

# ANNUAL ACCOUNTS OF EESTI PANK FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

## THE FINANCIAL POSITION OF EESTI PANK

### Capital and reserves

Eesti Pank's capital as at 31 December 2017 stood at EUR 460.4 million euros. More detailed information on Eesti Pank's capital can be found under Item 30 "Capital and Reserves" in the notes on the Balance Sheet.

### Provision for foreign exchange, interest, credit and gold price risks

Following from risk assessments, Eesti Pank increased its provision for foreign exchange, interest rate, credit and gold price risks. The size of the provision and the continuing need for it 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 the 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 2016 the provision made to cover foreign exchange, interest rate, credit and gold price risks were EUR 37.5 million. The bank transferred EUR 7.5 million to the provision in 2017 and as a result the risk provision increased to EUR 45 million. See also Item 28 "Provisions" in the notes on the Balance Sheet.

### Provision 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 a special purpose provision of EUR 29.6 million was set up in 2016. Future exchanges of kroons for euros will be funded from the provision. The provision was reduced in 2017 by EUR 498.5 thousand through the return of kroons.

### Revaluation accounts

Unrealised profit from gold, foreign currency and securities is not recorded as income in the Profit and Loss Account and is transferred to the revaluation accounts in the liabilities side of the Eesti Pank Balance Sheet. Assets on these accounts can be used to reduce any future impact on the financial results of the bank from unfavourable developments in prices or exchange rates. In this way 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 28 million at the end of December 2017 and EUR 19 million at the end of 2016. For more details, see the notes on accounting principles, and Item 29 "Revaluation accounts" in the notes on the Balance Sheet.

### Financial results for 2017

Eesti Pank's net profit in 2017 was EUR 4.3 million, and it was EUR 31.4 million in 2016.

Net interest income increased to EUR 20 million euros in 2017 from EUR 16.8 million in 2016. The majority of the investment income in 2017 came from transactions within the Eurosystem through the excess reserves of Estonian credit institutions and securities held for monetary policy purposes. A large part of the investment income in 2017 came from the equity portfolio. Global share prices increased by around 23% though the strengthening of the euro reduced the contribution of equity investments to income. The equity portfolio still produced positive results for the year as a whole. The interest rates on the securities in the portfolio rose and so the return on that part of the portfolio was negative. The structure of the portfolio remained generally stable in 2017, and the only major change was that US government bonds were replaced by a US government guaranteed mortgage-backed securities fund. The net income of Eesti Pank was increased by the Eurosystem monetary income of EUR 10.6 million and income from equity shares and participating interests of EUR 3.7 million, which includes EUR 3.3 million of profit distributed by the European Central Bank.

The total operating expenses of Eesti Pank, including depreciation, increased from EUR 17.7 million in 2016 to EUR 19.8 million in 2017. The largest expenses were on staff costs, cash production, and information and communications technology.

## Risks

Eesti Pank has a risk management system that covers all the processes of the bank and allows various risks to be tackled in a single framework. Risk management aims to reduce the adverse effects that unforeseen events can have on the achievement by the bank of its objectives. To this end, risk management is integrated into the investment, planning, budgeting and management reporting processes.

Reporting and analysis of risks show that risks coming from the external environment have increased. Eesti Pank contributes to risk management for the whole of the euro area through the committees and management bodies of the European System of Central Banks. Contingency plans for services are used to reduce the impact of any possible interruption to processes the bank considers critical and to ensure the continuity of activity. The external auditors regularly assess the risk management of the bank.

The financial risks at Eesti Pank are assessed using both Value at Risk (VaR) and Expected Shortfall risk measures. It became necessary to use multiple measures of risk because of the significant increase in the balance sheet total and the risks stemming from changes.

Eesti Pank's reserves are exposed to various risks such as market, credit and liquidity risks. Risks are managed on a daily basis, with various risk limits set on investments and precautionary measures employed like the four-eyes principle and a division between decision-making and oversight functions.

Investment risk not related to monetary policy is measured when possible by the risk variable VaR, and its ratio to the benchmark portfolio is limited. The benchmark portfolio is approved by the Executive Board of Eesti Pank and sets the overall risk tolerance of Eesti Pank's investments. The benchmark portfolio currently contains bonds and equity fund units. The Executive Board also decides the acceptable level of foreign exchange risk for the benchmark portfolio. The foreign exchange risk of the bond portfolio is hedged with forward transactions for foreign currency. Risks that are not measured by VaR are limited by their amount or by other parameters. Counterparty risk is managed through various contracts. The list of financial instruments that are permitted for managing investment assets is approved by the Governor of Eesti Pank. The risk management division observes that the risks remain within their permitted limits.

In addition to the risks from reserve management, the assets of Eesti Pank are subject to risks from monetary policy transactions. Risks related to monetary policy transactions are managed jointly in the Eurosystem Risk Management Committee, which comprises representatives of the euro area central banks, including Eesti Pank. A risk framework has been established that sets out conditions for transaction counterparties, assets that qualify as collateral for monetary policy operations, the financial instruments to be purchased within the purchase programmes and similar. No major changes were made last year in the risk framework for collateral for monetary policy, though the risks of the Eurosystem were increased substantially because of the various asset purchase programmes above all. Under Article 32.4 of the Statute of the European System of Central Banks (ESCB) and the European Central Bank (ECB), any losses from monetary policy operations and from securities purchased under the Securities Market Programme and the expanded asset 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<sup>8</sup>.

<sup>8</sup> Under Article 29 of the Statute of the ESCB and of the ECB, the central banks of the member states subscribe the capital of the European Central Bank in the proportions given by the capital key. The capital key is calculated by looking equally at each country's share of the European Union's population and GDP. The weightings are adjusted every five years or whenever a country joins the EU. As the member states that are outside the euro area do not have a right to the distributed profit and loss of the European Central Bank under the capital key, Eesti Pank's share of the risks of the European Central Bank has been 0.2739% since 1 January 2015.

## **APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 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 2017.

The Annual Accounts of Eesti Pank have been drawn up in accordance with the rules established in Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank<sup>9</sup>. The parts of the Annual Accounts that are not regulated by ECB guidelines have been drawn up in accordance with the financial reporting standards 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 19 March 2018, 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

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<sup>9</sup> 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 2017 AND 2016

thousand EUR

	Item	31/12/2017	31/12/2016
<b>ASSETS</b>			
<b>Gold and gold receivables</b>	<b>1</b>	8 926	9 059
<b>Claims on non-euro area residents denominated in foreign currency</b>		279 401	323 076
Receivables from the IMF	<b>2</b>	71 163	94 642
Balances with banks, security investments and other external assets	<b>3</b>	208 238	228 434
<b>Claims on euro area residents denominated in foreign currency</b>	<b>4</b>	103 065	102 104
<b>Claims on non-euro area residents denominated in euro</b>	<b>5</b>	25 402	11 949
<b>Lending to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>6</b>	91 210	86 000
<b>Other claims on euro area credit institutions denominated in euro</b>	<b>7</b>	7 365	4 873
<b>Securities of euro area residents denominated in euro</b>		5 152 215	3 398 564
Securities held for monetary policy purposes	<b>8</b>	5 103 761	3 339 318
Other securities	<b>9</b>	48 454	59 246
<b>Intra-Eurosystem claims</b>		2 708 062	2 757 818
Participating interest in the European Central Bank	<b>10</b>	88 853	88 853
Claims equivalent to the transfer of foreign reserves	<b>11</b>	111 730	111 730
Net claims related to the allocation of euro banknotes within the Eurosystem	<b>12</b>	1 550 197	1 619 515
Other claims within the Eurosystem (net)	<b>13</b>	957 282	937 720
<b>Other assets</b>		67 260	67 485
Tangible and intangible fixed assets	<b>14</b>	17 354	17 304
Other financial assets	<b>15</b>	234	234
Off-balance-sheet instruments revaluation differences	<b>16</b>	536	91
Accruals and prepaid expenses	<b>17</b>	43 314	32 629
Sundry	<b>18</b>	5 822	17 227
<b>TOTAL ASSETS</b>		<b>8 442 906</b>	<b>6 760 928</b>

The notes on pages 60–81 form an integral part of the Annual Accounts.

		<i>thousand EUR</i>	
	<b>Item</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
LIABILITIES			
<b>Banknotes in circulation</b>	<b>19</b>	2 950 204	2 838 064
<b>Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>		4 559 041	3 192 216
Current accounts (including cover for the minimum reserve system)	<b>20</b>	4 559 041	3 192 216
<b>Other liabilities to euro area credit institutions denominated in euro</b>	<b>21</b>	8 631	0
<b>Liabilities to other euro area residents denominated in euro</b>	<b>22</b>	220 216	18 207
General Government		208 591	7 117
Other liabilities		11 625	11 090
<b>Liabilities to non-euro area residents denominated in euro</b>	<b>23</b>	8 631	5 207
<b>Liabilities to non-euro area residents denominated in foreign currency</b>	<b>24</b>	0	15 758
<b>Counterpart of the special drawing rights allocated by the IMF</b>	<b>25</b>	73 590	78 981
<b>Other liabilities</b>		55 490	58 036
Off-balance-sheet instruments revaluation differences	<b>16</b>	158	7 553
Accruals and income collected in advance	<b>26</b>	6 032	5 202
Sundry	<b>27</b>	49 300	45 281
<b>Provisions</b>	<b>28</b>	74 312	67 122
<b>Revaluation accounts</b>	<b>29</b>	28 019	19 039
<b>Capital and reserves</b>	<b>30</b>	460 447	436 895
Capital		246 133	222 581
Reserves		214 314	214 314
<b>Profit for the year</b>		4 325	31 403
<b>TOTAL LIABILITIES</b>		<b>8 442 906</b>	<b>6 760 928</b>

The notes on pages 60–81 form an integral part of the Annual Accounts.

## PROFIT AND LOSS ACCOUNT FOR 2017 AND 2016

thousand EUR

	Item	2017	2016
Interest income		43 951	45 686
Interest expenses		-23 956	-28 916
<b>Net interest income</b>	<b>31</b>	<b>19 995</b>	<b>16 770</b>
Realised gain arising from financial operations		2 009	10 278
Write-downs on financial assets		-6 047	-2 809
Provisions for foreign exchange rate, interest rate and credit risks		-7 500	-7 500
<b>Net result of financial operations, write-downs and risk provisions</b>	<b>32</b>	<b>-11 538</b>	<b>-31</b>
Fees and commissions income		109	106
Fees and commissions expenses		-34	-60
<b>Net income from fees and commissions</b>	<b>33</b>	<b>75</b>	<b>46</b>
<b>Income from equity shares and participating interests</b>	<b>34</b>	<b>3 655</b>	<b>3 488</b>
<b>Net result of pooling of monetary income</b>	<b>35</b>	<b>10 567</b>	<b>10 951</b>
Other income		1 363	47 533
Other expenses		0	-29 622
<b>Other income and expenses</b>	<b>36</b>	<b>1 363</b>	<b>17 911</b>
<b>Total net income</b>		<b>24 117</b>	<b>49 135</b>
Staff costs	<b>37</b>	-9 409	-9 090
Administrative expenses	<b>38</b>	-5 821	-5 090
Depreciation of tangible and intangible fixed assets	<b>14</b>	-1 704	-1 860
Banknote production services	<b>39</b>	-856	-430
Other operating expenses	<b>40</b>	-2 002	-1 262
<b>Operating expenses</b>		<b>-19 792</b>	<b>-17 732</b>
<b>Profit for the year</b>		<b>4 325</b>	<b>31 403</b>

The notes on pages 60–81 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 Bank<sup>10</sup>. The parts of the Annual Accounts that are not regulated by ECB guidelines have been drawn up in accordance with the financial reporting standards 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 asset 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 asset 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.

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

<sup>10</sup> 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.

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 the Chinese renminbi) converted into euros as at 29 December 2017.

The exchange rates applied on 31 December 2017 and 2016 were as follows:

	31/12/2017	31/12/2016
USD	1.1993	1.0541
GBP	0.88723	0.85618
JPY	135.01	123.4
CNY	7.8044	7.3202
SDR	0.842034	0.78456

## 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 2017, was derived from the exchange rate of the euro against the US dollar on 29 December 2017.

## Securities

### Securities held for monetary policy purposes

Securities held for monetary policy purposes are accounted for at amortised cost subject to impairment. The Governing Council of the ECB assesses on a regular basis the financial risks associated with these securities. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year end.

### Other securities

Marketable securities (other than 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 2017, mid-market prices on 29 December 2017 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.

The interest income and expenses from monetary policy operations are presented on a net basis for each balance sheet item or sub-item.

## 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:

	<b>2017</b>
Land and buildings	3%
Utility systems of buildings	10%
Hardware	20%
Software, motor vehicles	10–50%
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 to increase or reduce the provisions, using a reasonable estimate of the bank's exposure. Provisions are used to cover the uncovered losses in revaluation accounts to the extent approved by the Executive Board. If the size of the provision is reduced because of risk estimates, the amount it is reduced by is recorded as income for the recording period.

## Claims and liabilities to the Financial Supervision Authority

The Balance Sheet of Eesti Pank contains a claim on the Financial Supervision Authority for the services provided and acquisition of low value assets by Eesti Pank, and a liability to the Financial Supervision Authority in relation to its settlement 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 banknotes<sup>11</sup>. The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with the banknote allocation key<sup>12</sup>.

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<sup>13</sup> 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 year<sup>14</sup> the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in 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

<sup>11</sup> 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.

<sup>12</sup> 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.

<sup>13</sup> 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.

<sup>14</sup> The year of changeover to the euro is the year when euro banknotes become the legal tender of a Member State.

for the observation period<sup>15</sup> between the average value of banknotes released into circulation by the central banks of the Eurosystem countries and the average value of the banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments are reduced in annual stages until the first day of 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 expense on these balances is cleared through the accounts of the ECB and is disclosed under "Net interest income" in the Profit and Loss Account.

## Collector coins

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 Eesti Pank repurchasing the coins is very low 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.

## 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), the asset-backed securities purchase programme (ABSPP) and the public sector purchase programme (PSPP) shall be due in full to the Eurosystem central banks in the same financial year it accrues. If the Governing Council does not decide otherwise, the European Central Bank distributes this income in January of the following year in the form of an interim distribution of profit<sup>16</sup>. 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 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 TARGET2<sup>17</sup> 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 a 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)".

<sup>15</sup> 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.

<sup>16</sup> 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).

<sup>17</sup> 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:

	<b>31/12/2017</b>	<b>31/12/2016</b>
Gold (ounces)	8250.171	8250.171
Ounce market value (EUR)	1081.881	1098.046
Revaluation (thousand EUR)	1 738	1 871
Market value (thousand EUR)	<b>8 926</b>	<b>9 059</b>

### 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>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
SDR account in the IMF	29 258	31 389
Reserve position in the IMF	41 905	63 253
Participation in the IMF	289 272	310 635
IMF No.1 account	-247 367	-247 382
<b>Total</b>	<b>71 163</b>	<b>94 642</b>

#### 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 25 "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.

At the end of 2017 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 size of the reserve position is affected by the participation of the Republic of Estonia in the IMF's Financial Transactions Plan (FTP). The decrease in the reserve position in 2017 was due to the amounts refunded in relation to the FTP with a total value of SDR 14.3 million, having been SDR 2 million in 2016. 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 the security investments denominated in United States, Canadian and Australian dollars of non-euro area residents. Eesti Pank's foreign reserves were invested mainly in US government guaranteed mortgage-backed securities funds and government bonds of Australia and Canada.

	<i>thousand EUR</i>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
Securities	99 280	200 483
Securities funds	97 535	0
Current accounts	10 256	2 129
Fixed-term deposits	1 167	10 246
Reverse repurchase transactions	0	15 576
<b>Total</b>	<b>208 238</b>	<b>228 434</b>

	<i>thousand EUR</i>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
USD	99 759	128 400
AUD	50 085	48 484
CAD	49 767	51 169
CHF	8 455	2
GBP	105	241
JPY	59	76
CNH	32	34
DKK	2	2
NOK	0	1
NZD	-5	24
SEK	-21	1
<b>Total</b>	<b>208 238</b>	<b>228 434</b>

#### 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>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
Equities	101 272	100 490
Current accounts	1 793	1 614
<b>Total</b>	<b>103 065</b>	<b>102 104</b>

	<i>thousand EUR</i>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
USD	102 418	101 624
CAD	390	195
AUD	268	207
SEK	198	206
CHF	8	9
NZD	2	0
NOK	1	0
JPY	-32	7
GBP	-188	-144
<b>Total</b>	<b>103 065</b>	<b>102 104</b>

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

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

	<i>thousand EUR</i>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
Securities	15 959	6 609
Reverse repurchase transactions	8 993	5 190
Current accounts	450	150
<b>Total</b>	<b>25 402</b>	<b>11 949</b>

## 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 764,310 million, of which Eesti Pank holds EUR 91.2 million (EUR 86 million in 2016) of longer-term refinancing transactions with maturities of 48 months. Under Article 32.4 of the Statute of the ESCB, any losses 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 2016 the Governing Council of the ECB 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 operations 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 2017.

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

Item 7 reflects bank balances in euro at euro area credit institutions.

## ITEM 8 – SECURITIES HELD FOR MONETARY POLICY PURPOSES

Item 8 reflects securities acquired by Eesti Pank within the scope of the purchase programmes for covered bonds (CBPP2)<sup>18</sup>, the Securities Markets Programme (SMP)<sup>19</sup> and the public sector purchase programme (PSPP)<sup>20</sup>.

The Securities Market Programme was terminated on 6 September 2012. The second covered bond purchase programme was completed 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 value<sup>21</sup> of securities, which are not recorded on the Balance Sheet or Profit and Loss Account and are presented only for the purposes of information, are:

18 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.

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

20 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.

21 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.

thousand EUR

	31/12/2017		31/12/2016	
	Amortised acquisition cost	Market value	Amortised acquisition cost	Market value
Public sector purchase programme	5 006 947	5 016 371	3 217 270	3 227 803
Bonds of institutions	4 947 756	4 957 024	3 155 618	3 165 692
Elering	59 191	59 347	61 652	62 111
Securities Markets Programme	89 329	95 785	108 568	119 545
Second covered bond purchase programme	7 485	8 379	13 480	14 647
<b>Total</b>	<b>5 103 761</b>	<b>5 120 534</b>	<b>3 339 318</b>	<b>3 361 995</b>

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

In 2017 the Eurosystem continued with its purchases under the expanded asset purchase programme (APP)<sup>22</sup>, which includes the third covered bond purchase programme (CBPP3)<sup>23</sup>, the asset-backed securities purchase programme (ABSPP)<sup>24</sup>, the public sector purchase programme (PSPP)<sup>25</sup>, and the corporate sector purchase programme (CSPP)<sup>26</sup>.

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 2017, the bonds issued by Elering stood at EUR 59.2 million euros on Eesti Pank's Balance Sheet.

The total Eurosystem central banks holding of Securities Market Programme securities amounts to EUR 82,490 million euros, of which Eesti Pank holds EUR 89.3 million euros. The total Eurosystem central banks holding of securities under the covered bond purchase programmes amounts to EUR 220,955 million. The total holding of bonds of European institutions purchased under the public sector purchase programme amounts to EUR 203,932 million, of which Eesti Pank holds EUR 4948 million. Under Article 32.4 of the Statute of the ESCB, any losses from holdings of securities under the Securities Markets Programme or the expanded 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.

As a result of an impairment test conducted on the portfolio of the corporate sector purchase programme at the end of 2017, it was concluded that the holding of one security was impaired. In accordance with the principle of prudence, the Governing Council of the European Central Bank deemed it appropriate to establish a provision against losses in monetary policy operations (see Item 28 "Provisions"). The affected security was sold in January 2018.

## ITEM 9 – OTHER SECURITIES

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

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

23 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.

24 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.

25 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.

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

## 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) stipulates 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 1/01/2015 %	Subscribed capital as of 1/01/2015 €	Paid-in capital as of 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
<b>Subtotal – euro area national central banks</b>	<b>70.3915</b>	<b>7 619 884 851</b>	<b>7 619 884 851</b>
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
<b>Subtotal – non-euro area national central banks</b>	<b>29.6085</b>	<b>3 205 122 218</b>	<b>120 192 083</b>
<b>Total*</b>	<b>100.0000</b>	<b>10 825 007 070</b>	<b>7 740 076 935</b>

\* 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 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 reserves 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 remuneration of 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 EUROSYSTEM

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)<sup>27</sup>. 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 EUROSYSTEM (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>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
TARGET2	943 821	924 122
Monetary income reallocation	10 755	10 951
Interim profit distribution of the ECB	2 705	2 647
<b>Total</b>	<b>957 281</b>	<b>937 720</b>

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 increase in the TARGET2 balance in 2017 is mainly due to the increase in the volume of the deposits of Estonian credit institutions (see Item 20 "Current accounts (including cover for the minimum reserve system)").

Claims on the ECB in connection with the reallocation of monetary income come from the difference between the amounts pooled and allocated by the Eurosystem NCBs (see Item 35 "Net result of pooling of monetary income").

This item also includes amounts payable by the ECB to euro area central banks in respect of the ECB's interim profit distribution (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 988 million in 2017 between the national central banks of the euro area (see Item 34 "Income from equity shares and participating interests").

<sup>27</sup> 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 remaining 92% of the value of the euro banknotes in circulation is 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 put into circulation is recorded under "Intra-Eurosystem net claims/liabilities related to the allocation of euro banknotes within the Eurosystem".

## ITEM 14 – TANGIBLE AND INTANGIBLE FIXED ASSETS

thousand EUR

<b>Acquisition cost</b>	<b>Buildings</b>	<b>Hardware</b>	<b>Software</b>	<b>Inventory</b>	<b>Motor vehicles</b>	<b>Total</b>
Balance at the end of 2016	27 854	3 847	3 679	5 797	31	41 208
Acquisitions	176	976	1 203	210	0	2 565
Disposals	0	-603	-7	-3	0	-613
<b>Balance at the end of 2017</b>	<b>28 030</b>	<b>4 220</b>	<b>4 875</b>	<b>6 004</b>	<b>31</b>	<b>43 160</b>
<b>Accumulated depreciation</b>						
Balance at the end of 2016	13 614	3 205	3 234	5 256	19	25 328
Depreciation charge	973	348	214	161	7	1 703
Disposals	0	-603	-7	-3	0	-613
<b>Balance at the end of 2017</b>	<b>14 587</b>	<b>2 950</b>	<b>3 441</b>	<b>5 414</b>	<b>26</b>	<b>26 418</b>
<b>Carrying amount</b>						
Balance at the end of 2016	14 240	642	445	541	12	15 880
<b>Balance at the end of 2017</b>	<b>13 443</b>	<b>1 270</b>	<b>1 434</b>	<b>590</b>	<b>5</b>	<b>16 742</b>
<b>Prepayments for fixed assets</b>						
Balance at the end of 2016	9	0	1 387	28	0	1 424
<b>Balance at the end of 2017</b>	<b>0</b>	<b>0</b>	<b>599</b>	<b>13</b>	<b>0</b>	<b>612</b>
<b>Total fixed assets</b>						
Balance at the end of 2016	14 249	642	1 832	569	12	17 304
<b>Balance at the end of 2017</b>	<b>13 443</b>	<b>1 270</b>	<b>2 033</b>	<b>603</b>	<b>5</b>	<b>17 354</b>

The cost of fixed assets acquired in 2017 was EUR 2565 thousand; in 2016 it was 553 thousand euros. The procurements for renovation of buildings and perimeter security account for the major part of buildings acquisitions. Hardware acquisition is related to the purchase of servers, network equipment, and backup systems. The largest software procurements were the participation in the development work for the single European securities settlement platform TARGET2-Securities and contributions to development of other ESCB software systems. The largest part of the prepayment for acquisition of fixed assets was for development work on the statistical data collection portal. The major part of inventory acquisition was for renewal of licences for banknote sorters and purchases of security equipment 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>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
Interest claims	41 113	30 558
Securities	39 863	29 335
Derivative instruments	634	638
Monetary policy operations	455	538
Fixed-term deposits and current accounts	152	33
Reverse repurchase transactions	8	3
Loans	1	1
Intra-Eurosystem balances	0	10
Prepaid expenses	970	899
Claims on the Financial Supervision Authority	878	845
Other claims	353	327
<b>Total</b>	<b>43 314</b>	<b>32 629</b>

## ITEM 18 – SUNDRY ASSETS

	<i>thousand EUR</i>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
Loans to employees of Eesti Pank	5 033	5 628
Credits related to margin calls	420	247
Foreign exchange transactions	292	11 311
Other	45	41
Derivative instruments	32	0
<b>Total</b>	<b>5 822</b>	<b>17 227</b>

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 payable to credit institutions plus the risk margin but together not more than the upper limit of the interest rate. The deposit facility rate equals the ECB deposit interest rate, which was -0.4% in 2017; in 2016 it was between -0.4% and -0.3%. 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 to employees for a maximum of ten years with an interest rate of 5%. From 1 July 2015, Eesti Pank ceased 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.

## 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>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
Euro banknotes	1 400 007	1 218 549
Adjustments of euro banknotes	1 806 722	1 866 289
ECB banknotes (8%)	-256 525	-246 774
<b>Total</b>	<b>2 950 204</b>	<b>2 838 064</b>

## 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 -0.4% in 2017; in 2016 it was between -0.4% and -0.3%. The average balance on the accounts of credit institutions was EUR 3,220,392,672 in 2017 (EUR 2,696,401,564 euros in 2016).

## ITEM 21 – OTHER LIABILITIES TO EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

Item 21 reflects repo transactions denominated in euro with credit institutions in the euro area.

## ITEM 22 – LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

Item 22 reflects mainly the current account 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 daily 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 23 – LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

Item 23 reflects the euro deposits of non-euro area residents and reverse repurchase transactions with non-euro area residents.

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

Item 24 reflects the US dollar denominated reverse repurchase transactions of non-euro area residents with non-euro area residents.

## ITEM 25 – COUNTERPART OF THE SPECIAL DRAWING RIGHTS ALLOCATED BY THE IMF

Item 25 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 26 – ACCRUALS AND DEFERRED INCOME

	<i>thousand EUR</i>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
Interest liabilities	1 463	928
Derivative instruments	925	814
Monetary policy operations	445	81
SDR allocation	88	28
Repurchase transactions	5	5
Accounts payable	1 203	1 332
Tax liabilities	1 015	968
Employee salaries payable	675	684
Vacation reserve	493	454
Other liabilities	1 183	836
<b>Total</b>	<b>6 032</b>	<b>5 202</b>

## ITEM 27 – SUNDRY LIABILITIES

	<i>thousand EUR</i>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
Euro coins	49 146	45 124
Forward transactions in foreign currency	105	123
Other liabilities	41	24
Derivative instruments	7	0
Foreign exchange transactions	0	10
<b>Total</b>	<b>49 299</b>	<b>45 281</b>

Item 27 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 28 – PROVISIONS

Item 28 reflects the provision for foreign exchange, interest, credit and gold price risks, the provision to cover the exchange liability for the kroon, and the provision for the impairment of a corporate sector security.

The aim of the risk provision is to cover the financial risks of monetary policy operations and investment assets with the provision. The increase in the general risk provision stems from various risk assessments using Value at Risk, Expected Shortfall and other. In deciding the size of the provision, the amounts set aside for the provision in the past five years and the size of the bank's reserves are considered as well as the risk assessments. There was an additional provision of EUR 7.5 million on 31 December 2017 (also EUR 7.5 million in 2016), and the total general risk provision increased to EUR 45 million. The increase in risk was mainly due to the continued purchase of securities under the asset purchase programmes<sup>28</sup>. Under Article 32.4 of the Statute of the ESCB, the Eurosystem central banks share any losses from securities held under the Securities Market Programme and the expanded asset purchase programme other than government bonds, if they were to materialise, in full in proportion to the prevailing ECB capital key shares.

A provision of EUR 29.6 million was set up in 2016 to cover the liability for exchanging kroons for euros. Future exchanges of kroons for euros will be funded from the provision. The provision was reduced in 2017 by EUR 498.5 thousand through

28. The expanded asset purchase programme consists of the third covered bond purchase programme, the asset-backed securities purchase programme, the public sector purchase programme, and the corporate sector purchase programme (CSPP). Further details on the asset purchase programmes can be found on the ECB's website <https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html>.

the return of kroons. 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.

As a result of the impairment test conducted on the portfolio of the corporate sector purchase programme, the Governing Council of the European Central Bank deemed it appropriate to establish a provision against losses in monetary policy operations with a total value of EUR 68.9 million in relation to a security held by a central bank of the Eurosystem. The size of this provision has been calculated with account taken of the information on the sale of the security in January 2018. This is in line with the framework for accounting and financial reporting in the European System of Central Banks<sup>29</sup> for post balance sheet events. Under Article 32.4 of the statutes of the ESCB this provision is funded by all the central banks of participating member states in proportion to their subscribed capital key in the ECB prevailing in 2017. As a result, a provision of EUR 188,635, equivalent to 0.2739% of the total provision, was created.

## ITEM 29 – REVALUATION ACCOUNTS

	<i>thousand EUR</i>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
Equities	25 077	8 182
Gold	1 738	1 871
Securities	729	2 101
Foreign currency	364	6 885
Derivative instruments	111	0
<b>Total</b>	<b>28 019</b>	<b>19 039</b>

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 30 – CAPITAL AND RESERVES

Changes in capital and reserves in 2017:

	<i>thousand EUR</i>		
	<b>31/12/2017</b>	<b>Distribution of profit for 2016</b>	<b>31/12/2016</b>
Fixed capital	100 000	0	100 000
Reserve capital	146 133	23 552	122 581
Special purpose reserve	214 314	0	214 314
<b>Total</b>	<b>460 447</b>	<b>23 552</b>	<b>436 895</b>

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 Riigikogu<sup>30</sup>. The amount set by the Riigikogu in the statutory capital is given in the Eesti Pank Act as EUR 100 million<sup>31</sup>. 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 capital<sup>32</sup>. 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. When Eesti Pank’s reserve capital became equal to its statutory capital, the Riigikogu decided on 12 April 2016 to continue increasing Eesti Pank’s reserve capital 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 2016, or EUR 7.9 million, to the state budget in 2016.

<sup>29</sup> 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/34/4), Article 4 (3).

<sup>30</sup> Eesti Pank Act § 30 (2)

<sup>31</sup> Eesti Pank Act § 25 (2)

<sup>32</sup> Eesti Pank Act § 30 (3)

## NOTES ON THE PROFIT AND LOSS ACCOUNT

### ITEM 31 – NET INTEREST INCOME

	<i>thousand EUR</i>	
	<b>2017</b>	<b>2016</b>
<b>Net interest income</b>	<b>19 995</b>	<b>16 770</b>
<b>Interest income</b>	<b>43 951</b>	<b>45 686</b>
Intra-Eurosystem balances	19 152	16 184
Derivative instruments	13 951	16 931
Securities	7 856	12 367
Securities fund	1 971	0
Deposits	619	27
Reverse repurchase transactions	200	86
Current accounts	168	32
Fixed-term deposits	24	44
Loans to employees of Eesti Pank	10	15
<b>Interest expenses</b>	<b>-23 956</b>	<b>-28 916</b>
Derivative instruments	-17 726	-20 854
Securities	-5 290	-7 778
Current accounts	-437	-98
Intra-Eurosystem balances	-365	-38
Repurchase transactions	-138	-148

	<i>thousand EUR</i>	
	<b>2017</b>	<b>2016</b>
<b>Intra-Eurosystem interest income</b>	<b>19 152</b>	<b>16 184</b>
Monetary policy operations	12 262	9 721
Securities held for monetary policy purposes	6 890	6 127
TARGET2	0	181
Allocation of banknotes within the Eurosystem	0	145
Transfer of foreign currency reserves	0	10
<b>Intra-Eurosystem interest expenses</b>	<b>-365</b>	<b>-38</b>
Monetary policy operations	-365	-38

**ITEM 32 – NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND RISK PROVISIONS**

	<i>thousand EUR</i>	
	<b>2017</b>	<b>2016</b>
<b>Net result of financial operations, write-downs and risk provisions</b>	<b>-11 538</b>	<b>-31</b>
<b>Realised gain arising from financial operations</b>	<b>2 009</b>	<b>10 278</b>
Securities	2 290	7 240
Equities	1 759	-5
Financial asset management costs	0	-244
Derivative instruments	-627	-130
Exchange rate income/expenses	-1 413	3 417
<b>Write-downs on financial assets</b>	<b>-6 047</b>	<b>-2 809</b>
Exchange rate write-downs	-4 977	-85
Securities	-862	-2 729
Derivative instruments	-166	0
Securities fund	-45	0
Net change of loan portfolio write-downs	3	5
<b>Provisions for foreign exchange rate, interest rate and credit risks</b>	<b>-7 500</b>	<b>-7 500</b>

**ITEM 33 – NET INCOME FROM FEES AND COMMISSIONS**

	<i>thousand EUR</i>	
	<b>2017</b>	<b>2016</b>
<b>Net income from fees and commissions</b>	<b>75</b>	<b>46</b>
<b>Fees and commissions income</b>	<b>109</b>	<b>106</b>
Current accounts service fees	107	102
Fines, arrears and other	2	4
<b>Fees and commissions expenses</b>	<b>-34</b>	<b>-60</b>
Commission fees	-32	-53
Other fees and commissions	-2	-3
TARGET2 fees	0	-4

**ITEM 34 – INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS**

	<i>thousand EUR</i>	
	<b>2017</b>	<b>2016</b>
<b>Income from equity shares and participating interests</b>	<b>3 655</b>	<b>3 488</b>
Interim profit distribution of the ECB	2 705	2 646
Partial allocation of ECB profit	622	739
Dividends from participation in the IMF	249	45
Dividends from the Bank for International Settlements	79	58

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 programme, the asset-backed securities purchase programme and the public sector purchase programme (see “Interim profit distribution of the ECB” in the notes on accounting policies).

## ITEM 35 – NET RESULT OF POOLING OF MONETARY INCOME

	<i>thousand EUR</i>	
	<b>2017</b>	<b>2016</b>
<b>Net result of pooling of monetary income</b>	<b>10 567</b>	<b>10 951</b>
Monetary income reallocation	10 764	10 952
Monetary income pooled by Eesti Pank	-18 787	-16 185
Monetary income allocated to Eesti Pank	29 551	27 137
Write-downs of securities held for monetary policy purposes	-189	0
Adjustment for the monetary income of previous years	-8	-1

The net result of pooling of monetary income from the Eurosystem central banks in 2017 totalled EUR 10,788,990,788, which includes the share of Eesti Pank. The monetary income pooled by the Eurosystem is allocated among the Eurosystem central banks in line with their subscription to the ECB’s capital key. The difference between the monetary income pooled by Eesti Pank of EUR 18,787,180 and that reallocated to Eesti Pank of EUR 29,550,690 is the net result EUR 10,763,511 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 operations 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 operations 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 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.

The item also contains Eesti Pank’s share in the provision against losses in monetary policy operations, which was established in relation to a security held by a national central bank of the Eurosystem in its portfolio of the corporate sector purchase programme (see Item 28 “Provisions”).

## ITEM 36 – OTHER INCOME AND EXPENSES

thousand EUR

	2017	2016
<b>Other income and expenses</b>	<b>1 363</b>	<b>17 911</b>
<b>Other income</b>	<b>1 363</b>	<b>47 533</b>
Expenses reimbursed by the Financial Supervision Authority	634	671
Income from the sale of collector coins and numismatic products	609	546
Income on financial asset management	43	153
Exchange liability for euro collector coins	38	435
Rental income	17	20
Other income	17	33
Exchange liability for Estonian kroons	3	45 054
Exchange liability for Estonian kroon collector coins	2	621
<b>Other expenses</b>	<b>0</b>	<b>-29 622</b>

Under other income is recorded the income in 2016 from the liability to exchange Estonian kroons. As it is very probable that not all kroons will be exchanged for euros, Eesti Pank has 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 total 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. The nominal value of the collector coins issued is reflected as income for the period.

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".

Under other expenses is recorded the expenses in 2016 for setting up the provision for the exchange liability for the kroon (see Item 28 "Provisions").

## ITEM 37 – STAFF COSTS

thousand EUR

	2017	2016
<b>Staff costs</b>	<b>-9 409</b>	<b>-9 090</b>
Salaries	-6 894	-6 662
Social tax	-2 315	-2 238
Compensations and benefits	-148	-139
Unemployment insurance tax	-52	-51

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

On average, there were 232.9 full-time equivalent employees at Eesti Pank in 2017, and 231.8 in 2016.

## ITEM 38 – ADMINISTRATIVE EXPENSES

	<i>thousand EUR</i>	
	<b>2017</b>	<b>2016</b>
<b>Administrative expenses</b>	<b>-5 821</b>	<b>-5 090</b>
Information technology maintenance	-1 752	-1 742
Financial asset management	-1 259	-949
Real estate renovation and management	-926	-889
Public relations and publications	-478	-293
Business travel	-467	-448
Economic research	-226	-128
Training	-162	-145
Office	-151	-147
External representation	-97	-95
Communications and transport	-44	-47
Legal expertise and arbitration	-2	-1
Other administrative expenses	-257	-206

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 776 business trips in 2017; there were 732 in 2016.

## ITEM 39 – BANKNOTE PRODUCTION SERVICES

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 40 – OTHER OPERATING EXPENSES

	<i>thousand EUR</i>	
	<b>2017</b>	<b>2016</b>
<b>Other operating expenses</b>	<b>-2 002</b>	<b>-1 262</b>
Production of collector coins and numismatic products	-927	-625
Production of coins	-793	-349
Cash circulation management	-76	-89
Other expenses	-206	-199

## ITEM 41 – DERIVATIVE INSTRUMENTS

	<i>thousand EUR</i>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>Currency swaps and forward transactions</b>		
Assets	300 755	249 824
Liabilities	-300 541	-247 537
<b>Value of interest rate future contracts</b>		
Purchase	323 755	18 854
Sale	-340 318	-20 815
<b>Value of currency futures contracts</b>		
Purchase	10 629	13 262
Sale	-12 550	-13 962
<b>Value of interest rate swap contracts</b>		
Purchase	48 383	0
Sale	-31 207	0
<b>Value of interest rate option contracts</b>		
Purchase	132 838	0
Sale	-251 500	0

## ITEM 42 – CONTINGENT LIABILITIES

### Production of banknotes

At the end of 2017, the contractual liabilities of Eesti Pank for production of banknotes in 2018 amounted to EUR 775 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 607 thousand at the end of 2017 (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 2017,
- 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 2017, 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 scepticism 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, 19 March 2018

*/signed/*

Eero Kaup  
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ  
Licence No 17