



Annual accounts of
Eesti Pank

for the financial year ended
31 December 2007

**APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR
ENDED 31 DECEMBER 2007 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 2007.

The Annual Accounts have been prepared in accordance with the Eesti Pank Act and the internal accounting policies and procedures of Eesti Pank. The Annual Accounts give a true and fair view of the assets and liabilities, equity capital and economic performance of Eesti Pank.

In order to prepare the Annual Accounts in conformity with the requirements outlined in the previous section, the Executive Board is expected to provide estimates which affect 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 March 24, 2008, 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 2007 AND 2006 (EEK THOUSAND)

	Note	31/12/2007	31/12/2006
ASSETS			
Gold and gold receivables	1	73,544	62,169
Claims on non-residents denominated in foreign currency		35,488,407	33,933,699
Receivables from the IMF	2	1,107,004	1,176,705
Balances with banks, security investments and external loans	3	34,381,403	32,756,994
Intra-Eurosystem claims	4	10,745	10,873
Other assets		976,517	701,609
Tangible fixed assets	5	286,535	294,895
Other financial assets	6	3,441	3,441
Off-balance-sheet instruments revaluation differences	7	99,462	37,839
Accruals and prepaid expenses	8	471,522	308,399
Sundry	9	115,557	57,035
Total assets		36,549,213	34,708,350
LIABILITIES			
Currency in circulation	10	11,762,182	11,763,153
Liabilities to residents related to the monetary policy	11	17,521,306	17,086,784
Liabilities to other residents denominated in kroon	12	100,366	90,864
Liabilities to residents denominated in foreign currency	13	1,387	7,041
Liabilities to non-residents denominated in foreign currency	14	1,129,347	368,965
Liabilities to the IMF	2	1,095,648	1,164,676
Other liabilities		277,584	168,787
Off-balance-sheet instruments revaluation differences	7	55,517	30,277
Accruals and income collected in advance	15	171,194	128,789
Sundry	16	50,873	9,721
Revaluation accounts	17	227,606	60,980
Capital and reserves	18	3,948,268	3,801,770
Capital		600,000	600,000
Reserves		3,348,268	3,201,770
Profit for the year		485,519	195,330
Total liabilities		36,549,213	34,708,350

The notes on pages 86–101 form an integral part of the Annual Accounts.

PROFIT AND LOSS ACCOUNT FOR 2007 AND 2006 (EEK THOUSAND)

	Note	2007	2006
Interest income		1,895,334	1,055,344
Interest expense		-1,045,049	-487,149
Net interest income	19	850,285	568,195
Realised gains/losses arising from financial operations		-18,632	-50,473
Write-downs		-93,218	-103,085
Net result of financial operations, write-downs and risk provisions	20	-111,850	-153,558
Net result of fees and commissions	21	10,294	10,579
Dividend income	22	1,009	951
Other operating income	23	19,348	15,787
Operating expenses	24	-283,567	-246,624
Personnel expenses		-108,732	-97,894
Banknote and coin production costs		-51,827	-39,884
General administration expenses		-89,132	-80,678
Depreciation of fixed assets		-33,876	-28,168
Profit for the year	25	485,519	195,330

The notes on pages 86–101 form an integral part of the Annual Accounts.



STATEMENT OF CHANGES IN EQUITY (EEK THOUSAND)

	Fixed capital	Reserve capital	Special reserve	Profit	Total
Balance as at the end of 2005	100,000	500,000	3,023,724	237,395	3,861,119
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
Balance as at the end of 2006	100,000	500,000	3,201,770	195,330	3,997,100
Distribution of the 2006 profit	-	-	146,498	-146,498	-
Allocations to the state budget	-	-	-	-48,832	-48,832
Profit of 2007	-	-	-	485,519	485,519
Balance as at the end of 2007	100,000	500,000	3,348,268	485,519	4,433,787

The notes on pages 86–101 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 internal accounting policies and procedures of Eesti Pank. The internal accounting policies of Eesti Pank have been drawn from the European Central Bank's (ECB) guidelines for accounting financial instruments. The accounting of other assets and liabilities is based on the accounting principles generally accepted in Estonia.

The structure of the Balance Sheet proceeds from the structure specified in Annex IV to the 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.

The structure of the Profit and Loss Account is based on the structure outlined in Annex IX to the ECB Guideline ECB/2006/16.

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" (except interests and liabilities in the Special Drawing Rights (SDR) of the International Monetary Fund). Accrued interests are recorded under other assets and liabilities.

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

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 individuals. Pursuant to Section 21 of the Value Added Tax Act enforced on May 1, 2004, Eesti Pank is registered as a VAT taxable person with limited liability as of May 14, 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 the balance sheet on the settlement date.

Subsequent measurement of financial assets and liabilities is based on the market value, 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 instruments recorded at market 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 December 31, 2007 and 2006, were as follows:

	2007	2006
USD	10.6382	11.8818
SDR	16.8059	17.8647
EUR	15.6466	15.6466

Income recognition

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.

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 recorded 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.

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 market value. Debt instruments are revalued on the last banking day of the year by reference to the market prices on the last banking day.

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. Interest payable is 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 settlement 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.

Investment in shares

Investment in shares is recorded at market value if it can be reliably assessed. The assessment of the market 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 amortised cost (cost less provision for any impairment in 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 initially recorded at cost, which includes purchase price and other expenditure directly related to bringing the 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. Prepayments for fixed assets are also recorded as fixed assets.

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

	2007	2006
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.

Subsequent expenditures 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.

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 recorded 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 a reduction of expenses under the same cost account.

Asset impairment

An assessment is carried out at each balance sheet date to identify possible signs of an impairment of financial assets recorded at cost or amortised cost, or tangible fixed assets recorded at 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 expected to be 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 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 determined as the higher of an asset's fair value less costs to sell and its value in use. The value in use is the present value of cash flows expected from the use and sales of assets after use. The discount factor used to calculate the net present value 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 recorded on the Balance Sheet as a liability to the holder of currency. Currency in the cash desk of Eesti Pank is deducted from this liability.

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.

Estimates

Preparing the Annual Accounts in conformity with the above-described requirements requires the Executive Board to provide estimates as at the balance sheet date regarding the aspects affecting the assets and liabilities of Eesti Pank and income and expenses during the accounting period. 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 2006	8,250.171	7,535.4600	62,169
Revaluation	-	-	11,375
Balance at the end of 2007	8,250.171	8 914.2400	73,544

The market price for an ounce is equal to Eesti Pank's daily fixing of the Estonian kroon and gold.

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

	2007	2006
Participation in the IMF	1,095,744	1,164,779
SDR account in the IMF	1,003	1,023
Other receivables from the IMF	10,257	10,903
Total receivables from the IMF	1,107,004	1,176,705

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	2007	2006
Balance at the beginning of the year	1,023	1,037
Interest and other income	78	80
Exchange rate differences	-98	-94
Balance at the end of the year	1,003	1,023

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 2007 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)	2007	2006
Balance at the beginning of the year	1,164,779	1,231,491
Exchange rate differences	-69,034	-66,712
Balance at the end of the year	1,095,745	1,164,779
IMF kroon accounts (liabilities)		
Balance at the beginning of the year	1,164,676	1,231,400
Exchange rate differences	-69,028	-66,724
Balance at the end of the year	1,095,648	1,164,676

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

Other receivables from the IMF	2007	2006
Balance at the beginning of the year	10,903	11,540
Exchange rate differences	-646	-637
Balance at the end of the year	10,257	10,903
Eesti Pank, SBA loan-related receivable	5,649	6,005
Government, STF loan-related receivable	4,608	4,898
Total	10,257	10,903

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

EEK thousand

	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
	32,756,994	18,385,180	5,989,708	3,555,018	2,159,327	2,667,761
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	-	-	-	-
	Balance at the end of 2007	Structure of residual maturity				
		up to 3 months	3–12 months	1–3 years	3–5 years	over 5 years
	34,381,403	18,940,596	3,576,085	5,556,200	2,685,022	3,623,500
Cash and current accounts	459,717	459,717	-	-	-	-
Time deposits	634,368	634,368	-	-	-	-
Securities	30,974,385	15,533,578	3,576,085	5,556,200	2,685,022	3,623,500
Reverse repurchase agreements	2,312,933	2,312,933	-	-	-	-

In 2007, Eesti Pank's foreign exchange reserves were mainly placed in the markets of low-risk government bonds of leading industrial countries of the euro area and the United States with an average maturity of about 1.5 years.

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.



ITEM 4 – INTRA-EUROSISTEM CLAIMS

The item reflects participation of Eesti Pank in the European Central Bank (ECB). Pursuant to Article 28 of the Statute of the European System of Central Banks (ESCB), the national central banks of the ESCB are the sole subscribers of the capital of the ECB. Subscriptions depend on the capital key weighting established in compliance with Article 29.3 of the ESCB Statute and adjusted every five years. In accordance with Article 49(3) of the Statute of the ESCB, which was added to the Statute by the Treaty of Accession, the ECB's subscribed capital is automatically increased when a new Member state joins the EU and its NCB joins the ESCB. The increase is determined by multiplying the prevailing amount of the subscribed capital by the ratio, within the expanded capital key, between the weighting of the entering NCB(s) and the weighting of those NCBs that are already members of the ESCB. Upon Bulgaria's and Romania's accession to the EU on January 1, 2007, the share that Eesti Pank held in the subscribed capital of the ECB decreased from 0.1784% to 0.1703%.

As the Republic of Estonia does not participate in the euro area, the transitional provisions of Article 48 of the Statute apply. Eesti Pank was required to pay up a minimal contribution of 7% of its subscribed capital to the ECB upon entry to the ESCB. In connection with the change in the capital key weighting, the paid-up capital contribution of Eesti Pank decreased from 694,916 euros (10.9 million kroons) as at December 31, 2006, to 686,727 euros (10.7 million kroons) as at January 1, 2007. 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 2007:

EEK thousand

	Buildings	Hardware	Furniture and fixtures	Software	Total
Acquisition cost					
Balance at the end of 2006	285,366	48,709	73,820	58,271	466,166
Acquisitions	24,077	8,689	1,359	2,448	36,573
Disposals	0	-3,536	-1,817	-4,692	-10,045
Balance at the end of 2007	309,443	53,862	73,362	56,027	492,694
Accumulated depreciation					
Balance at the end of 2006	49,270	42,705	46,223	45,268	183,466
Depreciation charge	16,053	4,715	7,802	5,307	33,877
Disposals	0	-3,536	-1,811	-3,532	-8,879
Balance at the end of 2007	65,323	43,884	52,214	47,043	208,464
Carrying amount					
Balance at the end of 2006	236,096	6,004	27,596	13,003	282,699
Balance at the end of 2007	244,120	9,978	21,148	8,984	284,230
Prepayments for fixed assets					
Balance at the end of 2006	12,097	98	0	0	12,195
Balance at the end of 2007	1,172	0	59	1,074	2,305
Total fixed assets					
At the end of 2006	248,193	6,102	27,596	13,003	294,895
At the end of 2007	245,292	9,978	21,207	10,058	286,535

The cost of fixed assets acquired in 2007 amounted to 36.6 million kroons (109.3 million kroons in 2006). The majority of the procurement of buildings composed costs related to the repair and construction of the Eesti Pank's building at Sakala 6.

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 2007		Balance at the end of 2006	
	Holding (%)	EEK thousand	Holding (%)	EEK thousand
Bank for International Settlements (BIS)				
214 shares (200 voting shares)	N/A	3,397	N/A	3,397
Tallinna Börs (Tallinn Stock Exchange)				
29 shares with nominal value à 10 000 kroons	1,1	44	1,1	44
Total		3,441		3,441

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 December 31, 2007.

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 difference of derivative instruments denominated in a foreign currency. The difference is calculated using the average exchange rate and the daily fixing of Eesti Pank.

ITEM 8 – ACCRUALS AND PREPAID EXPENSES

	<i>EEK thousand</i>	
	2007	2006
Interest income	427,463	286,931
Securities	394,264	278,374
Derivative instruments	29,459	6,387
Reverse repurchase transactions	2,775	1,412
Time deposits	811	588
Loans	154	170
Claims on the Financial Supervision Authority	10,418	9,366
Other claims	1,558	1,410
Prepaid expenses	32,083	10,692
Total	471,522	308,399



ITEM 9 – SUNDRY

This item includes mainly loans issued to employees of Eesti Pank in the total amount of 45 million kroons (41.4 million in 2006) and euro cash in the total amount of 46.9 million kroons. Housing loans secured by real estate 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 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 loan interest rate 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 reserves' interest rate equals ECB deposit interest rate, which remained within 2.5–3.0% in 2007. 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

	2007	2006
Banknotes	11,610,325	11,627,284
Coins	151,857	135,869
Total	11,762,182	11,763,153

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 434.5 million kroons in 2007. 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 2007, the deposit interest rate of the ECB increased from 2.5% to 3%. 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. Interests on the funds in the Financial Supervision Authority's account are calculated quarterly on the basis of the average balance of the settlement account. The interest rate is equal to the yield of the foreign exchange reserves.

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 the TARGET.

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

This item includes repurchase agreements.

ITEM 15 – ACCRUALS AND INCOME COLLECTED IN ADVANCE

EEK thousand

	2007	2006
Interest expense	103,559	59,413
on deposits with credit institutions	55,518	34,655
on derivative instruments	32,694	10,845
on repurchase agreements	2,832	613
Amortisation of securities	12,515	13,300
Tax liabilities	10,969	9,820
Other liabilities	56,666	59,556
Total	171,194	128,789

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

	2007	2006
Foreign currencies	75,832	34,251
Derivative instruments	50,125	25,664
Securities	101,649	1,065
Total	227,606	60,980

These accounts represent revaluation reserves that arise 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 18 – CAPITAL AND RESERVES

Changes in capital and reserves in 2007:

EEK thousand

	Balance at the end of 2007	Distribution of 2006 profit	Balance at the end of 2006
Fixed capital	100,000	-	100,000
Reserve capital	500,000	-	500,000
Special reserve	3,348,268	146,498	3,201,770
Total	3,948,268	146,498	3,801,770



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

The higher interest income in 2007 arose from the steep fall in interest rates in the United States in comparison with the stable and relatively high interest rates in the euro area.

EEK thousand

	2007	2006
Net interest income	850,285	568,195
Interest income	1,895,334	1,055,344
Securities	1,224,263	799,762
Reverse repurchase agreements	349,975	143,738
Derivative instruments	266,496	85,320
Time deposits	53,300	25,099
Loans to personnel	1,290	1,417
Other	10	8
Interest expense	-1,045,049	-487,149
Securities	-46,004	-51,391
Repurchase agreements	-158,638	-35,964
Derivative instruments	-290,619	-143,823
Time deposits	-757	-276
Credit institutions' deposit interests	-546,002	-255,050
Other	-3,029	-645

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

EEK thousand

	2007	2006
Net result of financial operations	-111,850	-153,558
Realised gains/losses arising from financial operations	-18,632	-50,473
Securities	12,984	-64,195
Derivative instruments	-15,678	13,182
Income/expense of exchange rate differences	-14,583	-14,970
Financial asset management costs	-1,355	-683
Other	0	16,193
Write-downs	-93,218	-103,085
Securities	-47,764	-77,306
Derivative instruments	-43,355	-26,133
Exchange rate write-downs	-2,719	0
Net change of loan portfolio write-downs	620	354

ITEM 21 – NET RESULT OF TRANSACTION AND COMMISSION FEES

	<i>EEK thousand</i>	
	2007	2006
Transaction and commission fees	10,294	10,579
Settlement service costs	12,022	10,937
Commissions on futures and options	-1,763	-642
Fines, arrears and other	35	284

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 and the Tallinn Stock Exchange.

ITEM 23 – OPERATING INCOME

Most of other operating income (7.6 million kroons) comprises income from 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 2006 and 2007. 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 used.

In 2007, income from the sale of numismatic-bonistic products amounted to 8.1 million kroons. Most of that was income from the sale of collector coins.

Income on asset management includes the service fee paid by the Guarantee Fund and the Unemployment 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 inventories unnecessary for Eesti Pank.

The majority of other income contains contractual penalties for defective banknotes and the delayed completion of a building.

	<i>EEK thousand</i>	
	2007	2006
Operating income	19,348	15,787
Expenses compensated by financial supervision	7,597	7,744
Income from the sale of collector coins and numismatic-bonistic products	8,147	5,970
Rental income	963	952
Income on asset management	1,308	896
Income from the sale of assets	176	83
Other income	1,157	142



ITEM 24 - OPERATING EXPENSES

Compared to 2006, operating expenses increased 15% in 2007.

EEK thousand

	2007	2006
Staff costs	-108,732	-97,894
Wages	-79,776	-71,755
Compensation and benefits	-1,948	-1,907
Social tax	-26,778	-24,033
Unemployment insurance	-230	-199

Staff costs grew 11% year-on-year and consisted mainly of wage costs, including taxes. Wage costs increased owing to a general rise in wages as well as single wage increases related to 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 in 2007.

Eesti Pank had 236 members in the staff at the end of 2007 (238 at the end of 2006).

In 2007, Eesti Pank participated in the voluntary pension investments of its staff and members of the Supervisory Board of Eesti Pank by contributing one million kroons in total. 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 2007, the costs of the special merit pension stood at 0.4 million kroons.

The production costs of banknotes and coins increased by 11.9 million kroons, year-on-year. The production costs of banknotes and coins included the cost of manufacturing banknotes and coins for 33.1 million kroons and the production costs of numismatic products for 16.4 million kroons. In 2007, coins of 10 senti, 20 senti and 50 senti were minted and 100-kroon and 500-kroon banknotes were issued. In addition, a golden coin dedicated to the 15th anniversary of the monetary reform was issued in 2007.

General administrative expenses grew by 8.5 million kroons year-on-year, mostly owing to increased real estate repair and administration expenses and IT maintenance costs. Real estate repair and administration expenses grew by 2.6 million kroons, year-on-year. The growth was due to the increased amount of construction and repair works and the rise in prices.

The rise in training and travel expenses arose from the increased amount of trainings and business trips. Business trip expenses are the travel expenses incurred by the officials on assignment, accommodation expenses, daily allowances, and conference or seminar participation fees.

IT maintenance costs increased by two million kroons in 2007. Software maintenance costs accounted for 64%, hardware repair and maintenance costs for 17% and data communication costs for 19% of IT maintenance costs. Compared to 2006, IT maintenance costs increased owing to higher software maintenance costs.

Other expenses consisted of the costs of seminars and events organised by the bank and costs related to economic research, personnel studies and recruitment.

EEK thousand

	2007	2006
General administrative expenses	-89,132	-80,678
Information technology maintenance costs	-19,503	-17,548
Real estate renovation and administration expenses	-17,434	-14,839
Financial asset management costs	-14,992	-14,295
Training and business travel expenses	-12,818	-11,686
Public relations and publications	-8,056	-7,664
Office costs	-4,518	-4,701
Communications and transportation costs	-3,249	-2,920
Legal and arbitration costs	-519	-457
Other expenses	-8,043	-6,568

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 prior to joining the Economic and Monetary Union.

After the evaluation of the profit distribution strategy in April 2007, the Supervisory Board of Eesti Pank decided to continue with the above-mentioned strategy and transfer 48.8 million kroons from the profit of 2006 to the state budget and 146.5 million kroons to the special reserve fund.

ITEM 26 – DERIVATIVE INSTRUMENTS

EEK thousand

	Contractual value
Derivative instruments	
Total as at 31 Dec 2006	21,770,865
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
Total as at 31 Dec 2007	26,895,225
Foreign currency forward transactions	1,274,609
Interest rate swap transactions	12,157,094
Foreign currency swap transactions	3,819,936
Futures transactions	7,452,126
Options	2,191,460

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



ITEM 27 – CONTINGENT LIABILITIES

EEK thousand

	Balance at the end of 2007	Balance at the end of 2006
Contingent liabilities	223,477	180,928
Uncalled share capital (75%) of BIS	7,745	8,651
Uncalled share (93%) of ECB participation	142,754	144,456
Contractual obligations to produce banknotes and coins	72,978	27,821

Bank for International Settlements (BIS)

Eesti Pank has a contingent liability to the Bank for International Settlements since 1930. This liability is the uncalled part of the share capital (75%) of the BIS denominated in Swiss gold francs, totalling 7.7 million kroons on the balance sheet date (see Item 6).

European Central Bank

In 2004, the Republic of Estonia joined the European Union and consequently Eesti Pank became a member of the ESCB. As Estonia does not participate in the euro area, the transitional provisions of Article 48 of the Statute apply. Eesti Pank was required to pay up a minimal contribution of 7% of its subscribed capital to the ECB upon entry to the ESCB. Owing to the change in subscription, the share capital paid by Eesti Pank decreased from 694,916 euros (10.9 million kroons) as at December 31, 2006, to 686,727 euros (10.7 million kroons) as at January 1, 2007. Eesti Pank is obliged to pay the remaining 93% in the amount of 9.1 million euros (143 million kroons) upon Estonia's accession to the Economic and Monetary Union.

Printing of banknotes and minting of coins

At the end of 2007, the contractual liabilities of Eesti Pank for printing banknotes and minting coins in 2007 amounted to 73 million kroons.