

ANNUAL ACCOUNTS OF EESTI PANK

for the financial year ended 31 December 2012

ANNUAL ACCOUNTS OF EESTI PANK FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 BY THE EXECUTIVE BOARD OF EESTI PANK

The Executive Board recognises its responsibility for the Annual Accounts of Eesti Pank for the financial year ended 31 December 2012.

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

The preparation of the Annual Accounts in conformity with the above requirements requires the Executive Board to provide estimates of the determinants affecting the assets and liabilities of Eesti Pank as at the accounting date and income and expenses during the accounting period. These estimates are based on the information available about Eesti Pank, its intentions and risks as at the date of preparation of the Annual Accounts. The final outcome of the economic transactions reflected in the Annual Accounts may differ from the estimates of the Executive Board.

On 26 March 2013, all the members of the Executive Board of Eesti Pank on that day signed the Annual Accounts.

Ardo Hansson
Governor of Eesti Pank,
Chairman of the Executive
Board



Ülo Kaasik
Deputy Governor,
Member of the Executive
Board



Madis Müller
Deputy Governor,
Member of the Executive
Board



BALANCE SHEET AS AT 31 DECEMBER 2012 AND 2011

thousand euros

	Item	31/12/2012	31/12/2011
ASSETS			
Gold and gold receivables	1	10,405	10,039
Claims on non-euro area residents denominated in foreign currency		215,561	151,829
Receivables from the IMF	2	81,846	74,133
Balances with banks, security investments and other external assets	3	133,715	77,696
Claims on euro area residents denominated in foreign currency	4	21,144	4,929
Claims on non-euro area residents denominated in euro	5	2,714	1,650
Lending to euro area credit institutions related to monetary policy operations denominated in euro	6	13,900	0
Other claims on euro area credit institutions denominated in euro	7	9,845	12,128
Securities of euro area residents denominated in euro		564,723	544,214
Securities held for monetary policy purposes	8	373,251	344,311
Other securities	9	191,472	199,903
Intra-Eurosystem claims		3,398,491	2,333,169
Participating interest in the European Central Bank	10	82,895	79,911
Claims equivalent to the transfer of foreign reserves	11	103,116	103,116
Net claims related to the allocation of euro banknotes within the Eurosystem	12	1,446,009	1,501,976
Other claims within the Eurosystem (net)	13	1,766,471	648,166
Other assets		44,941	43,557
Tangible assets	14	22,421	23,272
Other financial assets	15	217	217
Off-balance-sheet instruments revaluation differences	16	927	317
Accruals and prepaid expenses	17	12,639	11,959
Sundry assets	18	8,737	7,792
TOTAL ASSETS		4,281,724	3,101,515
LIABILITIES			
Banknotes in circulation	19	2,149,154	2,140,879
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		1,527,860	465,676
Current accounts (including those covering the minimum reserve system)	20	517,860	252,624
Deposit facility	21	0	54,052
Fixed-term deposits	22	1,010,000	159,000
Liabilities to other euro area residents denominated in euro	23	9,737	8,737
Liabilities to non-euro area residents denominated in euro	24	15	14
Liabilities to non-euro area residents denominated in foreign currency	25	18,950	0
Counterpart of the special drawing rights allocated by the IMF	26	72,232	73,536
Other liabilities		86,153	38,909
Off-balance-sheet instruments revaluation differences	16	369	2,695
Accruals and income collected in advance	27	3,073	2,910
Sundry liabilities	28	82,711	33,304
Provisions	29	11,500	18
Revaluation accounts	30	13,679	9,740
Capital and reserves	31	358,337	341,333
Capital		147,237	130,233
Reserves		211,100	211,100
Profit for the year		34,107	22,673
TOTAL LIABILITIES		4,281,724	3,101,515

PROFIT AND LOSS ACCOUNT FOR 2012 AND 2011

thousand euros

	Item	2012	2011
Interest income		38,929	31,524
Interest expense		-9,188	-10,901
Net interest income	32	29,741	20,623
Realised gains/losses arising from financial operations		4,937	4,684
Write-downs on financial assets		-1,244	-509
Provisions for exchange rate risk, interest risk and credit risk		-11,500	
Net result of financial operations, write-downs and risk provisions	33	-7,807	4,175
Fees and commissions income		899	825
Fees and commissions expense		-106	-101
Net income from fees and commissions	34	793	724
Income from equity shares and participating interests	35	1,884	1,738
Net result of pooling of monetary income	36	24,402	8,520
Other income	37	1,336	6,248
Total net income		50,349	42,028
Staff costs	38	-7,859	-7,701
Administrative expenses	39	-5,160	-5,312
Depreciation of tangible fixed assets	14	-2,258	-2,233
Other expenses	40	-965	-4,109
Operating expenses		-16,242	-19,355
Profit for the year		34,107	22,673

NOTES ON THE ANNUAL ACCOUNTS OF EESTI PANK

ACCOUNTING POLICIES USED IN THE ANNUAL ACCOUNTS

General principles

The Annual Accounts have been drafted in accordance with the rules established on the basis of Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank.¹ The parts of the Annual Accounts that are not regulated by ECB guidelines have been drafted in accordance with the accounting principles generally accepted in Estonia.

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

Eesti Pank does not prepare a Cash Flow Statement for the Bank as this does not provide significant relevant information to the readers of the Annual Accounts of Eesti Pank, given its role as the central bank.

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

The Balance Sheet items are grouped by residency (euro area, non-euro area) and currency (euro, other currency). The assets and liabilities related to monetary policy are recorded on separate rows.

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

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; and the cost or value of an asset or a liability and the resulting gains or losses can be measured reliably.

Financial assets and liabilities

A 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 at acquisition. Financial liabilities are initially recorded at their acquisition cost, which is the fair value of the amount received for the financial liability at acquisition. Subsequent

¹ Guideline ECB/2010/20 of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast); Guideline ECB/2011/27 of 21 December 2011 and Guideline ECB/2012/29 of 10 December 2012 amending Guideline ECB/2010/20 on the legal framework for accounting and financial reporting in the European System of Central Banks.

measurement of financial assets and liabilities is based on the market value, the acquisition cost or the amortised cost depending on the type of 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 if the recoverable amount of an asset is likely to be smaller than its carrying amount. The impairment of significant financial assets is measured for each object separately. The impairment of financial assets that are not individually significant and that are not expected to be impaired is measured for all assets together. Write-downs of financial assets are recorded as an expense of the accounting period in the Profit and Loss Account.

Recording of transactions in foreign currency

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

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

The special drawing right (SDR) of the International Monetary Fund (IMF) is defined in terms of a basket of currencies. To revalue Eesti Pank's holdings of SDRs, the value of the SDR was calculated as the weighted sum of the exchange rates of four major currencies (the US dollar, euro, Japanese yen and pound sterling) converted into euro as at 31 December 2012.

The exchange rates applied on 31 December 2012 and 2011 were as follows:

	31/12/2012	31/12/2011
USD	1.3194	1.2939
GBP	0.8161	0.8353
JPY	113.61	100.2
SDR	1.1657	1.1867

Gold

Gold is valued at the market price prevailing at the year-end. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold valuation is accounted for on the basis of the price in euro per fine ounce of gold, which, for the year ending 31 December 2012, was derived from the exchange rate of the euro against the US dollar on 31 December 2012.

Securities

Marketable securities (other than those classified as held-to-maturity) and similar assets are valued

either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. For the year ending 31 December 2012, mid-market prices on 31 December 2012 were used.

Securities held for monetary policy purposes, which are classified as held-to-maturity securities, are valued on an amortised cost basis subject to impairment.

Income recognition

Income and expenses are recognised in the Profit and Loss Account in the period in which they are earned or incurred, regardless of when cash was received or paid. Realised gains and losses arising from the sale of foreign exchange, gold and securities are taken to the Profit and Loss Account. Such realised gains and losses are calculated by reference to the average cost of the respective asset.

Unrealised gains are not taken to the Profit and Loss Account, but are recognised on the Balance Sheet under "Revaluation accounts".

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

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

Premiums or discounts arising on purchased securities are recorded as part of interest income and are amortised over the remaining life of the securities on a straight-line basis.

Reverse transactions

Repurchase transactions (sale/repurchase transactions) are recorded as collateralised 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 an 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 an accrual basis on the Balance Sheet under Accruals and prepaid expenses and interest income on the Profit and Loss Account. Securities used as collateral for reverse repurchase transactions are not recorded on the Balance Sheet of Eesti Pank.

Investment in shares

Investment in shares is recorded at market value if it can be assessed reliably. The assessment of the market value of shares is not reliable if they are not actively traded and there are no alternative methods for assessing their value reliably. In this case shares are recorded at their acquisition cost. Profits 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 a useful life of over a year and an acquisition cost in excess of 3200 euros. Fixed assets are recorded at their acquisition cost, including purchase price and other expenditure directly related to bringing 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:

	2012
Land and buildings	3%
Utility systems of buildings	10%
Hardware	20%
Software	15–50%
Other fixed assets	7–20%

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

Subsequent expenditure incurred for items of fixed assets is 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 recognised as expenses at the time they are incurred.

Provisions for exchange rate risk, interest risk, credit risk and gold price risk

Given the nature of the operations of a central bank, Eesti Pank may set up provisions on the balance sheet for exchange rate risk, interest rate risk, gold price risk and credit risk. The management of the bank decides on the size and use of the provisions, using a reasonable estimate of the bank's exposure.

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, where 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 or materially affect the condition of assets and liabilities on the balance sheet date. Important post-balance-sheet events that do not affect the condition of assets and liabilities on the balance sheet date are disclosed in the Notes.

Banknotes in circulation

The European Central Bank and the euro area national central banks, which together comprise the Eurosystem, issue euro banknotes.² The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with the banknote allocation key.³

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

The difference between the value of euro banknotes allocated to each Eurosystem central bank in accordance with the banknote allocation key and the value of euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which bear interest⁴, are disclosed under the sub-item *Intra-Eurosystem balances: net claims/liabilities related to the allocation of euro banknotes within the Eurosystem* (see *Intra-Eurosystem balances* in the notes on accounting policies).

From the cash changeover year⁵ until five years following the cash changeover year, the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in the Eurosystem central bank's relative income positions as compared to previous years. The adjustments are effected by taking into account the differences for the observation period⁶ between the average value of banknotes released into circulation by the central banks of the Eurosystem countries and the average value of the banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments are reduced in annual stages until the first day of the sixth year after the cash changeover year, when income on banknotes is

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

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

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

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

6 The period is 24 months long and starts 30 months before the day that the euro banknotes become the legal tender of the country in question. For Eesti Pank the period was from July 2008 to June 2010.

allocated fully in proportion to the Eurosystem central bank's paid-up shares in the ECB's capital. The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under *Net interest income*.

Interim profit distribution of the ECB

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, and the ECB's (net) income arising from SMP securities shall be due in full to the NCBs in the same financial year it accrues. The European Central Bank distributes this income in January of the following year in the form of an interim distribution of profit.⁷ The amount of the ECB's income on euro banknotes in circulation may be reduced in accordance with any decision by the Governing Council in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes. Before the end of the year the Governing Council decides whether all or part of the ECB's income arising from SMP securities and, if necessary, all or part of the ECB's income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of distributed income does not exceed the ECB's net profit for that year.

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

Intra-Eurosystem balances

The European System of Central Banks' (ESCB) transactions are cross-border transactions between two national central banks of the European Union. The intra-ESCB transactions are settled primarily in TARGET2, the Trans-European Automated Real-time Gross Settlement Express Transfer system, and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-à-vis the ECB only. Intra-Eurosystem balances of euro area NCBs vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (e.g. interim profit distributions to NCBs) are presented in the Balance Sheet as a single net asset or liability position and disclosed under *Other claims within the Eurosystem (net)* or *Other liabilities within the Eurosystem (net)*.

Intra-Eurosystem balances arising from Eesti Pank's equity participation in the ECB are included under *Participating interest in the European Central Bank*.

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

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

⁷ Decision ECB/2010/24 of 25 November of 2010 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the Securities Market Programme (recast), OJ L 6, 11.1.2011, p 35.

NOTES ON THE BALANCE SHEET

NOTE 1 – GOLD AND GOLD RECEIVABLES

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

	31/12/2012	31/12/2011
Gold (ounces)	8,250.171	8,250.171
Ounce market value (euro)	1,261.18	1,216.86
Revaluation (thousand euros)	366	1,337
Market value (thousand euros)	10,405	10,039

ITEM 2 – RECEIVABLES FROM THE IMF

Item 2 includes the SDR account in the IMF, reserve position in the IMF and other receivables.

	31/12/2012	31/12/2011
		<i>thousand euros</i>
SDR account in the IMF	72,308	73,607
Reserve position in the IMF	9,538	8
Other receivables from the IMF	0	518
Receivables from the IMF	81,846	74,133

The SDR account in the IMF

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

Reserve position in the IMF

Eesti Pank represents the Republic of Estonia in the IMF. 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 the country's quota.

On 15 December 2011 the Estonian parliament voted to accept the increase of the Estonian quota at the IMF by 28.7 million SDRs and authorised Eesti Pank to make the necessary transactions for this. This decision entered into force on 24 December 2011.

The parliament passed a law changing all previous acts relating to the IMF and stating that Eesti Pank was to make all the payments for membership of the IMF in the name of the Estonian Republic, and the government withdrew all bonds previously issued to cover Estonia's quota, which were to be replaced by a payment by Eesti Pank of the same value by 31 January 2012 at the latest.

On 23 January 2012 Eesti Pank transferred 8,528,600 euros to the IMF to receive 7,175,000 SDRs, increasing the Estonian quota by 25%. At the same time Eesti Pank credited the IMF's No.1 account at Eesti Pank with 25,540,291 euros, equivalent to 21,525,000 SDRs or 75% of the Estonian quota.

Under the new law, Eesti Pank credited the IMF's No.1 account at Eesti Pank with 77,121,595 euros, equivalent to 64,997,000 SDRs, on 24 January 2012. Under point 7² of the decision by the Supreme Council of the Republic of Estonia on joining the IMF, the EBRD and their associated organisations,

Eesti Pank backed up the bonds issued by the government to cover Estonia's quota at the IMF. At the end of 2012 the quota of the Republic of Estonia was 93,900,000 SDRs.

thousand euros

	31/12/2012	31/12/2011
Reserve position in the IMF	9,538	8
Participation in the IMF	109,471	77,373
IMF securities account and IMF No.1 account (liabilities)	-99,933	-77,365

The reserve position in the IMF comprises the net amount of the quota and the IMF No.1 account. Because the reserve position grew in 2012, the down payment of 25% of the Estonian quota was 7,175,000 SDRs and the participation in the IMF's Financial Transactions Plan (FTP) was 1,000,000 SDRs. Estonia has participated in the FTP since 2012.

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%.

thousand euros

	31/12/2012	31/12/2011
Other receivables from the IMF	0	518
Eesti Pank, SBA loan-related receivable	0	399
Government, STF loan-related receivable	0	119

In 2012 the management of Eesti Pank decided to follow the IMF guidelines and write these off as uncollectible receivables and consequently they appear as a contingent claim on the IMF and a contingent liability to the Government of the Republic of Estonia in off-balance sheet accounts.

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

Item 3 reflects bank balances in foreign currency with credit institutions outside the euro area and the security investments denominated in US dollars of non-euro area residents. In 2012, Eesti Pank's foreign reserves were invested mainly in the low-risk government bonds of the United States.

thousand euros

	31/12/2012	31/12/2011
Securities	100,718	66,018
Current accounts	11,153	11,678
Reverse repurchase transactions	21,844	0
Total	133,715	77,696

thousand euros

	31/12/2012	31/12/2011
USD	133,030	76,910
CAD	269	197
GBP	196	214
AUD	108	90
SEK	44	159
JPY	38	63
NZD	18	18
CHF	7	15
NOK	3	13
DKK	2	17
Total	133,715	77,696

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

Item 4 reflects bank balances in foreign currency with credit institutions in the euro area and the investments in equities denominated in US dollars of euro area residents.

thousand euros

	31/12/2012	31/12/2011
Equities	15,347	0
Current accounts	5,797	4,929
Total	21,144	4,929

thousand euros

	31/12/2012	31/12/2011
USD	18,843	2,782
GBP	1,591	978
AUD	283	640
JPY	217	217
SEK	194	179
CHF	8	8
CAD	7	94
NZD	1	1
NOK	0	30
Total	21,144	4,929

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

Item 5 reflects bank balances in euro with credit institutions outside the euro area and the security investments denominated in euro of non-euro area residents.

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

The total Eurosystem holding of monetary policy assets amounts to 1,127,092 million euros of monetary policy claims, of which Eesti Pank's balance is 13.9 million euros of long-term refinancing transactions. Under Article 32.4 of the Statute of the ESCB, any risks from monetary policy operations, if they were

to materialise, should eventually be shared in full by the Eurosystem central banks in proportion to the prevailing ECB capital key shares. Eesti Pank's share is 0.25582%.

Losses can occur only if the counterparty is insolvent and has insufficient funds to realise the guarantees given. It should be noted that the Governing Council has ruled out risk sharing for guarantees that the NCB may accept at its own discretion.

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

Item 7 reflects the balances with banks of euro area credit institutions denominated in euro.

ITEM 8 – SECURITIES HELD FOR MONETARY POLICY PURPOSES

Item 8 reflects securities acquired by Eesti Pank within the scope of the purchase programmes for covered bonds,⁸ and public debt securities acquired in the scope of the Securities Market Programme (SMP).⁹

	<i>thousand euros</i>	
	31/12/2012	31/12/2011
SMP	340,996	342,273
CBPP2	32,255	2,038
Total	373,251	344,311

The SMP was established in May 2010. The ECB and NCBs may purchase euro area public and private debt securities to address the malfunctioning of certain segments of the euro area debt securities markets and to restore the proper functioning of the monetary policy transmission mechanism. The SMP balance declined during 2012 as the redemption of bonds at their maturity date surpassed the purchases of bonds.

The ECB Governing Council regularly assesses the financial risks associated with the securities bought under the SMP and the two covered bond purchase programmes.

The total Eurosystem central banks holding of SMP securities amounts to 192,608 million euros, of which Eesti Pank holds 341 million euros. Under Article 32.4 of the Statute of the ESCB, any risks from holdings of SMP securities, if they were to materialise, should eventually be shared in full by the Eurosystem central banks in proportion to the prevailing ECB capital key shares.

In February 2012, the Eurosystem central banks exchanged their holdings of Greek government bonds bought as part of the SMP for new Greek government bonds. The new bonds have the same nominal value, interest rate, interest payment dates and redemption dates as the bonds purchased under the SMP. The new bonds were not on the list of bonds that were restructured for private investors, and so Eesti Pank did not bear any loss on its Greek government bonds.

⁸ Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bond purchase programme (OJ L 175, 4.7.2009, p 18) and Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme (OJ L 297, 16.11.2011, p 70).

⁹ Decision ECB/2010/5 of 14 May 2010 establishing a securities markets programme (OJ L 124, 20.5.2010, p 8).

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

In the SMP impairment test at the end of 2012, the Governing Council of the ECB identified two possible indicators of impairment, both related to Greek government bonds. The first was the partial restructuring of Greek government debt in March and the second was the repurchase transaction of the debt by the Greek government in December. The ECB Governing Council considered these indicators and found from the information in its possession at the end of 2012 that they will not entail any change in the future cashflows from the securities. For this reason no impairment loss was recorded at the end of the year.

Equally, the test did not show or register any fall in the value of other securities that were bought as part of the SMP or the two covered bond purchase programmes.

ITEM 9 – OTHER SECURITIES

Item 9 reflects investments in securities denominated in euro by euro area residents.

ITEM 10 – PARTICIPATING INTEREST IN THE ECB

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

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

In accordance with the legal acts adopted by the ECB Governing Council on the increase of the subscribed capital of the ECB on 29 December 2010 and the paying up of the increase in three instalments¹⁰, Eesti Pank paid an additional 2,983,333 euros to the ECB on 27 December 2012, representing the third instalment of the contribution to the increase in the ECB’s capital.

The subscribed and paid up capital contributions of the national central banks are as follows:

¹⁰ Decision ECB/2010/26 of 13 December 2010 on the increase of the European Central Bank’s capital (OJ L 11, 15.1.2011, p 53); Decision ECB/2010/27 of 13 December 2010 on the paying in of the increase of the European Central Bank’s capital by the national central banks of Member States whose currency is the euro (OJ L 11, 15.1.2011, p 54); Decision ECB/2010/34 of 31 December 2010 on the paying in of capital, transfer of foreign reserve assets and contributions by Eesti Pank (OJ L 11, 15.1.2011, p 58); Agreement of 31 December 2010 between Eesti Pank and the European Central Bank regarding the claim credited to Eesti Pank by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank (OJ C 12, 15.2.2011, p 6).

	Subscribed capital as of 1 January 2009	Subscribed capital as of 29 December 2010	Paid-up capital before 26 December 2012	Paid-up capital as of 27 December 2012
	%	€	€	€
Nationale Bank van België / Banque Nationale de Belgique	2.4256	261,010,385	220,583,718	261,010,385
Deutsche Bundesbank	18.9373	2,037,777,027	1,722,155,361	2,037,777,027
Eesti Pank	0.1790	19,261,568	16,278,234	19,261,568
Central Bank of Ireland	1.1107	119,518,566	101,006,900	119,518,566
Bank of Greece	1.9649	211,436,059	178,687,726	211,436,059
Banco de España	8.3040	893,564,576	755,164,576	893,564,576
Banque de France	14.2212	1,530,293,899	1,293,273,899	1,530,293,899
Banca d'Italia	12.4966	1,344,715,688	1,136,439,021	1,344,715,688
Central Bank of Cyprus	0.1369	14,731,333	12,449,666	14,731,333
Banque centrale du Luxembourg	0.1747	18,798,860	15,887,193	18,798,860
Central Bank of Malta	0.0632	6,800,732	5,747,399	6,800,732
De Nederlandsche Bank	3.9882	429,156,339	362,686,339	429,156,339
Oesterreichische Nationalbank	1.9417	208,939,588	176,577,921	208,939,588
Banco de Portugal	1.7504	188,354,460	159,181,126	188,354,460
Banka Slovenije	0.3288	35,381,025	29,901,025	35,381,025
Národná banka Slovenska	0.6934	74,614,364	63,057,697	74,614,364
Suomen Pankki – Finlands Bank	1.2539	134,927,820	114,029,487	134,927,820
Subtotal – euro area national central banks*		7,529,282,289	6,363,107,289	7,529,282,289
Българска народна банка (Bulgarian National Bank)	0.8686	93,467,027	3,505,014	3,505,014
Česká národní banka	1.4472	155,728,162	5,839,806	5,839,806
Danmarks Nationalbank	1.4835	159,634,278	5,986,285	5,986,285
Latvijas Banka	0.2837	30,527,971	1,144,799	1,144,799
Lietuvos bankas	0.4256	45,797,337	1,717,400	1,717,400
Magyar Nemzeti Bank	1.3856	149,099,600	5,591,235	5,591,235
Narodowy Bank Polski	4.8954	526,776,978	19,754,137	19,754,137
Banca Națională a României	2.4645	265,196,278	9,944,860	9,944,860
Sveriges Riksbank	2.2582	242,997,053	9,112,389	9,112,389
Bank of England	14.5172	1,562,145,431	58,580,454	58,580,454
Subtotal – non-euro area national central banks*		3,231,370,113	121,176,379	121,176,379
Total*	100.0000	10,760,652,403	6,484,283,669	7,650,458,669

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

Upon Estonia's accession to euro area, Eesti Pank became subject to Article 48.2 of the ESCB's Statute, which sets out that Eesti Pank 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. Starting from 2011 the sums paid for the reserves, the revaluation accounts and the risk provision of the ECB, amounting to 63,633,111 euros in total, are shown under this item.

ITEM 11 – CLAIMS EQUIVALENT TO THE TRANSFER OF FOREIGN RESERVES

Item 11 reflects claims of Eesti Pank that come from the transfers made to the foreign currency reserves of the ECB. The claims are denominated in euro at a value fixed at the time of their transfer. They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component.

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

Item 12 reflects Eesti Pank's claims on the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see "Banknotes in circulation" and "Intra-Eurosystem balances" in the notes on the accounting policies).¹¹

ITEM 13 – OTHER CLAIMS WITHIN THE EUROSYSYEM (NET)

	<i>thousand euros</i>	
	31/12/2012	31/12/2011
TARGET2 balance	1,740,599	637,978
Claims on the ECB in relation to the allocation of monetary income	24,402	8,520
Partial allocation of ECB profit	1,470	1,668
Total	1,766,471	648,166

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

The remuneration on the balance of the TARGET2 account is calculated daily at the marginal interest rate of Eurosystem main refinancing operations.

The claim on the ECB in connection with the annual pooling and allocation of monetary income comes from the difference between the amounts pooled and distributed by the Eurosystem NCBs (see item 36 of the Profit and Loss account, "Net result of pooling of monetary income").

At the decision of the Governing Council of the ECB, the ECB partially retained its 2012 income (see item 35 of the Profit and Loss account "Income from equity shares and participating interests").

¹¹ In accordance with the accounting methods chosen by the Eurosystem in relation to the euro banknotes, 8% of the total value of euro banknotes in circulation is allocated to the ECB on a monthly basis. The other 92% of the euro banknotes in circulation are allocated to the national central banks on a monthly basis, while the latter reflect their percentages of the euro banknotes in their Balance Sheets in proportion to their paid-up contributions to the ECB capital. In accordance with these accounting methods, the difference between the value of euro banknotes allocated to a national central bank and the value of euro banknotes issued into circulation is recorded under *Intra-Eurosystem net claims/liabilities related to the allocation of euro banknotes within the Eurosystem*.

ITEM 14 – FIXED ASSETS

thousand euros

Acquisition costs	Buildings	Hardware	Software	Inventory	Total
Balance at the end of 2011	27,669	3,182	4,103	6,186	41,140
Acquisitions	549	501	84	48	1,182
Disposals	0	-87	-69	-7	-163
Balance at the end of 2012	28,218	3,596	4,118	6,227	42,159
Accumulated depreciation					
Balance at the end of 2011	8,540	2,493	3,342	3,768	18,143
Depreciation charge	1,237	243	282	496	2,258
Disposals	0	-87	-69	-7	-163
Balance at the end of 2012	9,777	2,649	3,555	4,257	20,238
Carrying amount					
at the end of 2011	19,129	689	761	2,418	22,997
at the end of 2012	18,441	947	563	1,970	21,921
Prepayments for fixed assets					
Balance at the end of 2011	0	0	275	0	275
Balance at the end of 2012	5	0	495	0	500
Total fixed assets					
at the end of 2011	19,129	689	1,036	2,418	23,272
at the end of 2012	18,446	947	1,058	1,970	22,421

The cost of fixed assets acquired in 2012 was 1.2 million euros (2.9 million euros in 2011). The largest share of the acquisition cost was spent on procurements for the renovation of buildings and technical networks. Hardware procurements were held for a new IP-telephone system and to acquire servers. The largest software procurements were for business analysis software and additional database software. The main inventory procurement was for cash handling equipment.

ITEM 15 – OTHER FINANCIAL ASSETS

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

ITEM 16 – OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

Item 16 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 into their euro equivalents at the exchange rates prevailing on the balance sheet date, compared with the values resulting from the conversion of the transactions at the average cost in the respective foreign currency on that date.

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

ITEM 17 – ACCRUALS AND PREPAID EXPENSES

thousand euros

	31/12/2012	31/12/2011
Interest income	11,175	10,469
Securities	8,950	7,670
Intra-Eurosystem balances	1,966	2,676
Derivative instruments	140	91
Monetary policy operations	101	0
Fixed-term deposits and current accounts	9	24
Loans	9	8
Prepaid expenses	575	583
Claims on the Financial Supervision Authority	551	518
Other claims	338	389
Total	12,639	11,959

ITEM 18 – SUNDRY ASSETS

thousand euros

	31/12/2012	31/12/2011
Loans to employees of Eesti Pank	5,899	5,056
Foreign exchange transactions	1,760	1,361
Numismatic banknotes and coins of the Estonian kroon	939	952
Credits related to margin calls	23	209
Other	116	214
Total	8,737	7,792

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 for each 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 granted before 2012 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 the ECB deposit interest rate, which was 0-0.25% in 2012. The interest rate on mortgage loans granted since 2012 is the six-month Euribor plus 0.5 per cent but no more than the minimum loan interest rate established by the Minister of Finance. In addition, study loans have been granted for a maximum of ten years and with a 5% interest rate.

ITEM 19 – BANKNOTES IN CIRCULATION

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

thousand euros

	31/12/2012	31/12/2011
Estonian kroon banknotes	0	48,161
Euro banknotes	703,145	590,743
Adjustments of euro banknotes	1,632,778	1,683,840
ECB banknotes (8%)	-186,769	-181,865
Total	2,149,154	2,140,879

In the first year after the changeover to the euro, Estonian kroon banknotes were recorded in the row “Banknotes in circulation”, but since 2012 they have been recorded under “Sundry liabilities”.

In 2013 the Estonian kroon is still being exchanged for euros at the central rate of 15.6466 with no service fee at Swedbank and SEB cash handling branches throughout Estonia as well as the museum of the central bank.

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

Item 20 contains the credit balances on the current accounts of Estonian credit institutions held with Eesti Pank. The credit balances that are required to be held in Eesti Pank to cover the minimum reserve have been remunerated at the prevailing marginal interest rate for the Eurosystem’s main refinancing operations. Interest is not paid for amounts in excess of the minimum reserve.

ITEM 21 – DEPOSIT FACILITY

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

ITEM 22 – FIXED-TERM DEPOSITS

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

ITEM 23 – LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

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

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

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

ITEM 25 – LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

Item 25 reflects repurchase transactions with non-euro area residents.

ITEM 26 – COUNTERPART OF THE SPECIAL DRAWING RIGHTS ALLOCATED BY THE IMF

Item 26 reflects the liability to the IMF arising from the IMF's decision of 7 August 2009 to increase the SDR issues for all of its member states. This was done in order to increase global liquidity by providing support to the foreign reserves of the member states. As a result, Estonia received 61,965,241 SDRs.

ITEM 27 – ACCRUALS AND INCOME COLLECTED IN ADVANCE

thousand euros

	31/12/2012	31/12/2011
Accounts payable	826	907
Tax liabilities	784	688
Recreation reserve	568	561
Employee salaries payable	526	506
Interest expense	292	244
Derivative instruments	230	90
Deposits with credit institutions	52	125
SDR allocation	9	22
Monetary policy operations	1	7
Other liabilities	77	4
Total	3,073	2,910

ITEM 28 – SUNDRY LIABILITIES

thousand euros

	31/12/2012	31/2/2011
Estonian kroon banknotes	44,146	0
Euro coins	30,862	25,076
Estonian kroon coins	7,530	7,632
Loans to employees of Eesti Pank	80	201
Credits related to margin calls	23	23
Foreign exchange transactions	0	227
Other liabilities	70	145
Total	82,711	33,304

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

In the first year after the changeover to the euro, Estonian kroon banknotes were recorded in the row "Banknotes in circulation", but since 2012 they have been recorded under "Sundry liabilities".

ITEM 29 – PROVISIONS

Item 29 reflects general risk provisions in 2012 for exchange rate risk, interest rate risk and credit risk. The size of the provisions has been decided by the management of Eesti Pank on the basis of risk assessment of assets.

ITEM 30 – REVALUATION ACCOUNTS

	<i>thousand euros</i>	
	31/12/2012	31/12/2011
Securities	8,234	6,044
Gold	3,159	2,793
Equities	839	0
Foreign currency	796	638
Derivative instruments	651	265
Total	13,679	9,740

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 on financial assets”.

ITEM 31 – CAPITAL AND RESERVES

Changes in capital and reserves in 2012:

	<i>thousand euros</i>		
	31/12/2012	Distribution of profit for 2011	31/12/2011
Fixed Capital	100,000		100,000
Reserve Capital	47,237	17,004	30,233
Special Reserve	211,100		211,100
Total	358,337	17,004	341,333

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 the special reserve for specific purposes, at 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 32 – NET INTEREST INCOME

thousand euros

	2012	2011
Net interest income	29,741	20,623
Interest income	38,929	31,524
Intra-Eurosystem balances	27,134	14,701
Securities	9,506	13,026
Derivative instruments	2,053	2,977
Loans to employees of Eesti Pank	99	105
Current accounts	90	312
Reverse repurchase transactions	32	290
Fixed-term deposits	15	113
Interest expense	-9,188	-10,901
Securities	-4,845	-2,688
Derivative instruments	-2,367	-2,900
Intra-Eurosystem balances	-1,650	-4,681
Euro deposits	-185	-71
	-82	-282
Current accounts	-59	-158
Repurchase transactions	0	-121
Fixed-term deposits		

thousand euros

	2012	2011
Intra-Eurosystem interest income	27,134	14,701
Monetary policy operations	16,978	6,538
Interest income on TARGET accounts	6,274	2,149
Allocation of banknotes within the Eurosystem	3,097	4,911
Transfer of foreign currency reserves	785	1,103
Intra-Eurosystem interest expense	-1,650	-4,681
Interest expense from minimum reserves	-1,095	-2,815
Monetary policy operations	-555	-1,141
Interest expense from TARGET accounts	0	-687
Transfer of capital share	0	-38

ITEM 33 – NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND RISK PROVISIONS

thousand euros

	2012	2011
Net result of financial operations, write-downs and risk provisions	-7,807	4,175
Realised gains/losses arising from financial operations	4,937	4,684
Securities	4,375	1,819
Derivative instruments	1,344	-1,137
Financial asset management costs	-294	-10
Exchange rate profit/loss	-488	4,012
Write-downs on financial assets	-1,244	-509
Exchange rate write-downs	-454	-198
Other receivables from the IMF	-394	0
Derivative instruments	-350	-311
Securities	-46	-1
Net change of loan portfolio write-downs	0	1
Provisions for exchange rate risk, interest risk and credit risk	-11,500	0

ITEM 34 – NET INCOME FROM FEES AND COMMISSIONS

thousand euros

	2012	2011
Net income from fees and commissions	793	724
Fees and commissions income	899	825
Current accounts service fees	860	825
Fines, arrears and other	39	0
Fees and commissions expense	-106	-101
Commission fees	-71	-61
TARGET2 fees	-29	-30
Other fees and commissions	-6	-10

ITEM 35 – INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

Item 35 reflects dividends from the shares of the Bank for International Settlements. This item also includes the distribution of the ECB's income from euro banknotes of 1.5 million euros (see "Interim profit distribution" in the notes on the accounting policies).

Following a decision by the ECB Governing Council, the ECB distributed part of its 2012 income totalling 575 million euros.

ITEM 36 – NET RESULT OF POOLING OF MONETARY INCOME

thousand euros

	2012	2011
Net result of pooling of monetary income	24,402	8,520
Distribution of monetary income	24,382	8,520
Monetary income pooled by Eesti Pank	-35,492	-31,608
Monetary income allocated to Eesti Pank	59,874	40,128
Adjustment for the monetary income of the previous year	20	0

The net result of pooling of monetary income from the Eurosystem central banks in 2012 totalled 23,404,802,733 euros, which includes the share of Eesti Pank.

The monetary income pooled by the Eurosystem is allocated among Eurosystem central banks according to the subscribed ECB's capital key. The difference between the monetary income pooled by Eesti Pank of 35,492,178 euros and that reallocated to Eesti Pank of 59,874,657 euros is the net result of 24,382,479 euros arising from the calculation of monetary income.

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

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

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

ITEM 37 – OTHER INCOME

	<i>thousand euros</i>	
	2012	2011
Other income	1,336	6,248
Expenses compensated by the Financial Supervision Authority	586	547
Income from the sale of collector coins and numismatic products	352	2,057
Compensation for expenses in the changeover to the euro	219	0
Income on financial asset management	118	107
Rental income	42	39
Income from the sale of coin metal	0	3,474
Other income	19	24

Under 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 the depreciation costs of fixed assets used.

Income from the sale of numismatic products mostly came from the sales income from collector coins, around 38% of which came from sales of the silver collector coins made to commemorate the London Olympic Games.

The European Commission compensated Eesti Pank for the expenses for the changeover to the euro, covering the costs of the euro starter pack and the communications expenses for 2011 and 2010.

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

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

ITEM 38 – STAFF COSTS

thousand euros

	2012	2011
Staff costs	-7,859	-7,701
Wages	-5,736	-5,609
Social tax	-1,921	-1,881
Compensations and benefits	-128	-134
Unemployment insurance	-74	-77

Staff costs are mainly wage costs, including taxes.

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

On average, there were 237 employees at Eesti Pank in full-time employment in 2012 (241 in 2011).

ITEM 39 – ADMINISTRATIVE EXPENSES

thousand euros

	2012	2011
Administrative expenses	-5,160	-5,312
Information technology maintenance	-1,209	-1,424
Real estate renovation and administration	-1,179	-948
Financial asset management	-916	-972
Business travel	-561	-582
Public relations and publications	-318	-415
Training	-225	-206
Office	-176	-193
Communications and transport	-113	-108
Legal and arbitration	-76	-22
Other administrative expenses	-387	-442

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 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 travel expenses reflect the costs of staff business travel for the representation of Eesti Pank and cooperation with international organisations and financial institutions. There were a total of 762 business trips in 2012 (727 in 2011).

Other expenses consisted mostly of the costs of security, the foreign representation of Eesti Pank and economic research.

ITEM 40 – OTHER EXPENSES

thousand euros

	2012	2011
Other expenses	-965	-4,109
Production of euro coins	-438	-2 855
Production of collector coins and numismatic products	-213	-532
Cash circulation management	-132	-524
Other expenses	-182	-198

ITEM 41 – DERIVATIVE INSTRUMENTS

Futures purchase transactions with a contract value of 305.4 million euros and futures sale transactions with a contract value of 168.5 million euros were outstanding as at 31 December 2012 (in 2011, 18.7 million and 169.6 million euros, respectively). The contract value of outstanding interest rate swaps totalled 265.6 million euros (in 2011, 148.5 million euros). Foreign exchange swap and forward transaction claims of 191.4 million and liabilities of 189.4 million euros were outstanding as at 31 December 2012 (in 2011, 126.3 and 127.6 million euros respectively).

ITEM 42 – CONTINGENT LIABILITIES

thousand euros

	31/12/2012	31/12/2011
Contingent liabilities	2,345	2,105
Contractual obligations to produce banknotes and coins	1,793	1,542
Unpaid share capital (75%) of BIS	552	563

The production of banknotes and coins

At the end of 2012, the contingent liabilities of Eesti Pank arising from the Joint Euro Tender for the production of euro banknotes in 2013 stood at 1.8 million euros. Of this, 1.5 million euros was an obligation carried forward from 2012.

Eesti Pank has participated in the production of euro banknotes since Estonia joined the euro area. Eesti Pank must return to the Eurosystem 44 million banknotes that were lent to Eesti Pank in autumn 2010 for the changeover to the euro. Furthermore, a certain amount of euro cash that is determined by the ECB Governing Council must be produced for the euro area countries. Eesti Pank procures the euro banknotes through a joint tender with eight other euro area central banks. Under the tender, 20-euro banknotes are produced that are included in the joint assets of the Eurosystem.

Bank for International Settlements

Since 1930 Eesti Pank has had a contingent liability to the Bank for International Settlements regarding the unpaid part of the share capital (75%) of the BIS denominated in Swiss gold francs, which totalled 551,810 euros on the balance sheet date (see Item 15).

INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the Supervisory Board of Eesti Pank:

We have audited the accompanying financial statements of Eesti Pank, which comprise the statement of financial position as at 31 December 2012, and the statement of revenues and expenses 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 the guidelines established by the Governing Council of European Central Bank, which are set out in Decision ECB/2010/20 (recast) on 11 November 2010 and Eesti Pank Act, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Certified Auditor's Responsibility

Our responsibility is to express an opinion on these 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 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 certified 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 certified 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 the Management Board, 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 2012, and its financial performance for the year then ended in accordance with the guidelines established by the Governing Council of European Central Bank, which are set out in Decision ECB/2010/20 (recast) on 11 November 2010 and Eesti Pank Act.

26 March 2013


Veiko Hintsov
Certified Auditor, No. 328
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