

## **GOVERNANCE, ORGANISATION AND HUMAN RESOURCES POLICY**

### **The governing and decision-making bodies of Eesti Pank**

#### ***The Supervisory Board of Eesti Pank***

Pursuant to the Eesti Pank Act, the Supervisory Board of Eesti Pank is the highest body of Eesti Pank, exercising supervision over all activities of the central bank.

In 2010, the Supervisory Board had exclusive competence in the following areas:

- Making a proposal to the President of the Republic for appointment of the Governor of Eesti Pank;
- Appointment to office and release of the Deputy Governors of Eesti Pank, the heads of the independent divisions and representative offices and Head of the Internal Audit Department of Eesti Pank; appointment and removal of two members to the Supervisory Board of the Financial Supervision Authority<sup>1</sup> on the proposal of the Governor of Eesti Pank;
- Approval of the Statute of Eesti Pank, the statutes of its independent divisions and representations and the Statute of the Internal Audit Department;
- Supervision over the execution over the Eesti Pank budget;
- Appointment of the internal auditors of Eesti Pank and approval of the internal audit work schedule;
- Appointment of the independent auditors of Eesti Pank;
- Approval of Eesti Pank's Annual Report on the proposal of the Governor;

- Making decisions regarding the denomination and design of new banknotes and coins;
- Making decisions regarding the establishment, reorganisation and liquidation of the independent divisions of Eesti Pank on the proposal of the Governor;
- Reviewing and approving written proposals and other documents submitted to the Riigikogu in the name of Eesti Pank.

The Governor of Eesti Pank reports regularly to the Supervisory Board on the situation in Estonia's economy, monetary policy and financial sector, and on the implementation of the central bank's budget.

The Riigikogu appointed the current Supervisory Board of Eesti Pank to office on 18 February 2009. The Board includes Jaan Männik (Chairman of the Board, appointed to office on 13 June 2008); Kalev Kallo, Member of the Riigikogu; Professor Irene Kull, Head of Chair of Commercial Law and Intellectual Property Law at the Institute of Private Law, University of Tartu; Professor Enn Listra, Dean of the School of Economics and Business Administration at Tallinn University of Technology; Tõnis Palts, public figure and economist; Liina Tõnisson, public figure and economist; and Professor Urmas Varblane, Head of Chair of International Business and Innovation, Faculty of Economics of the University of Tartu. In relation to the appointment of Jürgen Ligi as Minister of Finance on 4 June 2009, his membership of the Supervisory Board of Eesti Pank has been suspended. For the time of Mr Ligi's position as a member of the Government, the Riigikogu appointed Valdo Randpere the alternate member of the Supervisory Board of Eesti Pank as of 26 January 2010.

---

<sup>1</sup> The Supervisory Board of the Financial Supervision Authority comprises six members: two of them – the Minister of Finance and the Governor of Eesti Pank – are members by virtue of office while four are appointed. The Board is chaired by the Minister of Finance. Half of the members are appointed and removed by the Government of Estonia on the proposal of the Minister of Finance and half by the Supervisory Board of Eesti Pank on the proposal of the Governor of Eesti Pank.

### ***The Governor of Eesti Pank***

Andres Lipstok commenced his duties as the Governor of Eesti Pank on 7 June 2005.

### ***The Executive Board of Eesti Pank***

Pursuant to the Eesti Pank Act, the Executive Board of Eesti Pank is responsible for planning and organising the tasks of the central bank. The Governor of Eesti Pank is, by virtue of office, the Chairman of the Executive Board.

In 2010, the Executive Board comprised Governor Andres Lipstok and Deputy Governors Rein Minka and Märten Ross.

Governor Andres Lipstok is in charge of the overall governance of the responsibilities of Eesti Pank. His exclusive competence involves organising the designing of banking policies and the overall governance of the responsibilities of Eesti Pank; supervision of the enforcement of the decisions passed by the Supervisory Board and implementation of measures necessary for that purpose; approval of Eesti Pank's budget, and supervision of the execution of the tasks of the European System of Central Banks.

The Governor reports to the Riigikogu and responds to interpellations concerning Eesti Pank's responsibilities. The Governor regularly reports on his activities to the Supervisory Board.

The Governor controls the work of Deputy Governors and is responsible for public and international relations, development of the legal environment, supervision of the bank's management systems, internal administrative services and the operational working environment.

Deputy Governor Rein Minka is responsible for coordinating the tasks related to currency circulation; safety of the working environment; development and implementation of financial sector

policies; coordination of collection, handling and disclosure of financial sector information; supervision of payment and settlement systems; reliable, cost-efficient and integrated development of the settlement system of Eesti Pank; the information technology working environment, and human resources management.

Deputy Governor Märten Ross is responsible for the preparation and implementation of monetary and economic policy decisions; management of the financial assets of Eesti Pank; coordination of collection, compilation, and disclosure of national statistics; financial accounting and reporting; coordination of economic research and activities related to in-service economic training.

### ***The Monetary Policy Committee***

A standing Monetary Policy Committee operated in Eesti Pank until 1 January 2011 to develop positions on monetary, economic and financial policies and to coordinate the tasks of the central bank.

In 2010, the Committee included members of the Executive Board – Governor Andres Lipstok and Deputy Governors Rein Minka and Märten Ross – and Janno Luurmees, Head of the Financial Markets Department; Ülo Kaasik, Head of the Economics Department; Martti Randveer, Head of the Research Department; Rait Roosve, Head of the Cash and Security Department; and Jaak Tõrs, Head of the Financial Stability Department.

### ***Cooperation with the Financial Supervision Authority***

The Financial Supervision Authority (FSA) operates as an agency of Eesti Pank. It exercises national supervision over banks, insurance companies, financial intermediaries, investment funds and management companies licensed and operating in Estonia as well as the securities market.

The FSA is governed by the Supervisory Board chaired by Raul Malmstein. The tasks of the FSA are planned by the Supervisory Board chaired by the Minister of Finance by virtue of office (by Jürgen Ligi in 2010). Members of the Supervisory Board include Governor of Eesti Pank Andres Lipstok, Deputy Governor Rein Minka and Member of the Supervisory Board Valdo Randpere.

### **The development of the management system and work organisation of Eesti Pank in 2010**

#### ***Organisational values and value-based management***

The Executive Board of Eesti Pank has defined the following values of Eesti Pank.

#### **Competence**

- We keep ourselves informed on our long-term goals and follow them in our activities
- The messages we communicate are clear and understandable
- Our employees have the best qualification and a broad basis of knowledge
- We value self-learning and individual development and we learn from the best
- The sharing of employee skills and knowledge is well organised
- We are committed to fulfilling our main goals and we are prudent in our activities

#### **Cooperation orientation**

- We are flexible and innovative
- We engage the necessary expertise and make contributions where relevant
- We act in good will and trust each other
- We work as a team

#### **Reliability**

- We are loyal to our organisation and committed to our work
- Our words match with our deeds
- We are candid and self-critical

- We are consistent

#### **Consideration**

- We keep each other informed in regard with our work and give feedback
- We give recognition to good employees
- We have consideration for others and we are helpful and obliging

These values are part of the Bank's management system. They are used in the daily and case-by-case analysis of work as well as in more general analysis conducted in annual development interviews.

#### ***Development interviews***

The traditional appraisal interviews were conducted also in 2010. The Human Resources Department compiled a summary of the interviews with the focus on preparations for the adoption of the euro and the staff's proposals concerning the organisation. These proposals were presented to all employees. At the traditional spring seminar, members of the Executive and Supervisory Boards had an in-depth analysis of the proposals.

#### ***The development of the management system of Eesti Pank***

In 2009 the Management System Committee was established at Eesti Pank to make and analyse proposals regarding the development of the management system of Eesti Pank. In 2010 the Committee dealt with risk management, business continuity and activity-based budgeting issues. In addition, the Committee continued compiling the description of the organisation on the basis of the Excellence Model of the European Foundation for Quality Management (EFQM). This description will be used in 2011 for the organisation's self-assessment, which will be followed by actions necessary for driving the organisation towards excellence. Last but not least, the public

strategy document of the bank was developed further and will be published in 2011.

Bureau Veritas Eesti OÜ carried out a compliance audit in Eesti Pank and validated the ISO 9001:2000 Quality Certificate issued to the Cash and Security Department in 2008. The certificate serves as a proof that cash handling and security processes in Eesti Pank comply with the requirements set forth in the standard.

In financial and management accounting, a new business management software SAP was introduced in 2010. SAP is used also in many other banks in the European System of Central Banks. For the adoption of the euro, the bank adopted accounting principles and procedures that comply with its needs and are similar to those implemented in other national central banks in the euro area.

### **Risk management**

The management of risks and business continuity continued in 2010 in compliance with the established principles and procedures. The focus of risk management in 2010 was mainly on one project, the introduction of the euro.

The total risk level dropped 11% in 2010 to 495 million kroons by the end of the year. The risk level indicates (in monetary terms) the total impact of all potentially harmful events during a year. The risks related to the working environment decreased the most, while the risks related to the information systems were adjusted upward. A major revaluation of risks will be ahead in 2011, providing input on whether the total risks of Eesti Pank will increase, as indicated by preliminary assessments at the end of 2009, or whether the bank has taken sufficient measures to reduce its risks.

Preparations for joining the euro area and management of related risks were carried out as a special project, which was systematically con-

trolled by the management of Eesti Pank. In addition, a special euro project team was established, consisting of representatives of the Ministry of Finance, credit institutions and other major partners and public agencies.

The main development regarding business continuity in 2010 was the inclusion of external cooperation partners to map and evaluate common risks to the financial sector on the basis of the new Emergency Act that entered into force in 2009. The central bank collaborated closely with all systemically important risk management and business continuity units of commercial banks. The implementation of the Act has gone smoothly and in line with the set time schedules.

In September, the self-assessment of risk management came to an end, providing recommendations for further enhancement of risk management and closer integration with other fields of management. Recommendations for raising the awareness and inclusion of the bank's personnel received an explicit output by the management already during the assessment, as the management established the principles for risk management training and business continuity exercises. Most of the recommendations will be implemented in 2011.

### **e-Eesti Pank**

The main tasks related to e-Eesti Pank, the development strategy for document and information management, in 2010 were preparing for the adoption of the euro, reorganisation of records management, developing the application for the management of documents' life cycle, and readjusting the workflow of account settlement. The workflows for processing the management's decisions and internal audit regulations were developed further too. In addition, a survey was held among the users of e-Eesti Pank to get feedback. Users' proposals will be taken into account in further developments of e-Eesti Pank.

## The human resources policy

The aim of Eesti Pank's human resources policy is to ensure the recruitment of employees needed for accomplishing the main objectives of the bank, to develop and train, and to motivate and provide fair remuneration to the staff.

### Employees

Internal competition is preferred in **recruitment** in order to motivate the staff by providing horizontal career opportunities within the bank. External competition is used if internal competition has failed or if an employee with different experience is needed. When recruiting for executives or other highly responsible posts, a competency model is used, which provides the best opportunity to evaluate candidates' knowledge, skills, and personal characteristics.

**Staff remuneration** derives from the need to recruit and retain highly competent staff and to motivate them to work effectively and contribute to the good reputation of the bank. The average remuneration should be competitive in the labour market where the bank competes for employees, that is the financial sector labour market in Tallinn.

When determining the remuneration of the top management, the Supervisory Board of Eesti Pank takes into consideration top executives' wages in state and private enterprises with turnovers larger than 500 million kroons. The size of the remuneration paid to top executives is affected by changes in the wage market data in the financial sector. The remuneration of the Governor of Eesti Pank should not be smaller than the average wages of top executives in comparable enterprises and agencies.

In 2010, the total remuneration (basic wages and additional remuneration) paid to the members of the Supervisory Board amounted to 2.009 million

kroons (1.798 million kroons in 2009) and that of the Executive Board to 4.139 million kroons (4.374 million kroons in 2009).

Non-managerial positions have been assessed using the Hay method. Depending on the assessment results, all positions have been divided into wage groups listed in the classification of central bank positions. Eesti Pank has implemented a wage scale that comprises all wage grades. The employees (members of the Executive Board excluded) receive remuneration on the basis of their wage grade, comparable by groups of similar work within as well as outside the bank.

In 2010, the average monthly wages (including holiday pay and additional remuneration for working during evening and night hours, on days off and public holidays) was 30,078 kroons. This includes the top executives, specialists (about 85% of the total staff) and the support staff. The intermediate-level specialists employed in Eesti Pank must have a Master's degree, at least three years of professional experience and proficiency in written and oral English. They are also expected to attend some EU or European Central Bank working group. In 2010, the monthly wages of a specialist complying with these requirements was 24,181 kroons.

At the beginning of 2010, the bank had contracts of employment with 253 employees (231 were actually working, as contracts with 22 employees had been suspended), while at the end of the year the respective figure was 262 (246 were actually working and 16 contracts had been suspended). The staff increased because of the need for additional fixed-term employees in connection with preparations for the euro changeover. The majority of these fixed-term contracts will end in the spring or summer of 2011. The reasons for suspending contracts of employment were maternity leave, work at the European Central Bank or other international organisations.

The average age of the staff in 2010 was 43.6 years. The employees included 104 men (40%) and 158 women (60%).

### ***Development and training***

Development costs totalled 2.62 million kroons in 2010, which accounts for 2.2% of the staff's payroll. In total, 194 employees (84% of total staff) attended trainings. On average, every employee received five days of training with the total cost of 11,344 kroons.

The most popular fields of training in 2010 were economic theory and policy, management and communication, and languages. Many of the trainings in core fields take place abroad. Group trainings mostly include in-house training courses and open seminars.

51 employees were engaged in academic studies in 2010: 75% of them were acquiring a Master's or Doctor's degree.

Three employees of Eesti Pank and one employee of the European Central Bank participated in short-term secondment programmes at the ECB and Eesti Pank, respectively.

### ***Hobbies and traditions of the staff***

#### ***The sports club***

The sports club of Eesti Pank had 227 members at the end of 2010. The most popular sports included swimming, fitness, badminton, basketball, yoga, volleyball, tennis, gym, water aerobics and roller-skating. In addition, there were winter and summer sports days, bowling competitions and a spa party for the staff and family members.

Some employees went sailing and some competed in a chess tournament. Competitions were held also in tennis, football and basketball. Some of the staff competed in indoor football in Hun-

gary, in basketball in Spain and in a chess tournament in Denmark.

There were also traditional football and basketball competitions with the Financial Supervision Authority.

#### ***The chamber choir***

The chamber choir of the employees of Eesti Pank and the Financial Supervision Authority first gathered on 15 May 1998. The choir has been conducted by Peeter Perens. The choir is coordinated by the board that is elected every year.

In 2010, the choir had 28 members who participated in the singing day of mixed choirs in Türi and performed at the Euro Conference at the Estonia Concert Hall in Tallinn. The choir took a break in the second half of 2010 due to tight work schedules.