IMF	2	1,164,676	1,231,399
Other liabilities		168,787	122,403
Off-balance-sheet instruments revaluation differences	7	30,277	27,375
Accruals and income collected in advance	15	128,789	78,000
Sundry	16	9,721	17,028
Revaluation accounts	17	60,980	0
Capital and reserves	18	3,801,770	3,623,724
Capital		600,000	600,000
Reserves		3,201,770	3,023,724
Profit for the year		195,330	237,395
<b>Total liabilities</b>		<b>34,708,350</b>	<b>27,373,844</b>

The notes on pages 72–88 form an integral part of the Annual Accounts.

PROFIT AND LOSS ACCOUNT FOR 2006 AND 2005 (EEK THOUSAND)

	Item	2006	2005
Interest income		1,055,344	644,768
Interest expense		-487,149	-317,013
<b>Net interest income</b>	<b>19</b>	<b>568,195</b>	<b>327,755</b>
Realised gains/losses arising from financial operations		-50,473	75,242
Write-downs		-103,085	-276
<b>Net result of financial operations, write-downs and risk provisions</b>	<b>20</b>	<b>-153,558</b>	<b>74,966</b>
<b>Net result of fees and commissions</b>	<b>21</b>	<b>10,579</b>	<b>9,023</b>
<b>Dividend income</b>	<b>22</b>	<b>951</b>	<b>987</b>
<b>Other operating income</b>	<b>23</b>	<b>15,787</b>	<b>11,617</b>
<b>Operating expenses</b>	<b>24</b>	<b>-246,624</b>	<b>-186,953</b>
Personnel expenses		-97,894	-84,957
Banknote and coin production costs		-39,884	-3,716
General administration expenses		-80,678	-73,593
Depreciation of fixed assets		-28,168	-24,687
<b>Profit</b>	<b>25</b>	<b>195,330</b>	<b>237,395</b>

The notes on pages 72–88 form an integral part of the Annual Accounts.

STATEMENT OF CHANGES IN EQUITY (EEK THOUSAND)

	Fixed capital	Reserve capital	Special reserve	Profit	Total
<b>Balance as at the end of 2004</b>	<b>100,000</b>	<b>500,000</b>	<b>2,835,323</b>	<b>251,203</b>	<b>3,686,526</b>
Distribution of the 2004 profit	-	-	188,401	-188,401	-
Allocations to the state budget	-	-	-	-62,802	-62,802
Profit of 2005	-	-	-	237,395	237,395
<b>Balance as at the end of 2005</b>	<b>100,000</b>	<b>500,000</b>	<b>3,023,724</b>	<b>237,395</b>	<b>3,861,119</b>
Distribution of the 2005 profit	-	-	178,046	-178,046	-
Allocations to the state budget	-	-	-	-59,349	-59,349
Profit of 2006	-	-	-	195,330	195,330
<b>Balance as at the end of 2006</b>	<b>100,000</b>	<b>500,000</b>	<b>3,201,770</b>	<b>195,330</b>	<b>3,997,100</b>

The notes on pages 72–88 form an integral part of the Annual Accounts.

# NOTES ON 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 and the accounting policies and procedures. In 2006, the new accounting policies and procedures were approved, which proceed from the financial accounting rules obligatory for the European System of Central Banks. For issues not covered by the Eesti Pank Act or the accounting policies and procedures of Eesti Pank, international financial reporting standards are applied.

As of 2006, the main changes in the accounting policies include the following:

- The unrealised gains obtained from the revaluation of financial assets and liabilities during the year are recorded on the Balance Sheet and unrealised losses are recorded in the Profit and Loss Account at the end of the year. (In the 2005 Annual Accounts both unrealised gains and losses were recorded in the Profit and Loss Account.)
- Securities are recorded on the Balance Sheet on the settlement date. The calculation of accrued interest and the gains and losses arising from revaluation starts on the settlement date. (Until the end of 2005, the recording of securities was based on the trade date, i.e. the calculation of interests started on the settlement date, whereas the calculation of gains and losses arising from revaluation started on the trade date.)
- Foreign exchange transactions are recorded on the trade date in off-balance-sheet accounts. (Until the end of 2005, foreign exchange transactions were recorded on the trade date on the Balance Sheet.)
- Deposits and repurchase agreements are not revalued. (Until the end of 2005, deposits and repurchase agreements were revalued on a monthly basis, using the future cash flow discount method.)
- Gains and losses are calculated on the basis of the average cost method. The exchange rate differences of the foreign currency position are calculated using the average exchange rates. The return on sales of securities is calculated, comparing the selling price of a security with its average price. (Until the end of 2005, the return on sales of securities was calculated as the difference of the selling price and the acquisition price.)

The data for 2005 are presented with a different structure for the Profit and Loss Account but the data have not been revalued and are included only for informative purposes.

The structure of the Balance Sheet proceeds from the structure specified in Annex IV to the European Central Bank (ECB) Guideline ECB/2006/16. The ECB Balance Sheet items are grouped by residency (euro area, non-euro area) and currency (euro, other currency). The assets and liabilities related to the monetary policy are recorded on separate rows.

Until Estonia joins the euro area, Eesti Pank is recording all claims in foreign currency (except interests) under "Claims on non-residents denominated in foreign currency" and all liabilities in foreign currency under "Liabilities to non-residents denominated in foreign currency". Accrued interests are recorded under other assets and liabilities.

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.

#### Financial assets and liabilities

Financial asset is any asset that is cash, or a contractual right to receive cash or any other financial assets from another entity, or a contractual right to exchange financial assets with another entity under conditions that are potentially favourable. Financial liability is any liability that is a legal obligation to deliver cash or any other financial assets to another entity or to exchange financial assets with another entity under conditions that are potentially unfavourable.

Assets and liabilities are recorded on the Balance Sheet in case Eesti Pank is likely to achieve economic gains or losses from an asset or a liability in the future; most of the risks and rights related to assets and liabilities have been taken over; the value of an asset or a liability and the resulting gains or losses can be assessed in a reliable way.

The purchase and sale transactions of financial instruments are recorded in off-balance-sheet accounts on the trade date (with the exception of securities). On the value date, off-balance-sheet entries are reversed and transactions are recorded on the Balance Sheet. Securities are recorded on the Balance Sheet on the value date.

Further accounting of financial assets and liabilities is based on the fair value, the acquisition cost or the adjusted acquisition cost depending on the type of a respective asset or liability. 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. Financial instruments recorded at fair value are revalued on every balance sheet date.

#### 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 on the trade date. Assets and liabilities denominated in foreign currencies are translated into Estonian kroons at the official daily fixings effective on the balance sheet date.

The official daily fixings applied on 31 December 2006 and 2005 were as follows:

	2006	2005
USD	11,882	13,221
SDR	17,865	18,888
EUR	15,647	15,647

### Income recognition

Income and expenses are recognised in the period in which they are earned or incurred. Realised gains and losses from the sale of foreign exchange, gold and securities are taken to the Profit and Loss Account. Such realised gains and losses are calculated by reference to the average cost of the respective asset.

Unrealised gains are not recognised as income but are transferred to a revaluation account.

Unrealised losses are recorded in the Profit and Loss Account under "Write-downs" if they exceed previous revaluation gains registered in the corresponding revaluation account. Unrealised losses in any one currency, security or in gold are not netted against unrealised gains in other currencies, securities or gold.

Premiums or discounts arising on purchased securities are recorded as part of interest income and are amortised over the remaining life of the securities on a straight-line basis.

### 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 on the Balance Sheet under "Revaluation accounts".

### Claims on non-residents denominated in foreign currency

Claims on non-residents denominated in foreign currency are divided into two: "Receivables from the IMF" and "Balances with banks, security investments and external loans".

Foreign debt instruments and other quoted securities denominated in convertible foreign currencies are recorded at their year-end fair value. Securities are revalued on the last banking day of the year by reference to the market prices on the last banking day, comparing the amortised cost of a security with its market price.

Repurchase transactions (sale/repurchase transactions) are recorded as collateralised loans taken at their fair value, i.e. securities are recorded as assets on the Balance Sheet and the repurchase sum as a liability. Interests payable are recorded on accrual basis on the Balance Sheet under "Accruals and prepaid expenses".

Reverse repurchase transactions (purchase/resale transactions) are recorded as collateralised loans granted. Interest receivable is recorded on accrual basis on the Balance Sheet under "Accruals and income collected in advance". 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, futures and options. The purchase and sale transactions of derivative instruments are recorded in off-balance-sheet accounts on the trade date. On the value date, transactions are recorded on the Balance Sheet. The prices of derivative instruments are revalued at the end of the year by reference to the market prices on the last banking day or the yield curve in case of interest swaps. 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). Gains 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 50,000 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, utility systems of buildings, IT hardware, software, and other assets with long-term useful lives are recorded as fixed assets on the Balance Sheet. Advance payments 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:

	2006	2005
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 recognised as expense of the period. If it is known or expected that the fair value of an assets 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 of the reporting period. At the same time, 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.

#### **Asset impairment**

An assessment is carried out on every balance sheet date to identify possible signs of an impairment of financial assets recorded at acquisition cost or adjusted acquisition cost, or tangible fixed assets recorded at acquisition cost.

The impairment of significant financial assets is assessed for each object separately. The impairment of financial assets that are not individually significant and that are not known to have impaired is assessed for all assets together. Write-downs of financial assets are recorded as an expense of the accounting period in the Profit and Loss Account.

The recoverable amount of an asset is identified during testing the value of tangible fixed assets recorded at acquisition cost. If it is not possible to identify the value of a single asset (object) through testing, the value is tested across the smallest possible group of assets. The recoverable amount is equal either to the net selling price or the use value of an asset, depending on which of the two is higher. The use value is the present value of cash flows expected from the use of assets and the sales of assets after use. In calculating the present value the discount factor is the expected profitability of investments with similar risk-level. If the recoverable amount of an asset is smaller than its carrying amount, the asset is written down. The write-down is recorded in the Profit and Loss Account as an expense of the accounting period on an accrual basis.

#### **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 are recognised as off-balance-sheet items.

#### **Currency in circulation**

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

#### **Claims on and liabilities to the Financial Supervision Authority**

The Balance Sheet of Eesti Pank contains a claim on the Financial Supervision Authority in relation to services provided by Eesti Pank and acquisition of current assets, and a liability to the Financial Supervision Authority in relation to its settlement account held with Eesti Pank.

#### **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 information available about Eesti Pank and its intentions and risks as at the date of preparation of the Annual Accounts.

## ITEM 1 – GOLD

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

	Amount (ounces)	Market price per ounce (kroons)	Market value (EEK thousand)
Balance at the end of 2005	8,250,171	6,789,780	56,017
Revaluation	-	-	6,152
<b>Balance at the end of 2006</b>	<b>8,250,171</b>	<b>7,535,460</b>	<b>62,169</b>

## ITEM 2 – RELATIONS WITH THE INTERNATIONAL MONETARY FUND (IMF)

This asset includes the SDR account in the IMF, participation in the IMF and other receivables.

*EEK thousand*

	2006	2005
Participation in the IMF	1,164,779	1,231,491
SDR account in the IMF	1,023	1,037
Other receivables from the IMF	10,903	11,540
<b>Total receivables from the IMF</b>	<b>1,176,705</b>	<b>1,244,068</b>

### SDR account in the IMF

An SDR account is generated for every IMF Member State and it is used for conducting loan transactions and several other related operations between a 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 the IMF	2006	2005
Balance at the beginning of the year	1,037	953
Interest and other income	80	51
Exchange rate differences	-94	33
<b>Balance at the end of the year</b>	<b>1,023</b>	<b>1,037</b>

### 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 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 2006 the quota of the Republic of Estonia in the IMF 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 the IMF (assets)	2006	2005
Balance at the beginning of the year	1,231,491	1,161,271
Exchange rate differences	-66,712	70,220
<b>Balance at the end of the year</b>	<b>1,164,779</b>	<b>1,231,491</b>
IMF kroon accounts (liabilities)		
Balance at the beginning of the year	1,231,400	1,161,184
Exchange rate differences	-66,724	70,215
<b>Balance at the end of the year</b>	<b>1,164,676</b>	<b>1,231,399</b>



### Other receivables from the 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 on the Stand-by Arrangement (SBA) and the Systemic Transformation Facility (STF), which is currently about 0.1%.

*EEK thousand*

<b>Other receivables from the IMF</b>	<b>2006</b>	<b>2005</b>
Balance at the beginning of the year	11,540	10,882
Exchange rate differences	-637	658
<b>Balance at the end of the year</b>	<b>10,903</b>	<b>11,540</b>
Eesti Pank, SBA loan-related receivable	6,005	6,362
Government, STF loan-related receivable	4,898	5,178
<b>Total</b>	<b>10,903</b>	<b>11,540</b>

### ITEM 3 – BALANCES WITH BANKS, SECURITY INVESTMENTS, EXTERNAL LOANS

*EEK thousand*

	Balance at the end of 2005	Structure of residual maturity				
		up to 3 months	3–12 months	1–3 years	3–5 years	over 5 years
	<b>25,585,109</b>	<b>14,792,362</b>	<b>5,819,844</b>	<b>2,230,522</b>	<b>1,185,576</b>	<b>1,556,805</b>
Cash and current accounts	425,782	425,782	-	-	-	-
Time deposits	998,016	998,016	-	-	-	-
Securities	21,799,053	11,006,306	5,819,844	2,230,522	1,185,576	1,556,805
Reverse repurchase agreements	2,362,258	2,362,258	-	-	-	-
	Balance at the end of 2006	Structure of residual maturity				
		up to 3 months	3–12 months	1–3 years	3–5 years	over 5 years
	<b>32,756,994</b>	<b>18,385,180</b>	<b>5,989,708</b>	<b>3,555,018</b>	<b>2,159,327</b>	<b>2,667,761</b>
Cash and current accounts	434,952	434,952	-	-	-	-
Time deposits	879,084	879,084	-	-	-	-
Securities	27,256,223	12,884,409	5,989,708	3,555,018	2,159,327	2,667,761
Reverse repurchase agreements	4,186,735	4,186,735	-	-	-	-

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;
- AA- or Aa3 for bonds with the maturity of over one year.

In 2006, Eesti Pank's foreign exchange reserves were mainly invested 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 more than one year.

#### ITEM 4 – INTRA-EUROSISTEM CLAIMS

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 European System of Central Banks (ESCB). 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 0.1748%. It 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. The respective contribution amounted to 694,916 euros (10.9 million kroons). Eesti Pank is obliged to pay the remaining 93% upon Estonia's accession to the Economic and Monetary Union.

#### ITEM 5 – TANGIBLE FIXED ASSETS

Changes in fixed assets in 2006:

*EEK thousand*

	Buildings	Hardware	Furniture and fixtures	Software	Total
<b>Acquisition cost</b>					
Balance at the end of 2005	210,429	64,440	80,231	49,887	404,987
Acquired	74,937	3,460	21,441	9,472	109,310
Disposals		-19,192	-27,852	-1,087	-48,131
<b>Balance at the end of 2006</b>	<b>285,366</b>	<b>48,709</b>	<b>73,820</b>	<b>58,271</b>	<b>466,166</b>
<b>Accumulated depreciation</b>					
Balance at the end of 2005	40,923	56,868	66,788	38,794	203,373
Charge	8,347	5,028	7,231	7,561	28,168
Disposals		-19,192	-27,796	-1,087	-48,075
<b>Balance at the end of 2006</b>	<b>49,270</b>	<b>42,705</b>	<b>46,223</b>	<b>45,268</b>	<b>183,466</b>
<b>Residual value</b>					
Balance at the end of 2005	169,506	7,572	13,442	11,093	201,613
<b>Balance at the end of 2006</b>	<b>236,096</b>	<b>6,004</b>	<b>27,596</b>	<b>13,003</b>	<b>282,699</b>
<b>Advance payments for fixed assets</b>					
Balance at the end of 2005	15,250	17	20,811	5,426	41,504
<b>Balance at the end of 2006</b>	<b>12,097</b>	<b>98</b>	<b>0</b>	<b>0</b>	<b>12,195</b>
<b>Total fixed assets</b>					
At the end of 2005	184,755	7,589	34,253	16,519	243,117
<b>At the end of 2006</b>	<b>248,193</b>	<b>6,102</b>	<b>27,596</b>	<b>13,003</b>	<b>294,895</b>

The cost of fixed assets acquired in 2006 amounted to 109.3 million kroons. The majority of the procurement of buildings accounted for the building of Eesti Pank at Sakala 6 occupied in November. The cost of



the new building amounted to 77.2 million kroons. In addition, by the end of 2006 advance payments in the amount of 11.7 million kroons had been made.

Hardware procurement included computers, servers, printers, and various accessories. The majority of purchases of fittings included business machines, security devices and furniture. Software purchases included mainly system software and additional user licences for existing software.

#### ITEM 6 – OTHER FINANCIAL ASSETS – INVESTMENTS IN SHARES AND UNITS

Shares held by Eesti Pank:

	Balance at the end of 2006		Balance at the end of 2005	
	Holding (%)	EEK thousand	Holding (%)	EEK thousand
<b>Bank for International Settlements (BIS)</b>				
214 shares (200 voting shares)	N/A	3,397	N/A	3,397
<b>Tallinna Börs (Tallinn Stock Exchange)</b>				
29 shares with nominal value à 10 000 kroons	1,1	44	1,1	44
<b>Total</b>		<b>3,441</b>		<b>3,441</b>

N/A – not available

#### ITEM 7 – OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

This item reflects the unrealised results arising from the revaluation of derivative instruments that were outstanding on 31 December 2006.

Derivative instruments are revalued by reference to the market prices on the last banking day of the month, if available, and the yield curve in case of interest swaps. This item also includes the unrealised exchange rate differences of off-balance-sheet instruments denominated in a foreign currency. The difference is calculated using the average exchange rate and the exchange rate of Eesti Pank.

#### ITEM 8 – ACCRUALS AND PREPAID EXPENSES

*EEK thousand*

	2006	2005
Interest income	286,931	108,756
Securities	278,374	101,452
Derivative instruments	6,387	6,396
Reverse repurchase transactions	1,412	154
Time deposits	588	574
Loans	170	180
Claims on the Financial Supervision Authority	9,366	12,572
Other claims	1,410	32,406
Prepaid expenses	10,692	9,290
<b>Total</b>	<b>308,399</b>	<b>163,024</b>

#### ITEM 9 – SUNDRY

This item includes mainly loans issued to employees of Eesti Pank in the total amount of 41.4 million kroons (45.2 million in 2005). Housing loans secured by real estate have been granted to 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 rate on consumption loans for every fiscal year. The interest rate on consumption loans is comparable to the interest rate charged by Estonian credit institutions under similar conditions. 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 remained within 1.25-2.50% in 2006. In addition, study loans have been granted for a maximum of ten years and with a 5% interest rate. Additional information on write-downs of loans is provided under Item 20.

#### ITEM 10 – CURRENCY IN CIRCULATION

*EEK thousand*

	<b>2006</b>	<b>2005</b>
Banknotes	11,627,284	9,981,161
Coins	135,869	120,555
<b>Total</b>	<b>11,763,153</b>	<b>10,101,716</b>

#### ITEM 11 – LIABILITIES TO RESIDENTS RELATED TO THE MONETARY POLICY

This item includes the settlement accounts of credit institutions with Eesti Pank. The deposits of credit institutions increased by 5.1 billion kroons in 2006. 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 credit institutions' deposits held with the central bank. In 2006, the deposit interest rate of the ECB increased from 1.25% to 2.5%. The interest rate is calculated on the basis of the monthly average balance of the settlement account (see Item 15).

#### ITEM 12 – LIABILITIES TO OTHER RESIDENTS DENOMINATED IN KROON

This item reflects 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 2004.

In addition, this item reflects the settlement accounts of the Tallinn Stock Exchange and the Estonian Central Register of Securities.

#### ITEM 13 – LIABILITIES TO RESIDENTS DENOMINATED IN FOREIGN CURRENCY

In November 2006, Eesti Pank joined the Trans-European Automated Real-Time Gross Settlement Express Transfer system TARGET. This item reflects the euro settlement accounts of Estonian credit institutions that have joined TARGET.

#### ITEM 14 – LIABILITIES TO NON-RESIDENTS DENOMINATED IN FOREIGN CURRENCY

This item includes the repurchase agreements with the maturities that were due at the beginning of January 2007.





## ITEM 15 – ACCRUALS AND INCOME COLLECTED IN ADVANCE

*EEK thousand*

	2006	2005
Interest expense	-59,413	-20,340
on deposits with credit institutions	-34,655	-11,959
on derivative instruments	-10,845	-8,381
on repurchase agreements	-613	0
Amortisation of securities	-13,300	0
Tax liabilities	-9,820	-8,875
Other liabilities	-59,556	-48,785
<b>Total</b>	<b>128,789</b>	<b>78,000</b>

## ITEM 16 – SUNDRY

The majority of this item accounts for 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).

## ITEM 17 – REVALUATION ACCOUNTS

*EEK thousand*

	2006	2005
Foreign currencies	34,251	-
Derivative instruments	25,664	-
Securities	1,065	-
<b>Total</b>	<b>60,980</b>	<b>0</b>

These accounts represent revaluation reserves arising from unrealised gains on assets and liabilities as of 2006.

The unrealised losses at the end of the year are recognised in the Profit and Loss Account as expenses under "Write-downs".

## ITEM 18 – CAPITAL AND RESERVES

Changes in capital and reserves in 2006:

*EEK thousand*

	Balance at the end of 2006	Distribution of 2005 profit	Balance at the end of 2005
Fixed capital	100,000	-	100,000
Reserve capital	500,000	-	500,000
Special reserve	3,201,770	178,046	3,023,724
<b>Total</b>	<b>3,801,770</b>	<b>178,046</b>	<b>3,623,724</b>

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 19 – NET INTEREST INCOME

EEK thousand

	2006	2005
<b>Net interest income</b>	<b>568,195</b>	<b>327,755</b>
<b>Interest income</b>	<b>1,055,344</b>	<b>644,768</b>
Securities	799,762	496,182
Reverse repurchase agreements	143,738	71,966
Derivative instruments	85,320	60,734
Time deposits	25,099	14,179
Loans to personnel	1,417	1,700
Other	8	7
<b>Interest expense</b>	<b>-487,149</b>	<b>-317,013</b>
Securities	-51,391	-152,933
Repurchase agreements	-35,964	-10,687
Derivative instruments	-143,823	-52,641
Time deposits	-276	-124
Credit institutions' deposit interests	-255,050	-100,112
Other	-645	-516

## ITEM 20 – NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND PROVISIONS

EEK thousand

	2006	2005
<b>Net result of financial operations</b>	<b>-153,558</b>	<b>74,966</b>
<b>Realised gains/losses arising from financial operations</b>	<b>-50,473</b>	<b>75,242</b>
Securities	-64,195	85,929
Derivative instruments	13,182	-15,090
Income/expense of exchange rate differences	-14,970	4,243
Financial asset management costs	-683	0
Other	16,193	160
<b>Write-downs</b>	<b>-103,085</b>	<b>-276</b>
Securities	-77,306	0
Derivative instruments	-26,133	0
Net change of loan portfolio write-downs	354	-276

In 2005, the item "Realised gains/losses arising from financial operations" included, besides realised gains and losses, also unrealised gains and losses arising from the revaluation of financial instruments. As of 2006, this item reflects only realised results. The unrealised losses at the end of the year are recognised under "Write-downs".

In 2006, the item "Realised gains/losses arising from financial operations" also includes the gains arising from changes in the accounting principles that occurred at the beginning of 2006, amounting to 16.2 million kroons.



## ITEM 21 – NET RESULT OF TRANSACTION AND COMMISSION FEES

*EEK thousand*

	2006	2005
<b>Transaction and commission fees</b>	<b>10,579</b>	<b>9,023</b>
Settlement service costs	10,937	9,515
Commissions on futures and options	-642	-798
Fines, arrears and other	284	306

The majority of this item accounts for income from servicing credit institutions' settlement accounts.

## ITEM 22 – DIVIDEND INCOME

This item reflects dividends from the shares of the Bank for International Settlements. In 2005, this item also included dividend income from the shares of the Tallinn Stock Exchange in the total amount of 97,000 kroons.

## ITEM 23 – OPERATING INCOME

Most of other operating income (7.7 million kroons) comprises income for services provided to the Financial Supervision Authority. 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 2005 and 2006. Eesti Pank provides the Financial Supervision Authority with the following services: information technology, accounting, real estate, and administration services. The Financial Supervision Authority covers also the depreciation costs of fixed assets.

In 2006, income from the sale of numismatic-bonistic products amounted to 6 million kroons. Income from the sale of collector coins accounted for most of that.

Income on asset management includes the service fee paid by the Guarantee Fund and the Health Insurance Fund to Eesti Pank for investing their assets.

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

*EEK thousand*

	2006	2005
<b>Operating income</b>	<b>15,787</b>	<b>11,617</b>
Expenses compensated by financial supervision	7,744	7,826
Income from the sale of collector coins and numismatic-bonistic products	5,970	2,154
Rental income	952	703
Income on asset management	896	657
Income from the sale of assets	83	223
Other income	142	53

## ITEM 24 – OPERATING EXPENSES

Compared to 2005, operating expenses increased 32% in 2006.

*EEK thousand*

	2006	2005
<b>Staff costs</b>	<b>-97,894</b>	<b>-84,957</b>
Wages	-71,755	-62,191
Compensation and benefits	-1,907	-1,653
Social tax	-24,033	-20,826
Unemployment insurance	-199	-287

Staff costs increased 15%, year-on-year. Staff costs included mainly wage costs, including taxes. Wage costs grew owing to a general wage increase as well as wage increase arising from the career and individual development of employees.

The expenditure on compensations and benefits consisted mainly of single benefits and pension insurance compensations paid to employees of Eesti Pank. Year-on-year, the expenditure on compensations and benefits slightly increased. Pension costs grew the most and the expenditure on writing off study loans and on benefits increased somewhat as well.

Eesti Pank had 238 staff members at the end of 2006 (233 at the end of 2005).

In 2006, Eesti Pank participated in the voluntary pension investments of its staff and members of the Supervisory Board of Eesti Pank, contributing the total of 0.9 million kroons. Moreover, Eesti Pank paid 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 amounted to 1.6 times the Estonian average monthly wage. In 2006, the costs of the special merit pension stood at 0.3 million kroons.

The production costs of banknotes and coins increased by 36.2 million kroons, year-on-year. The production costs of banknotes and coins included the cost of manufacturing banknotes and coins for 35.7 million kroons and the production costs of numismatic products for 2 million kroons. In 2006, coins of 10 senti, 20 senti, 50 senti and 1 kroon were minted and 2-kroon and 10-kroon banknotes were issued. In addition, collector coins dedicated to the Winter Olympic Games and the Estonian National Opera were minted.

General administrative expenses grew by 7 million kroons year-on-year, mostly owing to increased financial asset management costs and real estate repair and administration expenses. Compared to 2005, financial asset management costs increased by 2.8 million kroons. Growth resulted mainly from an increase in the costs of foreign reserves maintenance.

Real estate repair and administration expenses increased by 1.7 million kroons, year-on-year. Most of that accounted for the procurement of furniture and fittings for the new building of Eesti Pank at Sakala 6.

The increase in training and travel expenses arose from the enhanced volume of business trips. Business trip expenses are the travel expenses incurred by the officials on assignment, accommodation expenses, subsistence allowances, and conference or seminar participation fees.



Public relations and publications costs grew by 1.4 million kroons owing to the expenses related to the information campaigns on the euro and the increased number of public events.

IT maintenance costs increased by a million kroons in 2006. Software maintenance costs accounted for 56%, hardware repair and maintenance costs for 22%, data communication costs for 21% and other costs for 1% of IT maintenance costs. Compared to 2005, IT maintenance costs increased owing to higher software maintenance costs.

The main cost items among other expenses were office expenses totalling 4.7 million kroons, and the cost of seminars and events organised by the bank totalling 3.7 million kroons.

	<i>EEK thousand</i>	
	<b>2006</b>	<b>2005</b>
<b>General administrative expenses</b>	<b>-80,680</b>	<b>-73,593</b>
Information technology maintenance costs	-17,548	-16,558
Real estate renovation and administration expenses	-14,839	-13,103
Financial asset management costs	-14,295	-11,446
Training and business travel expenses	-11,686	-10,995
Public relations and publications	-7,664	-6,311
Communications and transportation costs	-2,920	-3,361
Legal and arbitration costs	-457	-770
Other expenses	-11,271	-11,049

## ITEM 25 – 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 key economic indicators before joining the Economic and Monetary Union.

Having evaluated the Profit Distribution Strategy in April 2006, the Supervisory Board of Eesti Pank decided to continue with the above-mentioned strategy and transfer 59.3 million kroons from the profit of 2005 to the state budget and 178 million kroons to the special reserve fund.

## ITEM 26 – DERIVATIVE INSTRUMENTS

	<i>EEK thousand</i>
	<b>Contractual value</b>
<b>Derivative instruments</b>	
<b>Total as at 31 Dec 2005</b>	<b>10,389,426</b>
Foreign currency forward transactions	1,431,171
Interest rate swap transactions	836,496
Foreign currency swap transactions	1,323,749
Futures transactions	6,798,010
Options	0
<b>Total as at 31 Dec 2006</b>	<b>21,770,865</b>
Foreign currency forward transactions	6,610,880
Interest rate swap transactions	4,263,428
Foreign currency swap transactions	0
Futures transactions	7,557,771
Options	3,338,786

Derivative instruments are used for risk hedging in managing the foreign exchange reserves.

## ITEM 27 – CONTINGENT LIABILITIES

*EEK thousand*

	<b>Balance at the end of 2006</b>	<b>Balance at the end of 2005</b>
<b>Contingent liabilities</b>	<b>180,928</b>	<b>161,355</b>
Uncalled share capital (75%) of BIS	8,651	9,625
Uncalled share (93%) of ECB participation	144,456	144,456
Contractual obligations to produce banknotes and coins	27,821	7,274

### Bank for International Settlements (BIS)

Since 1930 Eesti Pank has a contingent liability to the Bank for International Settlements. This liability is the uncalled part of the share capital (75%) of BIS denominated in Swiss gold francs, totalling 8.7 million kroons on the balance sheet date (see Item 6).

### European Central Bank (ECB)

In 2004, the Republic of Estonia joined the European Union and consequently Eesti Pank became a member of the ESCB. 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. Eesti Pank has paid a minimal contribution of 7% of its subscribed capital to the ECB amounting to 694,916 euros (10.9 million kroons). Eesti Pank is obliged to pay the remaining 93% amounting to 9.2 million euros (144 million kroons) upon Estonia's accession to the Economic and Monetary Union.

### Printing of banknotes and minting of coins

At the end of 2006, the contractual liabilities of Eesti Pank for printing banknotes and minting coins in 2007 amounted to 27.8 million kroons.