

ANNUAL ACCOUNTS OF EESTI PANK FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

THE FINANCIAL POSITION OF EESTI PANK

CAPITAL AND RESERVES

Eesti Pank had EUR 485.8 million of capital as at 31 December 2022. More detailed information on Eesti Pank's capital and reserves can be found under Item 31 "Capital and Reserves" in the notes on the Balance Sheet.

PROVISION FOR FINANCIAL RISKS

Following from risk assessments, Eesti Pank has made a provision for financial risks since 2012. 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 2021 the provision made to cover financial risks was EUR 103.6 million. The Executive Board decided to use EUR 100 million from the provision to cover financial risks to cover the loss made in 2022, and the provision was reduced to EUR 3.6 million as at 31 December 2022. See also Item 29 "Provisions" in the notes on the Balance Sheet.

PROVISION FOR THE OBLIGATION TO EXCHANGE ESTONIAN KROONS FOR EUROS

Twelve years have passed since the euro was introduced and there are still some EUR 43.8 million of Estonian kroons that have not been returned from circulation. 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 2022 by EUR 235,892 (EUR 230,929 in 2021) as kroons were returned, and consequently the provision for the obligation to exchange kroons was reduced to EUR 27.7 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 to the revaluation accounts in the liabilities side of the Eesti Pank Balance Sheet. Assets on these accounts are 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 20.2 million at the end of December 2022 and EUR 77.8 million at the end of 2021. For more details, see the notes on accounting principles, and Item 30 "Revaluation accounts" in the notes on the Balance Sheet.

FINANCIAL RESULTS FOR 2022

Eesti Pank's net profit in 2022 was EUR 0 million, and it was EUR 3.7 million in 2021.

Net interest income fell to EUR 0.8 million in 2022 from EUR 27.9 million in 2021. The return on the investment portfolio was negative in 2022. The sharp rise in core interest rates caused historically large losses for bond investors, and the general uncertainty caused equity prices to fall. The fall in the market value of securities led to write-downs of securities of EUR 99.3 million in 2022; write-downs in 2021 were EUR 10.4 million. The net result for Eesti Pank of the distribution of monetary income in 2022 was EUR 30.5 million; in 2021 it was a loss of EUR 12.7 million. Income from equity shares and participating interest was EUR 4.6 million in 2022, which included EUR 3.5 million of dividends from equity funds, and it was EUR 5 million in 2021 with EUR 3.4 million of dividends. For more details, see Item 35 "Income from equity shares and participating interests" in the notes on the Profit and Loss Account.

The total operating expenses of Eesti Pank, including depreciation, increased from EUR 21.2 million in 2021 to EUR 25 million in 2022. The largest expenses were on staff costs 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 handled in a single framework. Risk management aims to reduce the adverse effect that unforeseen events can have on the achievement of the bank's objectives. To this end, risk management is integrated with the investment, planning, budgeting and management reporting processes.

Reporting and analysis of risks show that risks arising from the external environment have increased. 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.

Eesti Pank's continued high financial risks arise mainly from the large size of the balance sheet following the purchases of securities under the asset purchase programme and the pandemic emergency purchase programme, and from the high degree of volatility in financial markets.

The financial risks at Eesti Pank are assessed using both Value at Risk (VaR) and Expected Shortfall measures. The need to use multiple measures of risk was caused by the large increase in the Balance Sheet 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 constantly, with various risk limits set on investments and precautionary measures employed like the four-eyes principle and separation between decision-making and control functions.

Investment risk not related to monetary policy is measured where possible by the risk variable VaR (Value at Risk). 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 securities, government-guaranteed mortgage-backed securities, 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 securities portfolio is partially 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 central banks of the euro area, including Eesti Pank. A risk framework has been established that sets out conditions of transaction counterparties, assets that qualify as collateral for monetary policy operations, financial instruments to be purchased within the purchase programmes, and similar. Under Article 32.4 of the Statute of the ESCB, the Eurosystem central banks share any losses realised from securities bought in monetary policy operations or held under the Securities Market Programme and the expanded Asset Purchase Programme other than government bonds, in full in proportion to the prevailing ECB capital key shares¹⁴.

14 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 when the group of central banks of the countries in the ESCB changes. 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 0.2817% since 1 February 2020.

APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022 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 2022.

The Annual Accounts of Eesti Pank 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, in line 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) (recast)¹⁵ and the Eesti Pank Act. 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 15 March 2023, all the members of the Executive Board of Eesti Pank on that day signed the Annual Accounts digitally.

| | |
|---------------------|--|
| Madis Müller | Governor of Eesti Pank, Chairman of the Executive Board |
| Ülo Kaasik | Deputy Governor of Eesti Pank, Member of the Executive Board |
| Veiko Tali | Deputy Governor of Eesti Pank, Member of the Executive Board |

¹⁵ 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, p37.

BALANCE SHEET AS AT 31 DECEMBER 2022

thousand euros

| | Item | 31.12.2022 | 31.12.2021 |
|---|-----------|-------------------|-------------------|
| ASSETS | | | |
| Gold and gold receivables | 1 | 14 075 | 13 278 |
| Claims on non-euro area residents denominated in foreign currency | | 2 059 880 | 2 014 373 |
| Receivables from the IMF | 2 | 448 313 | 393 239 |
| Balances with banks, securities investments and other external assets | 3 | 1 611 567 | 1 621 134 |
| Claims on euro area residents denominated in foreign currency | 4 | 179 144 | 60 051 |
| Claims on non-euro area residents denominated in euro | 5 | 170 026 | 0 |
| Lending to euro area credit institutions related to monetary policy operations denominated in euro | 6 | 150 000 | 1 881 500 |
| Other claims on euro area credit institutions denominated in euro | 7 | 272 | 185 |
| Securities of euro area residents denominated in euro | | 10 987 780 | 9 932 185 |
| Securities held for monetary policy purposes | 8 | 10 987 780 | 9 932 185 |
| Intra-Eurosystem claims | | 1 213 844 | 2 044 749 |
| Participating interest in the European Central Bank | 9 | 95 252 | 93 534 |
| Claims equivalent to the transfer of foreign reserves | 10 | 113 648 | 113 648 |
| Net claims related to the allocation of euro banknotes within the Eurosystem | 11 | 1 004 944 | 1 294 651 |
| Other claims within the Eurosystem (net) | 12 | 0 | 542 916 |
| Other assets | | 122 319 | 106 399 |
| Tangible and intangible fixed assets | 13 | 14 004 | 14 706 |
| Other financial assets | 14 | 234 | 234 |
| Off-balance-sheet instruments revaluation differences | 15 | 145 | 66 |
| Accruals and prepaid expenses | 16 | 70 941 | 48 020 |
| Sundry | 17 | 36 995 | 43 372 |
| TOTAL ASSETS | | 14 897 341 | 16 052 720 |

Note: The totals in the balance sheet and in the tables included in the notes may not add up due to rounding.

The notes on pages 88-109 form an integral part of the Annual Accounts.

thousand euros

| | Item | 31.12.2022 | 31.12.2021 |
|---|-----------|-------------------|-------------------|
| LIABILITIES | | | |
| Banknotes in circulation | 18 | 4 071 565 | 3 999 960 |
| Liabilities to euro area credit institutions related to monetary policy operations denominated in euro | | 7 429 207 | 9 651 603 |
| Current accounts (covering the minimum reserve system) | 19 | 487 221 | 9 651 603 |
| Deposit facility | 20 | 6 941 986 | 0 |
| Other liabilities to euro area credit institutions denominated in euro | 21 | 85 005 | 75 807 |
| Liabilities to other euro area residents denominated in euro | 22 | 477 632 | 1 035 606 |
| General government | | 454 712 | 1 013 135 |
| Other liabilities | | 22 920 | 22 471 |
| Liabilities to non-euro area residents denominated in euro | 23 | 25 | 24 |
| Liabilities to euro area residents denominated in foreign currency | 24 | 274 965 | 86 817 |
| Counterpart of the special drawing rights allocated by the IMF | 25 | 369 808 | 365 140 |
| Intra-Eurosystem liabilities | | 1 516 299 | 0 |
| Other liabilities within the Eurosystem (net) | 26 | 1 516 299 | 0 |
| Other liabilities | | 135 593 | 141 756 |
| Off-balance-sheet instruments revaluation differences | 15 | 7 228 | 28 542 |
| Accruals and income collected in advance | 27 | 34 626 | 39 844 |
| Sundry | 28 | 93 739 | 73 370 |
| Provisions | 29 | 31 258 | 131 510 |
| Revaluation accounts | 30 | 20 224 | 77 817 |
| Capital and reserves | 31 | 485 759 | 482 997 |
| Capital | | 271 445 | 268 683 |
| Reserves | | 214 314 | 214 314 |
| Profit for the year | | 0 | 3 682 |
| TOTAL LIABILITIES | | 14 897 341 | 16 052 720 |

Note: The totals in the balance sheet and in the tables included in the notes may not add up due to rounding.

The notes on pages 88-109 form an integral part of the Annual Accounts.

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2022

| | | <i>thousand euros</i> | |
|--|----------------------------|-----------------------|----------------|
| | Item | 2022 | 2021 |
| Interest income | | 303 106 | 180 851 |
| Interest expenses | | -302 312 | -152 949 |
| Net interest income | 32 | 794 | 27 902 |
| Realised gain arising from financial operations | | -13 908 | 23 600 |
| Write-downs on financial assets | | -99 991 | -10 414 |
| Provision for financial risks | 29 | 100 016 | -11 000 |
| Net result of financial operations, write-downs and risk provisions | 33 | -13 883 | 2 187 |
| Fees and commissions income | | 643 | 368 |
| Fees and commissions expenses | | -59 | -7 |
| Net income from fees and commissions | 34 | 584 | 361 |
| Income from equity shares and participating interests | 35 | 4 553 | 5 039 |
| Net result of pooling of monetary income | 36 | 30 463 | -12 705 |
| Other income | 37 | 2 471 | 2 125 |
| | Total net income | 24 981 | 24 908 |
| Staff costs | 38 | -12 346 | -11 337 |
| Administrative expenses | 39 | -7 292 | -5 777 |
| Depreciation of tangible and intangible fixed assets | 13 | -1 775 | -1 753 |
| Banknote production services | 40 | -939 | -1 005 |
| Other operating expenses | 41 | -2 629 | -1 354 |
| | Operating expenses | -24 981 | -21 226 |
| | Profit for the year | 0 | 3 682 |

Note: The totals in the profit and loss account and in the tables included in the notes may not add up due to rounding.

The notes on pages 88-109 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 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, in line 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) (recast)¹⁶ and the Eesti Pank Act. 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 Estonian Financial Reporting Standard is a set of requirements for public financial reporting based on internationally accepted accounting and reporting principles, the core of which are established by the Accounting Act of the Republic of Estonia and supplemented by the guidelines of the Estonian Accounting Standards Board.

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 euros 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.

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.

¹⁶ 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, p37.

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 to euros at the official daily fixing of the European Central Bank effective on the balance sheet date. Income and expenses are converted at the official European Central Bank exchange rate prevailing on the trade date. The revaluation of on-balance-sheet and off-balance-sheet instruments and of foreign exchange assets and liabilities is performed on a currency-by-currency basis.

The special drawing right (SDR) of the International Monetary Fund (IMF) is defined in terms of a basket of currencies. To revalue Eesti Pank's holdings of SDRs, the value of the SDR was calculated as the weighted sum of the exchange rates of five currencies (the US dollar, the euro, the Japanese yen, the pound sterling and the Chinese renminbi) converted into euros as at 30 December 2022.

The official daily fixings applied on 31 December 2022 and 2021 were as follows:

| | 31.12.2022 | 31.12.2021 |
|-----|------------|------------|
| USD | 1.0666 | 1.1326 |
| GBP | 0.88693 | 0.84028 |
| JPY | 140.66 | 130.38 |
| CNY | 7.3582 | 7.1947 |
| SDR | 0.798913 | 0.809127 |

GOLD

Gold is valued at the market price prevailing at the year-end, and 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 2022, was derived from the exchange rate of the euro against the US dollar on 30 December 2022.

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 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 2022, mid-market prices on 30 December 2022 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 calculated from the average prices of each asset taken to the Profit and Loss Account.

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, meaning securities are recorded as assets on the Balance Sheet and the repurchase amount as a liability.

Reverse repurchase transactions (purchase/resale transactions) are recorded as collateralised loans. 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 over a year and an acquisition cost in excess of EUR 10 000. 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.

| | 2022 |
|------------------------------|-------------|
| 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.

PROVISION FOR FINANCIAL RISKS

Given the nature of the operations of the central bank, Eesti Pank may set up a provision on the balance sheet for financial risks. The management of the bank decides to increase or reduce the provision, using a reasonable estimate of the bank's exposure. The provision is 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 FINANTSINSPEKTSIOON

The Balance Sheet of Eesti Pank contains a claim on Finantsinspektsioon for services provided and acquisition of low-value assets by Eesti Pank, and a liability to Finantsinspektsioon 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. The difference between the spot and forward exchange rates is treated as an interest liability or receivable on an accrual basis for both purchases and sales.

Daily changes in the variation margin of open interest rate futures contracts are recorded in the Profit and Loss Account.

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 banknotes¹⁷. 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 key¹⁸.

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 liabilities¹⁹ 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 year²⁰ 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 for the reference period²¹ 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.

17 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.

18 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.

19 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.

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

21 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.

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 the coins being repurchased 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), the public sector purchase programme (PSPP) and the pandemic emergency purchase programme (PEPP) 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 profit²². 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 financial 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". This item covers the paid-up share of national central banks in the subscribed capital of the ECB, any net amounts paid by the national central banks because of an increase in their share in the equity capital of the ECB²³ resulting from all previous adjustments of the capital key, and contributions under article 48.2 of the Statute of the ESCB in relation to the central banks of member states whose derogations have been abrogated.

Intra-Eurosystem balances arising from the transfer of foreign reserve assets to the ECB by NCBs joining the Eurosystem are denominated in euros 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 euros. These transactions are for the most part initiated by private entities, meaning credit institutions, corporations and individuals. These transactions are settled in TARGET2²⁴ 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 euros such as interim profit distributions to NCBs are presented in the Balance Sheet as a single net asset or liability position and disclosed under "Other claims within the Eurosystem (net)" or "Other liabilities within the Eurosystem (net)".

²² 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).

²³ The total value of equity capital covers all the reserves of the European Central Bank, revaluation accounts and a provision equivalent to reserves, minus any loss carried forward from previous periods. If the capital key is adjusted during the financial year, the value of equity capital also includes the accumulated net profit or net loss of the European Central Bank at the date of the adjustment.

²⁴ 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:

| | 31.12.2022 | 31.12.2021 |
|------------------------------------|---------------|---------------|
| Gold (ounces) | 8 250.171 | 8 250.171 |
| Ounce market value (EUR) | 1 706.075 | 1 609.483 |
| Revaluation (thousand EUR) | 6 888 | 6 091 |
| Market value (thousand EUR) | 14 075 | 13 278 |

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 euros</i> | |
|-----------------------------|-----------------------|----------------|
| | 31.12.2022 | 31.12.2021 |
| SDR account in the IMF | 371 048 | 319 422 |
| Reserve position in the IMF | 77 264 | 73 817 |
| Participation in the IMF | 305 135 | 301 356 |
| IMF No.1 account | -227 870 | -227 539 |
| Total | 448 313 | 393 239 |

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").

At the end of 2021, Eesti Pank joined the voluntary trading agreement for SDRs. The first four transactions under this agreement were made in 2022 and the result was an increase of SDR 37.7 million in the SDR account. The SDR rose in value in euros because the SDR appreciated against the euro in 2022 and because of interest earned during the year (see "Recording of transactions in foreign currency" in the notes on the annual accounts).

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 2022 the quota of the Republic of Estonia was 243.6 million SDRs.

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 increase in the reserve position in 2022 was due to payments in to the FTP of SDR 2 million; in 2021 SDR 5 million was paid in. Estonia has participated in the IMF's FTP since 2012. The increase in the value of the SDRs in euros also arose partly because the SDR appreciated against the euro in 2022.

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; equity funds and term deposits 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 US government bonds and government-guaranteed, mortgage-backed securities funds, and government bonds of Australia, Canada, and the United Kingdom. The fair value of investments is based on the prices quoted in active markets.

| | <i>thousand euros</i> | |
|---------------------|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| Securities | 1 304 225 | 1 239 299 |
| Equity funds | 178 678 | 172 083 |
| Securities funds | 104 626 | 101 959 |
| Fixed-term deposits | 23 439 | 21 985 |
| Current accounts | 598 | 85 809 |
| Total | 1 611 567 | 1 621 134 |

| | <i>thousand euros</i> | |
|--------------|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| USD | 842 829 | 844 709 |
| AUD | 246 042 | 235 761 |
| CAD | 243 692 | 233 511 |
| GBP | 179 360 | 221 747 |
| JPY | 99 637 | 75 805 |
| SEK | 3 | 5 |
| CHF | 2 | 9 592 |
| NZD | 1 | 3 |
| NOK | 1 | 0 |
| Total | 1 611 567 | 1 621 134 |

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

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

| | <i>thousand euros</i> | |
|------------------|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| Reverse repos | 178 433 | 0 |
| Current accounts | 711 | 801 |
| Securities | 0 | 59 250 |
| Total | 179 144 | 60 051 |

| | <i>thousand euros</i> | |
|--------------|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| GBP | 178 489 | 155 |
| USD | 396 | 59 528 |
| AUD | 130 | 130 |
| CAD | 120 | 228 |
| JPY | 8 | 9 |
| Total | 179 144 | 60 051 |

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

As at 31 December 2022 this item reflected investment of EUR 170 million in bond funds; it was 0 in 2021.

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

As at 31 December 2022 the total Eurosystem holding of monetary policy assets amounted to EUR 1324.3 billion (EUR 1881.5 million in 2021), of which Eesti Pank held EUR 150 million of long-term refinancing transactions. 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 0.2817%.

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. For specific collateral that can be accepted by NCBs at their own discretion, risk sharing has been excluded by the Governing Council of the ECB.

In addition to the series of seven quarterly targeted longer-term refinancing operations (TLTRO III) introduced in 2019, the Governing Council added three further operations to this series in December 2020, which were conducted between June and December 2021. These operations have a three-year maturity. For the first seven TLTROs-III, from September 2021, starting 12 months after the settlement of each TLTRO-III, participants have the option on a quarterly basis of terminating or reducing the amount of TLTRO-III concerned before maturity. For the eighth or subsequent TLTROs-III, participants have that option on a quarterly basis starting in June 2022. According to the initial decisions taken by the Governing Council, the final interest rate applicable to each TLTRO-III operation could be as low as the average interest rate on the deposit facility prevailing over the life of the operation. Furthermore, in response to the Covid-19 shock, in 2020²⁵ the Governing Council decided that for the period between 24 June 2020 and 23 June 2021 and the period between 24 June 2021 and 23 June 2022 – referred to as the special interest rate period and the additional special interest rate period respectively – the interest rate applicable can be as low as 50 basis points below the average interest rate on the deposit facility prevailing over the same period, but in any case may not become less negative than -1%. Additionally, on 27 October 2022 the Governing Council decided that, from 23 November 2022 until the maturity date or early repayment date of each respective outstanding TLTRO III operation, the interest rate on TLTRO III operations will be indexed to the average applicable key ECB interest rates over this period. On the same date, the Governing Council decided that three additional voluntary early repayment dates would be introduced to provide TLTRO III participants with additional opportunities to partly, or fully, repay their respective TLTRO III borrowings before their maturity. In 2022 early repayments of TLTRO-III loans of EUR 1731.5 million were made to Eesti Pank.

The actual interest rates can only be known at the maturity or early repayment of each operation and before that a reliable estimate is only possible as far as the interest rate related data regarding the special interest rate period and the additional special interest rate period have already been communicated to the counterparties. This means that for the annual accounts 2022, the following approach was applied for calculating the TLTRO III interest accruals: (i) until 23 June 2022, the interest rates over the additional special interest rate period, for which the interest rate related data were communicated to the counterparties on 10 June 2022, (ii) for the period from 24 June 2022 until 22 November 2022, the interest rate was linked to the average applicable key ECB interest rate from the settlement date till 22 November 2022, and (iii) for the period 23 November 2022 until 31 December 2022, the interest rate was indexed to the average applicable key ECB interest rate over this period.

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

As at 31 December 2022 this item reflected the account balances in euros of euro area credit institutions of EUR 272,279; it was EUR 184,528 in 2021.

ITEM 8 – SECURITIES HELD FOR MONETARY POLICY PURPOSES

Item 8 reflects securities acquired by Eesti Pank within the scope of the second covered bonds purchase programme (CBPP2), the third covered bonds purchase programme (CBPP3), the public sector asset purchase programme (PSPP), and the pandemic emergency purchase programme (PEPP).

The securities purchased under the second covered bonds purchase programme (CBPP2) reached maturity during 2022, and so as at 31 December 2022 Eesti Pank had no such securities.

²⁵ Decisions of the Governing Council of 30 April 2020 and 10 December 2020.

| | Start date | End date | Decision | Universe of eligible securities ¹ |
|--|---------------|----------------|------------------------|--|
| Completed / Terminated programmes | | | | |
| First covered bond purchase programme | July 2009 | June 2010 | ECB/2009/16 | Covered bonds of euro area residents |
| Second covered bond purchase programme | November 2011 | October 2012 | ECB/2011/17 | Covered bonds of euro area residents |
| Securities Markets Programme | May 2010 | September 2012 | ECB/2010/5 | Private and public debt securities issued in the euro area |
| Asset purchase programme | | | | |
| Third covered bond purchase programme | October 2014 | active | ECB/2020/8 as amended | Covered bonds of euro area residents |
| Asset-backed securities purchase programme | November 2014 | active | ECB/2014/45 as amended | Senior and guaranteed mezzanine tranches of asset-backed securities of euro area residents |
| Public sector purchase programme | March 2015 | active | ECB/2020/9 | Bonds issued by euro area central, regional or local government or recognised agencies and those issued by international organisations and multilateral development banks in the euro area |
| Corporate sector purchase programme | June 2016 | active | ECB/2016/16 as amended | Bonds and commercial paper issued by non-bank corporations established in the euro area |
| Pandemic emergency purchase programme | | | | |
| Pandemic emergency purchase programme | March 2020 | active | ECB/2020/17 as amended | All asset categories eligible under the APP ² |

1) Further eligibility criteria for the specific programmes can be found in the Governing Council's decisions.

2) A waiver of the eligibility requirements was granted for securities issued by the Greek Government.

During the first quarter of 2022 the Eurosystem continued its net purchases under the asset purchase programme (APP)²⁶ at a monthly pace of EUR 20 billion on average. In March 2022 the Governing Council decided²⁷ to revise the net purchase amounts to EUR 40 billion in April, EUR 30 billion in May and EUR 20 billion in June, while in June 2022 the Governing Council decided²⁸ to end net asset purchases under the APP as of 1 July 2022. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities until the end of February 2023. Subsequently, the APP portfolio will decline at a measured and predictable pace, as the Eurosystem will not reinvest all of the principal payments from maturing securities. The decline will amount to EUR 15 billion per month on average until the end of the second quarter of 2023 and its subsequent pace will be determined over time. The Governing Council will regularly reassess the pace of the APP portfolio reduction to ensure it remains consistent with the overall monetary policy strategy and stance, to preserve market functioning, and to maintain firm control over short-term money market conditions.

In addition, during the first quarter of 2022 the Eurosystem continued its net asset purchases under the PEPP²⁹, though at a lower pace than in the previous quarter, following the decision of the Governing Council in December 2021³⁰. Based on the same decision, the net PEPP purchases were discontinued at the end of March 2022. The Governing Council intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2024. The Governing Council will continue applying flexibility in the reinvestments, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic. The future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

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 value³¹ of

26 Further details on the APP can be found on the ECB's website.

27 See the press release of 10 March 2022 of the Governing Council's decisions.

28 See the press release of 9 June 2022 of the Governing Council's decisions.

29 Further details on the PEPP can be found on the ECB's website.

30 See the press release of 16 December 2021 of the Governing Council's decisions.

31 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.

Eesti Pank's securities, which are not recorded on the Balance Sheet or Profit and Loss Account and are presented only for the purposes of information, are:

thousand euros

| | 31.12.2022 | | 31.12.2021 | |
|--|----------------------------|------------------|----------------------------|------------------|
| | Amortised acquisition cost | Market value | Amortised acquisition cost | Market value |
| Public sector purchase programme | 6 770 252 | 5 908 923 | 6 524 392 | 6 627 111 |
| Pandemic emergency purchase programme | 3 869 090 | 3 201 128 | 3 224 817 | 3 175 153 |
| Third covered bond purchase programme | 348 439 | 324 233 | 175 977 | 175 414 |
| Second covered bond purchase programme | 0 | 0 | 6 999 | 7 036 |
| Total | 10 987 780 | 9 434 284 | 9 932 185 | 9 984 714 |

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities held under these programmes. In this context, impairment tests are conducted on an annual basis, using data as at the year-end and are approved by the Governing Council. In these tests, impairment indicators are assessed separately for each programme. In cases where impairment indicators are observed, further analysis is performed to confirm that the cash flows of the underlying securities have not been affected by an impairment event.

In accordance with the decision of the Governing Council taken under Article 32.4 of the ESCB Statute, losses from holdings of these purchase programmes, if they were to materialise, are shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

No impairment was found in the value of these securities in 2022 and the Governing Council decided that all the future cash flows can be expected to materialise.

ITEM 9 – PARTICIPATING INTEREST IN THE ECB

Item 9 reflects the participating interest of Eesti Pank in the ECB. Article 28 of the Statute of the 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 or when the composition of national central banks in the ESCB changes.

For Eesti Pank this item covers i) the paid-up share in the subscribed capital of the ECB, ii) the net amounts paid by Eesti Pank because of the increase in its share in the equity capital of the ECB resulting from all previous ECB capital key adjustments, and iii) contributions under article 48.2 of the Statute of the ESCB.

The subscribed capital of the ECB is EUR 10,825 million. This remained unchanged after the Bank of England left the ESCB, and the 14.3% share of the Bank of England in the subscribed capital of the ECB was divided between the central banks of the euro area and the central banks of the other non-euro area countries.

The paid-in capital of the ECB also remained unchanged in 2020 at EUR 7659 million, as the central banks of the remaining countries had to cover the EUR 58 million paid in by the Bank of England to the capital of the ECB. The Governing Council also decided that the central banks of the countries in the euro area have to increase their shares in the ECB in full by paying in two annual instalments³². Eesti Pank in consequence paid in EUR 1.7 million on 29 December 2021 to increase its subscribed capital from EUR 21.4 million in 2020 to EUR 23.1 million in 2021. The second instalment of EUR 1.7 million was paid in 2022, increasing the subscribed capital of Eesti Pank from EUR 23.1 million in 2021 to EUR 24.8 million in 2022.

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

³² The result is that the paid-in capital of the ECB increased from EUR 7659 million in 2020 to EUR 8270 million in 2021, and to EUR 8880 million in 2022.

| | Capital key weighting from | Subscribed capital as of | Paid-in capital as of | Paid-in capital as at |
|--|----------------------------|--------------------------|-----------------------|-----------------------|
| | 01.02.2020 | 01.02.2020 | 27.12.2022 | 26.12.2022 |
| | % | € | € | € |
| Nationale Bank van België / Banque Nationale de Belgique | 2.9630 | 320 744 959 | 320 744 959 | 298 517 938 |
| Deutsche Bundesbank | 21.4394 | 2 320 816 566 | 2 320 816 566 | 2 159 988 350 |
| Eesti Pank | 0.2291 | 24 800 091 | 24 800 091 | 23 081 492 |
| Central Bank of Ireland | 1.3772 | 149 081 997 | 149 081 997 | 138 750 896 |
| Bank of Greece | 2.0117 | 217 766 667 | 217 766 667 | 202 675 847 |
| Banco de España | 9.6981 | 1 049 820 011 | 1 049 820 011 | 977 069 462 |
| Banque de France | 16.6108 | 1 798 120 274 | 1 798 120 274 | 1 673 513 927 |
| Banca d'Italia | 13.8165 | 1 495 637 102 | 1 495 637 102 | 1 391 992 269 |
| Central Bank of Cyprus | 0.1750 | 18 943 762 | 18 943 762 | 17 630 995 |
| Latvijas Banka | 0.3169 | 34 304 447 | 34 304 447 | 31 927 214 |
| Lietuvos Bankas | 0.4707 | 50 953 308 | 50 953 308 | 47 422 340 |
| Banque centrale du Luxembourg | 0.2679 | 29 000 194 | 29 000 194 | 26 990 535 |
| Central Bank of Malta | 0.0853 | 9 233 731 | 9 233 731 | 8 593 851 |
| De Nederlandsche Bank | 4.7662 | 515 941 487 | 515 941 487 | 480 187 714 |
| Oesterreichische Nationalbank | 2.3804 | 257 678 468 | 257 678 468 | 239 821 836 |
| Banco de Portugal | 1.9035 | 206 054 010 | 206 054 010 | 191 774 855 |
| Banka Slovenije | 0.3916 | 42 390 728 | 42 390 728 | 39 453 130 |
| Národná banka Slovenska | 0.9314 | 100 824 116 | 100 824 116 | 93 837 195 |
| Suomen Pankki – Finlands Bank | 1.4939 | 161 714 781 | 161 714 781 | 150 508 251 |
| Subtotal – euro area national central banks | 81.3286 | 8 803 826 700 | 8 803 826 700 | 8 193 738 097 |
| Българска народна банка (Bulgarian National Bank) | 0.9832 | 106 431 470 | 3 991 180 | 3 991 180 |
| Česká národní banka | 1.8794 | 203 445 183 | 7 629 194 | 7 629 194 |
| Danmarks Nationalbank | 1.7591 | 190 422 699 | 7 140 851 | 7 140 851 |
| Hrvatska narodna banka | 0.6595 | 71 390 922 | 2 677 160 | 2 677 160 |
| Magyar Nemzeti Bank | 1.5488 | 167 657 709 | 6 287 164 | 6 287 164 |
| Narodowy Bank Polski | 6.0335 | 653 126 802 | 24 492 255 | 24 492 255 |
| Banca Națională a României | 2.8289 | 306 228 625 | 11 483 573 | 11 483 573 |
| Sveriges Riksbank | 2.9790 | 322 476 961 | 12 092 886 | 12 092 886 |
| Subtotal – non-euro area national central banks | 18.6714 | 2 021 180 370 | 75 794 264 | 75 794 264 |
| Total | 100,0000 | 10 825 007 070 | 8 879 620 963 | 8 269 532 360 |

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. Eesti Pank's share of the ECB reserves, revaluation accounts and risk provisions stood at EUR 70,452,404 at the end of the year.

ITEM 10 – CLAIMS EQUIVALENT TO THE TRANSFER OF FOREIGN RESERVES

Item 10 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 euros at a value fixed at the time of their transfer. Article 30.2 of the Statute of the ESCB states that these amounts are fixed by the weighting of the national central banks in the subscribed capital of the ECB. 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, adjusted to reflect a zero return on the gold component.

ITEM 11 – NET CLAIMS RELATED TO THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSYSTEM

Item 11 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)³³. 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 12 – OTHER CLAIMS WITHIN THE EUROSYSTEM (NET)

Item 12 reflects net claims arising from the TARGET2 balance, the difference between the monetary income pooled from and allocated to the Eurosystem central banks, and the ECB's interim profit distribution.

| | <i>thousand euros</i> | |
|--|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| TARGET2 | 0 | 554 785 |
| Interim profit distribution of the ECB | 0 | 423 |
| Other claims within the Eurosystem | 0 | 414 |
| Monetary income reallocation | 0 | -12 705 |
| Total | 0 | 542 916 |

At the end of 2022 the result of those balances was a net liability, which is recorded under item 26 "Other liabilities within the Eurosystem (net)".

ITEM 13 – TANGIBLE AND INTANGIBLE FIXED ASSETS

| | <i>thousand euros</i> | | | | | |
|-------------------------------------|-----------------------|-----------------|-----------------|---------------------------|-----------------------|---------------|
| Acquisition cost | Buildings | Hardware | Software | Other fixed assets | Motor vehicles | Total |
| Balance at the end of 2021 | 28 760 | 3 669 | 5 809 | 6 052 | 31 | 44 321 |
| Acquisitions | 233 | 137 | 180 | 155 | 0 | 706 |
| Disposals | 0 | -66 | 0 | -133 | -21 | -220 |
| Balance at the end of 2022 | 28 993 | 3 741 | 5 989 | 6 074 | 10 | 44 807 |
| Accumulated depreciation | | | | | | |
| Balance at the end of 2021 | 18 226 | 2 853 | 4 084 | 5 219 | 31 | 30 413 |
| Depreciation charge | 705 | 441 | 359 | 270 | 0 | 1 775 |
| Disposals | 0 | -66 | 0 | -133 | -21 | -220 |
| Balance at the end of 2022 | 18 931 | 3 228 | 4 443 | 5 356 | 10 | 31 968 |
| Carrying amount | | | | | | |
| Balance at the end of 2021 | 10 534 | 816 | 1 725 | 833 | 0 | 13 908 |
| Balance at the end of 2022 | 10 062 | 513 | 1 546 | 718 | 0 | 12 839 |
| Prepayments for fixed assets | | | | | | |
| Balance at the end of 2021 | 0 | 0 | 798 | 0 | 0 | 798 |
| Balance at the end of 2022 | 137 | 0 | 1 027 | 0 | 0 | 1 165 |
| Total fixed assets | | | | | | |
| Balance at the end of 2021 | 10 534 | 816 | 2 523 | 833 | 0 | 14 706 |
| Balance at the end of 2022 | 10 199 | 513 | 2 574 | 718 | 0 | 14 004 |

33 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 issued into circulation is recorded under Intra-Eurosystem net claims/liabilities related to the allocation of euro banknotes within the Eurosystem.

The cost of fixed assets acquired in 2022 was EUR 706,287; in 2021 it was EUR 1,176,629. Under the buildings procurement, the security system components were updated. Hardware procurement was related to the acquisition of additional backup and network equipment. The largest software procurement concerned development for the pan-European TARGET express transfer system of the European System of Central Banks and the T2S common platform for security settlements. The major part of inventory acquisition was upgrades of the banknote sorters and audio-video equipment.

ITEM 14 – OTHER FINANCIAL ASSETS

Item 14 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 15 – OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

Item 15 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 16 – ACCRUALS AND PREPAID EXPENSES

Item 16 records interest from financial instruments using the accrual principle, and various prepayments for services. It also records a claim on Finantsinspeksioon in relation to services provided by Eesti Pank and acquisition of current assets.

| | <i>thousand euros</i> | |
|--|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| Interest claims | 68 044 | 45 227 |
| Securities | 42 093 | 38 712 |
| Derivative instruments | 18 376 | 6 042 |
| Intra-Eurosystem balances | 5 131 | 0 |
| Fixed-term deposits and current accounts | 2 070 | 473 |
| Reverse repurchase transactions | 373 | 0 |
| Loans | 1 | 0 |
| Prepaid expenses | 1 145 | 1 213 |
| Claims on Finantsinspeksioon | 1 126 | 1 434 |
| Other claims | 626 | 145 |
| Total | 70 941 | 48 020 |

ITEM 17 – SUNDRY ASSETS

| | <i>thousand euros</i> | |
|----------------------------------|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| Foreign exchange transactions | 34 719 | 33 029 |
| Loans to employees of Eesti Pank | 2 197 | 2 807 |
| Credits related to margin calls | 0 | 7 432 |
| Other | 79 | 104 |
| Total | 36 995 | 43 372 |

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 -0.5% to 0% in 2022; in 2021 it was -0.5%. 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%. From 1 July 2015, Eesti Pank ceased providing loans to employees.

The item reflects balances related to swap and forward transactions in foreign currency outstanding at year-end (see Item 42 “Derivative instruments”). 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 (see “Off-balance-sheet instruments” in the notes on accounting policies).

ITEM 18 – BANKNOTES IN CIRCULATION

Item 18 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 11 “Net claims related to the allocation of euro banknotes within the Eurosystem”.

| | <i>thousand euros</i> | |
|-------------------------------|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| Euro banknotes | 3 066 621 | 2 705 308 |
| Adjustments of euro banknotes | 1 359 213 | 1 642 690 |
| ECB banknotes (8%) | -354 269 | -348 039 |
| Total | 4 071 565 | 3 999 960 |

ITEM 19 – CURRENT ACCOUNTS (COVERING THE MINIMUM RESERVE SYSTEM)

Item 19 reflects the current accounts of credit institutions with Eesti Pank except for those funds of credit institutions that are not freely disposable, which are covered separately under liability item 21 “Other liabilities to euro area credit institutions denominated in euro”. Banks’ minimum reserve balances until 20 December 2022 were remunerated at the latest available interest rate used by the Eurosystem in its tenders for main refinancing operations. On 27 October 2022 the Governing Council decided that, starting from 21 December 2022, these balances will be remunerated at the Eurosystem’s deposit facility rate.

The reserve holdings exceeding the required minimum reserves are remunerated at zero per cent or the deposit facility rate, whichever is lower. Starting on 30 October 2019, the Governing Council introduced a two-tier system for reserve remuneration, which exempted part of credit institutions’ excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from negative remuneration at the rate applicable on the deposit facility. This part was remunerated at the annual rate of 0%. The volume of reserve holdings in excess of minimum reserve requirements that was exempt at year-end from the deposit facility rate – the exempt tier – was determined as a multiple of six on an institution’s minimum reserve requirements³⁴. The non-exempt tier of excess liquidity holdings continued to be remunerated at the lower of either zero per cent or the deposit facility rate. Following the raising of the deposit facility rate to above zero as of 14 September 2022, the Governing Council decided to suspend the two-tier system by setting the multiplier to zero as the two-tier system for the remuneration of excess reserves was no longer necessary.

The average balance on the accounts of credit institutions was EUR 5,965,717,805 in 2022 (EUR 8,161,746,496 in 2021).

ITEM 20 – DEPOSIT FACILITY

Item 20 reflects overnight deposits placed by the banks that access the Eurosystem’s liquidity absorbing standing facility at the pre-specified rate. The deposit facility rate equals the ECB deposit interest rate, which was -0.5% to 0% in 2022; in 2021 it was -0.5%.

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

Item 21 records the funds of credit institutions that are not freely disposable.

³⁴ The multiplier may be adjusted by the Governing Council over time in line with changing levels of excess liquidity holdings.

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

Item 22 reflects mainly the current accounts of the Ministry of Finance, Finantsinspektsioon and the Guarantee Fund held with Eesti Pank. Interest on those accounts is calculated monthly from the daily balance of the current account using the €STR (euro short-term rate) interest rate.

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

Item 23 reflects the euro deposits of non-euro area residents.

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

Item 24 reflects the US dollar denominated repo transactions of 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 61,965,241 SDRs. On 2 August 2021 the IMF decided to increase the SDR issues for all of its member states. The aim was to increase the liquidity of global reserves and support the current economic position of weaker countries. As a result, Estonia received 233,479,644 SDRs (see item 2 "Receivables from the IMF" in the notes on the Balance Sheet).

ITEM 26 – OTHER LIABILITIES WITHIN THE EUROSISTEM (NET)

Item 26 reflects net liabilities arising from the TARGET2 balance, and the difference between the monetary income pooled from and allocated to the Eurosystem central banks.

| | <i>thousand euros</i> | |
|---|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| TARGET2 | 1 547 436 | 0 |
| Monetary income reallocation | -30 463 | 0 |
| Other liabilities within the Eurosystem (net) | -675 | 0 |
| Total | 1 516 299 | 0 |

As at 31 December 2022 the item reflected net liabilities to the Eurosystem that arose from transfers made through the TARGET2 payment system by the central banks of other euro area countries. 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 item also covers claims on the ECB in connection with the reallocation of monetary income from the difference between the amounts collected and allocated by the Eurosystem NCBs (see item 36 of the Profit and Loss account, "Net result of pooling of monetary income").

At the end of 2021 the result of those balances was a net claim, which is recorded under item 12 "Other claims within the Eurosystem (net)".

ITEM 27 – ACCRUALS AND DEFERRED INCOME

| | <i>thousand euros</i> | |
|---------------------------------|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| Interest liabilities | 29 726 | 35 160 |
| Derivative instruments | 20 441 | 7 207 |
| TARGET2 | 3 141 | 0 |
| Monetary policy operations | 2 974 | 27 908 |
| SDR allocation | 1 698 | 33 |
| Deposits of credit institutions | 859 | 0 |
| Repurchase transactions | 610 | 11 |
| Current accounts | 4 | 0 |

| | <i>thousand euros</i> | |
|---------------------------|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| Accounts payable | 1 353 | 1 113 |
| Tax liabilities | 1 135 | 1 436 |
| Vacation reserve | 733 | 700 |
| Employee salaries payable | 700 | 924 |
| Other liabilities | 979 | 511 |
| Total | 34 626 | 39 844 |

Item 27 reflects accrued interest on financial instruments, most of which are interest liabilities from monetary policy operations and derivative transactions. The item also reflects liabilities that were expected but unpaid on the balance sheet date, most of which are tax liabilities and unpaid bills for services provided to Eesti Pank.

ITEM 28 – SUNDRY LIABILITIES

| | <i>thousand euros</i> | |
|--|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| Euro coins | 79 740 | 73 293 |
| Credits related to margin calls | 13 812 | 0 |
| Forward transactions in foreign currency | 174 | 63 |
| Other liabilities | 13 | 14 |
| Total | 93 739 | 73 370 |

Item 28 mainly reflects euro coins issued.

The item reflects balances related to swap and forward transactions in foreign currency outstanding at year-end (see Item 42 “Derivative instruments”). 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 (see “Off-balance-sheet instruments” in the notes on accounting policies).

ITEM 29 – PROVISIONS

| | <i>thousand euros</i> | |
|--|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| Exchange liability for Estonian kroons | 27 674 | 27 910 |
| Provision for financial risks | 3 584 | 103 600 |
| Total | 31 258 | 131 510 |

Item 29 reflects the risk provision for financial risks and the provision to cover the exchange liability for the kroon.

The aim of risk provision is to cover the financial risks of monetary policy operations and investment assets with a provision. Under Article 32.4 of the Statute of the ESCB, the Eurosystem central banks share any losses that materialise from securities other than government bonds held under the securities market programme, the expanded asset purchase programme and the pandemic emergency purchase programme, in full in proportion to the prevailing ECB capital key shares. The risk provision is measured from various risk assessments using Value at Risk, Expected Shortfall and other measures. As at 31 December 2021, the general provision stood at EUR 103.6 million. The Executive Board decided to use EUR 100 million from the provision to cover financial risks to cover the loss made in 2022 (see item 33 “Net result of financial operations, write-downs and risk provisions” in the notes on the Profit and Loss account). The provision was reduced to EUR 3.6 million as at 31 December 2022.

A provision of EUR 29.6 million was set up in 2016 to cover the liability for exchanging kroons for euros, which covered 66% of the amount of the exchange liability. Statistics from other central banks on the coverage of earlier exchange liabilities were used in deciding the size of the provision. Future exchanges of kroons for euros will be funded from the provision. The provision was reduced in 2022 by EUR 235,892 through the return of kroons; in 2021 it was reduced by EUR 230,929. 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 rate of 1 EUR = 15.6466 EEK. The Executive Board assesses the size of the provision for the exchange liability every year, considering how much has been brought back in kroons for exchange during the year.

ITEM 30 – REVALUATION ACCOUNTS

| | <i>thousand euros</i> | |
|------------------|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| Foreign currency | 12 728 | 10 501 |
| Gold | 6 888 | 6 091 |
| Equity funds | 578 | 54 042 |
| Securities | 30 | 5 301 |
| Securities funds | 0 | 1 882 |
| Total | 20 224 | 77 817 |

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 under “Write-downs on financial assets”.

ITEM 31 – CAPITAL AND RESERVES

Changes in capital and reserves in 2022:

| | <i>thousand euros</i> | | |
|-------------------------|-----------------------|--|-------------------|
| | 31.12.2022 | Distribution of profit for 2021 | 31.12.2021 |
| Fixed capital | 100 000 | 0 | 100 000 |
| Reserve capital | 171 445 | 2 761 | 168 683 |
| Special purpose reserve | 214 314 | 0 | 214 314 |
| Total | 485 759 | 2 761 | 482 997 |

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 Riigikogu³⁵. The amount set by the Riigikogu in the statutory capital is given in the Eesti Pank Act as EUR 100 million³⁶. 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 capital³⁷. 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 EUR 0.9 million from its profit for 2021 to the state budget in 2022.

35 Eesti Pank Act § 30 (2)

36 Eesti Pank Act § 25 (2)

37 Eesti Pank Act § 30 (3)

NOTES ON THE PROFIT AND LOSS ACCOUNT

ITEM 32 – NET INTEREST INCOME

| | <i>thousand euros</i> | |
|----------------------------------|-----------------------|-----------------|
| | 2022 | 2021 |
| Net interest income | 794 | 27 902 |
| Interest income | 303 106 | 180 851 |
| Derivative instruments | 207 603 | 107 407 |
| Securities | 46 495 | 32 655 |
| Intra-Eurosystem balances | 37 040 | 35 395 |
| Current accounts | 4 469 | 70 |
| Reverse repurchase transactions | 2 407 | 146 |
| Securities funds | 2 384 | 1 038 |
| Deposits | 1 887 | 4 098 |
| Fixed-term deposits | 446 | 6 |
| Securities lending | 325 | 23 |
| Loans to employees of Eesti Pank | 5 | 4 |
| Other interest income | 46 | 8 |
| Interest expenses | -302 312 | -152 949 |
| Derivative instruments | -224 837 | -117 003 |
| Intra-Eurosystem balances | -52 549 | -18 984 |
| Securities | -12 221 | -16 582 |
| Repurchase transactions | -5 951 | -252 |
| Current accounts | -4 596 | -128 |
| Deposits | -2 100 | 0 |
| Other interest expenses | -59 | 0 |

| | <i>thousand euros</i> | |
|---|-----------------------|----------------|
| | 2022 | 2021 |
| Intra-Eurosystem interest income | 37 040 | 35 395 |
| Monetary policy operations | 20 261 | 32 478 |
| Securities held for monetary policy purposes | 10 279 | 2 917 |
| Allocation of banknotes within the Eurosystem | 5 933 | 0 |
| Transfer of foreign currency reserves | 567 | 0 |
| Intra-Eurosystem interest expense | -52 549 | -18 984 |
| Monetary policy operations | -38 299 | -18 984 |
| TARGET2 | -14 250 | 0 |

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

| | <i>thousand euros</i> | |
|--|-----------------------|---------------|
| | 2022 | 2021 |
| Net result of financial operations, write-downs and risk provisions | -13 883 | 2 187 |
| Realised gain arising from financial operations | -13 908 | 23 600 |
| Securities | -44 333 | 6 870 |
| Securities funds | -478 | 165 |
| Financial asset management costs | -26 | -10 |
| Equity funds | 25 199 | 11 813 |

| | <i>thousand euros</i> | |
|--|-----------------------|----------------|
| | 2022 | 2021 |
| Exchange rate income/expenses | 5 263 | 4 534 |
| Derivative instruments | 467 | 228 |
| Write-downs on financial assets | -99 991 | -10 414 |
| Unrealised losses from securities | -67 676 | -10 397 |
| Unrealised losses from bond funds | -23 291 | 0 |
| Unrealised losses from equity funds | -8 285 | 0 |
| Unrealised losses from exchange rates | -744 | -20 |
| Net change of loan portfolio write-downs | 4 | 4 |
| Provision for financial risks | 100 016 | -11 000 |

ITEM 34 – NET INCOME FROM FEES AND COMMISSIONS

| | <i>thousand euros</i> | |
|---|-----------------------|-------------|
| | 2022 | 2021 |
| Net income from fees and commissions | 584 | 361 |
| Fees and commissions income | 643 | 368 |
| Current accounts service fees | 633 | 366 |
| Fines, arrears and other | 10 | 2 |
| Fees and commissions expenses | -59 | -7 |
| Commission fees | -54 | -3 |
| Other fees and commissions | -5 | -4 |

ITEM 35 – INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

| | <i>thousand euros</i> | |
|--|-----------------------|--------------|
| | 2022 | 2021 |
| Income from equity shares and participating interests | 4 553 | 5 039 |
| Dividends from equity funds | 3 468 | 3 368 |
| Dividends from participation in the IMF | 893 | 35 |
| Allocation of ECB profit | 118 | 1 079 |
| Dividends from the Bank for International Settlements | 74 | 134 |
| Interim profit distribution of the ECB | 0 | 423 |

The item mainly reflects dividend income from equity funds. Given the general financial return, the Governing Council of the ECB decided in 2022 not to distribute the seigniorage from banknotes in circulation or the income earned from the securities purchased under the SMP, the APP and the PEPP (see “Interim profit distribution of the ECB” in the notes on accounting policies).

ITEM 36 – NET RESULT OF POOLING OF MONETARY INCOME

| | <i>thousand euros</i> | |
|--|-----------------------|----------------|
| | 2022 | 2021 |
| Net result of pooling of monetary income | 30 463 | -12 705 |
| Monetary income reallocation | 30 340 | -13 073 |
| Monetary income pooled by Eesti Pank | 10 238 | -16 369 |
| Monetary income allocated to Eesti Pank | 20 102 | 3 296 |
| Adjustment for the monetary income of previous years | 122 | 367 |

The net result of the pooling of monetary income from the Eurosystem central banks in 2022 totalled EUR 7136.1 million, which includes the share of Eesti Pank. The monetary income pooled by the Eurosystem

is allocated between 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 -10.2 million and that reallocated to Eesti Pank of EUR 20.1 million is the net result of EUR 30.3 million in monetary income. The monetary income pooled by Eesti Pank consists of intra-Eurosystem interest revenues and expenses, which are recorded under item 32 "Net interest income". The monetary income has been allocated to Eesti Pank in proportion to its paid up share of the ECB capital key. Eesti Pank's share in the capital key is 0.2817%.

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 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.

The monetary income of each national central bank is found by measuring the actual income from the assets earmarked in the accounts. Gold is considered to generate no income, and the following are considered to generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations: i) securities held for monetary policy purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bonds purchase programme; ii) securities held for monetary policy purposes under Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme; and iii) debt instruments issued by central, regional or local governments and recognised agencies and substitute debt instruments issued by public non-financial corporations under Decision ECB/2020/9 of 3 February 2020 on the implementation of a secondary markets public sector asset purchase programme or Decision ECB/2020/17 of 24 March 2020 on a temporary pandemic emergency purchase programme.

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 37 – OTHER INCOME

| | <i>thousand euros</i> | |
|---|-----------------------|--------------|
| | 2022 | 2021 |
| Other income | 2 471 | 2 125 |
| Income from the sale of collector coins and numismatic products | 1 082 | 598 |
| Expenses reimbursed by Finantsinspeksioon | 1 078 | 944 |
| Income on financial asset management | 114 | 18 |
| Exchange liability for euro collector coins | 100 | 106 |
| Income from sales of assets | 31 | 1 |
| Income from earlier periods | 19 | 416 |
| Rental income | 9 | 7 |
| Other income | 37 | 36 |

Under the cooperation agreement between Finantsinspektsioon and Eesti Pank, Finantsinspektsioon reimburses monthly 100% of the cost of the support services provided by Eesti Pank. Eesti Pank provides Finantsinspektsioon with information technology, accounting, real estate, and administration services. Finantsinspektsioon covers the depreciation costs of the fixed assets used.

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".

ITEM 38 – STAFF COSTS

| | <i>thousand euros</i> | |
|----------------------------|-----------------------|----------------|
| | 2022 | 2021 |
| Staff costs | -12 346 | -11 337 |
| Salaries | -8 975 | -8 238 |
| Social tax | -3 034 | -2 794 |
| Compensations and benefits | -269 | -242 |
| Unemployment insurance tax | -68 | -63 |

Compensation and benefits is mainly pension benefits and fringe benefits and various sundry benefits.

On average, there were 229.5 full-time equivalent employees at Eesti Pank in 2022, and 227.1 in 2021.

ITEM 39 – ADMINISTRATIVE EXPENSES

| | <i>thousand euros</i> | |
|---------------------------------------|-----------------------|---------------|
| | 2022 | 2021 |
| Administrative expenses | -7 292 | -5 777 |
| Information technology maintenance | -2 648 | -2 201 |
| Real estate renovation and management | -1 853 | -1 399 |
| Financial asset management | -1 310 | -1 245 |
| Public relations and publications | -367 | -288 |
| Business travel | -249 | -20 |
| Office | -169 | -124 |
| Economic research | -161 | -85 |
| Training | -153 | -106 |
| Communications and transport | -57 | -35 |
| Legal expertise and arbitration | -35 | -43 |
| Other administrative expenses | -290 | -233 |

The overall rise in administrative expenses in 2022 came mainly from a substantial rise in prices of infrastructure services and an increase in administrative expenses for information and communications technology. Maintenance costs for information technology cover the costs of maintenance of software and hardware, data communication and consultation for procurements.

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

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. Most meetings in 2021 were held in online form because of the pandemic restrictions, but in the second half of 2022 there was a notable rise in the number of in-person meetings. There were a total of 309 business trips in 2022; there were 71 in 2021.

ITEM 40 – 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 eight other euro area central banks. Production of the second series of 50-euro banknotes for the Eurosystem was paid for.

ITEM 41 – OTHER OPERATING EXPENSES

| | <i>thousand euros</i> | |
|---|-----------------------|---------------|
| | 2022 | 2021 |
| Other operating expenses | -2 629 | -1 354 |
| Production of coins | -1 233 | -623 |
| Production of collector coins and numismatic products | -1 002 | -524 |
| Cash circulation management | -100 | -68 |
| Other expenses | -295 | -140 |

ITEM 42 – DERIVATIVE INSTRUMENTS

| | <i>thousand euros</i> | |
|---|-----------------------|-------------------|
| | 31.12.2022 | 31.12.2021 |
| Foreign exchange swap and forward transactions | | |
| Purchase | 7 401 | 1 445 462 |
| Sale | -7 448 | -1 442 607 |
| Value of interest rate future contracts | | |
| Purchase | 0 | 1 060 |
| Sale | -3 375 | -2 432 |

ITEM 43 – CONTINGENT LIABILITIES

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 682,598 at the end of 2022 (EUR 642,821 at the end of 2021) (see Item 14 “Other financial assets”).

Production of banknotes

At the end of 2022, the contractual liabilities of Eesti Pank for printing banknotes and minting coins in 2023 amounted to EUR 450 thousand.

ITEM 44 – IMPORTANT POST-BALANCE-SHEET EVENTS

Under Council Decision (EU) 2022/1211 of 12 July 2022, taken in accordance with Article 140 paragraph 2 of the Treaty on the Functioning of the European Union, Croatia started using the euro as its currency from 1 January 2023. Under Article 48.1 of the Statute of the ESCB and the legislation adopted by the Governing Council of the ECB on 30 December 2022³⁸, Hrvatska Narodna Banka paid the ECB the missing part of its subscribed capital. As a result, Eesti Pank’s share of the capital paid into the ECB by the central banks of the euro area was 0.2794% from 1 January 2023, having been 0.2817% until 31 December 2022. Eesti Pank’s share in the capital key is 0.2291%.

38 Decision ECB/2022/51 of 30 December 2022 on the paying-up of capital, transfer of foreign reserve assets, and contributions by Hrvatska narodna banka to the European Central Bank’s reserves and provisions (OJ L 17, 19.1.2023 pp. 94-98); Agreement of 30 December 2022 between Hrvatska narodna banka and the European Central Bank regarding the claim credited to Hrvatska narodna banka by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank (OJ C 18, 19.01.2023 pp. 1-3).



Ernst & Young Baltic AS
Rävala 4
10143 Tallinn
Eesti
Tel.: +372 611 4610
Faks.: +372 611 4611
Tallinn@ee.ey.com
www.ey.com/et_ee

Äriregistri kood 10877299
KMKR: EE 100770654

Ernst & Young Baltic AS
Rävala 4
10143 Tallinn
Estonia
Phone.: +372 611 4610
Fax.: +372 611 4611
Tallinn@ee.ey.com
www.ey.com/en_ee

Code of legal entity 10877299
VAT payer code EE 100770654

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of Eesti Pank

Opinion

We have audited the financial statements of Eesti Pank, which comprise the balance sheet as at 31 December 2022, and the profit and loss account for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Eesti Pank as at 31 December 2022, and 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) (recast), 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 "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of Eesti Pank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code) together with the ethical requirements that are relevant to our audit of financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of an overview of the financial position of Eesti Pank, but does not consist of the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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 management and those charged with governance for the financial statements

Management 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) (recast), and the Bank of Estonia (Eesti Pank) Act, and for such internal control as management 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, management is responsible for assessing Eesti Pank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Eesti Pank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Eesti Pank's financial reporting process.

Auditor's 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 auditor's 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 Eesti Pank's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management'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 Eesti Pank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause Eesti Pank to cease to continue as a going concern;
- ▶ 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, among other matters, 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, 15 March 2022

Olesia Abramova
Authorised Auditor's number 561
Ernst & Young Baltic AS
Audit Company's Registration number 58
Rävala pst 4, 10143 Tallinn