

The background of the image is a close-up of a coin's surface, featuring the embossed coat of arms of the Republic of Estonia. The coat of arms consists of a shield with a golden lion rampant on a blue field, set against a white background. The shield is surrounded by a wreath of oak leaves. Above the shield, the words "REPUBLIC OF ESTONIA" are embossed in a circular arrangement. The coin is light-colored, possibly silver or aluminum.

Annual accounts of
Eesti Pank
for the financial year ended
31 December 2008

**APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR
ENDED 31 DECEMBER 2008 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 2008.

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 23 March 2009, 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 2008 AND 2007 (EEK THOUSAND)

	Note	31/12/2008	31/12/2007
ASSETS			
Gold and gold receivables	1	79,553	73,544
Claims on non-residents denominated in foreign currency		43,610,202	35,625,190
Receivables from the IMF	2	1,126,856	1,107,004
Balances with banks, security investments and external loans	3	42,483,346	34,518,186
Intra-Eurosystem claims	4	10,745	10,745
Other assets		1,900,031	827,219
Tangible fixed assets	5	276,676	286,535
Other financial assets	6	3,441	3,441
Off-balance-sheet instruments revaluation differences	7	481,847	99,462
Accruals and prepaid expenses	8	280,148	322,224
Sundry	9	857,919	115,557
Total assets		45,600,531	36,536,698
LIABILITIES			
Currency in circulation	10	11,996,322	11,762,182
Liabilities to residents related to the monetary policy	11	25,691,517	17,521,307
Liabilities to other residents denominated in kroon	12	102,017	100,366
Liabilities to residents denominated in foreign currency	13	179,828	1,387
Liabilities to non-residents denominated in foreign currency	14	0	1,129,347
Liabilities to the IMF	2	1,118,218	1,095,648
Other liabilities		205,186	320,458
Off-balance-sheet instruments revaluation differences	7	57,366	55,517
Accruals and income collected in advance	15	112,275	158,687
Sundry	16	35,545	106,254
Provisions	17	6,955	0
Revaluation accounts	18	740,987	172,216
Capital and reserves	19	4,312,407	3,948,268
Capital		600,000	600,000
Reserves		3,712,407	3,348,268
Profit for the year		1,247,094	485,519
Total liabilities		45,600,531	36,536,698

The notes on pages 108–124 form an integral part of the Annual Accounts.

PROFIT AND LOSS ACCOUNT FOR 2008 AND 2007 (EEK THOUSAND)

	Note	2008	2007
Interest income		2,353,608	1,895,334
Interest expense		-1,353,434	-1,045,049
Net interest income	20	1,000,174	850,285
Realised gains/losses arising from financial operations		587,408	-18,632
Write-downs		-46,073	-93,218
Net result of financial operations, write-downs and risk provisions	21	541,335	-111,850
Net result of fees and commissions	22	12,854	10,294
Dividend income	23	1,152	1,009
Other operating income	24	51,085	19,348
Operating expenses	25	-359,506	-283,567
Personnel expenses		-125,996	-108,732
Banknote and coin production costs		-103,218	-51,827
General administration expenses		-94,665	-89,132
Depreciation of fixed assets		-35,627	-33,876
Profit for the year	26	1,247,094	485,519

The notes on pages 108–124 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 2006	100,000	500,000	3,201,770	195,330	3,997,100
Distribution of the 2006 profit	0	0	146,498	-146,498	0
Allocations to the state budget	0	0	0	-48,832	-48,832
Profit of 2007	0	0	0	485,519	485,519
Balance as at the end of 2007	100,000	500,000	3,348,268	485,519	4,433,787
Distribution of the 2007 profit	0	0	364,139	-364,139	0
Allocations to the state budget	0	0	0	-121,380	-121,380
Profit of 2008	0	0	0	1,247,094	1,247,094
Balance as at the end of 2008	100,000	500,000	3,712,407	1,247,094	5,559,501

The notes on pages 108–124 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 1 May 2004, Eesti Pank is registered as a VAT taxable person with limited liability as of 14 May 2004 and calculates the value added tax from the supply of intra-Community acquisition or imports of goods and services.

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

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 Estonian kroons (EEK thousand) unless indicated otherwise.

Financial assets and liabilities

Assets and liabilities are recorded on the Balance Sheet when it is probable that Eesti Pank will derive future expected benefits or losses from the asset or liability; most of the risks and rights related to assets and liabilities have been taken over; the cost of the asset or liability and the resulting gains or losses can be measured reliably.

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.

The transactions of financial instruments (except securities) denominated in foreign currency are recorded in off-balance-sheet accounts on the trade date. On the settlement date, off-balance-sheet entries are reversed and transactions are recorded on the Balance Sheet. The purchase and sale of foreign currency affect the net foreign-exchange position on the trade date; the sales proceeds are also calculated on the trade date. The interest accrued on financial instruments denominated in foreign currency and the premiums or discounts are calculated and recorded on a daily basis. These receivables also affect the foreign currency position on a daily basis.

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 instruments recorded at market value are revalued on every balance sheet date.

Contingent liabilities are recognised as off-balance-sheet items.

Recording of transactions in foreign currency

Transactions in foreign currency are recorded on the basis of the official daily fixings of Eesti Pank as quoted by Eesti Pank on the trade date. Assets and liabilities denominated in foreign currencies are translated into Estonian kroons at the official daily fixings effective on the balance sheet date.

The official daily fixings applied on 31 December 2007 and 2008 were as follows:

	2008	2007
USD	11.1052	10.6382
SDR	17.1521	16.8059
EUR	15.6466	15.6466

Income recognition

Income and expenses are recorded in the Profit and Loss Account in the period in which they are earned or incurred or basis, regardless of when cash was received or paid.

Unrealised gains are not recognised as income but are transferred directly 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 or security or in gold are not netted against unrealised gains in 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.

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 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 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:

	2008
Buildings	3%
Utility systems of buildings	20%
Hardware	33%
Software	20-50%
Other fixed assets	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 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.

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 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.

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.

Reclassification

A number of items were reclassified in 2008 for presentational reasons and the comparable balances as at 31 December 2007 have been adjusted accordingly. These reclassifications are described in the Notes on the Balance Sheet.

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 2007	8,250.171	8,914.24	73,544
Revaluation	-	-	6,009
Balance at the end of 2008	8,250.171	9,642.60	79,553

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. The value of SDR is determined on the basis of a basket of currencies. It is the weighted average of the exchange rates of the four main currencies (the euro, the Japanese yen, the pound sterling and the US dollar).

EEK thousand

	31/12/2008	31/12/2007
Participation in the IMF	1,118,317	1,095,744
SDR account in the IMF	1,054	1,003
Other receivables from the IMF	7,485	10,257
Total receivables from the IMF	1,126,856	1,107,004

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	31/12/2008	31/12/2007
Balance at the beginning of the year	1,003	1,023
Interest and other income	30	78
Exchange rate differences	21	-98
Balance at the end of the year	1,054	1,003

Participation in the IMF

Eesti Pank acts as a fiscal agent between the Republic of Estonia and the IMF and as a depositary 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 2008 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)	31/12/2008	31/12/2007
Balance at the beginning of the year	1,095,745	1,164,779
Exchange rate differences	22,572	-69,034
Balance at the end of the year	1,118,317	1,095,745
IMF kroon accounts (liabilities)		
Balance at the beginning of the year	1,095,648	1,164,676
Exchange rate differences	22,570	-69,028
Balance at the end of the year	1,118,218	1,095,648

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%.

In 2008 Estonia contributed 173,924 SDRs to the cancellation of Liberia's debt to the IMF. According to an agreement of Eesti Pank and the Ministry of Finance, the contribution was allocated against the Republic of Estonia's claims on the IMF.

EEK thousand

Other receivables from the IMF	31/12/2008	31/12/2007
Balance at the beginning of the year	10,257	10,903
Exchange rate differences	-2,772	-646
Balance at the end of the year	7,485	10,257
Eesti Pank, SBA loan-related receivable	5,649	5,649
Government, STF loan-related receivable	1,685	4,608
Exchange rate differences	151	0
Total	7,485	10,257

ITEM 3 - BALANCES WITH BANKS, SECURITY INVESTMENT, EXTERNAL LOANS

EEK thousand

	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
	34,518,185	19,056,012	3,593,812	7,022,814	2,013,869	2,831,678
Cash and current accounts	459,717	459,717	0	0	0	0
Time deposits	634,367	634,367	0	0	0	0
Securities	31,111,168	15,648,995	3,593,812	7,022,814	2,013,869	2,831,678
Reverse repurchase agreements	2,312,933	2,312,933	0	0	0	0
	Balance at the end of 2008	Structure of residual maturity				
		up to 3 months	3-12 months	1-3 years	3-5 years	over 5 years
	42,483,346	18,770,815	10,580,620	6,025,691	2,994,279	4,111,941
Cash and current accounts	632,850	632,850	0	0	0	0
Time deposits	2,567,965	2,567,965	0	0	0	0
Securities	37,686,577	13,974,046	10,580,620	6,025,691	2,994,279	4,111,941
Reverse repurchase agreements	1,595,954	1,595,954	0	0	0	0

In 2008, 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.

The amortisation of discounts and premiums on securities denominated in foreign currency was previously included under Item 8 "Accruals and prepaid expenses" and Item 15 "Accruals and income collected in advance". Eesti Pank has decided, for presentational reasons, to reclassify these items under the heading "Balances with banks and security investments, external loans and other external assets". The comparable balances as at 31 December 2007 have been adjusted accordingly.

ITEM 4 – INTRA-EUROSYSTEM 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. This increase requires the calculation of the existing subscribed capital with the ratio between the share of new NCBs and the share of NCBs that are already members of the ESCB according to the extended basis of capital subscription.

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. Eesti Pank is obliged to pay the remaining 93% upon Estonia's accession to the Economic and Monetary Union.

ITEM 5 – TANGIBLE FIXED ASSETS

EEK thousand

Acquisition cost	Buildings	Hardware	Furniture and fixtures	Software	Total
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
Acquisitions	9,411	5,535	2,735	6,491	24,172
Disposals	0	8,829	1,619	1,722	12,170
Balance at the end of 2008	318,854	50,568	74,478	60,796	504,696
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
Depreciation charge	17,361	5,545	7,659	5,062	35,627
Disposals	0	8,829	1,612	1,733	12,174
Balance at the end of 2008	82,684	40,600	58,261	50,382	231,917
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
Balance at the end of 2008	236,170	9,968	16,217	10,414	272,769
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
Balance at the end of 2008	3,892	0	15	0	3,907
Total fixed assets					
Balance at the end of 2006	248,193	6,102	27,596	13,003	294,895
Balance at the end of 2007	245,292	9,978	21,207	10,058	286,535
Balance at the end of 2008	240,062	9,968	16,232	10,414	276,676

The cost of fixed assets acquired in 2008 amounted to 24.2 million kroons (136.6 million kroons in 2007). The majority of the procurement of buildings composed costs related to the repair and construction of the Eesti Pank's building at Estonia pst 13.

Hardware procurement included computers, servers, printers and data communication equipment. The majority of purchases of fittings included business machines, security devices and furniture. Software purchases included primarily system software and additional user licences for existing software.

ITEM 6 – OTHER FINANCIAL ASSETS – INVESTMENT IN SHARES AND UNITS

Shares held by Eesti Pank:

	Balance at the end of 2008		Balance at the end of 2007	
	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 4,000 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 as at 31 December 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>	
	2008	2007
Interest income	258,403	278,165
Securities	226,641	244,966
Derivative instruments	31,302	29,459
Reverse repurchase transactions	0	2,775
Time deposits	302	811
Loans	158	154
Prepaid expenses	13,318	32,083
Claims on the Financial Supervision Authority	5,696	10,418
Other claims	2,731	1,558
Total	280,148	322,224

ITEM 9 – SUNDRY

This item mainly includes positive balances related to swap and forward transactions in foreign currency that were outstanding as at 31 December 2008; loans issued to employees of Eesti Pank in the total amount of 51 million kroons and (45 million in 2007), and euro cash in the total amount of 751 million kroons.

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

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 2 years. The Supervisory Board of Eesti Pank establishes the interest rate on consumption loans for every fiscal year. The interest rate on consumption loans is comparable to the interest rate charged by Estonian credit institutions under similar conditions. The interest rate on housing loans is 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 2.0–3.25% in 2008. In addition, study loans have been granted for a maximum of 10 years and with a 5% interest rate. Additional information on write-downs of loans is provided under Item 21.

ITEM 10 – CURRENCY IN CIRCULATION

	<i>EEK thousand</i>	
	2008	2007
Banknotes	11,833,949	11,610,325
Coins	162,373	151,857
Total	11,996,322	11,762,182

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 8.17 billion kroons in 2008. 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 2008, the deposit interest rate of the ECB decreased from 3.25% to 2.0%. 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. Item 13 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

	2008	2007
Interest expense	55,867	91,044
on deposits with credit institutions	44,555	55,518
on derivative instruments	11,312	32,694
on repurchase agreements	0	2,832
Tax liabilities	11,161	10,969
Other liabilities	45,247	56,674
Total	112,275	158,687

ITEM 16 – SUNDRY

This item consists mainly of negative balances related to swap and forward transactions in foreign currency that were outstanding as at 31 December 2008. These balances arise from the conversion of such transactions into their Estonian kroon equivalents at the respective currency's average cost on the balance sheet date, compared with the kroon values at which the transactions were initially recorded.

Negative balances related to outstanding swap and forward transactions were previously recorded under "Revaluation accounts". Eesti Pank has decided, for presentational reasons, to reclassify this item under the heading "Sundry". The comparable balances as at 31 December 2007 have been adjusted accordingly.

This item 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 17 – PROVISIONS

This item consists of performance bonuses to employees of the Financial Markets Department for the results of the financial year. The amount of bonuses is approved by the Deputy Governor in charge of the Financial Markets Department after the audited Eesti Pank Annual Report has been approved by the Supervisory Board of Eesti Pank.

ITEM 18 – REVALUATION ACCOUNTS

EEK thousand

	2008	2007
Foreign currencies	648,663	101,649
Derivative instruments	50,528	50,125
Securities	41,796	20,442
Total	740,987	172,216

These accounts represent 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 19 – CAPITAL AND RESERVES

Changes in capital and reserves in 2008:

EEK thousand

	Balance at the end of 2008	Distribution of 2007 profit	Balance at the end of 2007
Fixed capital	100,000	0	100,000
Reserve capital	500,000	0	500,000
Special reserve	3,712,407	364,139	3,348,268
Total	4,312,407	364,139	3,948,268

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.

Notes on the Profit and Loss Account

ITEM 20 – NET INTEREST INCOME

EEK thousand

	2008	2007
Net interest income	1,000,174	850,285
Interest income	2,353,608	1,895,334
Securities	1,503,419	1,224,263
Derivative instruments	558,155	266,496
Reverse repurchase agreements	231,134	349,975
Time deposits	47,990	41,869
Settlement accounts	10,666	11,432
Loans to personnel	2,243	1,290
Other	1	10
Interest expense	-1,353,434	-1,045,049
Credit institutions' deposit interests	-734,374	-546,002
Derivative instruments	-478,134	-290,619
Securities	-94,480	-46,004
Repurchase agreements	-39,893	-158,638
Settlement accounts	-1,764	-757
Other	-4,789	-3,029

The higher interest income in 2008 arose from the deepening of global financial crisis in the second half of the year, which brought about a rapid decline in the interest rates on government bonds in the United States as well as in the euro area. The lengthening of the portfolio's duration also contributed to the higher level of interest income. Moreover, the volume of invested assets grew 30% year-on-year.

ITEM 21 – NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND PROVISIONS

EEK thousand

	2008	2007
Net result of financial operations	541,335	-111,850
Realised gains/losses arising from financial operations	587,408	-18,632
Securities	466,177	12,984
Income/expense of exchange rate differences	87,430	-14,583
Derivative instruments	48,162	-15,678
Financial asset management costs	-14,361	-1,355
Other	0	0
Write-downs	-46,073	-93,218
Derivative instruments	-42,692	-43,355
Exchange rate write-downs	-3,189	-2,719
Securities	-124	-47,764
Net change of loan portfolio write-downs	-68	620

The realised gains on securities were also slightly higher owing to ordinary transactions and dropping interest rates as well as the higher-than-average sales of securities with longer maturities.

ITEM 22 – NET RESULT OF TRANSACTION AND COMMISSION FEES

EEK thousand

	2008	2007
Transaction and commission fees	12,854	10,294
Settlement service costs	14,024	12,022
Commissions on futures and options	-1,723	-1,763
Fines, arrears and other	553	35

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

ITEM 23 – DIVIDEND INCOME

This item reflects dividends from the shares of the Bank for International Settlements and the Tallinn Stock Exchange.

ITEM 24 – OPERATING INCOME

EEK thousand

	2008	2007
Operating income	51,085	19,348
Income from the sale of collector coins and numismatic-bonistic products	38,904	8,147
Expenses compensated by financial supervision	9,598	7,597
Income on asset management	1,677	1,308
Rental income	692	963
Income from the sale of assets	87	176
Other income	127	1,157

The majority of other operating income in 2008 (38.9 million kroons) comprised income from the sale of numismatic-bonistic products, in particular collector coins.

Income from services provided to the Financial Supervision Authority totalled 9.6 million kroons. Pursuant to the cooperation protocol between the Financial Supervision Authority and Eesti Pank, the Financial Supervision Authority reimbursed, in monthly payments, 100% of the cost of the support services provided by Eesti Pank in 2008. 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 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.

ITEM 25 - OPERATING EXPENSES

EEK thousand

	2008	2007
Staff costs	-125,996	-108,732
Wages	-92,657	-79,776
Social tax	-31,080	-26,778
Compensation and benefits	-1,988	-1,948
Unemployment insurance	-271	-230

Staff costs include mainly wage costs, including taxes, but also performance bonuses to employees of the Financial Markets Department for the results of the financial year. In addition, this item reflects the increase in the liability related to the calculated holiday pay that arises from the unused holidays of employees.

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

The production costs of banknotes and coins included the cost of manufacturing banknotes and coins for 65.1 million kroons and the production costs of numismatic products for 35.5 million kroons.

EEK thousand

	2008	2007
General administrative expenses	-94,665	-89,132
Information technology maintenance costs	-19,306	-19,503
Real estate renovation and administration expenses	-16,575	-17,434
Financial asset management costs	-17,295	-14,992
Public relations and publications	-9,547	-8,056
Business travel expenses	-8,262	-8,842
Training expenses	-4,638	-3,975
Office costs	-4,189	-3,502
Communications and transportation costs	-1,326	-1,340
Legal and arbitration costs	-485	-519
Other expenses	-13,042	-10,969

General administrative expenses grew year-on-year, mostly owing to increased financial asset management costs and public relations and publications costs.

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

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

Business trip expenses primarily arise from the representation of Eesti Pank and cooperation with international organisations and financial institutions. There were altogether 735 business trips in 2008 (794 in 2007).

Other expenses consisted mostly of costs of security, the foreign representative and economic research.

ITEM 26 – PROFIT DISTRIBUTION

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

Having evaluated the Profit Distribution Strategy in April 2008, the Supervisory Board of Eesti Pank decided to continue with the above-mentioned strategy and transfer 121.4 million kroons from the profit of 2007 to the state budget and 364.1 million kroons to the special reserve fund.

ITEM 27 – DERIVATIVE INSTRUMENTS

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

Futures purchase transactions with a contract value of 8.269 billion kroons and futures sale transactions with a contract value of 230 million kroons were outstanding as at 31 December 2008. The contract value of outstanding interest rate swaps totalled 1.542 billion kroons. Foreign exchange swap and forward transaction claims of 5.539 billion and liabilities of 5.087 billion kroons remained outstanding as at 31 December 2008. The contract value of outstanding options sale transactions totalled 50 million kroons.

ITEM 28 – CONTINGENT LIABILITIES

EEK thousand

	Balance at the end of 2008	Balance at the end of 2007
Contingent liabilities	150,840	223,477
Uncalled share capital (75%) of BIS	8,086	7,745
Uncalled share (93%) of ECB participation	142,754	142,754
Contractual obligations to produce banknotes and coins	0	72,978

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 8.1 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. 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

Eesti Pank had no contractual liabilities for printing banknotes or minting coins as at the end of 2008.

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Supervisory Board of Eesti Pank

We have audited the accompanying financial statements of Eesti Pank which comprise the balance sheet as of 31 December 2008 and the report on revenues and expenses and statement of changes in equity for the reporting year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with Eesti Pank Act and the accounting principles stated in the "Accounting Policies used in the Annual Accounts" of the accompanying financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 management, as well as evaluating the overall presentation of the financial statements.

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 accompanying financial statements give a true and fair view of the financial position of Eesti Pank as of 31 December 2008, and of its financial performance for the reporting year then ended in accordance with Eesti Pank Act and the accounting principles stated in the "Accounting Policies used in the Annual Accounts" of the accompanying financial statements.



Tiit Raimla
AS PricewaterhouseCoopers



Stan Nahkor
Authorised Auditor

23 March 2009

** This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*