



# Annual Accounts of Eesti Pank

for the Financial Year Ended  
31 December 2005

**APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005  
BY THE EXECUTIVE BOARD OF EESTI PANK**

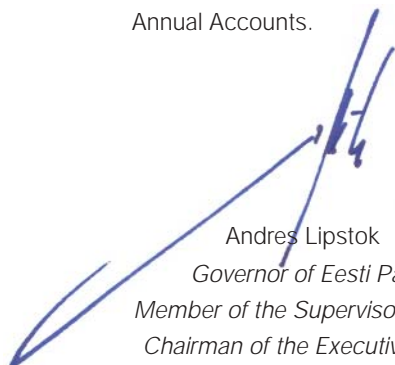
The Executive Board acknowledges its responsibility for the Annual Accounts of Eesti Pank for the financial year ended 31 December 2005, consisting of the balance sheet, profit and loss account, statement of changes in equity and the respective appendices.

The Annual Accounts have been prepared in accordance with the Eesti Pank Act and the accounting policies and procedures. As regards issues not covered by the above-mentioned regulations, international financial reporting standards are applied. The Annual Accounts give a true and fair view of the assets and liabilities, equity capital and economic performance of Eesti Pank.

Preparing the Annual Accounts in conformity with generally accepted accounting principles requires the Executive Board to provide estimates 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.

The Annual Accounts disclose significant events that occurred until the date of preparation of the Annual Accounts, i.e. 15 March 2006, and that affected the valuation of assets and liabilities.

On 27 March 2006, all members belonging to the Executive Board of Eesti Pank on that day signed the Annual Accounts.




Andres Lipstok  
*Governor of Eesti Pank,  
Member of the Supervisory Board,  
Chairman of the Executive Board*



Rein Minka  
*Member of the Executive Board,  
Deputy Governor*



Märten Ross  
*Member of the Executive Board,  
Deputy Governor*



Andres Sutt  
*Member of the Executive Board,  
Deputy Governor*



## BALANCE SHEET AS AT 31 DECEMBER 2005 AND 2004 (EEK thousand)

	Item	31/12/2005	31/12/2004
<b>ASSETS</b>			
<b>Foreign assets</b>		<b>27,026,925</b>	<b>21,787,426</b>
Gold	1	56,017	41,400
Convertible foreign currency	2	25,715,967	20,562,047
SDR account with the IMF	3	1,037	953
Participation in the IMF	3	1,231,491	1,161,271
Other claims on the IMF	3	11,540	10,882
Participation in the ECB	4	10,873	10,873
<b>Domestic assets</b>		<b>346,919</b>	<b>284,890</b>
Loans and other claims	5	45,546	53,520
Shares	6	3,441	73
Other assets	7	54,815	17,070
Fixed assets	8	243,117	214,227
<b>Total assets</b>		<b>27,373,844</b>	<b>22,072,316</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>			
<b>Foreign liabilities</b>		<b>1,291,347</b>	<b>1,672,277</b>
Foreign debt	2	56,117	506,705
IMF kroon accounts	3	1,231,399	1,161,184
Non-residents' accounts	9	3,831	4,388
<b>Domestic liabilities</b>		<b>22,221,378</b>	<b>16,713,513</b>
Banknotes and coins in circulation		10,101,716	8,895,053
Accounts of credit institutions and other current liabilities	10	12,069,166	7,776,968
accounts of credit institutions		11,984,644	7,701,894
other		84,522	75,074
Liabilities in foreign currency	3	5,178	4,883
Other liabilities	11	45,318	36,609
<b>Equity capital</b>		<b>3,861,119</b>	<b>3,686,526</b>
Capital and reserves	12	3,623,724	3,435,323
Profit		237,395	251,203
<b>Total liabilities and equity capital</b>		<b>27,373,844</b>	<b>22,072,316</b>

The notes on pages 70–86 form an integral part of the Annual Accounts.

**PROFIT AND LOSS ACCOUNT FOR THE YEARS 2005 AND 2004 (EEK thousand)**

	Items	2005	2004
<b>Net interest income and other net income on foreign assets and liabilities</b>	<b>13</b>	<b>502,330</b>	<b>477,502</b>
<b>Net interest cost and other net cost on domestic assets and liabilities</b>	<b>14</b>	<b>-88,665</b>	<b>-56,801</b>
Interest and other income		12,421	11,829
Interest and other expenses		-101,086	-68,630
<b>Other operating income</b>	<b>15</b>	<b>10,959</b>	<b>20,043</b>
<b>Operating expenses</b>	<b>16</b>	<b>-186,953</b>	<b>-189,489</b>
Personnel expenses		-84,957	-78,805
Banknote and coin production costs		-3,716	-15,405
General administration expenses		-73,593	-69,546
Depreciation of fixed assets		-24,687	-25,733
<b>Profit before write-downs</b>		<b>237,671</b>	<b>251,255</b>
<b>Net change of write-downs</b>	<b>17</b>	<b>-276</b>	<b>-52</b>
<b>Profit</b>	<b>18</b>	<b>237,395</b>	<b>251,203</b>

The notes on pages 70–86 form an integral part of the Annual Accounts.



## STATEMENT OF CHANGES IN EQUITY (EEK thousand)

	Fixed capital	Reserve capital	Special reserve	Profit	Total
<b>Balance as at the end of 2003</b>	<b>100,000</b>	<b>500,000</b>	<b>2,628,509</b>	<b>275,751</b>	<b>3,504,260</b>
Distribution of the 2003 profit	-	-	206,813	-206,813	-
Provisions into the state budget	-	-	-	-68,938	-68,938
Profit of 2004	-	-	-	251,203	251,203
<b>Balance as at the end of 2004</b>	<b>100,000</b>	<b>500,000</b>	<b>2,835,323</b>	<b>251,203</b>	<b>3,686,526</b>
Distribution of the 2004 profit	-	-	188,401	-188,401	-
Provisions into the state budget	-	-	-	-62,802	-62,802
Profit of 2005	-	-	-	237,395	237,395
<b>Balance as at the end of 2005</b>	<b>100,000</b>	<b>500,000</b>	<b>3,023,724</b>	<b>237,395</b>	<b>3,861,119</b>

The notes on pages 70–86 form an integral part of the Annual Accounts.

# NOTES TO 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 guidelines. As regards issues not covered by the above-mentioned regulations, international financial reporting standards are applied.

The Annual Accounts have been prepared on the historical cost basis, except in cases explained under relevant items.

Pursuant to Subsection 30(7) of the Eesti Pank Act, Eesti Pank does not pay income tax or any other taxes related to its economic activities to the state budget or local budgets, except taxes related to natural persons. Pursuant to Section 21 of the Value Added Tax Act enforced on 1 May 2004, Eesti Pank is registered as a taxable person with limited liability as of 14 May 2004 and calculates the value added tax from the supply of intra-Community acquisition or imports of goods and services.

The Annual Accounts have been prepared in thousands of Estonian kroons (EEK thousand) unless indicated otherwise.

The main accounting principles applied in preparing the Annual Accounts of Eesti Pank are presented below.

### Recording of transactions in a foreign currency

Transactions in a foreign currency are recorded on the basis of the official daily fixings of Eesti Pank as quoted by Eesti Pank at the transaction date. Assets and liabilities denominated in foreign currencies are translated into Estonian kroons at the official daily fixings effective on the balance sheet date. All gains and losses arising from translation are recognised in the Profit and Loss Account as income and expenses of the accounting period.

The official daily fixings applied on 31 December 2005 and 2004 were as follows:

	2005	2004
USD	13.2206	11.4711
SDR	18.8879	17.8109
EUR	15.6466	15.6466

### 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.

The Balance Sheet of Eesti Pank has been structured so that financial assets and liabilities as well as related gains and losses are presented separately according to residency (domestic and foreign). Such Bal-



ance Sheet structure allows monitoring the backing of the Estonian kroon by gold and convertible foreign currency. Foreign exchange transactions are primarily related to foreign exchange reserves management. Transactions in Estonian kroons are mainly related to currency circulation, market operations, and the daily operating activities of Eesti Pank.

Financial assets and liabilities are initially recorded at their acquisition cost, which is the fair value of the amount paid or received for a financial asset or liability. Financial assets sold or purchased under normal market conditions are entered on the delivery date. Further accounting of financial assets and liabilities is based on the fair value, the acquisition cost or the adjusted acquisition cost depending on the type of a respective asset or liability.

Fair 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. If the fair value of financial assets and liabilities differs significantly from their book value, these differences have been shown separately in the Notes to the Annual Accounts.

Financial instruments recorded at fair value are revalued on every balance sheet date. Changes in fair value are recognised in the Profit and Loss Account of the reporting period.

There were no significant differences between the fair value and book value of the financial assets and liabilities of Eesti Pank as at 31 December 2005 and 31 December 2004.

#### Gold

Gold reserves are valued at market value as at the year-end, equal to Eesti Pank's daily fixing of the Estonian kroon and gold. Changes in the market value of gold at the end of the accounting period compared to the beginning of the period are recognised in the Profit and Loss Account under the item "Net Interest Income and Other Net Income on Foreign Assets and Liabilities".

#### Investments in convertible foreign currency

Foreign debt instruments and other quoted securities denominated in convertible foreign currencies are recorded at their year-end fair value. Gains and losses from changes in the fair value of securities are recognised in the Profit and Loss Account under the item "Net Interest Income and Other Net Income on Foreign Assets and Liabilities".

Repurchase transactions (sale/repurchase transactions) are recorded as collateralised loans taken at their fair value, i.e. securities are recorded as assets on the Balance Sheet of Eesti Pank and the repurchase sum as a liability. The fair value has been estimated on the basis of the discounted cash flow method. The change in the fair value is recorded on an accrual basis in the Profit and Loss Account under the item "Net Interest Income and Other Net Income on Foreign Assets and Liabilities".

Reverse repurchase transactions (purchase/resale transactions) are recorded as collateralised loans granted at their fair value. The fair value has been estimated on the basis of the discounted cash flow method. The change in the fair value is recorded on an accrual basis in the Profit and Loss Account under the item "Net Interest Income and Other Net Income on Foreign Assets and Liabilities". Securities used as collateral for reverse repurchase transactions are not recorded on the Balance Sheet of Eesti Pank.

### Derivative instruments

Derivative instruments are used to manage foreign exchange risks and interest rate risks and they include foreign exchange forwards, swaps, and futures. Derivative instruments are recorded on the Balance Sheet at their fair value on the transaction date under "Convertible Foreign Currencies" (contracts with positive value) and "Foreign Debt" (contracts with negative value). The change in the fair value is recorded on an accrual basis under the item "Net Interest Income and Other Net Income on Foreign Assets and Liabilities" in the Profit and Loss Account. Eesti Pank does not apply hedge accounting to derivative instruments.

### Investments in shares

Investments in shares are recorded at their fair value if their value can be reliably assessed. The assessment of the fair 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 adjusted acquisition cost (initial acquisition cost less provision for any impairment in value other than temporary below balance sheet value). Profits and losses on the sale of shares are recorded in the Profit and Loss Account after all conditions of sale are met. 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 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:

	2005	2004
Buildings	3%	3%
Utility systems of buildings	20%	20%
Hardware	33%	33%
Software	20–50%	20–50%
Other fixed assets	20%	20%

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

The gross carrying amount of an improved asset has been increased by improvement costs if exterior dimensions of the buildings or facilities have increased, or the purpose of the existing buildings or facilities has changed. Current repair costs are recognised as expense of the period. If it is known or expected that the fair value of an asset is permanently lower than the book value, the asset has been reported at the lower value.

Development costs are recognised as expenses in the Profit and Loss Account in the period when they incur.



#### Allowance for loans and other claims

Allowance is made for uncollectible loans and other claims. Expenses of the accounting period arising from the allowance are recorded in the Profit and Loss Account of the reporting period. At the same time, respective assets on the Balance Sheet are reduced.

A general allowance is set up for losses of the loan portfolio to cover potential but unidentified losses in the loan portfolio. The general allowance is applied only to low-risk loans. It reflects the estimates of the Executive Board of Eesti Pank on the volume of potential losses, based on the risk group of the loans and previous experience.

Loans and other claims are accounted on the Balance Sheet until they are received or written off. Loans and other claims are written off only after all measures prescribed by the law to recover them have been exhausted, or if such recovery is economically not feasible. Loans previously written off but collected during the accounting period are recorded as an offsetting entry under expenses.

#### Asset impairment

An assessment is carried out on every balance sheet date to identify possible signs of an impairment of financial assets recorded at acquisition cost or adjusted acquisition cost or tangible fixed assets recorded at acquisition cost.

The impairment of significant financial assets is assessed for each object separately. The impairment of financial assets that are not individually significant and that are not known to have impaired is assessed for all assets together. Write-downs of financial assets is recognised as expenses in the income statement for the accounting period.

The recoverable amount of an asset is identified during testing the value of tangible fixed assets recorded at acquisition cost. If it is not possible to identify the value of a single asset (object) through testing, the value is tested across the smallest possible group of assets. The recoverable amount is equal either to the net selling price or the value in use of an asset, depending on which of the two is higher. The value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In calculating the present value the discount factor is the expected profitability of investments with similar risk-level. If the recoverable amount of an asset is smaller than its carrying amount, the asset is written down. The write-down is recognised in the Profit and Loss Account as an expense of the accounting period on an accrual basis.

#### Liabilities

All known liabilities and provisions are recorded on the Balance Sheet, if reliable estimates can be made of the amount and they are likely to be realised. Contingent liabilities, sureties, and guarantees are recognised as off-balance sheet items.

#### Banknotes and coins in circulation

Banknotes and coins in circulation are banknotes and coins issued by Eesti Pank at their nominal value and reflected on the Balance Sheet as a liability to the holder of banknotes and coins. Production costs of banknotes and coins are recorded in the Profit and Loss Account when the bank's payment obligation to the supplier arises.

#### Claims and liabilities to the Financial Supervision Authority

The Balance Sheet of Eesti Pank contains a claim to the Financial Supervision Authority in relation to services provided by Eesti Pank and acquisition of current assets (see Item 7) and a liability in relation to the settlement account of the Financial Supervision Authority held with Eesti Pank (see Item 10).

#### Income and expenses

Income and expenses are recorded in the Profit and Loss Account during the accounting period on an accrual basis regardless of when cash was received or paid.

#### Estimates

Preparing the Annual Accounts in conformity with generally accepted accounting principles 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.



## ITEM 1 – GOLD

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

	Amount (ounces)	Market price (EEK per ounce)	Market value (EEK thousand)
Balance at the end of 2004	8,250.171	5,018.0400	41,400
Revaluation	-	-	14,617
<b>Balance at the end of 2005</b>	<b>8,250.171</b>	<b>6,789.7800</b>	<b>56,017</b>

## ITEM 2 – CONVERTIBLE FOREIGN CURRENCY ASSETS, FOREIGN CURRENCY LIABILITIES

This item comprises Eesti Pank's foreign exchange reserves and liabilities related to reserve management in convertible foreign currency. The following financial instruments are used to manage the foreign exchange reserves: demand and time deposits, bonds, spot transactions, derivatives (futures, forwards, and swaps), repurchase and reverse repurchase transactions.

*EEK thousand*

	Balance at the end of 2004	Structure of remaining maturity				
		up to 3 months	3–12 months	1–3 years	3–5 years	over 5 years
<b>Convertible foreign currency</b>	<b>20,562,047</b>	<b>14,272,032</b>	<b>2,543,989</b>	<b>1,913,911</b>	<b>752,223</b>	<b>1,079,892</b>
Cash and current accounts	391,732	391,732	-	-	-	-
Time deposits	-	-	-	-	-	-
Debt securities	17,191,651	10,902,096	2,543,900	1,913,911	751,852	1,079,892
Reverse repurchase agreements	2,926,978	2,926,978	-	-	-	-
Fair value of derivatives	51,686	51,226	89	-	371	-
	Balance at the end of 2005	Structure of remaining maturity				
		up to 3 months	3–12 months	1–3 years	3–5 years	over 5 years
<b>Convertible foreign currency</b>	<b>25,715,967</b>	<b>14,808,752</b>	<b>5,842,146</b>	<b>2,265,445</b>	<b>1,209,089</b>	<b>1,590,535</b>
Cash and current accounts	426,290	426,290	-	-	-	-
Time deposits	998,082	998,082	-	-	-	-
Debt securities	21,900,002	11,006,305	5,840,940	2,265,445	1,200,457	1,586,855
Reverse repurchase agreements	2,362,413	2,362,413	-	-	-	-
Fair value of derivatives	29,180	15,662	1,206	-	8,632	3,680

	Balance at the end of 2004	Structure of remaining maturity				
		up to 3 months	3–12 months	1–3 years	3–5 years	over 5 years
<b>External debt</b>	<b>506,705</b>	<b>506,705</b>	-	-	-	-
Repurchase agreements	489,728	489,728	-	-	-	-
Fair value of derivatives	12,630	12,630	-	-	-	-
Other liabilities	4,347	4,347	-	-	-	-
	Balance at the end of 2005	Structure of remaining maturity				
		up to 3 months	3–12 months	1–3 years	3–5 years	over 5 years
<b>External debt</b>	<b>56,117</b>	<b>25,454</b>	<b>893</b>	-	<b>4,468</b>	<b>25,302</b>
Repurchase agreements	-	-	-	-	-	-
Fair value of derivatives	43,477	12,814	893	-	4,468	25,302
Other liabilities	12,640	12,640	-	-	-	-

In 2005, Eesti Pank's net foreign exchange reserves increased by 5.6 billion kroons.

During 2005 the amount of Estonian kroons purchased from Eesti Pank for foreign currency was 62.3 billion, while the amount of Estonian kroons sold to Eesti Pank for foreign currency totalled 57.1 billion. The net gain of 5.2 billion kroons on transactions in line with the principles of the currency board arrangement was additionally channelled into circulation. Foreign exchange reserves increased due to growth in the volume of Estonian kroons in circulation and in the fair value of the reserves.

Eesti Pank's foreign exchange reserves are required to back up banknotes and coins in circulation, funds in the accounts of credit institutions with Eesti Pank, and other Balance Sheet liabilities of Eesti Pank. Therefore, conservative risk limits established to the assets backing the Estonian kroon are followed, which prioritise maintaining the assets and their liquidity while earning investment income.

At the end of 2005, financial instruments denominated in euros accounted for 93% of the total foreign exchange reserves. Adding also the currency positions from foreign exchange swaps and forwards, the share of the euro in Eesti Pank's foreign exchange reserves was nearly 100%.

*EEK thousand*

	Balance at the end of 2005		Balance at the end of 2004	
	Convertible foreign currency	Structure	Convertible foreign currency	Structure
<b>Total</b>	<b>25,715,967</b>	<b>100%</b>	<b>20,562,047</b>	<b>100%</b>
EUR	23,865,365	93%	18,862,308	92%
USD	1,754,921	7%	1,678,725	8%
Other currencies	95,681	0%	21,014	0%

	Balance at the end of 2005		Balance at the end of 2004	
	External debt	Structure	External debt	Structure
<b>Total</b>	<b>-56,117</b>	<b>100%</b>	<b>-506,705</b>	<b>100%</b>
EUR	-22,317	40%	-4,241	1%
USD	-8,607	15%	-495,010	98%
Other currencies	-25,193	45%	-7,454	1%

Off-balance-sheet net position

<b>Total</b>	<b>-1,739,174</b>	<b>100%</b>	<b>-1,202,368</b>	<b>100%</b>
USD	-1,665,767	96%	-1,393,670	116%
Other currencies	-73,407	4%	191,302	-16%

The guidelines for managing Eesti Pank's foreign exchange reserves allow only transactions with highly rated international banks and financial institutions and limit any credit risk the bank can take in managing its foreign assets. The issuer risk is allowed for the following minimum credit ratings assigned by international rating agencies (S&P/Moody's): A-1 or P-1 for bonds with the maturity of up to one year and AA- or Aa3 for bonds with the maturity of over one year. In 2005, Eesti Pank's foreign exchange reserves were mainly placed in the markets of low-risk government bonds of leading industrial countries of the euro area and the United States with an average maturity of slightly above one year.



### ITEM 3 – RELATIONS WITH THE INTERNATIONAL MONETARY FUND (IMF)

#### Special Drawing Rights (SDR)

Each IMF member has an SDR account of IMF which is used for settling loan transactions and various other similar operations between the member state and the IMF. The following table reflects the dynamics in the account the Republic of Estonia holds with the IMF.

*EEK thousand*

	2005	2004
<b>SDR account in the IMF</b>		
Balance at the beginning of the year	953	969
Interest and other income	51	35
Exchange rate differences	33	-51
<b>Balance at the end of the year</b>	<b>1,037</b>	<b>953</b>

#### 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 2005, the quota of the Republic of Estonia was 65,200,000 SDRs (1,231,491,080 kroons).

The Republic of Estonia has paid its subscription in government debt instruments deposited with Eesti Pank, which are recorded under the item "IMF kroon accounts". These debt instruments do not bear interest.

*EEK thousand*

	2005	2004
<b>Participation in the IMF (assets)</b>		
Balance at the beginning of the year	1,161,271	1,202,326
Exchange rate differences	70,220	-41,055
<b>Balance at the end of the year</b>	<b>1,231,491</b>	<b>1,161,271</b>
<b>IMF kroon accounts (liabilities)</b>		
Balance at the beginning of the year	1,161,184	1,202,237
Exchange rate differences	70,215	-41,053
<b>Balance at the end of the year</b>	<b>1,231,399</b>	<b>1,161,184</b>

#### Other claims on 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 of the Stand-by Arrangement (SBA) and the Systemic Transformation Facility (STF).

*EEK thousand*

	2005	2004
<b>Other claims on the IMF</b>		
Balance at the beginning of the year	10,882	11,267
Exchange rate differences	658	-385
<b>Balance at the end of the year</b>	<b>11,540</b>	<b>10,882</b>
Eesti Pank, SBA loan-related receivable	6,362	5,999
Government, STF loan-related receivable	5,178	4,883
<b>Total</b>	<b>11,540</b>	<b>10,882</b>

#### Liabilities in foreign currency

The item reflects the Republic of Estonia's claim on the IMF, which is recognised 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). In previous years, the item included also demand deposits of the Republic of Estonia with Eesti Pank.

*EEK thousand*

	2005	2004
<b>Liabilities in foreign currency</b>		
<b>Balance at the beginning of the year</b>	<b>4,883</b>	<b>5,056</b>
Exchange rate differences	295	-173
<b>Balance at the end of the year</b>	<b>5,178</b>	<b>4,883</b>

#### ITEM 4 – PARTICIPATION IN THE EUROPEAN CENTRAL BANK

This item reflects participation of Eesti Pank in the European Central Bank (ECB).

On 1 May 2004, the Republic of Estonia joined the European Union and consequently Eesti Pank became a member of the European System of Central Banks (ESCB). In accordance with Article 28 of the Statute of the ESCB and the ECB, Eesti Pank became a subscriber of the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the Statute of the ESCB and which must be adjusted every five years. The share of the Republic of Estonia in the ECB's capital is 0.1784%. It was calculated in accordance with Article 29 of the Statute of the ESCB on the basis of population and GDP data provided by the European Commission. As the Republic of Estonia does not participate in the euro area, the transitional provisions of Article 48 of the Statute apply. Consequently, Eesti Pank was required to pay up a minimal contribution of 7% of its subscribed capital to the ECB upon entry to the ESCB on 1 May 2004. The respective contribution amounted to 694,916 euros (10.9 million kroons). Eesti Pank is obliged to pay the remaining 93% upon Estonia's accession to the Economic and Monetary Union.

#### ITEM 5 – LOANS AND OTHER CLAIMS

The following is a more detailed overview of changes in loans and other claims in 2005 followed by additional explanations.

*EEK thousand*

	Balance at the end of 2005	Increase	Decrease	Change in write-down	Balance at the end of 2004
<b>Total</b>	<b>45,546</b>	<b>7,060</b>	<b>-14,758</b>	<b>-276</b>	<b>53,520</b>
<b>Guarantee Fund</b>	<b>178</b>	<b>657</b>	<b>-626</b>	<b>-</b>	<b>147</b>
<b>Loans</b>	<b>45,368</b>	<b>6,403</b>	<b>-14,132</b>	<b>-276</b>	<b>53,373</b>
to employees of Eesti Pank	45,188	4,703	-12,430	-276	53,191
Accrued interest	180	1,700	-1,702	-	182



### Guarantee Fund

In 2002, Eesti Pank entered into an asset management agreement with the Guarantee Fund under which the Guarantee Fund pays a service fee to Eesti Pank for the Fund's asset placement. The item records the service charge for the fourth quarter of 2005, which the Guarantee Fund paid in 2006.

### Loans to the employees of Eesti Pank

Housing loans secured by real estate have been granted to employees of Eesti Pank for a maximum of 25 years and consumption loans for up to two years. The Supervisory Board of Eesti Pank establishes the interest rate on consumption loans for every fiscal year. The interest rate on consumption loans is comparable to the interest rate charged by Estonian credit institutions under similar conditions. The interest rate on housing loans is based on the reserves' interest rate Eesti Pank pays to credit institutions plus a risk margin. The reserves' interest rate equals ECB deposit interest rate, which remained within 1.0–1.25% in 2005. In addition, study loans were granted for a maximum of ten years and with a 5% interest rate. Additional information on write-downs of loans is provided under Item 17.

## ITEM 6 – SHARES

Shares held by Eesti Pank:

	Balance at the end of 2005		Balance at the end of 2004	
	Holding (%)	EEK thousand	Holding (%)	EEK thousand
<b>Total</b>		<b>3,441</b>		<b>73</b>
<b>Bank for International Settlements (BIS)</b>				
214 shares (200 voting shares)	N/A	3,397	N/A	2
<b>Tallinna Börs (Tallinn Stock Exchange)</b>				
29 shares with nominal value à 10,000 kroons	1.1	44	1.1	71

N/A – not available

### Tallinn Stock Exchange

Arising from the resolution of the annual general meeting of the shareholders of the Tallinn Stock Exchange to repurchase 10% of shares and to increase the share capital, Eesti Pank resold three shares to the Tallinn Stock Exchange in 2005. As a result of increasing the share capital, Eesti Pank holds 29 shares on the Tallinn Stock Exchange, amounting to a 1.1% holding.

### Bank for International Settlements (BIS)

Arising from the resolution of the Board of Directors of the Bank for International Settlements of 10 January 2005, the Bank for International Settlements sold 35,933 non-voting shares to shareholders (member central banks) in the course of redistributing shares. Eesti Pank purchased 14 non-voting shares from the BIS, paying 23,978 Swiss francs per share. Eesti Pank maintains its present status and rights in the Bank for International Settlements, holding 200 voting and 14 non-voting shares.

## ITEM 7 – OTHER ASSETS

This item includes various prepayments for services and goods to be provided in 2006, the liability of the Financial Supervision Authority to Eesti Pank for services provided, as well as stocks and other current assets.

## ITEM 8 – FIXED ASSETS

As of the beginning of 2005, the limit of the acquisition cost of fixed assets is 50,000 kroons (previously 5,000 kroons).

Arising from the change in the limit of the acquisition cost of fixed assets, information technology costs (repair and maintenance of hardware) in the Profit and Loss Account increased by 1.5 million kroons and the administrative expenses of real estate increased by 1.2 million kroons in 2005, compared to 2004. Depreciation costs of fixed assets decreased by 800,000 kroons.

Changes in fixed assets in 2005:

*EEK thousand*

	Buildings	Hardware	Furniture and fixtures	Software	Total
<b>Acquisition cost</b>					
Balance at the end of 2004	205,453	66,960	82,776	46,498	401,687
Acquired	4,976	4,075	2,924	3,594	15,569
Disposals	0	-6,594	-5,469	-206	-12,269
<b>Balance at the end of 2005</b>	<b>210,429</b>	<b>64,441</b>	<b>80,231</b>	<b>49,886</b>	<b>404,987</b>
<b>Accumulated depreciation</b>					
Balance at the end of 2004	33,531	56,746	67,797	32,566	190,640
Acquired	7,392	6,716	4,206	6,434	24,748
Disposals	-	-6,594	-5,214	-206	-12,014
<b>Balance at the end of 2005</b>	<b>40,923</b>	<b>56,868</b>	<b>66,789</b>	<b>38,794</b>	<b>203,374</b>
<b>Residual value</b>					
At the end of 2004	171,922	10,214	14,979	13,932	211,047
<b>At the end of 2005</b>	<b>169,506</b>	<b>7,573</b>	<b>13,442</b>	<b>11,092</b>	<b>201,613</b>
<b>Advance payments for fixed assets</b>					
Balance at the end of 2004	3,180	-	-	-	3,180
<b>Balance at the end of 2005</b>	<b>15,250</b>	<b>17</b>	<b>20,811</b>	<b>5,426</b>	<b>41,504</b>
<b>Total fixed assets</b>					
At the end of 2004	175,102	10,214	14,979	13,932	214,227
<b>At the end of 2005</b>	<b>184,756</b>	<b>7,590</b>	<b>34,253</b>	<b>16,518</b>	<b>243,117</b>

The cost of fixed assets acquired in 2005 amounted to 15.6 million kroons. Majority of the procurement of buildings accounted for the improvement of the building of Eesti Pank at Estonia pst 13, Tallinn. Hardware procurement included computers, servers, printers, and various accessories. Purchases of furniture and fittings mainly included security devices and business machines. Software purchases included mostly system software and additional user licences for existing software.

As at the end of 2005, prepayments for fixed assets had been made primarily for software, inventory, security devices, and the construction works of the building of Eesti Pank at Sakala 6, Tallinn.



#### ITEM 9 – ACCOUNTS OF NON-RESIDENTS

This item includes non-interest-bearing demand deposit accounts held with Eesti Pank by the World Bank and the Nordic Investment Bank and used for intermediating foreign loans from the above organisations to the Republic of Estonia.

#### ITEM 10 – ACCOUNTS OF CREDIT INSTITUTIONS AND OTHER CURRENT LIABILITIES

This item includes the settlement accounts of credit institutions with Eesti Pank. The deposits of credit institutions increased by 4.3 billion kroons in 2005. 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 2005, the deposit interest rate of the ECB increased from 1.0% to 1.25% (see Item 14). The interest rate is calculated on the basis of the monthly average balance of the settlement account.

Since 2002, this item reflects also the funds in the account of the Financial Supervision Authority held with Eesti Pank, which subjects of financial supervision pay as supervision fees. Interest has been paid on the funds in the Financial Supervision Authority's account since 2004.

#### ITEM 11 – OTHER LIABILITIES

This item includes liabilities for miscellaneous expenses for settlements related to economic activities in 2005 with payments due in 2006. The majority are liabilities related to payments and liabilities to suppliers.

#### ITEM 12 – CAPITAL AND RESERVES

Changes in capital and reserves in 2005:

*EEK thousand*

	<b>Balance at the end of 2005</b>	<b>Distribution of 2004 profit</b>	<b>Balance at the end of 2004</b>
<b>Total</b>	<b>3,623,724</b>	<b>188,401</b>	<b>3,435,323</b>
Fixed capital	100,000	-	100,000
Reserve capital	500,000	-	500,000
Special reserve	3,023,724	188,401	2,835,323

According to Section 30 of the Eesti Pank Act, at least 25% of the annual profit must be allocated for increasing both statutory and reserve capital. After these allocations, part of the profits may be used, pursuant to a decision of the Supervisory Board of Eesti Pank, to establish and augment the foundation capital and funds for specific purposes. Any remaining profits are transferred to the state budget.

#### ITEM 13 – NET INTEREST INCOME AND OTHER NET INCOME ON FOREIGN ASSETS AND LIABILITIES

This item reflects net income from transactions with government debt instruments gained in managing Eesti Pank's foreign exchange reserves, including reverse repurchase transactions, gains arising from fluctuations

in exchange rates and gold price, interest income from time deposits, income from currency exchange transactions, and dividends.

In 2005, the rate of return of net foreign exchange reserves was 2.17%, which was 0.43% less than expected. The main reason was the faster than expected rise of interest rates in the United States. As the volume of reserves grew faster than expected in 2005, investment income exceeded the forecast (490 million kroons) by 12 million kroons.

*EEK thousand*

	2005	2004
<b>Total</b>	<b>502,330</b>	<b>477,502</b>
<b>Income</b>		
Time deposits	13,947	8,635
Debt securities	429,178	401,060
Reverse repurchase agreements	71,910	57,557
Dividends (BIS shares)	890	849
Foreign currency derivatives	-	14,659
Exchange rate gains	4,562	-
Other income	2,087	2,936
<b>Expenses</b>		
Repurchase agreements	-10,363	-3,673
Foreign currency futures transactions	-7,155	-
Exchange rate losses	-	-4,519
Other expenses	-2,726	-2

#### ITEM 14 – NET INTEREST COST AND OTHER NET COST ON DOMESTIC ASSETS AND LIABILITIES

This item includes mostly interests paid for funds in the settlement accounts of credit institutions and income from servicing credit institutions' settlement accounts. The item reflects also interest income on loans to the employees of Eesti Pank.

*EEK thousand*

	2005	2004
<b>Total</b>	<b>-88,665</b>	<b>-56,801</b>
Interest income	1,700	1,916
Interest expenses	-517	-468
<b>Remuneration of credit institutions' deposits and other fees</b>		
Interest expenses	-100,112	-67,924
Income on settlement services	9,821	8,941
Other income	899	971
Other expenses	-456	-237

In 2005, net interest cost and other net cost increased by 31.9 million kroons compared to 2004. This resulted mainly from the growth of interests paid on the settlement accounts of credit institutions, as the latter have increased their deposits (see Item 10). The income from settlement services remained at the level of 2004.



## ITEM 15 – OTHER OPERATING INCOME

Most of other operating income comprises income for services provided to the Financial Supervision Authority in the amount of 7.8 million kroons. Pursuant to the cooperation protocol between the Financial Supervision Authority and Eesti Pank, the Financial Supervision Authority reimbursed, in monthly payments, 100% of the cost of the support services provided by Eesti Pank in 2004 and 2005. Eesti Pank provides the following services to the Financial Supervision Authority: information technology, accounting, real estate, and administration services.

In 2005, income from the sale of numismatic-bonistic products amounted to 2.2 million kroons. Products made in 2004 accounted for most of that.

Rental income comprises income from the rent of the training centres of Eesti Pank. Income from the sale of assets reflects income from the sale of fixed assets and stocks unnecessary for Eesti Pank.

Most of other income in 2005 comprises revenue from the sales of publications of Eesti Pank. Other income declined as a caterer operates the canteen of Eesti Pank since 2004.

*EEK thousand*

	2005	2004
<b>Operating income</b>	<b>10,959</b>	<b>20,043</b>
Expenses compensated by financial supervision	7,826	7,956
Income from the sale of collector coins and numismatic-bonistic products	2,154	10,465
Rental income	703	700
Income from the sale of assets	223	304
Other income	53	618

## ITEM 16 – OPERATING EXPENSES

Compared to 2004, operating expenses declined 1% in 2005. Personnel expenses and general administrative expenses increased, whereas the production costs of banknotes and coins and the depreciation of fixed assets decreased.

*EEK thousand*

	2005	2004
<b>Staff costs</b>	<b>-84,957</b>	<b>-78,805</b>
Wages	-62,191	-57,589
Compensation and benefits	-1,653	-1,694
Social tax	-20,826	-19,245
Unemployment insurance	-287	-277

In 2005, staff costs increased 8% compared to 2004. Staff costs include mainly wage costs, including taxes. Wage costs grew owing to a general wage increase as well as a wage increase arising from the career and individual development of employees. Moreover, one-off remunerations related to the change of the Governor of Eesti Pank contributed to the growth of wage costs.

Compensations and benefits include single benefits, pension insurance compensations, and the tax expenses of fringe benefits related to the interest rates on housing loans. The expenditure on compensations and benefits was somewhat lower in 2005, year-on-year, as the lower interest rate imposed by the Minister of Finance reduced the fringe benefits calculated on loans to employees as well as taxes paid on them.

Eesti Pank had 233 staff members at the end of 2005 (231 at the end of 2004).

In 2005, Eesti Pank participated in the voluntary pension investments of its staff and members of the Supervisory Board of Eesti Pank, contributing the total of 0.7 million kroons. In addition, Eesti Pank pays a special merit pension to two individuals in recognition of their special merits in the development of the Estonian monetary and banking system. The special merit pension amounts to 1.6 times the Estonian average monthly wages. In 2005, the costs of the special merit pension stood at 0.3 million kroons.

The production costs of banknotes and coins have decreased by 11.7 million kroons in 2005 compared to 2004. The production costs of banknotes and coins amounted to 1.9 million kroons and the production costs of numismatic-bonistic products stood at 0.2 million kroons. In 2005, 20-cent coins were minted and payments were made for the preparation costs related to issuing a silver collector coin dedicated to the Torino Winter Olympics and a silver collector coin dedicated to the national flag of Estonia. No banknotes were printed in 2005.

General administrative expenses have increased by 4.0 million kroons compared to 2004, mostly due to an increase in IT maintenance costs and financial assets management expenses.

Compared to 2004, IT maintenance costs increased by about 3.2 million kroons mainly owing to higher hardware and data communication costs and software maintenance costs. As a result of raising the limit of the acquisition cost, hardware maintenance costs (PC and equipment purchases) grew by 1.5 million kroons. Software maintenance costs increased by 0.6 million kroons stemming from the maintenance of new software modules and a price rise in maintenance costs. Data communication costs grew arising from the ECB Governing Council's decision on payment of core network maintenance costs. In 2005, Eesti Pank reimbursed the core network maintenance costs to the ECB for the full year, i.e. 1.1 million kroons more.

Financial assets management expenses increased by 1.3 million kroons compared to 2004. Hiring another external manager increased the costs of foreign reserves maintenance. Commissions and settlement costs grew as well because of a larger volume of foreign settlements.

Compared to 2004, training and travel expenses increased by 0.9 million kroons, whereas training expenses grew by 1.0 million and travel expenses declined by 0.1 million kroons.

Business travel expenses are the travel expenses incurred by the officials on assignment, accommodation expenses, daily allowances, and conference or seminar participation fees. Travel expenses, arising from participating in different committees and working groups of the European System of Central Banks and the European Union, remained close to the level of 2004. In 2005, 83 employees were sent to altogether 241 EU-related assignments. Business travel expenses reached 4.0 million kroons.



The main cost items among other expenses were office expenses totalling 3.8 million kroons, and the cost of seminars and events organised by the bank totalling 3.7 million kroons.

*EEK thousand*

	2005	2004
<b>General administrative expenses</b>	<b>-73,593</b>	<b>-69,546</b>
Property renovation and administration expenses	-13,103	-13,875
Information technology maintenance costs	-16,558	-13,406
Communications and transportation expenses	-3,361	-2,826
Public relations and publications	-6,311	-6,597
Legal and arbitration expenses	-770	-954
Training and business travel expenses	-10,995	-10,052
Financial assets management expenses	-11,446	-10,157
Other expenses	-11,049	-11,679

#### ITEM 17 – NET CHANGES IN WRITE-DOWNS

This item includes income and expenses arising from the establishment of provisions and write-downs of loans.

*EEK thousand*

	2005	2004
<b>Net change of write-downs</b>	<b>-276</b>	<b>-52</b>
<b>Net change of loan portfolio write-downs</b>	<b>-276</b>	<b>-52</b>
Income on the write-down of Eesti Pank's loan portfolio	99	63
Expenditure on the write-down of Eesti Pank's loan portfolio	-375	-115

The write-down of the loan portfolio of Eesti Pank is made in accordance with generally accepted accounting principles and in order to reflect the loans issued by Eesti Pank as fairly and objectively as possible. Due to the decline in the risk rates of study and consumption loans in 2005, income on the write-down totalled 99,000 kroons. As the risk rates of housing loans increased, the expenditure on the write-down was 375,000 kroons. The write-down of the loan portfolio delivered 276,000 kroons in net expenses in 2005.

#### ITEM 18 – PROFIT DISTRIBUTION

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

Having evaluated the Profit Distribution Strategy in April 2005, the Supervisory Board of Eesti Pank decided to continue with the strategy and transfer 62.8 million kroons from the profit of 2004 to the state budget and 188.4 million kroons to the special reserve fund.

## ITEM 19 – DERIVATIVE INSTRUMENTS

EEK thousand

	Contractual value	Market value	
		Assets	Liabilities
<b>Derivatives</b>			
<b>Total as at 31 Dec 2004</b>	<b>4,145,056</b>	<b>51,686</b>	<b>-12,630</b>
Foreign currency forward transactions	675,972	19,041	-11,978
Foreign currency swap transactions	3,460,919	30,988	-413
Futures transactions	8,165	1,657	-239
<b>Total as at 31 Dec 2005</b>	<b>10,389,426</b>	<b>29,180</b>	<b>-43,477</b>
Foreign currency forward transactions	1,431,171	9,508	-10,134
Foreign currency swap transactions	1,323,749	4,721	-2,462
Interest rate swap transactions	836,496	12,311	-29,769
Futures transactions	6,798,010	2,640	-1,112

The contract value of outstanding foreign exchange swaps used for risk hedging in managing the foreign exchange reserves amounted to 1.3 billion kroons at the end of 2005. The contract value of forwards stood at 1.4 billion kroons. The contract value of futures totalled 6.8 billion kroons and that of interest swaps was 836.5 million kroons at the end of 2005. The transactions matured in early 2006.

## ITEM 20 – CONTINGENT LIABILITIES

EEK thousand

	Balance at the end of 2005	Balance at the end of 2004
<b>Contingent liabilities</b>	<b>160,082</b>	<b>154,408</b>
Uncalled share capital (75%) of BIS	8,352	8,352
Uncalled share (93%) of ECB participation	144,456	144,456
Contractual obligations to produce banknotes and coins	7,274	1,600

### Bank for International Settlements (BIS)

Since 1930, Eesti Pank has a contingent liability to the Bank for International Settlements. This liability is the uncalled part of the share capital (75%) of BIS denominated in Swiss gold francs, totalling 8.4 million kroons on the balance sheet date (see Item 6).

### European Central Bank (ECB)

Arising from Estonia's accession to the European Union and Eesti Pank becoming a member of the European System of Central Banks, Eesti Pank became a subscriber of the capital of the ECB. Eesti Pank paid up a minimal contribution of 7% of its subscribed capital to the ECB amounting to 694,916 euros (10.9 million kroons; see Item 4). Eesti Pank is obliged to pay the remaining 93% amounting to 9.2 million euros (144 million kroons) upon Estonia's accession to the Economic and Monetary Union.

### Printing of Banknotes and Minting of Coins

At the end of 2005, the contractual liabilities of Eesti Pank for printing banknotes and minting coins in 2006 amounted to 7.3 million kroons. Majority of that arises from the highest possible costs of preparations for minting euro coins.