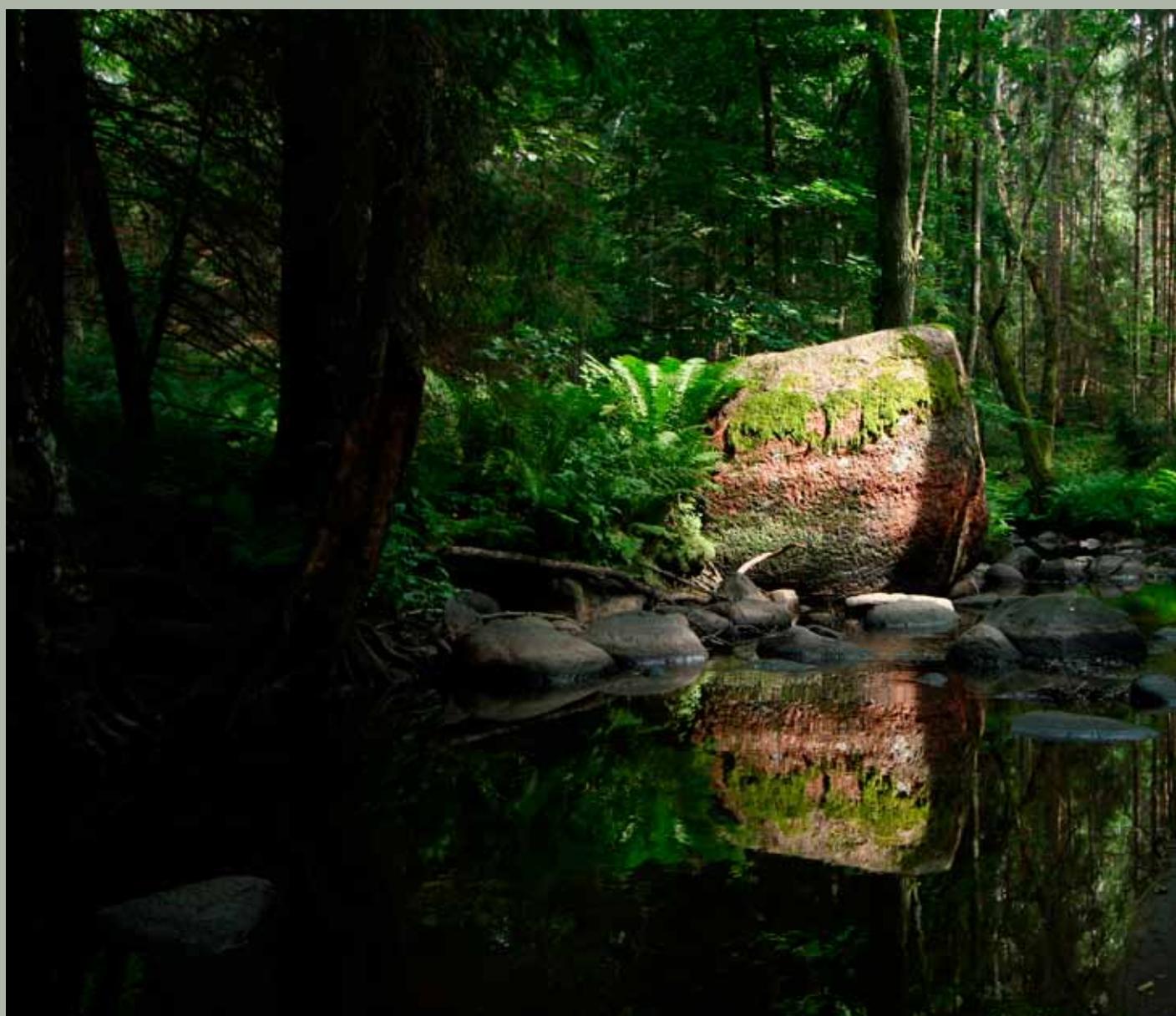


Veiko Belials

2012

"A large boulder indulging in the sun"

Photograph taken in the framework of the year of forests photo project "There is life in the forest."





ANNUAL
ACCOUNTS
OF EESTI PANK

for the financial
year ended
31 December 2011

**APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR
ENDED 31 DECEMBER 2011 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 2011.

The Annual Accounts have been drafted in accordance with the rules established on the basis of Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank. The parts of the Annual Accounts that are not regulated by ECB guidelines have been drafted in accordance with the accounting principles generally accepted in Estonia. The Annual Accounts give a true and fair view of the assets and liabilities, equity and financial performance of Eesti Pank.

The preparation of the Annual Accounts in conformity with the above requirements requires the Executive Board to provide estimates of the determinants 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.

On 27 March 2012, 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

Ülo Kaasik

Deputy Governor,
Member of the Executive Board

Madis Müller

Deputy Governor,
Member of the Executive Board

BALANCE SHEET AS AT 31 DECEMBER 2011 AND 2010

EUR thousand

	Note	31/12/2011	31/12/2010
ASSETS			
Gold and gold receivables	1	10,039	8,702
Claims on non-euro area residents denominated in foreign currency		151,829	132,790
Receivables from the IMF	2	74,133	72,653
Balances with banks, security investments and other external assets	3	77,696	60,137
Claims on euro area residents denominated in foreign currency	4	4,929	5,388
Claims on non-euro area residents denominated in euro	5	1,650	431,011
Lending to euro area credit institutions related to monetary policy operations denominated in euro	6	0	0
Other claims on euro area credit institutions denominated in euro	7	12,128	15,227
Securities of euro area residents denominated in euro		544,214	1,179,538
Securities held for monetary policy purposes	8	344,311	0
Other securities	9	199,903	1,179,538
Intra-Eurosystem claims		2,333,169	116,280
Participating interest in ECB	10	79,911	722
Claims equivalent to the transfer of foreign reserves	11	103,116	0
Net claims related to the allocation of euro banknotes within the Eurosystem	12	1,501,976	0
Other claims within the Eurosystem (net)	13	648,166	115,558
Other assets		43,557	55,940
Tangible fixed assets	14	23,272	22,407
Other financial assets	15	217	217
Off-balance-sheet instruments revaluation differences	16	317	4,681
Accruals and prepaid expenses	17	11,959	5,501
Sundry	18	7,792	23,134
Loss for the year		0	1,723
TOTAL ASSETS		3,101,515	1,946,599
LIABILITIES			
Banknotes in circulation	19	2,140,879	364,192
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		465,676	1,125,386
Current accounts (covering the minimum reserve system)	20	252,624	1,125,386
Deposit facility	21	54,052	0
Fixed-term deposits	22	159,000	0
Liabilities to other euro area residents denominated in euro	23	8,737	6,509
Liabilities to non-euro area residents denominated in euro	24	14	214
Counterpart of the special drawing rights allocated by the IMF	25	73,536	72,066
Other liabilities		38,909	26,297
Off-balance-sheet instruments revaluation differences	16	2,695	584
Accruals and income collected in advance	26	2,910	10,342
Sundry	27	33,304	15,371
Provisions	28	18	81
Revaluation accounts	29	9,740	8,798
Capital and reserves	30	341,333	343,056
Capital		130,233	38,347
Reserves		211,100	304,709
Profit for the year		22,673	0
TOTAL LIABILITIES		3,101,515	1,946,599

The notes on pages 103–127 form an integral part of the Annual Accounts.

PROFIT AND LOSS ACCOUNT FOR 2011 AND 2010

EUR thousand

	Note	2011	2010
Interest income		31,524	23,128
Interest expense		-10,901	-11,295
Net interest income	31	20,623	11,833
Realised gains/losses arising from financial operations		4,684	9,268
Write-downs on financial assets		-509	-2,222
Net result of financial operations, write-downs and risk provisions	32	4,175	7,046
Fees and commissions income		825	926
Fees and commissions expense		-101	-67
Net income from fees and commissions	33	724	859
Income from equity shares and participating interests	34	1,738	174
Net result of pooling of monetary income	35	8,520	0
Other income	36	6,248	3,261
Total net income		42,028	23,173
Staff costs	37	-7,701	-7,715
Administrative expenses	38	-5,312	-5,422
Depreciation of tangible fixed assets	14	-2,233	-2,000
Other expenses	39	-4,109	-9,759
Operating expenses		-19,355	-24,896
Profit (+) / loss (-) for the year		22,673	-1,723

The notes on pages 103–127 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 drafted in accordance with the rules established on the basis of Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank. The parts of the Annual Accounts that are not regulated by ECB guidelines have been drafted in accordance with the accounting principles generally accepted in Estonia.

The Annual Accounts have been prepared on the historical cost basis, except in cases explained in the following accounting principles.

The preparation of the Annual Accounts requires the Executive Board to provide estimates of the determinants 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.

The Executive Board of Eesti Pank is of the opinion that the publication of the Bank's Cash Flow Statement does not provide significant relevant information to the readers of the Annual Accounts of Eesti Pank, given its role as the central bank.

The Annual Accounts have been prepared in thousands of euros (EUR thousand) unless indicated otherwise.

Estonia joined the euro area on 1 January 2011 and the Estonian kroon (EEK) was replaced by the euro (EUR). Eesti Pank converted its accounting to euros on the date of changeover to the euro and the Annual Accounts were prepared in euros. The comparative data for 2010 that are included in the Annual Accounts for 2011 were converted at the official exchange rate of 1 euro = 15.6466 kroons. The structure of Eesti Pank's Balance Sheet and the Profit and Loss Account changed in 2011 after Estonia's accession to the euro area. The balance sheet items are grouped by residency (euro area, non-euro area) and currency (euro, other currencies). The assets and liabilities related to monetary policy are recorded on separate rows. Consequently, the data for the comparable period are presented differently from the previous Annual Accounts and the data for 2010 have been adjusted as follows:

EUR thousand

	Note	Preliminary 31/12/2010	Adjustment	Adjusted 31/12/2010
ASSETS				
Gold and gold receivables	1	8,702	0	8,702
Claims on non-euro area residents denominated in foreign currency		1,955,330	-1,822,540	132,790
Receivables from the IMF	2	148,470	-75,817	72,653
Balances with banks, security investments and other external assets	3	1,806,860	-1,746,723	60,137
Claims on euro area residents denominated in foreign currency	4	0	5,388	5,388
Claims on non-euro area residents denominated in euro	5	0	431,011	431,011
Other claims on euro area credit institutions denominated in euro	7	0	15,227	15,227
Securities of euro area residents denominated in euro		0	1,179,538	1,179,538
Other securities	9	0	1,179,538	1,179,538
Intra-Eurosystem claims		722	115,558	116,280
Participating interest in ECB	10	722	0	722
Other claims within the Eurosystem (net)	13	0	115,558	115,558
Other assets		55,940	0	55,940
Tangible fixed assets	14	22,407	0	22,407
Other financial assets	15	217	0	217
Off-balance-sheet instruments revaluation differences	16	4,681	0	4,681
Accruals and prepaid expenses	17	5,501	0	5,501
Sundry	18	23,134	0	23,134
Loss for the year		0	1,723	1,723
TOTAL ASSETS		2,020,694	-74,095	1,946,599
LIABILITIES				
Banknotes in circulation	19	373,128	-8,936	364,192
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		1,009,868	115,518	1,125,386
Current accounts (covering the minimum reserve system)	20	1,009,868	115,518	1,125,386
Liabilities to other euro area residents denominated in euro	23	6,509	0	6,509
Liabilities to non-euro area residents denominated in euro	24	0	214	214
Liabilities to euro area residents denominated in foreign currency		115,518	-115,518	0
Counterpart of the special drawing rights allocated by the IMF	25	147,929	-75,863	72,066
Other liabilities		17,530	8,767	26,297
Off-balance-sheet instruments revaluation differences	16	584	0	584
Accruals and income collected in advance	26	10,298	44	10,342
Sundry	27	6,648	8,723	15,371
Provisions	28	81	0	81
Revaluation accounts	29	8,798	0	8,798
Capital and reserves	30	343,056	0	343,056
Capital		38,347	0	38,347
Reserves		304,709	0	304,709
Profit for the year		-1,723	1,723	0
TOTAL LIABILITIES		2,020,694	-74,095	1,946,599

Assets and liabilities

Assets and liabilities are recognised in the Balance Sheet when it is probable that any associated future economic benefit will flow to or from Eesti Pank; substantially all of the risks and rewards related to assets and liabilities have been transferred; the cost or value of an asset or a liability and the resulting gains or losses can be measured reliably.

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.

Financial assets are initially recorded at their acquisition cost, which is the fair value of the amount paid for the financial asset in question. Financial liabilities are initially recorded at their acquisition cost, which is the fair value of the amount received for the financial liability in question. Subsequent measurement of financial assets and liabilities is based on the market value, the acquisition cost or amortised cost depending on the type of a respective asset or liability. Market 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 assets recorded at market value are revalued on every balance sheet date.

Financial assets recorded at adjusted acquisition cost are written down in case the recoverable amount of an asset is likely to be smaller than its carrying amount. The impairment of significant financial assets is measured for each object separately. The impairment of financial assets that are not individually significant and that are not expected to be impaired is measured for all assets together. Write-downs of financial assets are recorded as an expense of the accounting period in the Profit and Loss Account.

Recording of transactions in foreign currency

With the exception of spot transactions in securities, transactions in financial instruments denominated in foreign currency are recorded in off-balance-sheet accounts on the trade date. At the settlement date the off-balance-sheet entries are reversed and transactions are booked on-balance-sheet. Purchases and sales of foreign currency affect the net foreign currency position on the trade date, and realised results arising from sales are also calculated on that date. Accrued interest, premiums and discounts related to financial instruments denominated in foreign currency are calculated and recorded daily, and the foreign currency position is also affected daily by these accruals.

Assets and liabilities denominated in foreign currency are converted into euro at the exchange rate prevailing on the balance sheet date. Income and expenses are converted at the exchange rate prevailing on the recording date. The revaluation of foreign exchange assets and liabilities, including on-balance-sheet and off-balance-sheet instruments, is performed on a currency-by-currency basis.

The special drawing right (SDR) of the International Monetary Fund (IMF) is defined in terms of a basket of currencies. To revalue Eesti Pank's holdings of SDRs, the value of the SDR was calculated as the weighted sum of the exchange rates of four major currencies (the US dollar, euro, Japanese yen and pound sterling) converted into euro as at 30 December 2011.

The exchange rates applied on 31 December 2011 and 2010 were as follows:

	31/12/2011	31/12/2010*
USD	1.2939	1.3361
GBP	0.8353	0.8621
JPY	100.2	108.6652
SDR	1.1867	1.1630

* Eesti Pank's exchange rate converted at EEK/EUR 15.6466.

Gold

Gold is valued at the market price prevailing at the year-end. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold valuation is accounted for on the basis of the price in euro per fine ounce of gold, which, for the year ending 31 December 2011, was derived from the exchange rate of the euro against the US dollar on 30 December 2011.

Securities

Marketable securities (other than those classified as held-to-maturity) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. For the year ending 31 December 2011, mid-market prices on 30 December 2011 were used.

Securities held for monetary policy purposes classified as held-to-maturity are valued at amortised cost subject to a Eurosystem impairment framework.

Income recognition

Income and expenses are recognised in the Profit and Loss Account in the period in which they are earned or incurred, regardless of when cash was received or paid. Realised gains and losses arising 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 taken to the Profit and Loss Account, but are recognised on the Balance Sheet under *Revaluation accounts*.

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

In the event of an unrealised loss on any item at the year-end, the average cost of that item is reduced to the year-end exchange rate or market price.

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.

Reverse transactions

Repurchase transactions (sale/repurchase transactions) are recorded as collateralised deposits taken at their fair value; that is, securities are recorded as assets on the Balance Sheet and the repurchase amount as a liability. Interest payable is recorded on an accrual basis on the Balance Sheet under *Accruals and income collected in advance*.

Reverse repurchase transactions (purchase/resale transactions) are recorded as collateralised loans. Interest receivable is recorded on an accrual basis on the Balance Sheet under *Accruals and prepaid expenses* and interest income on the Profit and Loss Account. Securities used as collateral for reverse repurchase transactions are not recorded on the Balance Sheet of Eesti Pank.

Investment in shares

Investment in shares is recorded at market value if it can be assessed reliably. The measurement of the market value of shares is not reliable if the shares are not actively traded and there are no alternative methods to measure their value reliably. In this case shares are recorded at their acquisition cost. 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 3,200 euros. Fixed assets are recorded at cost, which includes purchase price and other expenditure directly related to the use of these assets. 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. Pre-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:

	2011
Buildings	3%
Utility systems of buildings	10%
Hardware	20%
Software	15–50%
Other fixed assets	7–20%

The need to differentiate between software depreciation rates arises from the implementation of application software with high acquisition cost and different useful lives.

Subsequent expenditure incurred for items of fixed asset are recognised as fixed assets when it is probable that Eesti Pank will derive future expected benefits from the asset and the cost of the asset can be measured reliably. Other maintenance and repair costs are expensed at the time they are incurred.

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 current account held with Eesti Pank.

Off-balance-sheet instruments

Currency instruments, namely foreign exchange forward instruments, forward legs of foreign exchange swaps and other currency instruments involving an exchange of one currency for another at a future date, are included in the net foreign currency position for the purpose of calculating foreign exchange gains and losses.

Interest rate instruments are revalued on an item-by-item basis. Daily changes in the variation margin of open interest rate futures contracts are recorded in the Profit and Loss Account. The valuation of forward transactions in securities and of interest rate swaps is based on generally accepted valuation methods, using observable market prices and rates, as well as discount factors from the settlement dates to the valuation date.

Contingent liabilities

Contingent liabilities are recorded in the Notes on the Annual Accounts and include commitments, guarantees and other liabilities which may, under certain conditions, become liabilities in the future, while the probability of their realisation is considered lower by the management of the Bank than the probability of their non-realisation.

Post-balance-sheet events

The values of assets and liabilities are adjusted for events that occur between the annual balance sheet date and the date of compilation of the Annual Accounts but are related to transactions during the accounting period or earlier periods and/or materially affect the condition of assets and liabilities on the balance sheet date. Important post-balance-sheet events that do not affect the condition of assets and liabilities on the balance sheet date are disclosed in the Notes.

Banknotes in circulation

The European Central Bank and the euro area national central banks, which together comprise the Eurosystem, issue euro banknotes.¹ The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with the banknote allocation key.²

The European Central Bank has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to the Eurosystem central banks according to their weightings in the capital key of the ECB. The share of banknotes allocated to each Eurosystem central bank is disclosed under the balance sheet liability item *Banknotes in circulation*.

¹ Decision ECB/2010/29 of 13 December 2010 on the issue of euro banknotes (recast), OJ L 35, 9.2.2011, p 26.

² Banknote allocation key – the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share in that total.

The difference between the value of euro banknotes allocated to each Eurosystem central bank in accordance with the banknote allocation key and the value of euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which bear interest,³ are disclosed under the sub-item *Intra-Eurosystem balances: net claims/liabilities related to the allocation of euro banknotes within the Eurosystem* (see *Intra-Eurosystem balances* in the notes on accounting policies).

From the cash changeover year⁴ until five years following the cash changeover year the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in the Eurosystem central bank's relative income positions as compared to previous years. The adjustments are effected by taking into account the differences between the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments will be reduced in annual stages until the first day of sixth year after the cash changeover year when income on banknotes will be allocated fully in proportion to the Eurosystem central bank's paid-up shares in the ECB's capital. The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under *Net interest income*.

Interim profit distribution

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, and the ECB's (net) income arising from SMP securities shall be due in full to the NCBs in the same financial year it accrues. The European Central Bank shall distribute this income in January of the following year in the form of an interim distribution of profit.⁵ The amount of the ECB's income on euro banknotes in circulation may be reduced in accordance with any decision by the Governing Council in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes. Before the end of the year the Governing Council decides whether all or part of the ECB's income arising from SMP securities and, if necessary, all or part of the ECB's income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of the distributed income does not exceed the ECB's net profit for that year.

The Governing Council may also decide to transfer all or part of the ECB's income arising from securities purchased under the Securities Market Programme and if necessary all or part of the ECB's income on euro banknotes in circulation to a provision for foreign exchange rate, interest rate, credit and gold price risks. The amount distributed to the Eurosystem central banks is disclosed in the Profit and Loss Account under *Income from equity shares and participating interests*.

Intra-Eurosystem balances

The European System of Central Banks' (ESCB) transactions are cross-border transactions between two national central banks of the European Union. The intra-ESCB transactions are settled primarily in TARGET2 – the Trans-European Automated Real-time Cross Settlement Express Transfer system

³ Decision ECB/2010/23 of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast), OJ L 35, 9.2.2011, p 17.

⁴ The year of changeover to the euro is the year when euro banknotes become the legal tender of a Member State.

⁵ Decision ECB/2010/24 of 25 November of 2010 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the Securities Market Programme (recast), OJ L 6, 11.1.2011, p 35.

(see chapter "Payment and settlement systems" in the Annual Accounts) – and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-à-vis the ECB only. Intra-Eurosystem balances of euro area NCBs vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (e.g. interim profit distributions to NCBs) are presented in the Balance Sheet as a single net asset or liability position and disclosed under *Other claims within the Eurosystem (net)* or *Other liabilities within the Eurosystem (net)*.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a net single asset or liability under *Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem* (see "Banknotes in circulation" in the notes on accounting policies).

Intra-Eurosystem balances arising from the transfer of foreign reserve assets to the ECB by NCBs joining the Eurosystem are denominated in euro and reported under *Claims equivalent to the transfer of foreign reserves*.

Notes on the Balance Sheet

ITEM 1 – GOLD AND GOLD RECEIVABLES

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

	Amount (ounce)	Market price per ounce (EUR)	Market value (EUR thousand)
Balance at the end of 2010	8,250.171	1,054.77*	8,702
Revaluation	-	-	1,337
Balance at the end of 2011	8,250.171	1,216.86	10,039

* Eesti Pank's exchange rate converted at EEK/EUR 15.6466.

ITEM 2 – RECEIVABLES FROM THE IMF

Receivables from the IMF include the SDR account in the IMF, reserve position in the IMF and other receivables.

EUR thousand

	31/12/2011	31/12/2010
Receivables from the IMF	74,133	72,653
SDR account in the IMF	73,607	72,137
Other receivables from the IMF	518	508
Reserve position in the IMF	8	8

The SDR account in the IMF

An SDR account is generated for every IMF Member State for conducting loan transactions and several other related operations between a Member State and the IMF.

Reserve position 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 euro 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. The quota of the Republic of Estonia in the IMF was 65,200,000 SDRs at the end of 2011.

The Republic of Estonia has paid its subscription in government debt obligations deposited with Eesti Pank. These debt obligations do not bear interest.

The reserve position in the IMF comprises of the net amount of the quota and the debt obligations.

EUR thousand

	31/12/2011	31/12/2010
Reserve position in the IMF	8	8
Participation in the IMF	77,373	75,827
IMF securities account and IMF No. 1 account (liabilities)	-77,365	-75,819

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 about 0.1%.

EUR thousand

	31/12/2011	31/12/2010
Other receivables from the IMF	518	508
Eesti Pank, SBA loan-related receivable	399	391
Government, STF loan-related receivable	119	117

ITEM 3 - BALANCES WITH BANKS, SECURITY INVESTMENTS AND OTHER EXTERNAL ASSETS

Item 3 reflects balances with banks and security investments denominated in US dollars. In 2011, Eesti Pank's foreign reserves were invested mainly in the low-risk government bonds of the United States (for further information on investments see "Reserve management" in the Annual Accounts).

EUR thousand

	31/12/2011	31/12/2010
	77,696	60,137
Securities	66,018	48,887
Current accounts	11,678	11,250

EUR thousand

	31/12/2011	31/12/2010	Change
	77,696	60,137	17,559
USD	76,910	59,438	17,472
GBP	214	361	-147
CAD	197	152	45
SEK	159	71	88
AUD	90	31	59
JPY	63	23	40
NZD	18	17	1
DKK	17	18	-1
CHF	15	12	3
NOK	13	14	-1

ITEM 4 - CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

Item 4 reflects the balances with banks vis-à-vis euro area residents denominated in foreign currency.

EUR thousand

	31/12/2011	31/12/2010	Change
	4,929	5,388	-459
USD	2,782	3,483	-701
GBP	978	242	736
AUD	640	371	269
JPY	217	143	74
SEK	179	406	-227
CAD	94	326	-232
NOK	30	401	-371
CHF	8	15	-7
NZD	1	1	0

ITEM 5 – CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO

Item 5 reflects security investments denominated in euro vis-à-vis non-euro area residents as at 31 December 2011. Item 5 decreased in 2011 because at the end of 2010 the item included also fixed-term deposits and reverse repurchase transactions.

ITEM 6 – LENDING TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO

The total Eurosystem holding of monetary policy assets amounts to 863,568 million euros. In accordance with Article 32.4 of the Statute of the ESCB, any risks from the monetary policy operations, if they were to materialise, should eventually be shared in full by the Eurosystem central banks in proportion to the prevailing ECB capital key shares. Eesti Pank's share is 0.25582%.

ITEM 7 – OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

Item 7 reflects the balances with banks vis-à-vis euro area credit institutions denominated in euro.

ITEM 8 – SECURITIES HELD FOR MONETARY POLICY PURPOSES

Item 8 reflects securities acquired by Eesti Pank within the scope of the purchase programmes for covered bonds⁶ and public debt securities acquired in the scope of the Securities Market Programme (SMP).⁷

⁶ Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bond purchase programme (OJ L 175, 4.7.2009, p 18) and Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme (OJ L 297, 16.11.2011, p 70).

⁷ Decision ECB/2010/5 of 14 May 2010 establishing a securities markets programme (OJ L 124, 20.05.2010, p 8).

The total Eurosystem central banks holding of SMP securities amounts to 211,947 million euros, of which Eesti Pank holds 342 million euros. In accordance with Article 32.4 of the Statute of the ESCB, any risks from holding of SMP securities, if they were to materialise, should eventually be shared in full by the Eurosystem central banks, must in proportion to the prevailing ECB capital key shares.

Securities purchased under the Securities Market Programme and the covered bond purchase programme are classified as held-to-maturity securities and are valued on an amortised cost basis subject to impairment (see "Securities" in the notes on the accounting policies). Annual impairment tests are conducted on the basis of information available and estimated recoverable amounts as at the year-end.

In this context, the ECB Governing Council considered the impact of the private sector involvement (PSI) initiative announced in 2011, which proposed a restructuring of part of the debt issued by the Hellenic Republic to secure debt sustainability in the long term. Part of the ECB's holdings under the Securities Market Programme comprises debt securities issued by the Hellenic Republic. However, given that the initiative was designed to voluntarily restructure debt held by the private sector, it was not expected to result in changes to any future contractual cash flows associated with the ECB's holdings of these securities. As at 31 December 2011 the Governing Council considered that there was no evidence to assume that the initiative would not be successfully implemented, therefore, no impairment losses were recorded at the year-end.

Furthermore, no impairment was recorded in respect of the other securities purchased under the Securities Market Programme or the securities bought under the two covered bond purchase programmes. The ECB Governing Council assesses on a regular basis the financial risks associated with the securities held under the Securities Market Programme and the two covered bond purchase programmes.

ITEM 9 - OTHER SECURITIES

Item 9 reflects investments in securities of euro area residents denominated in euro. These positions decreased in 2011 due to the decrease in the investment portfolio at the beginning of the year.

ITEM 10 - PARTICIPATING INTEREST IN THE ECB

Item 10 reflects the participating interest of Eesti Pank in the European Central Bank. Article 28 of the Statute of the European System of Central Banks (ESCB) sets out that the national central banks of the ESCB are the sole subscribers of the capital of the ECB. Subscriptions depend on the capital key weighting that is established in compliance with Article 29.3 of the ESCB Statute and that is adjusted in every five years, last on 1 January 2009. Consequently, Eesti Pank's share in the subscribed capital of the ECB increased from 0.1703% to 0.1790%.

In December 2010, the ECB decided to increase its subscribed capital by 5 billion euros from 5.76 billion to 10.76 billion euros as of 29 December 2010. The national central banks of the euro area will pay up their additional capital contributions in three equal annual instalments.

Pursuant to the ECB's Governing Council's decision 2010/416/EC of 13 July 2010, which was adopted in accordance with Article 140(2) of the Treaty on the Functioning of the European Union, Estonia adopted the single currency on 1 January 2011. In accordance with Article 48.1 of the Statute of the ESCB and the legislation adopted by the ECB's Governing Council on 13 December and 30 December 2011, Eesti Pank paid up 12,572,592 euros to the capital of the ECB. This amount includes the increase of the ECB capital as of 29 December 2010, with due regard to the paid up additional capital contributions.

In accordance with the legal acts adopted by the ECB Governing Council on the increase of the subscribed capital of the ECB on 29 December 2010 and the pay-up of the increase via three instalments,⁸ Eesti Pank has paid up an additional 2,983,333 euros to the ECB on 28 December 2011, representing the second instalment of the contribution to the increase in the ECB's capital.

As a result, the subscribed and paid up capital contributions of the national central banks is as follows:

	Subscribed capital as of 1 Jan 2009	Subscribed capital as of 29 Dec 2010	Paid-up capital as at 31 Dec 2010	Paid-up capital as at 31 Dec 2011
	%	€	€	€
Nationale Bank van België / Banque Nationale de Belgique	2.4256	261,010,385	180,157,051	220,583,718
Deutsche Bundesbank	18.9373	2,037,777,027	1,406,533,694	1,722,155,361
Eesti Pank	0.1790	19,261,568	722,309	16,278,234
Central Bank of Ireland	1.1107	119,518,566	82,495,233	101,006,900
Bank of Greece	1.9649	211,436,059	145,939,392	178,687,726
Banco de España	8.3040	893,564,576	616,764,576	755,164,576
Banque de France	14.2212	1,530,293,899	1,056,253,899	1,293,273,899
Banca d'Italia	12.4966	1,344,715,688	928,162,355	1,136,439,021
Central Bank of Cyprus	0.1369	14,731,333	10,168,000	12,449,666
Banque centrale du Luxembourg	0.1747	18,798,860	12,975,526	15,887,193
Central Bank of Malta	0.0632	6,800,732	4,694,066	5,747,399
De Nederlandsche Bank	3.9882	429,156,339	296,216,339	362,686,339
Oesterreichische Nationalbank	1.9417	208,939,588	144,216,254	176,577,921
Banco de Portugal	1.7504	188,354,460	130,007,793	159,181,126
Banka Slovenije	0.3288	35,381,025	24,421,025	29,901,025
Národná banka Slovenska	0.6934	74,614,364	51,501,030	63,057,697
Suomen Pankki – Finlands Bank	1.2539	134,927,820	93,131,154	114,029,487
Subtotal – euro area national central banks*		7,529,282,289	5,184,359,697	6,363,107,289

⁸ Decision ECB/2010/26 of 13 December 2010 on the increase of the European Central Bank's capital (OJ L 11, 15.1.2011, p 53); Decision ECB/2010/27 of 13 December 2010 on the paying-up of the increase of the European Central Bank's capital by the national central banks of Member States whose currency is the euro (OJ L 11, 15.1.2011, p 54); Decision ECB/2010/34 of 31 December 2011 on the paying-up of capital, transfer of foreign reserve assets and contributions by Eesti Pank (OJ L 11, 15.1.2011, p 58); Agreement of 31 December 2010 between Eesti Pank and the European Central Bank regarding the claim credited to Eesti Pank by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank (OJ C 12, 15.2.2011, p 6).

	Subscribed capital as of 1 Jan 2009	Subscribed capital as of 29 Dec 2010	Paid-up capital as at 31 Dec 2010	Paid-up capital as at 31 Dec 2011
	%	€	€	€
Българска народна банка (Bulgarian National Bank)	0.8686	93,467,027	3,505,014	3,505,014
Česká národní banka	1.4472	155,728,162	5,839,806	5,839,806
Danmarks Nationalbank	1.4835	159,634,278	5,986,285	5,986,285
Latvijas Banka	0.2837	30,527,971	1,144,799	1,144,799
Lietuvos bankas	0.4256	45,797,337	1,717,400	1,717,400
Magyar Nemzeti Bank	1.3856	149,099,600	5,591,235	5,591,235
Narodowy Bank Polski	4.8954	526,776,978	19,754,137	19,754,137
Banca Națională a României	2.4645	265,196,278	9,944,860	9,944,860
Sveriges Riksbank	2.2582	242,997,053	9,112,389	9,112,389
Bank of England	14.5172	1,562,145,431	58,580,454	58,580,454
Subtotal – non-euro area national central banks*		3,231,370,113	121,176,379	121,176,379
Total*	100.0000	10,760,652,403	5,305,536,076	6,484,283,669

* Owing to rounding, the total may not correspond to the sum of all figures shown.

Eesti Pank will pay the third instalment of its contribution to the increase in the ECB capital at the end of 2012 in the amount of 2,983,333 euros.

Upon Estonia's accession to euro area, Article 48.2 of the Statute of the ESCB required Eesti Pank to pay to the ECB a part of the reserves, revaluation accounts and risk provisions of the ECB in proportion to Eesti Pank's share in the subscribed capital of the ECB. The total amount paid for the reserves, revaluation accounts and the risk provisions of the ECB was 63,633,111 euros.

ITEM 11 – CLAIMS EQUIVALENT TO THE TRANSFER OF FOREIGN RESERVES

In accordance with Article 48.1 of the Statute of the ESCB in conjunction with Article 30.1, Eesti Pank transferred 103,115,678 euros of foreign reserves to the ECB as of 1 January 2011. 85% of the reserves consisted of Japanese yen and 15% of gold. The claims are denominated in euro at a value fixed at the time of their transfer. They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component.

ITEM 12 – NET CLAIMS RELATED TO THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSYSYEM

Item 12 reflects Eesti Pank's claims vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see Banknotes in circulation and Intra-Eurosystem balances in the notes on the accounting policies).⁹

⁹ In accordance with the accounting methods chosen by the Eurosystem in relation to the euro banknotes, 8% of the total value of euro banknotes in circulation is allocated to the ECB on a monthly basis. The rest of the 92% of the euro banknotes in circulation are allocated to the national central banks on a monthly basis, while the latter reflect their percentages of the euro banknotes in their Balance Sheets in proportion to their paid-up contributions to the ECB capital. In accordance with these accounting methods, the difference between the value of euro banknotes allocated to a national central bank and the amount of euro banknotes issued into circulation is recorded under *Intra-Eurosystem net claims/liabilities related to the allocation of euro banknotes within the Eurosystem*.

ITEM 13 – OTHER CLAIMS WITHIN THE EUROSISTEM (NET)

Item 13 reflects net claims arising from the TARGET2 balance, the amount due to the difference arising from the monetary income collected from and reallocated to the Eurosystem central banks, and the amount due to the distribution of the ECB's income on euro banknotes.

ITEM 14 – FIXED ASSETS

EUR thousand

Acquisition cost	Buildings	Hardware	Inventory	Software	Total
Balance at the end of 2010	26,287	3,305	5,432	4,483	39,507
Acquisitions	1,382	283	953	305	2,923
Disposals	0	-406	-199	-685	-1,290
Balance at the end of 2011	27,669	3,182	6,186	4,103	41,140
Accumulated depreciation					
Balance at the end of 2010	7,368	2,691	3,444	3,698	17,201
Depreciation charge	1,172	208	524	329	2,233
Disposals	0	-406	-200	-685	-1,291
Balance at the end of 2011	8,540	2,493	3,768	3,342	18,143
Carrying amount					
at the end of 2010	18,919	614	1,988	785	22,306
at the end of 2011	19,129	689	2,418	761	22,997
Prepayments for fixed assets					
Balance at the end of 2010	73	1	27	0	101
Balance at the end of 2011	0	0	0	275	275
Total fixed assets					
at the end of 2010	18,992	615	2,015	785	22,407
at the end of 2011	19,129	689	2,418	1,036	23,272

The cost of fixed assets acquired in 2011 amounted to 2.9 million euros (6.8 million euros in 2010). Over half of the acquisition cost (1.5 million euros in total) was spent on procurements related to the renovation, purchase of hardware and interactive exhibition software, furniture and exhibition equipment of the Eesti Pank Museum. In addition, hardware was acquired for the expansion of the back-up centre and for the data communication network, as well as a new database for the accounting software of the money market operations. Other purchases of fittings included safety and cash handling equipment.

ITEM 15 – OTHER FINANCIAL ASSETS

Eesti Pank holds 214 shares (200 voting shares) in the Bank for International Settlements in the acquisition cost of 217,118 euros.

ITEM 16 – OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

Item 16 reflects valuation changes in swap and forward transactions in foreign currency that were outstanding at the year-end. These valuation changes are the result of the conversion of such transactions into their euro equivalents at the central exchange rates prevailing on the balance sheet date, compared with the euro values resulting from the conversion of the transactions at the average cost of the respective foreign currency on that date.

Valuation gains in outstanding interest rate swaps are also included in this item.

ITEM 17 – ACCRUALS AND PREPAID EXPENSES

EUR thousand

	2011	2010
Interest income	10,469	3,718
Securities	7,670	3,466
Intra-Eurosystem balances	2,676	0
Derivative instruments	91	191
Fixed-term deposits and current accounts	24	53
Loans	8	8
Prepaid expenses	583	856
Claims on the Financial Supervision Authority	518	524
Other claims	389	403
Total	11,959	5,501

ITEM 18 – SUNDRY ASSETS

EUR thousand

	2011	2010
Euro banknotes	0	16,160
Loans to employees of Eesti Pank	5,056	4,907
Foreign exchange transactions	1,361	356
Numismatic banknotes and coins of the Estonian kroon	952	1,125
Credits related to margin calls	209	419
Other	214	167
Total	7,792	23,134

The balances related to foreign exchange transactions arise from the conversion of such transactions into their euro equivalents at the respective currency's average cost on the balance sheet date, compared with the euro values at which the transactions were initially recorded.

Mortgage loans have been granted to employees of Eesti Pank for a maximum of 30 years and consumption loans for up to two years. The Supervisory Board of Eesti Pank establishes the interest rate on consumption loans once a 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 mortgage loans is the standing deposit facility interest payable to credit institutions plus the risk margin but not more than the minimum loan interest rate established by the Minister of Finance. The deposit facility rate equals ECB deposit interest rate, which remained within 0.25–0.75% in 2011. 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 32.

ITEM 19 – BANKNOTES IN CIRCULATION

Item 19 reflects Eesti Pank's share of the total euro banknotes in circulation (see "Banknotes in circulation" in the notes on accounting policies).

EUR thousand

	2011	2010
Estonian kroon banknotes	48,161	364,192
Euro banknotes	590,743	0
Adjustments of euro banknotes	1,683,840	0
ECB banknotes (8%)	-181,865	0
Total	2,140,879	364,192

From the beginning of 2012 Estonian kroons can be exchanged for euros at the Eesti Pank Museum at the central exchange rate (1 euro = 15.6466 kroons) and without any service fee, in unlimited amounts and for an unlimited period of time. In the first half of 2012 the cash offices of Swedbank and SEB Pank exchange kroons for euros all over Estonia under the same conditions. Kroons are exchanged for euros also at some offices of Sampo Pank and Krediidipank.

ITEM 20 – CURRENT ACCOUNTS (COVERING THE MINIMUM RESERVE SYSTEM)

Item 20 records the current accounts of credit institutions held with Eesti Pank for covering the minimum reserve. The interest paid on the money on the current accounts of credit institutions, held for covering the minimum reserve, is the latest available marginal interest rate for the Eurosystem's main refinancing operations.

ITEM 21 – DEPOSIT FACILITY

Item 21 reflects the standing deposit facility of the Eurosystem available for Estonian credit institutions for overnight depositing with the central bank at a pre-fixed interest.

ITEM 22 – FIXED-TERM DEPOSITS

Item 22 reflects the fixed-term deposits of Estonian credit institutions held with the central bank. In a variable rate tender, fixed-term deposits are collected so that counterparties bid the amounts of money and the interest rate at which they want to enter into transactions. The ECB's allotment decision determines the counterparties whose bids are satisfied.

ITEM 23 – LIABILITIES TO OTHER RESIDENTS DENOMINATED IN EURO

Item 23 reflects mainly the current account of the Financial Supervision Authority held with Eesti Pank, on which interests are calculated quarterly on the basis of the average balance of the current account. The interest rate is equal to the yield of the foreign exchange reserves of Eesti Pank.

ITEM 24 – LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

Item 24 reflects the euro deposits of non-euro-area residents. These deposits do not bear interest.

ITEM 25 – COUNTERPART OF THE SPECIAL DRAWING RIGHTS ALLOCATED BY THE IMF

Item 25 reflects the liability to the IMF arising from the IMF's decision of 7 August 2009 to increase the SDR issues for all of its member states. The objective was to increase global liquidity by supporting the foreign reserves of the IMF's member states. As a result, Estonia received 61,965,241 SDRs.

ITEM 26 – ACCRUALS AND INCOME COLLECTED IN ADVANCE

EUR thousand

	2011	2010
Liability to the Mint of Finland for euro coin production	0	6,259
Tax liabilities	688	868
Interest expense	244	412
Deposits with credit institutions	125	221
Derivative instruments	90	147
SDR allocation	22	44
Monetary policy operations	7	0
Other liabilities	1,978	2,804
Total	2,910	10,342

Other liabilities reflect liabilities outstanding on the balance sheet date, the majority of which were wages earned but not paid and vacation reserve fund totalling 1.1 million euros, and unpaid invoices for services provided to Eesti Pank totalling 0.9 million euros.

ITEM 27 – SUNDRY LIABILITIES

EUR thousand

	2011	2010
Euro coins	25,076	0
Estonian kroon coins	7,632	9,583
Foreign exchange forwards	227	3,590
Loans to employees of Eesti Pank	201	137
Credits related to margin calls	23	531
Foreign exchange transactions	0	898
Other	145	632
Total	33,304	15,371

The balances related to foreign exchange forward transactions arise from the conversion of such transactions into their euro equivalents at the respective currency's average cost on the balance sheet date, compared with the euro values at which the transactions were initially recorded.

Item 27 also includes 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 28 – PROVISIONS

Item 28 reflects performance bonuses to employees of the Financial Markets Department and related taxes for the investment results of the financial year. The amount of bonuses is approved by the Deputy Governor in charge of the Financial Markets Department after the approval of the audited Eesti Pank Annual Report by the Supervisory Board of Eesti Pank.

ITEM 29 – REVALUATION ACCOUNTS

EUR thousand

	2011	2010
Securities	6,044	2,539
Foreign currencies	3,431	5,511
Derivative instruments	265	748
Total	9,740	8,798

The revaluation accounts reflect revaluation reserves arising from unrealised gains on assets and liabilities.

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

ITEM 30 – CAPITAL AND RESERVES

Changes in capital and reserves in 2011:

EUR thousand

	Balance at the end of 2011	Increase in fixed capital	Distribution of 2010 loss	Balance at the end of 2010
Fixed capital	100,000	93,609	0	6,391
Reserve capital	30,233	0	-1,723	31,956
Special reserve	211,100	-93,609	0	304,709
Total	341,333	0	-1,723	343,056

Section 30 of the Eesti Pank Act sets out that 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.

Notes on the Profit and Loss Account

ITEM 31 – NET INTEREST INCOME

EUR thousand

	2011	2010
Net interest income	20,623	11,833
Interest income	31,524	23,128
Intra-Eurosystem balances	14,701	0
Securities	13,026	19,158
Derivative instruments	2,977	2,406
Current accounts	312	229
Reverse repurchase transactions	290	1,039
Fixed-term deposits	113	211
Loans to employees of Eesti Pank	105	85
Interest expense	-10,901	-11,295
Intra-Eurosystem balances	-4,681	0
Derivative instruments	-2,900	-2,276
Securities	-2,688	-4,911
Current accounts	-282	-219
Repurchase transactions	-158	-61
Fixed-term deposits	-121	0
Euro deposits	-71	-3,828

EUR thousand

Intra-Eurosystem interest income	14,701
Monetary policy operations	6,538
Allocation of banknotes within the Eurosystem	4,911
Interest income on TARGET accounts	2,149
Transfer of foreign currency reserves	1,103
Intra-Eurosystem interest expense	-4,681
Interest expense from minimum reserves	-2,815
Monetary policy operations	-1,141
Interest expense from TARGET accounts	-687
Transfer of capital share	-38

ITEM 32 – NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND RISK PROVISIONS

EUR thousand

	2011	2010
Net result of financial operations, write-downs and risk provisions	4,175	7,046
Realised gains arising from financial operations	4,684	9,268
Income/expense of exchange rate differences	4,012	2,587
Securities	1,819	7,668
Derivative instruments	-1,137	184
Financial asset management costs	-10	-1,190
Other	0	19
Write-downs on financial assets	-509	-2,222
Derivative instruments	-311	-616
Exchange rate write-downs	-198	-1,115
Securities	-1	-478
Net change of loan portfolio write-downs	1	-13

ITEM 33 – NET INCOME FROM FEES AND COMMISSIONS

EUR thousand

	2011	2010
Net income from fees and commissions	724	859
Income from fees and commissions	825	926
Current accounts service fees	825	921
Fines, arrears and other	0	5
Expense from fees and commissions	-101	-67
Commissions on futures and options	-61	-63
TARGET2 fees	-30	-1
Other fees and commissions	-10	-3

ITEM 34 – INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

Item 34 reflects dividends from the shares of the Bank for International Settlements. This item also includes the distribution of the ECB's income on euro banknotes amounting to 1.7 million euros (see "Interim profit distribution" in the notes on the accounting policies).

In 2011, following a decision by the ECB Governing Council on establishing a provision for foreign exchange rate, interest rate, credit and gold price risks, the ECB did not distribute its income arising from the securities purchased under the Securities Market Programme, and distributed part of its income earned on euro banknotes in circulation in the total amount of 652 million euros.

ITEM 35 – NET RESULT OF POOLING OF MONETARY INCOME

The net result of pooling of monetary income from the Eurosystem central banks in 2011 totalled 15,685,891,079 euros, which includes the share of Eesti Pank.

The monetary income pooled by the Eurosystem is allocated among Eurosystem central banks according to the subscribed ECB's capital key. The difference between the monetary income pooled by Eesti Pank amounting to 31,608,124 euros and reallocated to Eesti Pank amounting to 40,127,976 euros is the net result 8,519,852 euros arising from the calculation of monetary income.

The amount of each national central bank's monetary income is determined by measuring the actual annual income that derives from the earmarkable assets held against its liability base. The liability base consists mainly of the following items: banknotes in circulation; liabilities to euro area credit institutions related to monetary policy operations denominated in euro; intra-Eurosystem liabilities of the national central banks arising from the issuance of ECB debt certificates; net intra-Eurosystem liabilities resulting from TARGET2 transactions; net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

The earmarkable assets consist mainly of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; securities held for monetary policy purposes; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions; net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; a limited amount of each national central bank's gold holdings in proportion to each national central bank's capital key share.

Gold is considered to generate no income. Securities held for monetary policy purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bonds purchase programme and under Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme are considered to generate income at the latest available marginal rate for the Eurosystem's main refinancing operations. Where the value of a NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying to the value of the difference the latest available marginal rate for the Eurosystem's main refinancing operations.

ITEM 36 – OTHER INCOME

EUR thousand

	2011	2010
Other income	6,248	3,261
Income from the sale of coin metal	3,474	0
Income from the sale of collector coins and numismatic-bonistic products	2,057	2,566
Expenses compensated by the Financial Supervision Authority	547	549
Income on financial asset management	107	100
Rental income	39	34
Income from the sale of assets	1	2
Other income	23	10

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. Eesti Pank provides the Financial Supervision Authority with information technology, accounting, real estate and administration services. The Financial Supervision Authority covers also the depreciation costs of fixed assets used.

Income on financial asset management includes the service fee paid by the Guarantee Fund to Eesti Pank for investing the Fund's assets.

Income from the rent of the training centres of Eesti Pank is recorded under *Rental income*.

Income from the sale of assets includes income from the sale of fixed assets and inventories unnecessary for Eesti Pank.

ITEM 37 – STAFF COSTS

EUR thousand

	2011	2010
Staff costs	-7,701	-7,715
Wages	-5,609	-5,622
Social tax	-1,881	-1,884
Compensations and benefits	-134	-132
Unemployment insurance	-77	-77

Staff costs mainly include wage costs, including taxes, but also performance bonuses to employees of the Financial Markets Department for the results of the financial year.

Compensation and benefits include pension benefits and fringe benefits tax calculated on the preferential interest rate on mortgage loans and the preferential price for the rent of the training centre.

On average, there were 241 employees at Eesti Pank in full-time equivalent in 2011 (232 in 2010).

ITEM 38 – ADMINISTRATIVE EXPENSES

EUR thousand

	2011	2010
Administrative expense	-5,312	-5,422
Information technology maintenance	-1,424	-1,369
Financial asset management	-972	-914
Real estate renovation and administration	-948	-1,051
Business travel	-582	-478
Public relations and publications	-415	-691
Training	-206	-169
Office	-193	-193
Communications and transportation	-108	-111
Legal and arbitration	-22	-53
Other	-442	-393

The costs of financial asset management comprise the cost of market information, fees and costs of cross-border payments, and management costs of foreign reserves.

The procurements of public relations and publications include the costs of public events, publications, information agencies, the public web and online databases, public relations research polls, information campaigns, advertising and the Eesti Pank Museum.

Business trip expenses reflect the staff's business travel for the representation of Eesti Pank and cooperation with international organisations and financial institutions. There were 727 business trips in total in 2011 (709 in 2010).

Other administrative expenses primarily consisted of costs of security, sovereign rating of Estonia, the foreign representative of Eesti Pank and economic research.

ITEM 39 – OTHER EXPENSES

	<i>EUR thousand</i>	
	2011	2010
Other expenses	-4,109	-9,759
Production of euro coins	-2,855	-2,595
Production of collector coins and numismatic products	-532	-6,542
Cash circulation management	-524	-481
Other	-198	-141

ITEM 40 – DERIVATIVE INSTRUMENTS

Futures purchase transactions with a contract value of 18.7 million euros and futures sale transactions with a contract value of 169.6 million euros were outstanding as at 31 December 2011 (53.0 and 24.0 million euros respectively in 2010). The contract value of outstanding interest rate swaps totalled 148.5 million euros (53.7 million euros in 2010). Foreign exchange swap and forward transaction claims of 126.3 million and liabilities of 127.6 million euros remained outstanding as at 31 December 2011 (138.9 and 138.1 million euros respectively in 2010).

ITEM 41 – CONTINGENT LIABILITIES

	<i>EUR thousand</i>	
	Balance at the end of 2011	Balance at the end of 2010
Contingent liabilities	2,105	3,139
Contractual obligations to produce banknotes and coins	1,542	2,594
Unpaid share capital (75%) of BIS	563	545

The production of banknotes and coins

The contingent liabilities of Eesti Pank arising from the Joint Euro Tender for the production of euro banknotes in 2012 totalled 1.5 million euros in 2011.

Eesti Pank will participate in the production of euro banknotes for the first time in 2012. In 2012, Eesti Pank must return to the Eurosystem 44 million banknotes that were lent to Eesti Pank in autumn 2010 for the changeover to the euro. Furthermore, a certain amount of euro cash that is determined by the ECB Governing Council must be produced for the euro area countries. Eesti Pank will procure the euro banknotes through a joint tender with eight other euro area central banks. Following the tender, Eesti Pank will produce 20-euro banknotes that will be included in the joint assets of the Eurosystem.

Bank for International Settlements

Eesti Pank has a contingent liability to the Bank for International Settlements since 1930 regarding the unpaid part of the share capital (75%) of the BIS denominated in Swiss gold francs, which totalled 562,685 euros on the balance sheet date (see Item 15).

ITEM 42 – IMPORTANT POST-BALANCE-SHEET EVENTS

The Riigikogu adopted a decision on 15 December 2011 to agree to the increase of Estonia's quota in the IMF in the amount of 28.7 million SDRs, and authorised Eesti Pank to do the necessary transactions. The decision entered into force on 24 December 2011.

The Riigikogu adopted the amendment act for amending legislation related to Estonia's IMF membership, which, among other things, sets out that Eesti Pank performs the IMF membership payments on behalf of the Republic of Estonia, and that the government recalls the debt securities it issued for covering Estonia's previous quota to be replaced by an equivalent payment by Eesti Pank on 31 January 2012 at the latest.

On 23 January 2012, Eesti Pank transferred 8,528,600 euros to the IMF to acquire 7,175,000 SDRs, which constitute 25% of the increase in the quota of the Republic of Estonia. Eesti Pank also credited the IMF No. 1 Account held with Eesti Pank in the amount of 25,540,291 euros, which equals to 21,525,000 SDRs and constitutes 75% of the increase in the quota of the Republic of Estonia.

Pursuant to the amendment act for amending legislation related to IMF membership, Eesti Pank credited the IMF No. 1 Account with Eesti Pank on 24 January 2012 in the amount of 77,121,595 euros, which equals to 64,997,000 SDRs. Pursuant to Clause 72 of the Resolution of the Supreme Council of the Republic of Estonia of 22 April 1992 on approving membership of the Republic of Estonia in the International Monetary Fund, the International Bank for Reconstruction and Development and related organisations, Eesti Pank returned to the Minister of Finance the debt securities issued by the Government of the Republic for covering Estonia's quota in the International Monetary Fund.

INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the Supervisory Board of Eesti Pank:

We have audited the accompanying annual accounts of Eesti Pank, which comprise the statement of financial position as at 31 December 2011, and the statement of revenues and expenses and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Annual Accounts

Management Board is responsible for the preparation and fair presentation of these annual accounts in accordance with the guidelines established by the Governing Council of European Central Bank, which are set out in Decision ECB/2010/20 (recast) on 11 November 2010 and Eesti Pank Act, and for such internal control as the Management Board determines is necessary to enable the preparation of annual account that are free from material misstatement, whether due to fraud or error.

Certified Auditor's Responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the certified auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the certified auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual accounts present fairly, in all material respects, the financial position of Eesti Pank as at 31 December 2011, and its financial performance for the year then ended in accordance with the guidelines established by the Governing Council of European Central Bank, which are set out in Decision ECB/2010/20 (recast) on 11 November 2010 and Eesti Pank Act.

27 March 2012



Veiko Hintsov
Certified Auditor, No. 328
AS Deloitte Audit Eesti
Licence No. 27