

ANNUAL ACCOUNTS OF EESTI PANK for the financial year ended 31 December 2016

THE FINANCIAL POSITION OF EESTI PANK

Capital and reserves

Eesti Pank's capital as at 31 December 2016 stood at EUR 437 million. More detailed information on Eesti Pank's capital can be found under Item 29 "Capital and Reserves", in the notes on the Balance Sheet.

Provisions for foreign exchange, interest rate, credit and gold price risks

Following from risk assessments, Eesti Pank increased its provisions for foreign exchange, interest rate, credit and gold price risks. The size of the provisions and the continuing need for them is reassessed each year, with various factors considered. The risk assessment is based on a calculation of the value at risk of risk-bearing assets, which takes into account the size of risk-bearing assets, the extent of risks that have realised during the year and the forecast for the year to come. As at 31 December 2015 the provisions made to cover foreign exchange, interest rate, credit and gold price risks were EUR 30 million. The bank transferred EUR 7.5 million to provisions in 2016 and as a result risk provisions increased to EUR 37.5 million. See also Item 27 "Provisions", in the notes on the Balance Sheet.

Provisions for the obligation to exchange Estonian kroons for euros

It is highly probable that not all the kroons that were issued will be exchanged for euros in the future, as some will have been destroyed and some retained as souvenirs. For this reason the obligation to exchange the kroons issued into circulation with a value of EUR 45.1 million was transferred from the Balance Sheet to income in 2016 and a special purpose provision of EUR 29.6 million was set up. Future exchanges of kroons for euros will be funded from the provision. The net effect on profit of transferring the exchange obligation to income was EUR 15.5 million.

Revaluation accounts

Unrealised profit from gold, foreign currency and securities is not recorded as income in the Profit and Loss Account and is transferred directly from the revaluation accounts to the liabilities side of the Eesti Pank Balance Sheet. Assets on these accounts can be used to absorb any impact in the future from unfavourable developments in prices or exchange rates, and so such financial buffers can help strengthen the resilience of the bank to underlying risks. The total value of the revaluation accounts for gold, currency and securities was EUR 19.0 million at the end of December 2016 and EUR 10.5 million at the end of 2015. For more details, see the notes on accounting principles and Item 28 "Revaluation accounts", in the notes on the Balance Sheet.

Financial results for 2016

Eesti Pank's net profit in 2016 was EUR 31.4 million, and it was EUR 30.1 million in 2015.

Net interest income rose to EUR 16.8 million in 2016 from EUR 14.9 million in 2015. A large part of the investment income in 2016 came from the equity portfolio, while the bond portfolio also had a positive return. Higher share prices were aided by an increase in economic activity in the advanced countries, particularly the USA. The dollar strengthened against the euro during the year, increasing the income from shares further. The yield on the bond portfolio was affected by the asset purchase programme of the euro area, a consequence of which was a rise in the prices of the government bonds of euro area countries. The income was close to zero on the sovereign bonds of other countries, which were the USA, Canada, Australia and the United Kingdom.

The net return on Eurosystem transactions came not only from the yield on the monetary policy debt securities portfolio but also from income on the excess reserves of credit institutions, while the income from the distribution of monetary income from the Eurosystem increased income by EUR 11.0 million and the distribution of profit of the European Central Bank by EUR 3.4 million.

The obligation to exchange the kroons issued into circulation with a value of EUR 45.1 million was transferred to income and a special purpose provision of EUR 29.6 million was set up. The sum of EUR 1.1 million for the obligation to exchange kroon and euro collector coins that have been sold in previous periods was also transferred to income. This came from a change in the accounting principles. For more details see Item 35 "Other income and expenses", in the notes on the Profit and Loss Account.

The operating expenses of Eesti Pank, including depreciation, increased from EUR 17.0 million in 2015 to EUR 17.7 million in 2016. The largest expenses were on staff costs, information and communications technology, and cash processing.

APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 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 2016.

The Annual Accounts of Eesti Pank have been drawn up in accordance with rules that are based on Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank¹. The parts of the Annual Accounts that are not regulated by ECB guidelines have been drawn up 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 16 March 2017, 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 of Eesti Pank, Member of the Executive Board

Madis Müller Deputy Governor of Eesti Pank, Member of the Executive Board

¹ Decision of the ECB of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast)(ECB/2016/34), OJ L 347, 20.12.2016, p. 3.

BALANCE SHEET AS AT 31 DECEMBER 2016 AND 2015*thousand EUR*

	Item	31/12/2016	31/12/2015
ASSETS			
Gold and gold receivables	1	9 059	8 029
Claims on non-euro area residents denominated in foreign currency		323 076	371 690
Receivables from the IMF	2	94 642	97 051
Balances with banks, security investments and other external assets	3	228 434	274 639
Claims on euro area residents denominated in foreign currency	4	102 104	83 391
Claims on non-euro area residents denominated in euro	5	11 949	1 451
Lending to euro area credit institutions related to monetary policy operations denominated in euro	6	86 000	75 000
Other claims on euro area credit institutions denominated in euro	7	4 873	2 203
Securities of euro area residents denominated in euro		3 398 564	1 495 315
Securities held for monetary policy purposes	8	3 339 318	1 384 577
Other securities	9	59 246	110 738
Intra-Eurosystem claims		2 757 818	4 646 766
Participating interest in the European Central Bank	10	88 853	88 853
Claims equivalent to the transfer of foreign reserves	11	111 730	111 730
Net claims related to the allocation of euro banknotes within the Eurosystem	12	1 619 515	1 671 822
Other claims within the Eurosystem (net)	13	937 720	2 774 361
Other assets		67 485	53 813
Tangible fixed assets	14	17 304	18 097
Other financial assets	15	234	234
Off-balance-sheet instruments revaluation differences	16	91	613
Accruals and prepaid expenses	17	32 629	20 256
Sundry	18	17 227	14 613
TOTAL ASSETS		6 760 928	6 737 658

The notes on pages 62-87 form an integral part of the Annual Accounts.

		<i>thousand EUR</i>	
	Item	31/12/2016	31/12/2015
LIABILITIES			
Banknotes in circulation	19	2 838 064	2 730 241
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		3 192 216	3 331 414
Current accounts (including cover for the minimum reserve system)	20	3 192 216	3 331 414
Liabilities to other euro area residents denominated in euro	21	18 207	11 954
General government		7 117	0
Other liabilities		11 090	11 954
Liabilities to non-euro area residents denominated in euro	22	5 207	20
Liabilities to non-euro area residents denominated in foreign currency	23	15 758	0
Counterpart of the special drawing rights allocated by the IMF	24	78 981	78 869
Other liabilities		58 036	100 238
Off-balance-sheet instruments revaluation differences	16	7 553	7 470
Accruals and income collected in advance	25	5 202	3 757
Sundry	26	45 281	89 011
Provisions	27	67 122	30 000
Revaluation accounts	28	19 039	10 500
Capital and reserves	29	436 895	414 314
Capital		222 581	200 000
Reserves		214 314	214 314
Profit for the year		31 403	30 108
TOTAL LIABILITIES		6 760 928	6 737 658

The notes on pages 62-87 form an integral part of the Annual Accounts.

PROFIT AND LOSS ACCOUNT FOR 2016 AND 2015

		<i>thousand EUR</i>	
	Item	2016	2015
Interest income		45 686	42 659
Interest expenses		-28 916	-27 793
Net interest income	30	16 770	14 866
Realised gain arising from financial operations		10 278	24 546
Write-downs on financial assets		-2 809	-3 362
Provisions for foreign exchange rate, interest rate and credit risks		-7 500	-4 000
Net result of financial operations, write-downs and risk provisions	31	-31	17 184
Fees and commissions income		106	117
Fees and commissions expenses		-60	-125
Net income from fees and commissions	32	46	-8
Income from equity shares and participating interests	33	3 488	2 852
Net result of pooling of monetary income	34	10 951	11 183
Other income		47 533	1 055
Other expenses		-29 622	0
Other income and expenses	35	17 911	1 055
	Total net income	49 135	47 132
Staff costs	36	-9 090	-8 635
Administrative expenses	37	-5 090	-4 886
Depreciation of tangible fixed assets	14	-1 860	-2 069
Banknote production services	38	-430	-518
Other operating expenses	39	-1 262	-916
	Operating expenses	-17 732	-17 024
Profit for the year		31 403	30 108

The notes on pages 62-87 form an integral part of the Annual Accounts.

NOTES ON THE ANNUAL ACCOUNTS OF EESTI PANK

ACCOUNTING POLICIES USED IN THE ANNUAL ACCOUNTS

General Principles

The Annual Accounts of Eesti Pank (occasionally also “the bank”) have been drawn up in accordance with the rules based on Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank². The parts of the Annual Accounts that are not regulated by ECB guidelines have been drawn up 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.

No Cash Flow Statement is presented as it does not provide significant relevant information to the readers of the Annual Accounts of Eesti Pank, given the bank’s role as the central bank.

The Annual Accounts have been prepared in thousands of euro 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; almost 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. A financial liability is any liability that is a legal obligation to deliver cash or any other financial assets to another entity or to exchange financial assets with another entity under conditions that are potentially unfavourable.

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

² Decision of the ECB of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast)(ECB/2016/34), OJ L 347, 20.12.2016, p. 3.

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. On the settlement date, off-balance-sheet entries are reversed and transactions are recorded on the Balance Sheet. The purchase and sale of foreign currency affect the net foreign currency position on the trade date; realised results arising from sales are also calculated on the trade date. The interest accrued on financial instruments denominated in foreign currency and the premiums or discounts are calculated and recorded on a daily basis. These amounts also affect the foreign currency position on a daily basis.

Assets and liabilities denominated in foreign currencies are converted into euro at the exchange rate of the European Central Bank prevailing on the balance sheet date. Income and expenses are converted at the exchange rate of the European Central Bank prevailing on the recording 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 five currencies (the US dollar, the euro, the Japanese yen, the pound sterling and from 1 October 2016 the Chinese renminbi) converted into euro as at 31 December 2016.

The exchange rates applied on 31 December 2016 and 2015 were as follows:

	31/12/2016	31/12/2015
USD	1.0541	1.0887
GBP	0.85618	0.73395
JPY	123.4	131.07
CNY	7.3202	-
SDR	0.78456	0.78567

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 euros per fine ounce of gold, which, for the year ending 31 December 2016, was derived from the exchange rate of the euro against the US dollar on 30 December 2016.

Securities

Securities held for monetary policy purposes

Securities held for monetary policy purposes are accounted for at amortised cost subject to impairment.

Other securities

Marketable securities (other than those classified as securities held for monetary policy purposes) 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 2016, mid-market prices on 30 December 2016 were used.

Income recognition

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. 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 asset concerned.

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 currency or security or on gold 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 on a daily basis over the remaining life of the securities.

Under an agreement of the Accounting and Monetary Income Committee of the European System of Central Banks from April 2016, the interest income and expenses from monetary policy operations are presented on a net basis for each balance sheet item or sub-item. This change does not affect net profit for 2015. The consequence is that for this Profit and Loss Account, the corresponding data from the Profit and Loss Account for 2015 have been adjusted as follows:

	<i>thousand EUR</i>		
	Initial 2015	Adjustment	Adjusted 2015
Interest income	49 844	-7 185	42 659
Interest expenses	-34 978	7 185	-27 793
Net interest income	14 866	0	14 866

	<i>thousand EUR</i>		
	Initial 2015	Adjustment	Adjusted 2015
Intra-Eurosystem interest income	20 273	-7 185	13 088
Bonds held for monetary policy purposes	0	9 141	9 141
Monetary policy operations	18 921	-16 326	2 595
TARGET2	733	0	733
Allocation of banknotes within the Eurosystem	571	0	571
Transfer of foreign currency reserves	48	0	48
Intra-Eurosystem interest expenses	-7 185	7 185	0
Monetary policy operations	-7 108	7 108	0
Minimum reserve requirements	-77	77	0

Reverse transactions

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 and the repurchase sum as a liability.

Reverse repurchase transactions (purchase/resale transactions) are recorded as collateralised loans granted. Securities used as collateral for reverse repurchase transactions are not recorded on the Balance Sheet of Eesti Pank.

Investments 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 subject to impairment. Profits and losses on the sale of shares are recorded in the Profit and Loss Account after all conditions of sale have been 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 EUR 3200. Fixed assets are recorded at their acquisition cost, which is the 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

	2016
Land and buildings	3%
Utility systems of buildings	10%
Hardware	20%
Software, motor vehicles	15–50%
Other fixed assets	7–20%

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

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. Current maintenance and repair costs are recognised as expenses for the period.

Provisions for foreign exchange rate, interest rate, credit and gold price risks

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

Claims 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 option transactions 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, though 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 banknotes³. 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 key⁴.

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. Eesti Pank's share of the total of banknotes allocated to the Eurosystem central banks is disclosed in the balance sheet under the 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 interest⁵, 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 year until five years following the cash changeover year⁶ the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in

³ Decision of the ECB of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29), OJ L 35, 9.2.2011, p. 26.

⁴ Banknote allocation key – the percentages that result from taking the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share of that total.

⁵ Decision of the ECB of 3 November 2016 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2016/36), OJ L 347, 20.12.2016, p. 26.

⁶ The year of changeover to the euro is the year when euro banknotes become the legal tender of a Member State.

order to avoid significant changes from previous years in the relative income positions of the Eurosystem central banks. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each Eurosystem central bank in the reference period⁷ 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 allocated fully in proportion to the Eurosystem central bank's paid-up shares in the ECB's capital. The interest income and expenses on these balances are cleared through the accounts of the ECB and disclosed under "Net interest income".

Collector coins

From 2016 the nominal value of collector coins that have been issued is no longer recorded as a liability in the Balance Sheet as the probability of the coins being bought back is very small and their value as precious metal exceeds their nominal value. Income from the sale of collector coins is recorded in the Profit and Loss Account as it is incurred. A change in the accounting principles meant that the nominal value of the kroon and euro collector coins issued was recorded as income and the liability in the Balance Sheet was reduced (see Item 35 "Other income and expenses").

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 income arising from securities purchased under the Securities Markets Programme (SMP), the third covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP) shall be due in full to the Eurosystem central banks in the same financial year it accrues. Unless otherwise decided by the Governing Council, the European Central Bank distributes this income in January of the following year in the form of an interim distribution of profit⁸. It is distributed in full, unless the European Central Bank's net profit for the year is less than its income earned. The distributed profit may be reduced if the Governing Council decides to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to charge costs incurred by the European Central Bank in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

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

Intra-Eurosystem claims arising from Eesti Pank's participating interest in the ECB are reported under "Participating interest in the European Central Bank".

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".

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

⁷ 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.

⁸ Decision of the ECB of 15 December 2014 on the interim distribution of the income of the European Central Bank (recast) (ECB/2014/57), OJ L 53, 25.2.2015, p. 24.

to the allocation of euro banknotes within the Eurosystem” (see “Banknotes in circulation” in the notes on accounting policies).

Intra-Eurosystem balances result primarily from cross-border payments in the European Union which are settled in central bank money in euro. These transactions are for the most part initiated by private entities, meaning credit institutions, corporations and individuals. These transactions are settled in TARGET2⁹ and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted out and then assigned to the ECB on a daily basis, leaving each national central bank with only a single net bilateral position towards the ECB. Intra-Eurosystem balances of euro area NCBs towards the ECB arising from TARGET2, and other intra-Eurosystem balances denominated in euro such as interim profit distributions to NCBs or monetary income results 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)”.

⁹ The Trans-European Automated Real-time Gross Settlement Express Transfer system

NOTES ON THE BALANCE SHEET

ITEM 1 – GOLD AND GOLD RECEIVABLES

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

	31/12/2016	31/12/2015
Gold (ounces)	8 250.171	8 250.171
Ounce market value (EUR)	1 098.046	973.225
Revaluation (thousand EUR)	1 871	842
Market value (thousand EUR)	9 059	8 029

ITEM 2 – RECEIVABLES FROM THE IMF

Receivables from the IMF are the SDR account in the IMF and the reserve position in the IMF.

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
SDR account in the IMF	31 389	78 976
Reserve position in the IMF	63 253	18 075
Participation in the IMF	310 635	119 518
IMF No.1 account	-247 382	-101 443
Total	94 642	97 051

The SDR account in the IMF

An SDR account is generated for each IMF Member State for conducting loan transactions and various other related operations. The SDR account is used to record the SDRs distributed to support the foreign reserves of IMF Member States and to increase global liquidity (see Item 24 "Counterpart of the Special Drawing Rights Allocated by 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 is equal to the country's quota.

On 10 February 2016 Eesti Pank transferred EUR 47,005,407 to the IMF to receive SDR 37,425,000, which accounts for 25% of the quota increase of the Republic of Estonia. At the same time Eesti Pank credited the IMF's No.1 account at Eesti Pank with EUR 141,016,221, equivalent to SDR 112,275,000 or 75% of the quota increase of the Republic of Estonia. At the end of 2016 the quota of the Republic of Estonia in the International Monetary Fund was SDR 243.6 million.

The reserve position in the IMF comprises the net amount of the quota and the IMF No.1 account. The reserve position increased in 2016 as the Republic of Estonia paid in SDR 37,425,000 as 25% of its quota increase. The size of the reserve position is affected by participation of the Republic of Estonia in the IMF's Financial Transactions Plan (FTP) with SDR 5 million in 2016, which was SDR 7 million in 2015. Estonia has participated in the IMF's FTP since 2012.

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, term deposits and reverse repurchase agreements denominated in US dollars, and security investments denominated in United States, Canadian and Australian dollars and British pounds of non-euro area residents. Eesti Pank's foreign reserves were invested mainly in government bonds of the United States, Australia, Canada and the United Kingdom.

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
Securities	200 483	263 137
Reverse repurchase transactions	15 576	0
Fixed-term deposits	10 246	10 655
Current accounts	2 129	847
Total	228 434	247 639

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
USD	128 400	151 959
CAD	51 169	47 562
AUD	48 484	50 304
GBP	241	24 773
JPY	76	33
CNH	34	0
NZD	24	3
CHF	2	2
DKK	2	2
SEK	1	1
NOK	1	0
Total	228 434	274 639

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 investments in equities denominated in US dollars of euro area residents.

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
Equities	100 490	73 175
Current accounts	1 614	4 530
Fixed-term deposits	0	5 686
Total	102 104	83 391

thousand EUR

	31/12/2016	31/12/2015
USD	101 624	82 498
AUD	207	220
SEK	206	62
CAD	195	308
CHF	9	9
JPY	7	-17
NZD	0	4
GBP	-144	307
Total	102 104	83 391

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

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

thousand EUR

	31/12/2016	31/12/2015
Securities	6 609	1 315
Reverse repurchase transactions	5 190	0
Current accounts	150	136
Total	11 949	1 451

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 EUR 595,873 million, of which Eesti Pank holds EUR 86 million (EUR 75 million in 2015) of longer-term refinancing transactions with maturities of 48 months. Under Article 32.4 of the Statute of the ESCB, any risks from monetary policy operations, if they were to materialise, are shared in full by the Eurosystem central banks in proportion to the prevailing ECB capital key shares. Eesti Pank's share in the capital key is 0.27390%.

Losses can only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided by the counterparty is not sufficient. Risk sharing has been excluded by the Governing Council of the ECB for specific collateral which can be accepted by NCBs at their own discretion.

In March 2016 the Governing Council introduced a new series of four targeted longer-term refinancing operations (TLTRO II). These operations have a four-year maturity, with a possibility of repayment after two years. The applicable interest rate for TLTRO II operations depends on the individual lending benchmark of the respective counterparty between the date of allotment and January 2018. The actual rate will be set in 2018 and will be between the main refinancing operation's rate and the deposit facility rate at the time of the allotment. Given that the actual rate will only be known in 2018 and a reliable estimate is not possible at this juncture, the deposit facility rate has been used for calculating the TLTRO II interest for 2016, as this is deemed a prudent approach.

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 bonds¹⁰, the Securities Markets Programme¹¹ and the public sector asset purchase programme¹².

The Securities Market Programme was ended on 6 September 2012. The second covered bond purchase programme was ended on 31 October 2012.

Securities purchased under all the purchase programmes are valued on an amortised cost basis subject to impairment (see “Securities” in the notes on accounting policies). The amortised cost and market value¹³ of securities, which are not recorded in the Balance Sheet or Profit and Loss Account and are presented only for the purposes of comparison, are:

	<i>thousand EUR</i>			
	31/12/2016		31/12/2015	
	Amortised cost	Market value	Amortised cost	Market value
Public sector asset purchase programme	3 217 270	3 227 803	1 228 386	1 230 620
Bonds of institutions	3 155 618	3 165 692	1 181 305	1 183 501
Elering	61 652	62 111	47 081	47 119
Securities Markets Programme	108 568	119 545	142 716	158 627
Second covered bond purchase programme	13 480	14 647	13 475	14 808
Total	3 339 318	3 361 995	1 384 577	1 404 056

The decrease in the amortised cost of the securities held under the Securities Market Programme was due to redemptions.

In 2016 the expanded asset purchase programme (APP) of the Eurosystem¹⁴, which covers the third covered bond purchase programme (CBPP3)¹⁵, the asset-backed securities purchase programme (ABSPP)¹⁶, and the public sector purchase programme (PSPP)¹⁷, were supplemented with the corporate sector purchase programme (CSPP)¹⁸ as a fourth component.

¹⁰ 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.

¹¹ Decision ECB/2010/5 of 14 May 2010 establishing a securities markets programme, OJ L 124, 20.05.2010, p. 8.

¹² Decision ECB/2015/10 of 4 March 2015 on a secondary markets public sector asset purchase programme, OJ L 121, 14.5.2015, p. 20, as amended.

¹³ Market values are approximate and are derived from quoted market values. If no market quotation is available, the market value is calculated using the internal models of the Eurosystem.

¹⁴ For more on the asset purchase programmes, see the ECB website <https://www.ecb.europa.eu/mopo/implementation/html/index.en.html>

¹⁵ Decision ECB/2014/40 of 15 October 2014 on the implementation of the third covered bond purchase programme, OJ L 335, 22.11.2014, p. 22.

¹⁶ Decision ECB/2014/45 of 19 November 2014 on the implementation of the asset-backed securities purchase programme, OJ L 1, 6.1.2015, p. 4, as amended.

¹⁷ Under this programme, the ECB and the national central banks may purchase, in the secondary market, euro-denominated securities issued by euro area central, regional or local governments, recognised agencies located in the euro area and international organisations and multilateral development banks located in the euro area.

¹⁸ Under this programme, the national central banks may purchase investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area.

From April 2016 until March 2017, the combined monthly APP purchases by the national central banks and the ECB increased from EUR 60 billion to EUR 80 billion on average. In December 2016, the Governing Council decided to continue the net APP purchases after March 2017 at a monthly pace of EUR 60 billion until at least the end of December 2017. If necessary this can be extended, in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim of keeping the inflation rate below but close to 2% over the medium term. If the outlook becomes less favourable in the meantime, or if financial conditions become inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intends to increase the size or duration of the programme. The net purchases will be made alongside reinvestments of the principal payments from maturing securities purchased under the APP.

The European Central Bank gave Eesti Pank exceptional permission to buy bonds issued by the transmission system operator Elering as an alternative under the asset purchase programme. The Governing Council of the European Central Bank made an exception because unlike the other national central banks of the euro area, Eesti Pank is not able to buy bonds issued by its own government from the secondary market. At the end of 2016, the bonds issued by Elering stood at EUR 62 million on Eesti Pank's Balance Sheet.

The total Eurosystem central banks' holding of Securities Market Programme securities amounts to EUR 94,803 million, of which Eesti Pank holds EUR 109 million. The total Eurosystem central banks' holding of securities under the covered bond purchase programmes amounts to EUR 186,965 million. The total holding of bonds of European institutions purchased under the public sector purchase programme amounts to EUR 139,639 million, of which Eesti Pank holds EUR 3,156 million. Under Article 32.4 of the Statute of the ESCB, any risks from holdings of securities under the Securities Markets Programme or the covered bond purchase programmes or the public sector asset purchase programme other than government bonds, if they were to materialise, are shared in full by the Eurosystem central banks in proportion to the prevailing ECB capital key shares.

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities held under these programmes. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year end. No impairment was found in the value of these securities in 2016 and the Governing Council decided that all the future cash flows can be expected to materialise.

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, which is set out in Article 29 of the ESCB Statute, and which is adjusted every five years.

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

	Capital key from	Subscribed capital as of	Paid-in capital as of
	1/01/2015	1/01/2015	1/01/2015
	%	€	€
Nationale Bank van België / Banque Nationale de Belgique	2.4778	268 222 025	268 222 025
Deutsche Bundesbank	17.9973	1 948 208 997	1 948 208 997
Eesti Pank	0.1928	20 870 614	20 870 614
Central Bank of Ireland	1.1607	125 645 857	125 645 857
Bank of Greece	2.0332	220 094 044	220 094 044
Banco de España	8.8409	957 028 050	957 028 050
Banque de France	14.1792	1 534 899 402	1 534 899 402
Banca d'Italia	12.3108	1 332 644 970	1 332 644 970
Central Bank of Cyprus	0.1513	16 378 236	16 378 236
Latvijas Banka	0.2821	30 537 345	30 537 345
Lietuvos bankas	0.4132	44 728 929	44 728 929
Banque centrale du Luxembourg	0.2030	21 974 764	21 974 764
Central Bank of Malta	0.0648	7 014 605	7 014 605
De Nederlandsche Bank	4.0035	433 379 158	433 379 158
Oesterreichische Nationalbank	1.9631	212 505 714	212 505 714
Banco de Portugal	1.7434	188 723 173	188 723 173
Banka Slovenije	0.3455	37 400 399	37 400 399
Národná banka Slovenska	0.7725	83 623 180	83 623 180
Suomen Pankki – Finlands Bank	1.2564	136 005 389	136 005 389
Subtotal – euro area national central banks	70.3915	7 619 884 851	7 619 884 851
Българска народна банка (Bulgarian National Bank)	0.8590	92 986 811	3 487 005
Česká národní banka	1.6075	174 011 989	6 525 450
Danmarks Nationalbank	1.4873	161 000 330	6 037 512
Hrvatska narodna banka	0.6023	65 199 018	2 444 963
Magyar Nemzeti Bank	1.3798	149 363 448	5 601 129
Narodowy Bank Polski	5.1230	554 565 112	20 796 192
Banca Națională a României	2.6024	281 709 984	10 564 124
Sveriges Riksbank	2.2729	246 041 586	9 226 559
Bank of England	13.6743	1 480 243 942	55 509 148
Subtotal – non-euro area national central banks	29.6085	3 205 122 218	120 192 083
Total*	100.0000	10 825 007 070	7 740 076 935

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

When Estonia joined the euro area, Article 48.2 of the ESCB's Statute started to apply to Eesti Pank, requiring the central bank 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. This item reflects the total amount paid for the reserves, revaluation accounts and the risk provisions of the ECB of EUR 67,982,624.

ITEM 11 – CLAIMS EQUIVALENT TO THE TRANSFER OF FOREIGN RESERVES

Item 11 reflects claims of Eesti Pank arising from the transfers of foreign reserve assets to the ECB when Eesti Pank joined the Eurosystem. These foreign reserves were 85% in Japanese yen and 15% in gold. The claims are denominated in euro at a value fixed at the time of their transfer. The interest payable on claims translated from foreign currency is calculated daily 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 EUROSYS-TEM

Item 12 reflects Eesti Pank's claims towards the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see "Banknotes in circulation" and "Intra-Eurosystem balances" in the notes on accounting policies)¹⁹. The remuneration of these claims is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

ITEM 13 – OTHER CLAIMS WITHIN THE EUROSYS-TEM (NET)

Item 13 reflects net claims arising from the TARGET2 balance, the amount due to the difference arising from the monetary income pooled from and allocated to the Eurosystem central banks, and the amount due to the ECB's interim profit distribution.

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
TARGET2	924 122	2 760 954
Monetary income reallocation	10 951	11 183
Interim profit distribution of the ECB	2 647	2 224
Total	937 720	2 774 361

The remuneration of the TARGET2 balance is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. The decrease in the TARGET2 balance in 2016 is mainly due to the increase in the volume of the public sector purchase programme (see Item 8 "Securities held for monetary policy purposes").

Claims on the ECB in connection with the reallocation of monetary income come from the difference between the amounts collected and allocated by the Eurosystem NCBs (see item 34 "Net result of pooling of monetary income").

This item also covers amounts payable by the ECB to euro area central banks in the form of an interim distribution of profit (see "Interim profit distribution of the ECB" in the notes on accounting policies). At the decision of the Governing Council of the ECB, the ECB distributed its income of EUR 966 million in 2016 between the national central banks of the euro area (see item 33 "Income from equity shares and participating interests").

¹⁹ In accordance with the accounting methods chosen by the Eurosystem for 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, and the NCBs 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 amount 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 – TANGIBLE FIXED ASSETS

thousand EUR

Acquisition cost	Buildings	Hardware	Software	Inventory	Motor vehicles	Total
Balance at the end of 2015	27 758	3 583	3 613	5 698	31	40 683
Acquisitions	96	264	66	127	0	553
Disposals	0	0	0	-28	0	-28
Balance at the end of 2016	27 854	3 847	3 679	5 797	31	41 208
Accumulated depreciation						
Balance at the end of 2015	12 614	2 928	3 015	4 928	11	23 496
Depreciation charge	1 000	277	219	356	8	1 860
Disposals	0	0	0	-28	0	-28
Balance at the end of 2016	13 614	3 205	3 234	5 256	19	25 328
Carrying amount						
Balance at the end of 2015	15 144	655	598	770	20	17 187
Balance at the end of 2016	14 240	642	445	541	12	15 880
Prepayments for fixed assets						
Balance at the end of 2015	0	0	910	0	0	910
Balance at the end of 2016	9	0	1 387	28	0	1 424
Total fixed assets						
Balance at the end of 2015	15 144	655	1 508	770	20	18 097
Balance at the end of 2016	14 249	642	1 832	569	12	17 304

The cost of fixed assets acquired in 2016 was EUR 553 thousand; in 2015 it was EUR 940 thousand. The major part of buildings acquisitions was for procurements for renovating buildings. Hardware acquisition was for purchasing servers and network equipment. The largest software procurements were for purchases of software licences, and development work for the account module and the statistics module for the bank. The largest part of the prepayment for acquisition of fixed assets was for the development work for the ESCB's software systems. The major part of inventory acquisition was spent on development of the secure entry system for the bank.

ITEM 15 – OTHER FINANCIAL ASSETS

Item 15 reflects the shares in the Bank for International Settlements and SWIFT.

Eesti Pank holds 214 shares (200 voting shares) in the Bank for International Settlements at an acquisition cost of EUR 217,118, and 5 shares in SWIFT at an acquisition cost of EUR 17,150.

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

ITEM 17 – ACCRUALS AND PREPAID EXPENSES

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
Interest income	30 558	18 349
Securities	29 335	17 346
Derivative instruments	638	295
Monetary policy operations	538	438
Fixed-term deposits and current accounts	33	8
Intra-Eurosystem balances	10	260
Reverse repurchase transactions	3	0
Loans	1	2
Prepaid expenses	899	809
Claims on the Financial Supervision Authority	845	839
Other claims	327	259
Total	32 629	20 256

ITEM 18 – SUNDRY ASSETS

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
Foreign exchange transactions	11 311	6 698
Loans to employees of Eesti Pank	5 628	6 350
Credits related to margin calls	247	0
Other	41	66
Numismatic banknotes and coins of the Estonian kroon	0	932
Derivative instruments	0	567
Total	17 227	14 613

Housing loans secured by real estate have been granted to employees of Eesti Pank for a maximum of 30 years. The interest rate on housing loans granted before 2012 is the deposit facility interest rate payable to credit institutions plus the risk margin but together no more than the upper limit of the interest rate. The deposit facility rate equals the ECB deposit interest rate, which was between -0.4% and -0.3% in 2016; in 2015 it was between -0.3% and -0.2%. The upper limit on the interest rate is twice the interest rate on the European Central Bank's main refinancing operations. The interest rate on housing loans granted since 2012 is the six-month EURIBOR plus 0.5% but no more than the upper limit on the interest rate. The interest rate on housing loans granted since June 2014 is the six-month EURIBOR plus 1.25%. In addition, study loans have been granted for a maximum of ten years with an interest rate of 5%. From 1 July 2015, Eesti Pank stopped providing loans to employees.

The item reflects balances related to swap transactions in foreign currency outstanding at year-end. These balances 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.

The accounting policies for collector coins and collector banknotes were changed in 2016, and the balances of nominal values of Estonian kroon collector coins and banknotes recorded under other assets and other liabilities were reduced in the Balance Sheet (see Item 35 "Other income and expenses").

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). The value of euro banknotes actually issued by Eesti Pank is smaller than the allocation of such banknotes to Eesti Pank. The claim arising from this difference is reflected in Item 12 "Net claims related to the allocation of euro banknotes within the Eurosystem".

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
Euro banknotes	1 218 549	1 058 419
Adjustments of euro banknotes	1 866 289	1 909 220
ECB banknotes (8%)	-246 774	-237 398
Total	2 838 064	2 730 241

ITEM 20 – CURRENT ACCOUNTS (INCLUDING COVER FOR THE MINIMUM RESERVE SYSTEM)

Item 20 reflects the current accounts of credit institutions with Eesti Pank. The remuneration paid on the balance on the current accounts of credit institutions, held to cover the minimum reserve, is calculated at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. The balances held in excess of the minimum reserve requirements are remunerated at the lower rate of either 0% or the deposit facility rate. The deposit facility rate equals the ECB deposit interest rate, which was between -0.4% and -0.3% in 2016; in 2015 it was between -0.3% and -0.2%. The average balance on the accounts of credit institutions was EUR 2,696,401,564 in 2016 (EUR 1,374,732,397 in 2015).

ITEM 21 – LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

Item 21 reflects mainly the current accounts of the Financial Supervision Authority and the Guarantee Fund held with Eesti Pank. Interest on the current account of the Financial Supervision Authority is calculated monthly from the average balance of the current account using the EONIA (euro overnight index average) interest rate, and the interest rate on the Guarantee Fund account is the deposit facility rate.

ITEM 22 – LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

Item 22 reflects the euro deposits of non-euro area residents and reverse repurchase transactions with non-euro area residents.

ITEM 23 – LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

Item 23 reflects the US dollar denominated reverse repurchase transactions of non-euro area residents with non-euro area residents.

ITEM 24 – COUNTERPART OF THE SPECIAL DRAWING RIGHTS ALLOCATED BY THE IMF

Item 24 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 using support from the foreign reserves of the member states. As a result, Estonia received SDR 61,965,241 (see Item 2 “Receivables from the IMF”).

ITEM 25 – ACCRUALS AND DEFERRED INCOME

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
Accounts payable	1 332	1 072
Tax liabilities	968	902
Interest expenses	928	505
Derivative instruments	814	487
Monetary policy operations	81	0
SDR allocation	28	7
Repurchase transactions	5	0
Deposits of credit institutions	0	11
Employee salaries payable	684	643
Recreation reserve	454	457
Other liabilities	836	178
Total	5 202	3 757

ITEM 26 – SUNDRY LIABILITIES

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
Euro coins	45 124	41 445
Forward transactions in foreign currency	123	355
Foreign exchange transactions	10	0
Other liabilities	24	35
Estonian kroon banknotes	0	39 695
Estonian kroon coins	0	7 466
Loans to employees of Eesti Pank	0	15
Total	45 281	89 011

Estonian kroon banknotes and coins can be exchanged for euros at the shop of the Eesti Pank Museum with no limit of amount or duration at the central rate of 1 EUR = 15.6466 EEK.

In 2016 the exchange liability of EUR 45.1 million for the kroons issued was transferred to income (see Item 35 “Other income and expenses”) on the assumption that not all the kroons cash will be exchanged for euros and the probability of them being exchanged diminishes gradually each year. A provision was set up to cover the estimated exchange liability (see Item 27 “Provisions”).

The nominal value of the kroon and euro collector coins issued was transferred to income and the liabilities in the Balance Sheet were reduced. This was because the probability of collector coins being bought back is very low, and the value of their precious metal exceeds their nominal value (see Item 35 “Other income and expenses”).

The item reflects balances related to forward transactions in foreign currency and currency exchange transactions outstanding at year-end. These balances 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.

ITEM 27 – PROVISIONS

Item 27 reflects general risk provisions and the provisions made in 2016 to cover the exchange liability for the kroon.

The aim of general risk provisions is to cover the financial risks of monetary policy operations and investment assets with provisions. The increase in general risk provisions stems from various risk assessments using Value at Risk, Expected Shortfall, and other methods. In deciding the size of provisions, the amounts set aside for provisions in the past four years are considered as well as the risk assessments. There was an additional provision of EUR 7.5 million on 31 December 2016 (EUR 4.0 million on 31 December 2015), meaning the total provision increased to EUR 37.5 million.

A provision of EUR 29.6 million was set up in 2016 to cover the liability for exchanging kroons for euros. As it is highly probable that not all kroons will be exchanged for euros, Eesti Pank created a formula for calculating the size of the exchange liability for the kroons. The Eesti Pank Executive Board decided to transfer the liability to exchange the kroons issued into circulation with a value of EUR 45.1 million to income and to set up a special purpose provision of EUR 29.6 million. Future exchanges of kroons for euros will be funded from the provision. The size of the provision will be reviewed regularly in future (see Item 35 “Other income and expenses”).

ITEM 28 – REVALUATION ACCOUNTS

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
Equities	8 182	0
Foreign currency	6 885	6 642
Securities	2 101	3 016
Gold	1 871	842
Total	19 039	10 500

Revaluation 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 29 – CAPITAL AND RESERVES

Changes in capital and reserves in 2016:

	<i>thousand EUR</i>		
	31/12/2016	Distribution of profit for 2015	31/12/2015
Fixed capital	100 000	0	100 000
Reserve capital	122 581	22 581	100 000
Special reserve	214 314	0	214 314
Total	436 895	22 581	414 314

Under Section 30 of the Eesti Pank Act, at least 25% of the annual profit must be allocated to increasing statutory capital up to the amount set by the Riigikogu²⁰. The amount set by the Riigikogu in the statutory capital is given in the Eesti Pank Act as EUR 100 million²¹. At the decision of the Supervisory Board of Eesti Pank, Eesti Pank directs at least 25% of its annual profits to building up its reserve capital²². Following the decision of the Eesti Pank Supervisory Board of 28 April 2015 on the distribution of Eesti Pank's profits for 2014, Eesti Pank's reserve capital was equal to its statutory capital. With Eesti Pank's reserve capital equal to its statutory capital, the Riigikogu decided on 12 April 2016 to continue increasing Eesti Pank's reserve capital up to EUR 300 million. After these allocations, part of the profit can be allocated for establishing and supplementing endowments and foundations for specific purposes, at the decision of the Supervisory Board of Eesti Pank. The remaining profit is transferred to the state budget. The bank transferred 25% of its profit for 2015, or EUR 7.5 million, to the state budget in 2016.

20 Eesti Pank Act § 30 (2)

21 Eesti Pank Act § 25 (2)

22 Eesti Pank Act § 30 (3)

NOTES ON THE PROFIT AND LOSS ACCOUNT

ITEM 30 – NET INTEREST INCOME

	<i>thousand EUR</i>	
	2016	2015
Net interest income	16 770	14 866
Interest income	45 686	42 659
Derivative instruments	16 931	18 076
Intra-Eurosystem balances	16 184	13 088
Securities	12 367	11 393
Reverse repurchase transactions	86	12
Fixed-term deposits	44	22
Current accounts	32	43
Deposits	27	8
Loans to employees of Eesti Pank	15	17

Interest expenses	-28 916	-27 793
Derivative instruments	-20 854	-20 971
Securities	-7 778	-6 689
Repurchase transactions	-148	-79
Current accounts	-98	-54
Intra-Eurosystem balances	-38	0

	<i>thousand EUR</i>	
	2016	2015
Intra-Eurosystem interest income	16 184	13 088
Monetary policy operations	9 721	2 595
Bonds held for monetary policy purposes	6 127	9 141
TARGET2	181	733
Allocation of banknotes within the Eurosystem	145	571
Transfer of foreign currency reserves	10	48
Intra-Eurosystem interest expenses	-38	0
Monetary policy operations	-38	0

ITEM 31 – NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND RISK PROVISIONS

	<i>thousand EUR</i>	
	2016	2015
Net result of financial operations, write-downs and risk provisions	-31	17 184
Realised gain arising from financial operations	10 278	24 546
Securities	7 240	6 205
Exchange rate income	3 417	7 681
Equities	-5	11 246
Derivative instruments	-130	-186
Financial asset management costs	-244	-400
Write-downs on financial assets	-2 809	-3 362
Securities	-2 729	-445
Exchange rate write-downs	-85	-147
Net change of loan portfolio write-downs	5	-3
Derivative instruments	0	-22
Equities	0	-2 745
Provisions for foreign exchange rate, interest rate and credit risks	-7 500	-4 000

ITEM 32 – NET INCOME FROM FEES AND COMMISSIONS

	<i>thousand EUR</i>	
	2016	2015
Net income from fees and commissions	46	-8
Fees and commissions income	106	117
Current accounts service fees	102	100
Fines, arrears and other	4	17
Fees and commissions expenses	-60	-125
Commission fees	-53	-118
TARGET2 fees	-4	-5
Other fees and commissions	-3	-2

ITEM 33 – INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

	<i>thousand EUR</i>	
	2016	2015
Income from equity shares and participating interests	3 488	2 852
Interim profit distribution of the ECB	2 646	2 224
Partial allocation of ECB profit	739	408
Dividends from the Bank for International Settlements	58	61
Dividends from participation in the IMF	45	7
Dividends from investments	0	152

The item mainly shows the profit distributed to Eesti Pank by the European Central Bank earned on euro banknotes and securities purchased under the securities markets programme, the third covered bond purchase programmes, the asset-backed securities purchase programme and the public sector asset purchase programme (see “Interim profit distribution of the ECB” in the notes on accounting policies).

ITEM 34 – NET RESULT OF POOLING OF MONETARY INCOME

	<i>thousand EUR</i>	
	2016	2015
Net result of pooling of monetary income	10 951	11 183
Monetary income reallocation	10 952	11 214
Monetary income pooled by Eesti Pank	-16 185	-13 384
Monetary income allocated to Eesti Pank	27 137	24 598
Adjustment for the monetary income of previous years	-1	-31

The net result of pooling of monetary income from the Eurosystem central banks in 2016 totalled EUR 9,907,796,698, which includes the share of Eesti Pank. The monetary income pooled by the Eurosystem is allocated among the Eurosystem central banks according to the subscribed ECB capital key. The difference between the monetary income pooled by Eesti Pank of EUR 16,184,931 and that reallocated to Eesti Pank of EUR 27,137,129 is the net result EUR 10,952,198 in 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.

Earmarkable assets are: lending to euro area credit institutions related to monetary policy operations denominated in euro; securities held for monetary policy purposes; 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; interest claims accrued recorded at the end of the month on monetary policy transactions with a maturity of over one year; and a limited amount of each national central bank’s gold holdings in proportion to each national central bank’s capital key share.

The liability base consists mainly of: 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; and interest liabilities accrued recorded at the end of the month on monetary policy transactions with a maturity of over one year. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

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, Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme, and Decision ECB/2015/10 of 4 March 2015 on a secondary markets public sector asset purchase programme are considered to generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for 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 is 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 is considered in the allocation of monetary income.

ITEM 35 – OTHER INCOME AND EXPENSES

	<i>thousand EUR</i>	
	2016	2015
Other income and expenses	17 911	1 055
Other income	47 533	1 055
Exchange liability for Estonian kroons	45 054	0
Expenses compensated by the Financial Supervision Authority	671	679
Exchange liability for Estonian kroon collector coins	621	0
Income from the sale of collector coins and numismatic products	546	187
Exchange liability for euro collector coins	435	0
Income on financial asset management	153	148
Rental income	20	25
Other income	33	16
Other expenses	-29 622	0

The income from the liability to exchange Estonian kroons is recorded under other income. As it is very probable that not all kroons will be exchanged for euros, Eesti Pank created a formula for calculating the size of the exchange liability for the kroons. The Eesti Pank Executive Board decided to transfer the liability to exchange the kroons issued into circulation with a value of EUR 45.1 million to income and to set up a special purpose provision of EUR 29.6 million. Future exchanges of kroons for euros will be funded from the provision. The size of the provision will be reviewed regularly in future.

Under the cooperation agreement between the Financial Supervision Authority and Eesti Pank, the Financial Supervision Authority reimburses monthly 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 the fixed assets used.

From 2016 the nominal value of collector coins that have been issued is no longer recorded as a liability on the Balance Sheet as the probability of the coins being bought back is very low and their value as precious metal exceeds their nominal value. A change in the accounting principles meant that the nominal value of the kroon and euro collector coins issued was recorded as income and the liability in the Balance Sheet was reduced.

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 centre of Eesti Pank is recorded under "Rental income".

Other expenses records the expenses for setting up the provision for the exchange liability for the kroon (See Item 27 "Provisions").

ITEM 36 – STAFF COSTS

	<i>thousand EUR</i>	
	2016	2015
Staff costs	-9 090	-8 635
Wages	-6 662	-6 345
Social tax	-2 238	-2 124
Compensations and benefits	-139	-116
Unemployment insurance	-51	-50

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

On average, there were 231.8 full-time equivalent employees at Eesti Pank in 2016, and 232.1 in 2015.

ITEM 37 – ADMINISTRATIVE EXPENSES

	<i>thousand EUR</i>	
	2016	2015
Administrative expenses	-5 090	-4 886
Information technology maintenance	-1 742	-1 631
Financial asset management	-949	-812
Real estate renovation and administration	-889	-902
Business travel	-448	-416
Public relations and publications	-293	-299
Office	-147	-145
Training	-145	-208
Economic research	-128	-109
External representation	-95	-100
Communications and transport	-47	-53
Legal expertise and arbitration	-1	-8
Other administrative expenses	-206	-203

The costs of financial asset management comprise the cost of market information, fees and costs for cross-border payments, and management costs of foreign reserves.

The costs of public relations and publications cover the costs of public events, publications, information agencies, the public website and online databases, public relations research polls, information campaigns, and the Museum of Eesti Pank.

Business travel expenses reflect the costs of staff business travel on behalf of Eesti Pank and for work with international organisations and financial institutions. There were a total of 732 business trips in 2016; there were 747 in 2015.

ITEM 38 – BANKNOTE PRODUCTION SERVICE

Eesti Pank participates in the production of euro banknotes together with other central banks of the euro area. The Governing Council of the ECB sets the amount of euro cash that must be produced each year for the euro area countries. Eesti Pank procured its euro

banknotes through a joint tender with seven other euro area central banks. Production of the second series of 50-euro banknotes for the Eurosystem was paid for.

ITEM 39 – OTHER OPERATING EXPENSES

	<i>thousand EUR</i>	
	2016	2015
Other operating expenses	-1 262	-916
Production of collector coins and numismatic products	-625	-218
Production of coins	-349	-426
Cash circulation management	-89	-96
Other expenses	-199	-176

ITEM 40 – DERIVATIVE INSTRUMENTS

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
Currency swaps and forward transactions		
Assets	249 824	357 966
Liabilities	-247 537	-359 000
Value of interest rate future contracts		
Purchase	18 854	37 592
Sale	-20 815	-304 606
Value of currency futures contracts		
Purchase	13 262	0
Sale	-13 962	0
Value of interest rate swap contracts	0	4 353

ITEM 41 – CONTINGENT LIABILITIES

	<i>thousand EUR</i>	
	31/12/2016	31/12/2015
Contingent liabilities	2 322	1 941
Contractual obligations to produce banknotes	1 631	1 272
Unpaid share capital (75%) of the Bank for International Settlements	691	669

Production of banknotes

At the end of 2016, the contractual liabilities of Eesti Pank for printing banknotes and minting coins in 2017 amounted to EUR 1,631 thousand.

Bank for International Settlements

Since 1930 Eesti Pank has a contingent liability to the Bank for International Settlements for the unpaid part of the share capital (75%) of the BIS denominated in Swiss gold francs, which totalled EUR 690,692 at the end of 2016 (see Item 15 “Other financial assets”).



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Independent Auditors' Report *(Translation of the Estonian original)*

To the Supervisory Board of Eesti Pank

Opinion

We have audited the accompanying financial statements of Eesti Pank (the "Bank"), which comprise:

- the balance sheet as at 31 December 2016,
- the profit and loss account for the year then ended, and
- notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Eesti Pank as at 31 December 2016, and of its financial performance for the year then ended in accordance with the Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34), and the Bank of Estonia (Eesti Pank) Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Executive Board is responsible for the other information. The other information comprises the overview of the financial position of Eesti Pank, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Executive Board and Those Charged with Governance for the Financial Statements

The Executive Board of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with the Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34), and the Bank of Estonia (Eesti Pank) Act. The Executive Board of the Bank is also responsible for such internal control as the Executive Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Board of the Bank is responsible for using the going concern basis of accounting in accordance with Article 4 of the applicable Guideline (ECB/2016/34).



Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board.
- Conclude on the appropriateness of the Executive Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tallinn, 16 March 2017

/signed/

Eero Kaup
Certified Public Accountant, Licence No 459

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