

**APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2010 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 2010.

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 and financial 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 that 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 14 March 2011, all members of the Executive Board of Eesti Pank on that day signed the Annual Accounts.

Andres Lipstok
Governor of Eesti Pank,
Chairman of the Execut



Rein Minka
Deputy Governor,
Member of the Executive Board



Märten Ross
Deputy Governor,
Member of the Executive Boarde



BALANCE SHEET AS AT 31 DECEMBER 2010 AND 2009 (EEK THOUSAND)

	Note	31/12/2010	31/12/2009
ASSETS			
Gold and gold receivables	1	136,157	99,057
Claims on non-residents denominated in foreign currency		30,594,281	43,459,024
Receivables from the IMF	2	2,323,073	2,173,802
Balances with banks, security investments and external loans	3	28,271,208	41,285,222
Intra-Eurosystem claims	4	11,302	11,294
Other assets		875,259	1,206,222
Fixed assets	5	350,599	304,300
Other financial assets	6	3,397	3,397
Off-balance-sheet instruments revaluation differences	7	73,235	15,078
Accruals and prepaid expenses	8	86,061	133,199
Sundry assets	9	361,966	750,248
Total assets		31,616,998	44,775,597
LIABILITIES AND EQUITY			
Currency in circulation	10	5,838,201	9,777,491
Liabilities to residents related to monetary policy	11	15,800,990	25,979,554
Liabilities to other residents denominated in kroon	12	101,838	99,684
Liabilities to residents denominated in foreign currency	13	1,807,470	838,663
Liabilities to non-residents denominated in foreign currency	14	0	109,636
Liabilities to the IMF	2	2,314,596	2,165,650
Other liabilities		274,291	161,648
Off-balance-sheet instruments revaluation differences	7	9,133	43,670
Accruals and income collected in advance	15	171,235	92,357
Sundry liabilities	16	93,923	25,621
Provisions	17	1,261	2,070
Revaluation accounts	18	137,654	102,154
Capital and reserves	19	5,367,660	4,853,501
Capital		600,000	600,000
Reserves		4,767,659	4,253,501
Profit/loss for the year		-26,964	685,544
Total liabilities and equity		31,616,998	44,775,597

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

PROFIT AND LOSS ACCOUNT FOR 2010 AND 2009 (EEK THOUSAND)

	Note	2010	2009
Interest income		414,471	853,103
Interest expense		-220,483	-329,118
Net interest income	20	193,988	523,984
Realised gains/losses arising from financial operations		136,157	395,530
Write-downs		-34,759	-20,531
Net result of financial operations, write-downs and provisions	21	101,398	374,999
Net result of fees and commissions	22	13,444	12,968
Dividend income	23	2,725	1,134
Other operating income	24	51,023	29,736
Operating expenses	25	-389,541	-257,277
Staff costs		-120,719	-118,718
Banknote and coin production services		-150,485	-22,087
Administrative expenses		-87,037	-82,259
Depreciation of fixed assets		-31,301	-34,213
Profit/loss for the year		-26,964	685,544

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/loss	Total
Balance at the end of 2008	100,000	500,000	3,712,407	1,247,094	5,559,501
Distribution of the 2008 profit	0	0	541,094	-541,094	0
Allocations to the state budget	0	0	0	-706,000	-706,000
Profit of 2009	0	0	0	685,544	685,544
Balance at the end of 2009	100,000	500,000	4,253,501	685,544	5,539,046
Distribution of the 2009 profit	0	0	514,158	-514,158	0
Allocations to the state budget	0	0	0	-171,386	-171,386
Loss of 2010	0	0	0	-26,964	-26,964
Balance at the end of 2010	100,000	500,000	4,767,659	-26,964	5,340,696

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

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

Assets and liabilities

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

Financial assets and liabilities

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

Financial assets are initially recorded at their acquisition cost, which is the fair value of the amount paid for the financial asset in question. Financial liabilities are initially recorded at their acquisition cost, which is the fair value of the amount received for the financial liability in question. Subsequent measurement of financial assets and liabilities is based on the market value, the acquisition cost or amortised cost depending on the type of a respective asset or liability. Market value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. Financial assets recorded at market value are revalued on every balance sheet date.

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

Recording of transactions in foreign currency

The functional currency of Eesti Pank is the Estonian kroon. 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. Purchases and sales of foreign currency affect the net foreign currency position on the trade date; realised results arising from sales 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.

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, except for the exchange rate of SDR that is translated at the IMF's exchange rate.

The official daily fixings applied on 31 December 2010 and 2009 were as follows:

	2010	2009
USD	11.7107	10.8653
SDR	18.1969	17.0276
EUR	15.6466	15.6466

Income recognition

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

Unrealised gains are not recognised as income but are transferred to a revaluation account in the balance sheet.

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 is valued at the market price prevailing at year-end, equal to Eesti Pank's daily fixing of the Estonian kroon and gold.

Foreign currency claims on non-residents

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 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; that is, 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* and interest income in the Profit and Loss Account. Securities used as collateral for reverse repurchase transactions are not recorded on the Balance Sheet of Eesti Pank.

Investment in shares

Investment in shares is recorded at market value if it can be reliably measured. The measurement 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:

	2010
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 implementation of application software with high acquisition cost and different useful lives.

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

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 current account held with Eesti Pank.

Off-balance-sheet instruments

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

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

Contingent liabilities

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

Post-balance-sheet events

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

Notes on the Balance Sheet

ITEM 1 – GOLD

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

EEK thousand

	Amount (ounce)	Market price per ounce (EEK)	Market value (EEK thousand)
Balance at the end of 2009	8,250.171	12,006.70	99,057
Revaluation	-	-	37,099
Balance at the end of 2010	8,250.171	16,503.50	136,157

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)

Item 2 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

	31/12/2010	31/12/2009
Participation in the IMF	1,186,438	1,110,200
SDR account in the IMF	1,128,694	1,056,172
Other receivables from the IMF	7,941	7,431
Total receivables from the IMF	2,323,073	2,173,802
IMF kroon accounts (liabilities)	1,186,333	1,110,102
Allocation of SDR	1,128,263	1,055,548
Total liabilities to the IMF	2,314,596	2,165,650

The SDR account in the IMF

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

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 2010, 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 Liabilities to the IMF. These debt instruments do not bear interest.

Other receivables from the IMF

Since March 1997 this item has reflected the amounts that the IMF has reserved to strengthen its financial situation. The source of these amounts is the percentage added to the interest rate on the Stand-by Arrangement (SBA) and the Systemic Transformation Facility (STF), which is about 0.1%.

EEK thousand

Other receivables from the IMF	31/12/2010	31/12/2009
Eesti Pank, SBA loan-related receivable	6,117	5,724
Government, STF loan-related receivable	1,824	1,707
Total	7,941	7,431

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

EEK thousand

	Balance at the end of 2009	Structure of residual maturity				
		Up to 3 months	3–12 months	1–3 years	3–5 years	Over 5 years
	41,285,222	23,958,788	13,815,399	1,640,000	811,189	1,059,847
Current accounts	1,236,331	1,236,331	-	-	-	-
Fixed term deposits	3,240,103	3,240,103	-	-	-	-
Securities	33,946,987	16,620,552	13,815,399	1,640,000	811,189	1,059,847
Reverse repurchase transactions	2,861,801	2,861,801	-	-	-	-
	Balance at the end of 2010	Structure of residual maturity				
		Up to 3 months	3–12 months	1–3 years	3–5 years	Over 5 years
	28,271,208	17,300,451	8,660,377	1,032,178	522,474	755,728
Current accounts	2,307,437	2,307,437	-	-	-	-
Fixed-term deposits	594,571	594,571	-	-	-	-
Securities	19,245,121	8,274,365	8,660,377	1,032,178	522,474	755,728
Reverse repurchase transactions	6,124,079	6,124,079	-	-	-	-

In 2010, Eesti Pank's foreign reserves were mainly invested in the markets of low-risk government bonds of leading industrial countries of the euro area and the United States with an average maturity of about 0.6 years.

The guidelines for the management of Eesti Pank's foreign 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 (Standard & Poor's, Moody's):

- A-1 or P-1 for securities with the maturity of up to one year;
- AA- or Aa3 for securities with the maturity of over one year.

For national issuers the following minimum credit ratings are allowed:

- A-2 or P-2 for securities with the maturity of up to one year;
- BBB- or Baa3 for securities 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). According to Article 28 of the Statute of the European System of Central Banks (ESCB), national central banks of the ESCB are the sole subscribers of the capital of the ECB. Subscriptions depend on the capital key weighting that is established in compliance with Article 29.3 of the ESCB Statute. The capital key weighting is adjusted every five years, last on 1 January 2009. Consequently, Eesti Pank's share in the subscribed capital of the ECB increased from 0.1703% to 0.1790%.

As the Republic of Estonia was not yet a member of the euro area on 31/12/2010, the transitional provisions of Article 47 of the Statute applied. 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 was obliged to pay the remaining 93% after the abrogation of the derogation established for Estonia as set out in Article 139 of the Treaty on the Functioning of the European Union; that is, after Estonia's accession to the Economic and Monetary Union.

In December 2010, the ECB decided to increase its subscribed capital by 5 billion euros from 5.76 billion to 10.76 billion euros as of 29 December 2010. The national central banks (NCB) of the euro area will pay up their additional capital contributions in three equal annual instalments. The minimal percentage of the subscribed capital that is required from non-euro area NCBs was reduced from 7.00% to 3.75%. Therefore, the non-euro area NCBs made only small adjustments to their capital shares. On 29 December 2010, Eesti Pank paid up the additional 499 euros to the fixed capital of the ECB.

ITEM 5 –FIXED ASSETS

EEK thousand

Acquisition cost	Buildings	Hardware	Furniture and fixtures	Software	Total
Balance at the end of 2009	343,443	49,999	75,477	62,479	531,398
Acquisitions	67,855	4,759	25,003	8,658	106,275
Disposals	0	-3,048	-15,480	-987	-19,515
Balance at the end of 2010	411,298	51,710	85,000	70,150	618,158
Accumulated depreciation					
Balance at the end of 2009	100,060	41,246	62,396	53,654	257,356
Depreciation charge	15,224	3,909	6,966	5,201	31,300
Disposals	0	-3,048	-15,480	-987	-19,515
Balance at the end of 2010	115,284	42,107	53,882	57,868	269,141
Carrying amount					
at the end of 2009	243,383	8,753	13,081	8,825	274,042
at the end of 2010	296,014	9,603	31,118	12,282	349,017
Prepayments for fixed assets					
Balance at the end of 2009	26,859	0	0	3,400	30,259
Balance at the end of 2010	1,141	13	428	0	1,582
Total fixed assets					
at the end of 2009	270,242	8,753	13,081	12,225	304,301
at the end of 2010	297,155	9,616	31,546	12,282	350,599

The cost of fixed assets acquired in 2010 totalled 106.3 million kroons (35.5 million kroons in 2009). The majority of the acquisition of buildings was composed of the renovation of the cash centre in the total amount of 19 million kroons (continuation of the 2009 project) and the IT room in the total amount of 19.2 million kroons.

The majority of the purchases of fittings consisted of cash processing equipment in the total amount of 21.4 million kroons. Major hardware purchases included new servers, data communication commutators and back-up devices, while major software procurements consisted of a new business management software, and improvements to the settlement system and to the system for the collection of balance of payments reports.

ITEM 6 – OTHER FINANCIAL ASSETS – investment in shares and units

Eesti Pank holds 214 shares (200 voting shares) in the Bank for International Settlements in the total amount of 3,397,000 kroons.

ITEM 7 – OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

Item 7 reflects valuation changes in swap and forward transactions in foreign currency outstanding at year-end. These valuation changes result from the conversion of such transactions at the central exchange rates of Eesti Pank on the balance sheet date, compared with the values resulting from the conversion of the transactions at the average cost of the respective foreign currency on that date.

Revaluation gains in outstanding interest rate swap transactions are also included in this item.

ITEM 8 – ACCRUALS AND PREPAID EXPENSES

EEK thousand

	2010	2009
Interest income	58,161	109,901
Securities	54,225	108,133
Derivative instruments	2,983	1,094
Fixed-term deposits and current accounts	826	555
Loans	126	118
Prepaid expenses	13,388	10,469
Claims on the Financial Supervision Authority	8,206	8,108
Other claims	6,306	4,720
Total	86,061	133,199

ITEM 9 – SUNDRY ASSETS

EEK thousand

	2010	2009
Euro banknotes	252,849	663,416
Loans to employees of Eesti Pank	76,767	63,547
Numismatic banknotes and coins of the Estonian kroon	17,604	0
Credits related to margin calls	6,558	3,042
Foreign exchange transactions	5,573	5,059
Foreign exchange forwards	0	6,693
Other	2,615	8,490
Total	361,966	750,248

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.

Mortgage loans have been granted to employees of Eesti Pank for a maximum of 30 years and consumption loans for up to two years. The Supervisory Board of Eesti Pank establishes the interest rate on consumption loans once a year. The interest rate on consumption loans is comparable to the interest rate charged by Estonian credit institutions under similar conditions. The interest rate on mortgage loans is the standing deposit facility interest payable to credit institutions plus the risk margin but not more than the minimum loan interest rate established by the Minister of Finance. The deposit facility rate equals ECB deposit interest rate, which was 0.25% in 2010. 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 21.

ITEM 10 – CURRENCY IN CIRCULATION

	<i>EEK thousand</i>	
	2010	2009
Banknotes	5,698,370	9,613,196
Coins	139,830	164,295
Total	5,838,201	9,777,491

In December 2010, Eesti Pank started to exchange Estonian kroons for euros via commercial banks without a service fee and at the mid-market exchange rate. This was done to make the changeover to the euro as smooth as possible, while drawing kroons gradually from circulation.

ITEM 11 – LIABILITIES TO RESIDENTS RELATED TO THE MONETARY POLICY

This item includes the current accounts of credit institutions with Eesti Pank. The deposits of credit institutions decreased by 10.2 million kroons in 2010. 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 2010, the ECB deposit interest rate was 0.25%. The interest rate is calculated on the basis of the monthly average balance of the current account (see Item 15). In 2010, the required reserve ratio for commercial banks was reduced from 15% to 2% over the year.¹ Consequently, the level of liabilities and assets in the balance sheet of Eesti Pank decreased.

ITEM 12 – LIABILITIES TO OTHER RESIDENTS DENOMINATED IN KROON

This item reflects the current account of the Financial Supervision Authority held with Eesti Pank, which subjects of financial supervision pay as supervision fees. Interests on the Financial Supervision Authority's current account are calculated quarterly on the basis of the average balance of the current account. The interest rate is equal to the yield of the foreign reserves.

¹ The actual decrease in the reserves deposited in the central bank is smaller, as banks are allowed to fulfil about half of their reserve requirement with high-quality liquid foreign assets.

In addition, this item reflects the current accounts of NASDAQ OMX Tallinn 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 current accounts of Estonian credit institutions that have joined TARGET.

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

This item includes the repurchase transactions of 2009.

ITEM 15 – ACCRUALS AND INCOME COLLECTED IN ADVANCE

EEK thousand

	2010	2009
Liability to Mint of Finland for euro coin production	97,925	0
Tax liabilities	13,586	10,539
Interest expense	5,755	6,464
on deposits with credit institutions	3,456	5,770
on derivative instruments	2,299	694
Other liabilities	53,969	75,353
Total	171,235	92,357

ITEM 16 – SUNDRY LIABILITIES

Item 16 mainly includes negative balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2010 and totalled 70.2 million kroons (10.2 million kroons in 2009). 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. This item includes also 8.3 million kroons of deposits related to margin calls.

In addition, Item 16 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).

Other entries include the current accounts of non-residents with Eesti Pank, contingent loan liabilities and the market value of options.

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

	2010	2009
Foreign currencies	86,229	49,965
Securities	39,720	48,395
Derivative instruments	11,705	3,794
Total	137,654	102,154

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 19 – CAPITAL AND RESERVES

Changes in capital and reserves in 2010:

EEK thousand

	Balance at the end of 2010	Distribution of 2009 profit	Balance at the end of 2009
Fixed capital	100,000	0	100,000
Reserve capital	500,000	0	500,000
Special reserve	4,767,659	514,158	4,253,501
Total	5,367,660	514,158	4,853,501

The profit distribution strategy of Eesti Pank is based on the principle of avoiding too rapid decrease of Eesti Pank's equity and net foreign reserves against key economic indicators prior to joining the Economic and Monetary Union.

Section 30 of the Eesti Pank Act sets out that at least 25% of the annual profit must be allocated for increasing both statutory and reserve capital. After these allocations, part of the profit can be allocated for establishing and supplementing foundation capital and funds for specific purposes, based on the decision of the Supervisory Board of Eesti Pank. The remaining profit is transferred to the state budget.

In 2010, the Supervisory Board of Eesti Pank decided to transfer 171.4 million kroons from the profit for 2009 to the state budget and 541.1 million kroons to the special reserve fund.

Notes on the Profit and Loss Account

ITEM 20 – NET INTEREST INCOME

EEK thousand

	2010	2009
Net interest income	193,988	523,984
Interest income	414,471	853,103
Securities	299,755	684,870
Derivative instruments	90,234	131,155
Reverse repurchase transactions	16,262	25,464
Fixed-term deposits	3,309	7,834
Current accounts	3,578	2,391
Loans to personnel	1,333	1,389
Interest expense	-220,483	-329,118
Derivative instruments	-79,373	-89,796
Securities	-76,835	-134,412
Credit institutions' deposit interests	-59,143	-102,514
Current accounts	-3,427	-1,130
Repurchase transactions	-957	-543
Other	-748	-722

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

EEK thousand

	2010	2009
Net result of financial operations	101,398	374,999
Realised gains/losses arising from financial operations	136,157	395,530
Securities	119,983	348,210
Income/expense of exchange rate differences	40,475	1,678
Financial asset management costs	-18,627	-30,699
Derivative instruments	-5,967	74,445
Other	293	1,896
Write-downs	-34,759	-20,531
Exchange rate write-downs	-17,451	-2,527
Derivative instruments	-9,631	-7,571
Securities	-7,465	-9,065
Net change of loan portfolio write-downs	-211	-113
Other provisions	0	-1,255

ITEM 22 – NET RESULT OF FEES AND COMMISSIONS

EEK thousand

	2010	2009
Fees and commissions	13,444	12,968
Current accounts service fees	14,373	14,245
Commissions on futures and options	-983	-1,405
Fines, arrears and other	55	127

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

ITEM 23 – DIVIDEND INCOME

This item reflects dividends from the shares of the Bank for International Settlements.

ITEM 24 – OTHER OPERATING INCOME

EEK thousand

	2010	2009
Other operating income	51,023	29,736
Income from the sale of collector coins and numismatic-bonistic products	40,141	11,876
Expenses compensated by the Financial Supervision Authority	8,594	15,245
Income on financial asset management	1,569	1,538
Rental income	532	507
Income from the sale of assets	35	182
Other income	153	389

Income on services provided to the Financial Supervision Authority totalled 8.6 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. 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 the sale of numismatic-bonistic products mainly consisted of income on the sale of collector coins.

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

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

ITEM 25 – OPERATING EXPENSES

EEK thousand

	2010	2009
Staff costs	-120,719	-118,718
Wages	-87,968	-86,444
Social tax	-29,482	-29,086
Compensation and benefits	-2,064	-2,335
Unemployment insurance	-1,204	-853

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.

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

The production services of banknotes and coins mainly consist of the production costs of numismatic-bonistic products and euro coins.

EEK thousand

	2010	2009
Administrative costs	-87,037	-82,259
Information technology maintenance	-21,406	-19,999
Real estate renovation and administration	-16,449	-13,760
Financial asset management	-14,294	-17,174
Public relations and publications	-10,817	-5,695
Business travel	-7,481	-6,777
Office costs	-3,025	-3,637
Training	-2,647	-3,637
Communications and transportation	-1,735	-751
Legal and arbitration	-821	-510
Other	-8,362	-10,318

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

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

Business trip expenses arise from the representation of Eesti Pank and cooperation with international organisations and financial institutions. There were altogether 709 business trips in 2010 (594 in 2009).

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

ITEM 26 – DERIVATIVE INSTRUMENTS

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

Futures purchase transactions with a contract value of 828.9 million kroons and futures sale transactions with a contract value of 376 million kroons were outstanding as at 31 December 2010 (in 2009, 601.8 million and 3.008 billion kroons, respectively). The contract value of outstanding interest rate swaps totalled 839.6 million kroons (in 2009, 1.209 billion kroons). Foreign exchange swap and forward transaction claims of 2.173 billion and liabilities of 2.160 billion kroons were outstanding as at 31 December 2009 (in 2008, 1.840 and 1.862 billion kroons, respectively).

ITEM 27 – CONTINGENT LIABILITIES

EEK thousand

	Balance at the end of 2010	Balance at the end of 2009
Contingent liabilities	49,113	40,227
Contractual obligations to produce banknotes and coins	40,587	32,317
Unpaid share capital (75%) of BIS	8,526	7,911

The Bank for International Settlements

Since 1930 Eesti Pank has a contingent liability to the Bank for International Settlements – the unpaid part of the share capital (75%) of the BIS denominated in Swiss gold francs, totalling 8.5 million kroons on the balance sheet date (see Item 6).

The production of banknotes and coins

At the end of 2010, the contractual liabilities of Eesti Pank for printing banknotes and minting coins in 2010 amounted to 40.6 million kroons, which primarily arises from the potential costs related to the minting of euro coins.

ITEM 28 – IMPORTANT POST-BALANCE-SHEET EVENTS

In 2004, the Republic of Estonia joined the European Union and Eesti Pank became a member of the ESCB. Until Estonia's accession to the euro area, the transitional provisions of Article 47 of the ESCB's Statute applied to Eesti Pank. When Eesti Pank joined the ESCB, it had to pay up a minimal contribution of 7% of its subscribed capital to the ECB. This minimal contribution to the subscribed capital of the ECB that the national central banks of the Eurosystem have to pay is used for covering the ECB's operating expenses, and it does not give a right to a share of the profit or any other incomes of the ECB.

In December 2010, the ECB decided to increase its subscribed capital by 5 billion euros from 5.76 billion to 10.76 billion euros with effect from 29 December 2010. The national central banks of the euro area will pay up their additional contributions in three equal annual instalments. The minimal percentage of the subscribed capital that is required from non-euro area countries was reduced from 7.00%

to 3.75%. So, the non-euro area NCBs made only minor adjustments to their subscribed capital. On 29 December 2010, Eesti Pank paid up the additional 499 euros to the share capital of the ECB.

When Eesti Pank joined the Eurosystem on 1 January 2011, it had to pay up 9,589,259.01 euros (150,039,000 kroons) of the unpaid share capital in January 2011. Owing to an increase in the ECB's share capital, Eesti Pank is required to pay up 8,950,000 euros as set out in the decision of the ECB's Governing Council. This decision entered into force with regard to Estonia on 1 January 2011, and so Eesti Pank made its first instalment of 2,983,333 euros (46,679,018 kroons) on the first banking day of 2011, that is 3 January 2011. The other euro area NCBs made their first annual instalment on 29 December 2010. Eesti Pank will pay up the remaining two instalments at the end of 2011 and 2012 in the total amount of 5,966,667 euros (93,358,052 kroons).

Besides the contribution to the ECB's key capital, Article 48.1 of the ESCB's Statute requires Eesti Pank, upon joining the Eurosystem, to transfer foreign reserve assets to the ECB. In January 2011, Eesti Pank transferred 85% of the foreign reserve assets in Japanese yen and 15% in gold to the ECB. The calculation of the payment of foreign reserve assets includes all previous transfers to the ECB's foreign reserve assets together with the changes in the capital key in 2004, 2007 and 2009, while translating the previous transfers of foreign reserve assets into euros using the exchange rate as at 31 December 2010. The capital key for Eesti Pank gives us the size of payment in euros, which is divided into 85% (the Japanese yen) and 15% (gold). Using the exchange rates as at 31 December, the exact payments in Japanese yen and gold are then calculated. The total amount to be paid into the foreign reserve assets of the ECB is 145,853,597 euros (2,282,112,885 kroons).

Upon Estonia's accession to euro area, Article 48.2 of the ESCB's Statute started to apply to Eesti Pank, which sets out that the latter is required to pay a part of the reserves, revaluation accounts and risk provisions of the ECB in proportion to its share in the subscribed capital of the ECB. The total amount paid for the reserves, revaluation accounts and the risk provisions of the ECB was 20,895,192.06 euros (326,938,712 kroons).

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of Eesti Pank

We have audited the accompanying financial statements of Eesti Pank on pages 82 to 101 which comprise the balance sheet as at 31 December 2010, and the report on revenues and expenses and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management 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, and for such internal control as management determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

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 (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 financial statements present fairly in all material respects, the financial position of Eesti Pank as at 31 December 2010, and its financial performance for the 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.

Tallinn, 14 March 2011



Ivar Kiigemägi
Ernst & Young Baltic AS



Tiina Sõmer
Authorised Auditor