

GOVERNANCE, ORGANISATION AND HUMAN RESOURCES POLICY

Governing and decision-making bodies of Eesti Pank

Supervisory Board of Eesti Pank

Pursuant to the Eesti Pank Act, the Supervisory Board of Eesti Pank is the highest body of Eesti Pank, exercising supervision over all activities of the central bank. The Supervisory Board has exclusive competence in the following areas:

- Making a proposal to the President of the Republic for appointment of the Governor of Eesti Pank;
- Appointment to office and release of the Deputy Governors of Eesti Pank, the heads of the independent divisions and representative offices and Head of the Internal Audit Department of Eesti Pank; appointment and removal of two members to the Supervisory Board of the Financial Supervision Authority¹ on the proposal of the Governor of Eesti Pank;
- Approval of the Statute of Eesti Pank, the statutes of its independent divisions and representations and the Statute of the Internal Audit Department;
- Supervision over the execution of the Eesti Pank budget;
- Appointment of the internal auditors of Eesti Pank and approval of the internal audit work schedule;
- Appointment of the independent auditors of Eesti Pank;
- Approval of Eesti Pank's Annual Report on the proposal of the Governor;
- Making decisions regarding the denomination and design of new banknotes and coins;

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

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

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

Governor of Eesti Pank

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

Executive Board of Eesti Pank

Pursuant to the Eesti Pank Act, the Executive Board of Eesti Pank is responsible for planning

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

and organising the tasks of the central bank. The Governor of Eesti Pank is, by virtue of office, the Chairman of the Executive Board.

In 2009, the Executive Board comprised Governor Andres Lipstok and Deputy Governors Rein Minka and Märten Ross. Until termination of employment at Eesti Pank (31 July 2009) the Board also included Deputy Governor Andres Sutt.

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

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

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

Deputy Governor Rein Minka is responsible for coordinating the tasks related to currency circulation; safety of the working environment; development and implementation of financial sector policies; coordination of collection, handling and disclosure of financial sector information; supervision of payment and settlement systems; reliable, cost-efficient and integrated development of the settlement system of Eesti Pank; the information technology working environment, and human resources management.

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

Monetary Policy Committee

A standing Monetary Policy Committee has been established to develop positions on monetary, economic and financial policies and coordinate the activities of Eesti Pank. In 2009, the Committee included members of the Executive Board – Governor Andres Lipstok and Deputy Governors Rein Minka and Märten Ross – and Janno Luurmees, Head of the Financial Markets Department; Ülo Kaasik, Head of the Economics Department; Tanel Ross, Head of the International and Public Relations Department (until termination of employment at Eesti Pank on 30 November 2009); Rait Roosve, Head of the Cash and Security Department, and Jaak Tõrs, Head of the Financial Stability Department. Until termination of employment at Eesti Pank (31 July 2009) the Committee also included Deputy Governor Andres Sutt. On 7 December 2009 Martti Randveer, Head of the Research Department, was appointed a member of the Committee.

Cooperation with the Financial Supervision Authority

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

The FSA is governed by the Supervisory Board chaired by Raul Malmstein. The activities of the FSA are planned by the Supervisory Board chaired by the Minister of Finance by virtue of office

(Ivari Padar and Jürgen Ligi in 2009). Members of the Supervisory Board include Governor of Eesti Pank Andres Lipstok and as of 20 October 2009 Deputy Governor Rein Minka (until 20 October 2009 Deputy Governor Andres Sutt).

Development of the management system and work organisation of Eesti Pank in 2009

Organisational values and value-based management

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

Competence

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

Cooperation orientation

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

Reliability

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

Consideration

- We keep each other informed in regard with our work and give feedback

- We give recognition to good employees
- We have consideration for others and we are helpful and obliging

These values are part of the Bank's management system. They are used in the daily and case-by-case analysis of work as well as in more general analysis conducted in annual development interviews. In order to keep the values better in mind, team building trainings were organised for the staff of Eesti Pank at the end of 2009.

Regular study of management quality and development interviews

In autumn 2009, the central bank and TNS EMOR conducted a regular study on commitment and quality of management. This study has been conducted since 2001 and involves the entire organisation. Its purpose is to identify the strengths and development needs of the Bank in terms of the key determinants of management quality. The feedback from employees on the structural and human capital of management has provided useful input for management decisions. Feedback on commitment and its key determinants is valuable information for top executives and the Human Resources Department with regard to motivation of employees.

In 2009, 78% of the employees participated in the study, which enabled to produce representative results. One of the most significant indicators, namely the indicator of general commitment, had considerably improved from earlier levels. However, much of it is likely to be attributed to the turbulent external environment. Members of management received personal feedback across management competencies. This feedback is used also in appraisal interviews to make personal development plans.

For the second time the survey also established how the employees perceive the Bank in light of the defined values or, in other words, how these values are taken notice of in everyday work situations. Departments could compare their own valu-

ation with the Bank's average and top executives could see whether the values are perceived similarly or whether there are considerable differences across departments.

The traditional appraisal interviews were conducted also in 2009. The Human Resources Department compiled a summary of the interviews with the focus on the staff's proposals concerning the organisation. The summary was presented at a seminar for all employees and also at the traditional spring seminar where members of the Executive Board and the management could debate on the proposals.

For the first time feedback on appraisal interviews was required from the entire staff, using the study on commitment and quality of management for that purpose. The feedback will be used to make the appraisal interviews even more efficient.

Development of the management system of Eesti Pank

The Process Management Development Committee and the Risk Management Committee commenced their work in 2009. In autumn 2009 the Management System Development Committee started work. This Commission is responsible for making and analysing proposals regarding the development of the management system of Eesti Pank. The main activities in 2009 included the launch of the Commission and discussion over the issues of business continuity and risk management. In addition, the introduction and methods of activity-based budgeting and the improvement of the public strategy document of Eesti Pank were on the agenda.

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

In financial and management accounting, a new business management software SAP, which is also used by various other banks of the European System of Central Banks, was introduced. The objective is to adopt accounting principles and procedures that comply with the needs of Eesti Pank and are similar to the principles and procedures employed by other central banks of the euro area. This contributes to the improvement of the Bank's financial and management accounting, provide the management system with comparable and high quality data, and ensure readiness for the accession to the euro area.

Risk management

The management of risks and business continuity continued in 2009 in compliance with the established principles and procedures. The transition of the responsibilities of the Risk Management Committee to the Management System Development Committee slightly increased the role of heads of department and the risk manager of Eesti Pank in tactical risk management. The Committee focuses on the issues of general and strategic risk management.

The total cost of risks decreased 17% with the year and stood at 556 million kroons in December 2009. Compared to 2008, risks related to the processes of monetary policy, administration and human resources management declined. At the same time, risks related to the working environment and information systems increased.

In 2009, the security concept of Eesti Pank and thus also the risks to physical security were revised in light of the expected accession to the euro area. Analysis showed that the introduction of euro cash might increase the security risks of Eesti Pank by several times. Consequently, the security concept was improved and risk management methods were integrated in the departments' work schedules.

In order to improve business continuity, the Man-

agement Board decided to develop business continuity plans for two more processes: monetary policy making and ensuring financial stability. These plans will be adopted in March 2010 at the latest. Then seven processes will be covered with business continuity plans, which will facilitate better preparedness for emergencies. To this end, also some offices of Eesti Pank were customized to be used as substitute spaces in case the operation of any critical process is no longer possible on its original site.

The objectives of business continuity in 2010 include testing of the plans, the implementation of the amended Emergency Preparedness Act and various activities related to accession to the euro area.

e-Eesti Pank in 2009

In 2009 the technical specifications for the document and information management of Eesti Pank (e-Eesti Pank) were developed. In other words, the internal records of the central bank are digital and they can be approved, confirmed and submitted through specific electronic workflows. It is also possible to digitally compile, approve, sign and submit external documents.

In 2009, the resolution workflow was established for processing incoming and internal electronic documents. The incoming paper documents are scanned and stored in the digital repository.

For digital correspondence, a contact database was developed in 2009.

Eesti Pank's human resources policy

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

Employees

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

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

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

In 2009, the total remuneration (basic wages and additional remuneration) paid to the members of the Supervisory Board amounted to 1,798,400 kroons and that of the Executive Board to 5,903,918 kroons.

Non-managerial positions have been assessed on the basis of the Hay method. Depending on the assessment results, all positions have been divided into wage groups listed in the classification of central bank positions. Eesti Pank has implemented a wage scale that comprises all wage

grades. The employees (members of the Executive Board excluded) receive remuneration on the basis of their wage grade, comparable by groups of similar work within as well as outside the bank.

The average monthly wages (including holiday pay and additional remuneration for working during evening and night hours, on days off and public holidays) in Eesti Pank amounted to 28,880 kroons in 2009. This includes the top executives as well as the support staff, but the majority of the central bank employees (nearly 85%) are specialists. The intermediate-level specialists employed in Eesti Pank must have a Master's degree, at least three years of professional experience and proficiency in written and oral English. They are also expected to attend some EU or European Central Bank working group. The monthly wages of a specialist complying with these requirements is approximately 22,430 kroons.

At the beginning of 2009, the bank had contracts of employment with 257 employees (238 were actually working, as contracts with 19 employees had been suspended), whereas at the end of the year the respective figure was 254 (232 were actually working and 22 contracts had been suspended). The reasons for suspending contracts of employment were maternity leave, work at the European Central Bank or other international organisations.

The average age of the staff in 2009 was 42.5 years. The employees included 101 men (40%) and 153 women (60%).

Development and training

Development costs totalled 3.6 million kroons in 2009, which accounts for 3.1 % of the staff's payroll. In total, 191 employees (82% of the staff) attended trainings. On average, an employee received 5.2 days of training with the total cost of 15,642 kroons.

The most common core fields of training in 2009

were economic theory and policy, financial stability and management/communication. Many of the trainings in core fields take place abroad. Group trainings mostly include in-house training courses and open seminars.

In 2009, 54 employees were engaged in academic studies: 75% of them were acquiring a Master's or Doctor's degree.

Three employees participated in secondment programmes at the European Central Bank.

Hobbies and traditions of the staff

At the end of 2009, Eesti Pank's Sports Club had 227 members. Fitness, swimming, basketball, yoga, badminton, volleyball, gym, tennis, aerobics and water aerobics were the most popular fields of sport. In addition, winter and summer sports days. Some of the staff also attended the Tartu Ski Marathon.

In-house competitions were held in bowling, tennis and chess. Some employees participated in the sports events held by other European central banks: skiing in the Czech Republic, basketball in Belgium and chess in Hungary. There were also football and basketball competitions with the Financial Supervision Authority.

The chamber choir of the employees of Eesti Pank and the Financial Supervision Authority first gathered on 15 May 1998. The choir has 25 members and it is conducted by Peeter Perens, a conductor and singer at the Estonian Academy of Music and Theatre. The choir is coordinated by the board that is elected every year. In 2009, the choir attended the Estonian Song Festival and also hosted Euro-choir, the song festival of the choirs of European central banks.

Eesti Pank has also its own band, which first gathered in May 2009. The band plays rock and pop music and it includes eight employees. In 2009, two concerts were given.