



EUROSÜSTEEM

ANNUAL ACCOUNTS
OF EESTI PANK
FOR THE FINANCIAL
YEAR ENDED
31 DECEMBER 2021

2022

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THE FINANCIAL POSITION OF EESTI PANK

CAPITAL AND RESERVES

Eesti Pank had EUR 483 million of capital as at 31 December 2021. More detailed information on Eesti Pank's capital and reserves can be found under Item 30 "Capital and Reserves" in the notes on the Balance Sheet.

PROVISION FOR FINANCIAL RISKS

Following from risk assessments, Eesti Pank increased its provision for financial risks. The size of the provision and the continuing need for it is reassessed each year, with various factors considered. The risk assessment is based on a calculation of the value at risk of risk-bearing assets, which takes into account the size of the risk-bearing assets, the extent of risks that have realised during the year, and the forecast for the year to come. As at 31 December 2020 the provision made to cover financial risks was EUR 92.6 million. The bank transferred 11 million euros to provisions in 2021 and as a result risk provisions increased to EUR 103.6 million. See also Item 28 "Provisions" in the notes on the Balance Sheet.

PROVISION FOR THE OBLIGATION TO EXCHANGE ESTONIAN KROONS FOR EUROS

A decade has passed since the euro was introduced and there are still some EUR 44.2 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 2021 by EUR 230,929 (EUR 202,135 in 2019) as kroons were returned, and consequently the provision for the obligation to exchange kroons was reduced to EUR 27.9 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 77.8 million euros at the end of December 2021 and EUR 63.5 million at the end of 2020. For more details, see the notes on accounting principles, and Item 29 "Revaluation accounts" in the notes on the Balance Sheet.

FINANCIAL RESULTS FOR 2021

Eesti Pank's net profit in 2021 was EUR 3.7 million, and it was EUR 3.4 million in 2020.

Net interest income rose to EUR 27.9 million euros in 2021 from EUR 26.8 million in 2020. The majority of the interest income came from derivative transactions, securities and the excess reserves of Estonian credit institutions. The return on the investment portfolio was high in 2021. Despite significant fluctuations in the meantime, the environment was quite favourable for the bank's investment portfolio and the rising prices of equities overall gained significant income for the bank. The net income of Eesti Pank was increased by income from equity shares and participating interest of EUR 5 million (EUR 8.5 million in 2020), which includes EUR 3.4 million of dividends from equity funds (EUR 2.2 million in 2020) and EUR 1.5 million of profit distributed by the European Central Bank (EUR 6.2 million in 2020). For more details, see Item 34 "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 19.8 million in 2020 to EUR 21.2 million in 2021. 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 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. Eesti Pank contributes to risk management for the whole of the euro area through the committees and management bodies of the European System of Central Banks. Contingency plans for services are used to reduce the impact of any possible interruption to processes the bank considers critical and to ensure the continuity of activity. The external auditors regularly assess the risk management of the bank.

Eesti Pank's continued high financial risks arise mainly from the increase in the 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 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. No major changes were made in 2021 in the monetary policy collateral risk framework. 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 shares¹⁵.

¹⁵ 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 2021 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 2021.

The Annual Accounts of Eesti Pank have been drawn up in accordance with the rules established in Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank¹⁶, 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) 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 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 21 March 2022, 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

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.

BALANCE SHEET AS AT 31 DECEMBER 2021

thousand euros

	Item	31.12.2021	31.12.2020*
ASSETS			
Gold and gold receivables	1	13 278	12 737
Claims on non-euro area residents denominated in foreign currency		2 014 373	1 559 680
Receivables from the IMF	2	393 239	93 519
Balances with banks, security investments and other external assets	3	1 621 134	1 466 161
Claims on euro area residents denominated in foreign currency	4	60 051	48 901
Lending to euro area credit institutions related to monetary policy operations denominated in euro	5	1 881 500	1 881 500
Other claims on euro area credit institutions denominated in euro	6	185	4 291
Securities of euro area residents denominated in euro		9 932 185	7 860 459
Securities held for monetary policy purposes	7	9 932 185	7 800 323
Other securities	8	0	60 136
Intra-Eurosystem claims		2 044 749	1 590 284
Participating interest in the European Central Bank	9	93 534	91 815
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	1 294 651	1 384 821
Other claims within the Eurosystem (net)	12	542 916	0
Other assets		106 399	94 461
Tangible and intangible fixed assets	13	14 706	14 936
Other financial assets	14	234	234
Off-balance-sheet instruments revaluation differences	15	66	12
Accruals and prepaid expenses	16	48 020	52 326
Sundry	17	43 372	26 953
TOTAL ASSETS		16 052 720	13 052 313

* The data for 2020 have been corrected (see "Correction of the reference data in the accounts in the annual report for 2021" in the appendix on accounting principles).

The notes on pages 81–103 form an integral part of the Annual Accounts.

thousand euros

	Item	31.12.2021	31.12.2020*
LIABILITIES			
Banknotes in circulation	18	3 999 960	3 715 386
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		9 651 603	6 953 958
Current accounts (including cover for the minimum reserve system)	19	9 651 603	6 953 958
Other liabilities to euro area credit institutions denominated in euro	20	75 807	79 702
Liabilities to other euro area residents denominated in euro	21	1 035 606	460 932
General Government		1 013 135	440 803
Other liabilities		22 471	20 129
Liabilities to non-euro area residents denominated in euro	22	24	23
Liabilities to euro area residents denominated in foreign currency	23	86 817	0
Counterpart of the special drawing rights allocated by the IMF	24	365 140	73 032
Intra-Eurosystem liabilities		0	1 012 815
Other liabilities within the Eurosystem (net)	25	0	1 012 815
Other liabilities		141 756	88 401
Off-balance-sheet instruments revaluation differences	15	28 542	1 649
Accruals and income collected in advance	26	39 844	19 537
Sundry	27	73 370	67 215
Provisions	28	131 510	120 741
Revaluation accounts	29	77 817	63 468
Capital and reserves	30	482 997	480 422
Capital		268 683	266 108
Reserves		214 314	214 314
Profit for the year		3 682	3 433
TOTAL LIABILITIES		16 052 720	13 052 313

*The data for 2020 have been corrected (see "Correction of the reference data in the accounts in the annual report for 2021" in the appendix on accounting principles).

The notes on pages 81–103 form an integral part of the Annual Accounts.

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2021

thousand euros

	Item	2021	2020
Interest income		180 851	178 013
Interest expenses		-152 949	-151 164
Net interest income	31	27 902	26 849
Realised gain arising from financial operations		23 600	21 774
Write-downs on financial assets		-10 414	-14 572
Provision for financial risks		-11 000	-11 000
Net result of financial operations, write-downs and risk provisions	32	2 187	-3 798
Fees and commissions income		368	365
Fees and commissions expenses		-7	-37
Net income from fees and commissions	33	361	328
Income from equity shares and participating interests	34	5 039	8 478
Net result of pooling of monetary income	35	-12 705	-9 949
Other income and expenses	36	2 125	1 311
	Total net income	24 908	23 219
Staff costs	37	-11 337	-10 550
Administrative expenses	38	-5 777	-5 974
Depreciation of tangible and intangible fixed assets	13	-1 753	-1 874
Banknote production services	39	-1 005	-801
Other operating expenses	40	-1 354	-587
Operating expenses		-21 226	-19 786
Profit for the year		3 682	3 433

The notes on pages 81–103 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 established in Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank¹⁷, 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) 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

¹⁷ 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.

that are not expected to be impaired is measured for all assets together. Write-downs of financial assets are recorded as an expense of the accounting period in the Profit and Loss Account.

RECORDING OF TRANSACTIONS IN FOREIGN CURRENCY

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

Assets and liabilities denominated in foreign currencies are converted 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 31 December 2021.

The official daily fixings applied on 31 December 2020 and 2021 were as follows:

	31.12.2021	31.12.2020
USD	1.1326	1.2271
GBP	0.84028	0.89903
JPY	130.38	126.49
CNY	7.1947	8.0225
SDR	0.809127	0.848464

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 2021, was derived from the exchange rate of the euro against the US dollar on 31 December 2021.

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 2021, mid-market prices on 31 December 2021 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 and 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.

	2021
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 provisions, 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.

Interest rate instruments are revalued on an item-by-item basis. Daily changes in the variation margin of open interest rate futures contracts are recorded in the Profit and Loss Account. The valuation of option transactions and of interest rate swaps is based on generally accepted valuation methods, using observable market prices and rates and the discount factors from the settlement dates to the valuation date.

CONTINGENT LIABILITIES

Contingent liabilities are recorded in the Notes on the Annual Accounts and include commitments, guarantees and other liabilities which may, under certain conditions, become liabilities in the future, though the probability of their realisation is considered lower by the management of the bank than the probability of their non-realisation.

POST-BALANCE-SHEET EVENTS

Assets and liabilities are adjusted for events that occur between the balance sheet date and the date of compilation of the Annual Accounts but are related to transactions during the accounting period or earlier periods or materially affect the condition of assets and liabilities on the balance sheet date. Important post-balance-sheet events that do not affect the condition of assets and liabilities on the balance sheet date are disclosed in the Notes.

BANKNOTES IN CIRCULATION

The European Central Bank and the euro area national central banks, which together comprise the Eurosystem, issue euro banknotes¹⁸. 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 key¹⁹.

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 liabilities²⁰ 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 year²¹ 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

18 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.

19 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.

20 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.

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

effected by taking into account the differences for the reference period²² between the average value of banknotes released into circulation by the central banks of the Eurosystem countries and the average value of the banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments are reduced in annual stages until the first day of sixth year after the cash changeover year when income on banknotes is allocated fully in proportion to the Eurosystem central bank's paid-up shares in the ECB's capital. The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under "Net interest income" in the Profit and Loss Account.

COLLECTOR COINS

The nominal value of collector coins that have been issued is no longer recorded as a liability in the Balance Sheet as the probability of 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 profit²³. 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 ECB²⁴ 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 euro and reported under "Claims equivalent to the transfer of foreign reserves".

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a net single asset or liability under "Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem" (see "Banknotes in circulation" in the notes on accounting policies).

Intra-Eurosystem balances result primarily from cross-border payments in the European Union which are settled in central bank money in euros. These transactions are for the most part initiated by private entities,

²² The period is 24 months long and starts 30 months before the day that the euro banknotes become the legal tender of the country in question. For Eesti Pank the period was from July 2008 to June 2010.

²³ 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).

²⁴ 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.

meaning credit institutions, corporations and individuals. These transactions are settled in TARGET2²⁵ 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 or monetary income results are presented in the Balance Sheet as a single net asset or liability position and disclosed under “Other claims within the Eurosystem (net)” or “Other liabilities within the Eurosystem (net)”.

CHANGES TO THE ACCOUNTING PRINCIPLES

After ECB Regulation (EU) 2021/378 on the application of minimum reserve requirements (ECB/2021/1) was recast in 2021, funds from credit institutions that are not freely available are not included in the reserve requirement. In consequence the related amounts are presented for 2021 under the liability item “Other liabilities to euro area credit institutions denominated in euro” instead of the liability item “Current accounts (including cover for the minimum reserve system)”. To make the data comparable, the data for 2020 have been amended.

CORRECTION OF THE REFERENCE DATA IN THE ACCOUNTS IN THE ANNUAL REPORT FOR 2021

The ECB’s interim profit distribution claim was incorrectly recorded on the assets side of the balance sheet in 2020 by EUR 3,549,880. Under the accounting principles, the 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 or monetary income results are presented in the Balance Sheet as a single net asset or liability position and disclosed under “Other claims within the Eurosystem (net)” or “Other liabilities within the Eurosystem (net)”.

To make the data comparable, the Balance Sheet items for 2020 have been amended in the annual accounts for 2021 as follows:

<i>thousand euros</i>				
	Item	Initial 31.12.2020	Correction	Adjusted 31.12.2020
Intra-Eurosystem claims		1 593 834	-3 550	1 590 284
Other claims within the Eurosystem (net)	12	3 550	-3 550	0
TOTAL ASSETS		13 055 863	-3 550	13 052 313

<i>thousand euros</i>				
	Item	Initial 31.12.2020	Correction	Adjusted 31.12.2020
Current accounts (including cover for the minimum reserve system)	19	7 033 660	-79 702	6 953 958
Other liabilities to euro area credit institutions denominated in euro	20	0	79 702	79 702
Intra-Eurosystem liabilities		1 016 365	-3 550	1 012 815
Other liabilities within the Eurosystem (net)	25	1 016 365	-3 550	1 012 815
TOTAL LIABILITIES		13 055 863	-3 550	13 052 313

²⁵ 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:

	31.12.2021	31.12.2020
Gold (ounces)	8250.171	8250.171
Ounce market value (EUR)	1609.483	1543.884
Revaluation (thousand EUR)	6 091	5 550
Market value (thousand EUR)	13 278	12 737

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>	
	31.12.2021	31.12.2020
SDR account in the IMF	319 422	29 017
Reserve position in the IMF	73 817	64 502
Participation in the IMF	301 356	288 098
IMF No.1 account	-227 539	-223 596
Total	393 239	93 519

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. 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 SDR 233,479,644 (see Item 24 "Counterpart of the Special Drawing Rights Allocated by the IMF").

RESERVE POSITION IN THE IMF

Eesti Pank represents the Republic of Estonia in the IMF. A quota has been established for each IMF member determining its participation (subscription) and voting power in the IMF. Participation in the IMF is recorded under assets on the Balance Sheet and is equal to the country's quota.

At the end of 2021 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 2021 was due to payments in to the FTP of SDR 5 million; in 2020 SDR 12.2 million was paid in. Estonia has participated in the IMF's FTP since 2012.

The SDR rose in value in euros because the SDR appreciated against the euro in 2021 and because of interest earned during the year (see "Recording of transactions in foreign currency" in the notes on the annual accounts).

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.

thousand euros

	31.12.2021	31.12.2020
Securities	1 239 299	1 214 615
Equity funds	172 083	135 335
Securities funds	101 959	94 696
Current accounts	85 809	408
Fixed-term deposits	21 985	21 107
Total	1 621 134	1 466 161

thousand euros

	31.12.2021	31.12.2020
USD	844 709	779 791
AUD	235 761	253 593
CAD	233 511	268 574
GBP	221 747	160 983
JPY	75 805	3 203
CHF	9 592	2
SEK	5	6
NZD	3	8
NOK	0	1
Total	1 621 134	1 466 161

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

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

thousand euros

	31.12.2021	31.12.2020
Securities	59 250	42 706
Current accounts	801	6 195
Total	60 051	48 901

thousand euros

	31.12.2021	31.12.2020
USD	59 528	47 893
CAD	228	374
GBP	155	151
AUD	130	268
JPY	9	21
SEK	0	185
CHF	0	9
Total	60 051	48 901

ITEM 5 – LENDING TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO

The total Eurosystem holding of monetary policy assets amounts to 2201.9 billion euros, of which Eesti Pank holds 1882 million euros (1882 million euros in 2020) 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. Risk sharing has been excluded by the Governing Council of the ECB for specific collateral that can be accepted by NCBs at their own discretion.

in 2019 the Governing Council of the ECB introduced a new series of seven quarterly targeted longer-term refinancing operations (TLTRO-III). On 10 December 2020 it added a further three operations in this series, which were carried out in June-December 2020 and had a maturity of three years. Participants in the first seven TLTRO-III operations are able from December 2021, 12 months after the settlement of each TLTRO-III operation, to terminate or reduce on a quarterly basis the amount of the TLTRO-III operation before maturity. The same option will be available for the eighth and subsequent TLTRO-III operations from June 2022. In accordance with the Governing Council decisions, the final interest rate applicable to each TLTRO-III operation may be as low as the average interest rate on the deposit facility prevailing over the life of the operation.

The Governing Council also decided in 2020²⁶ in response to the Covid-19 shock to apply a special interest rate period from 24 June 2020 to 23 June 2021 and an additional special interest rate period from 24 June 2021 to 23 June 2022, when the applicable interest rate 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 not below -1%. The actual interest rates will become known only at the maturity of the operation or at the time of early repayment, before which a reliable estimate can be made only if the interest rate during the special interest rate periods have already been communicated to the counterparties. In consequence, it was considered prudent to use the deposit facility rate minus 50 basis points with a ceiling of -1% for calculating the TLTRO-III operations rate during the two special interest rate periods, and the deposit facility rate for calculating the TLTRO III interest over the rest of the life of the operation until more reliable data are available. This means that the rates used in the 2021 financial statements to calculate accrued interest from TLTRO-III are the interest rate for the special interest rate period until 23 June 2021, which was communicated to counterparties by 10 September 2021, and the deposit facility rate minus 50 basis points and with a ceiling of -1% for the additional special interest rate period from 24 June to 31 December 2021.

ITEM 6 – OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

Item 6 reflects bank balances in euros at euro area credit institutions.

ITEM 7 – SECURITIES HELD FOR MONETARY POLICY PURPOSES

Item 7 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 Securities Markets Programme (SMP), the public sector asset purchase programme (PSPP), and the new pandemic emergency purchase programme (PEPP).

	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

²⁶ Decisions of the Governing Council of the ECB of 30 April and 10 December 2020.

	Start date	End date	Decision	Universe of eligible securities¹
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.

The Eurosystem made net purchases averaging 20 billion euros a month within the framework of the asset purchase programme²⁷ in 2021. The Governing Council decided in December 2021²⁸ that the monthly pace of net asset purchases would be 40 billion euros in the second quarter of 2022 and 30 billion euros in the third quarter. The pace of net monthly asset purchases will be held at 20 billion euros from October 2022 for as long as necessary to reinforce the accommodative impact of base interest rates. The purchases will be terminated immediately before the Governing Council starts to raise base interest rates. The Governing Council intends to continue reinvesting for an extended period of time past the date when it starts raising the key interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The Eurosystem also continued to make net asset purchases in 2021 under the Pandemic Emergency Purchase Programme (PEPP)²⁹ with a total amount of EUR 1850 billion³⁰. Purchases were made flexibly following an assessment of financing conditions and the inflation outlook. The Governing Council of the ECB decided in December 2021 to suspend net asset purchases under the PEPP at the end of March 2022, but they could be continued if necessary to combat the negative shocks caused by the Covid-19 pandemic. The Governing Council also extended the reinvestment period for the principal repaid on securities purchased under the PEPP that reach maturity until at least the end of 2024. PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions at any time. It is planned that the PEPP portfolio will be liquidated in such a way that it does not interfere with setting the appropriate monetary policy rate.

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 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:

	31.12.2021		31.12.2020	
	Amortised cost	Market value	Amortised cost	Market value
Public sector purchase programme	6 524 392	6 627 111	6 184 748	6 478 005
Pandemic emergency purchase programme	3 224 817	3 175 153	1 483 650	1 498 161
Third covered bond purchase programme	175 977	175 414	114 945	116 155
Second covered bond purchase programme	6 999	7 036	6 995	7 282
Securities Markets Programme	0	0	9 985	10 351
Total	9 932 185	9 984 714	7 800 323	8 109 954

thousand euros

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities held under these programmes. Annual impairment tests are conducted, using the data as at year end, and the results are approved by the Governing Council of the ECB. Indicators of impairment of the assets are assessed for each purchase programme separately.

27 Further information on the asset purchase programmes can be found on the ECB website

28 See press release of 16 December 2021 on the decisions of the Governing Council of the European Central Bank.

29 Further information on the pandemic emergency purchase programme can be found on the ECB website

30 If favourable financing conditions can be maintained during the life of the PEPP without the full amount allocated for net asset purchases being used, it will not be necessary to use the full amount.

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.

Under Article 32.4 of the Statute of the ESCB, any losses from these purchase programmes, if they were to materialise, are shared in full by the Eurosystem central banks in proportion to the prevailing ECB capital key shares.

No impairment was found in the value of these securities in 2021 and the Governing Council decided that all the future cash flows can be expected to materialise.

ITEM 8 – OTHER SECURITIES

Item 8 reflects investments by euro area residents in securities denominated in euros.

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 the paid-up share in the subscribed capital of the ECB, 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 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 7659 million euros, as the central banks of the remaining countries had to cover the 58 million euros paid-in by the Bank of England to the capital of the ECB. 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 payment of EUR 1.7 million will be made in 2022.

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

	Capital key weighting from	Subscribed capital as of	Paid-in capital as of	Paid-in capital as at
	01.02.2020	01.02.2020	29.12.2021	28.12.2021
	%	€	€	€
Nationale Bank van België / Banque Nationale de Belgique	2.9630	320 744 959	298 517 938	276 290 917
Deutsche Bundesbank	21.4394	2 320 816 566	2 159 988 350	1 999 160 135
Eesti Pank	0.2291	24 800 091	23 081 492	21 362 892
Central Bank of Ireland	1.3772	149 081 997	138 750 896	128 419 794
Bank of Greece	2.0117	217 766 667	202 675 847	187 585 028
Banco de España	9.6981	1 049 820 011	977 069 462	904 318 913
Banque de France	16.6108	1 798 120 274	1 673 513 927	1 548 907 580
Banca d'Italia	13.8165	1 495 637 102	1 391 992 269	1 288 347 435
Central Bank of Cyprus	0.1750	18 943 762	17 630 995	16 318 228
Latvijas Banka	0.3169	34 304 447	31 927 214	29 549 980
Lietuvos Bankas	0.4707	50 953 308	47 422 340	43 891 372
Banque centrale du Luxembourg	0.2679	29 000 194	26 990 535	24 980 876
Central Bank of Malta	0.0853	9 233 731	8 593 851	7 953 971
De Nederlandsche Bank	4.7662	515 941 487	480 187 714	444 433 941

³² The result is that the paid-in capital of the ECB will increase from 7659 million euros in 2020 to 8270 million euros in 2021, and 8880 million euros 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	29.12.2021	28.12.2021
	%	€	€	€
Oesterreichische Nationalbank	2.3804	257 678 468	239 821 836	221 965 204
Banco de Portugal	1.9035	206 054 010	191 774 855	177 495 700
Banka Slovenije	0.3916	42 390 728	39 453 130	36 515 533
Národná banka Slovenska	0.9314	100 824 116	93 837 195	86 850 273
Suomen Pankki – Finlands Bank	1.4939	161 714 781	150 508 251	139 301 721
Subtotal – euro area national central banks	81.3286	8 803 826 700	8 193 738 097	7 583 649 493
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	8 269 532 360	7 659 443 757

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

When Estonia joined the euro area, Article 48.2 of the ESCB's Statute started to apply to Eesti Pank, requiring the central bank to pay a part of the reserves, revaluation accounts and risk provisions of the ECB in proportion to its share in the subscribed capital of the ECB. Eesti Pank's share of the ECB reserves, revaluation accounts and risk provisions stood at 70,452,404 euros 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 EUROSISTEM

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 EUROSISTEM (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.

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

thousand euros

	31.12.2021	31.12.2020
TARGET2	554 785	0
Interim profit distribution of the ECB	423	0
Other claims within the Eurosystem (net)	414	0
Monetary income reallocation	-12 705	0
Total	542 916	0

As at 31 December 2021 the item reflected net claims on 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 35 of the Profit and Loss account, "Net result of pooling of monetary income").

This item also covers amounts payable by the ECB to euro area central banks in the ECB's interim profit distribution (see "Interim profit distribution of the ECB" in the notes on accounting policies). At the decision of the Governing Council of the ECB, the ECB distributed its income of EUR 150 million in 2021 between the national central banks of the euro area (see Item 34 "Income from equity shares and participating interests").

At the end of 2020 the result of those transfers was a net liability, which is recorded under item 25 "Other liabilities within the Eurosystem (net)". The final amount for 2020 has been corrected (see "Correction of the reference data in the accounts in the annual report for 2021" in the notes on accounting principles).

ITEM 13 – TANGIBLE AND INTANGIBLE FIXED ASSETS

thousand euros

Acquisition cost	Buildings	Hardware	Software	Other fixed assets	Motor vehicles	Total
Balance at the end of 2020	28 383	4 075	5 450	5 832	31	43 771
Acquisitions	377	147	398	254	0	1 176
Disposals	0	-553	-39	-34	0	-626
Balance at the end of 2021	28 760	3 669	5 809	6 052	31	44 321
Accumulated depreciation						
Balance at the end of 2020	17 499	2 947	3 814	4 994	31	29 285
Depreciation charge	727	459	309	259	0	1 754
Disposals	0	-553	-39	-34	0	-626
Balance at the end of 2021	18 226	2 853	4 084	5 219	31	30 413
Carrying amount						0
Balance at the end of 2020	10 884	1 128	1 636	838	0	14 486
Balance at the end of 2021	10 534	816	1 725	833	0	13 908
Prepayments for fixed assets						
Balance at the end of 2020	7	0	340	103	0	450
Balance at the end of 2021	0	0	798	0	0	798
Total fixed assets						
Balance at the end of 2020	10 891	1 128	1 976	941	0	14 936
Balance at the end of 2021	10 534	816	2 523	833	0	14 706

The cost of fixed assets acquired in 2021 was EUR 1,176,629; in 2020 it was 869,683 euros. The largest share of the spending on procurements for buildings was spent on the renovation of buildings. The external facade was renovated, the server room was upgraded and the exterior perimeter was made more secure. Hardware procurement was related to the acquisition of information technology equipment. The largest software procurements were for the data collection portal and development of software for the external website. The major part of inventory acquisition was for renewal of licences for banknote sorters and the replacement of the automatic equipment for the security system.

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>	
	31.12.2021	31.12.2020
Interest claims	45 227	49 807
Securities	38 712	44 493
Derivative instruments	6 042	4 569
Fixed-term deposits and current accounts	473	214
Monetary policy operations	0	530
Loans	0	1
Claims on Finantsinspeksioon	1 434	1 296
Prepaid expenses	1 213	1 055
Other claims	145	168
Total	48 020	52 326

ITEM 17 – SUNDRY ASSETS

	<i>thousand euros</i>	
	31.12.2021	31.12.2020
Foreign exchange transactions	33 029	18 538
Credits related to margin calls	7 432	4 985
Loans to employees of Eesti Pank	2 807	3 343
Derivative instruments	0	20
Other	104	67
Total	43 372	26 953

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% in 2021; in 2020 it was also -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 41 "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>	
	31.12.2021	31.12.2020
Euro banknotes	2 705 308	2 330 565
Adjustments of euro banknotes	1 642 690	1 708 099
ECB banknotes (8%)	-348 039	-323 278
Total	3 999 960	3 715 386

ITEM 19 – CURRENT ACCOUNTS (INCLUDING COVER FOR THE MINIMUM RESERVE SYSTEM)

Item 19 reflects the current accounts of credit institutions with Eesti Pank. The remuneration paid on the balance on the current accounts of credit institutions, held to cover the minimum reserve, is calculated at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. The balances held in excess of the minimum reserve requirements are remunerated at the lower rate of either 0% or the deposit facility rate. From 30 October 2019, the Governing Council of the ECB introduced a two-tier system for reserve remuneration, so that part of the excess liquidity holdings would be exempt from the negative remuneration at the rate applicable on the deposit facility. This part is remunerated at the annual rate of 0%. The volume of reserve holdings in excess of the minimum reserve requirements, which were exempt at year-end from the deposit facility rate as the exempt tier, was determined as a multiple of six on an institution's minimum reserve requirement³⁴. The non-exempt tier of the excess liquidity holdings continues to be remunerated at the lower of either 0% or the deposit facility rate. The deposit facility rate equals the ECB deposit interest rate, which was -0.5% in 2021; in 2020 it was also -0.5%. The average balance on the current accounts of credit institutions was EUR 8,161,746,496 in 2021 (EUR 5,704,645,245 in 2020).

ITEM 20 – OTHER LIABILITIES TO EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

Item 20 records the funds of credit institutions that are not freely available (see also "Changes to the accounting principles" in the notes on accounting principles).

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

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

³⁴ The Governing Council of the ECB may over time adjust this multiplier following changes in the level of excess liquidity held.

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

Item 22 reflects the euro deposits of non-euro area residents.

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

Item 23 reflects the US dollar denominated repo transactions of euro area residents.

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

Item 24 reflects the liability to the IMF arising from the IMF's decision of 7 August 2009 to increase the SDR issues for all of its member states. This was done in order to increase global liquidity using support from the foreign reserves of the member states. As a result, Estonia received 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 SDR 233,479,644 (see Item 2 "Receivables from the IMF").

ITEM 25 – OTHER LIABILITIES WITHIN THE EUROSISTEM (NET)

Item 25 reflects net liabilities 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.

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)". The final amount for 2020 has been corrected (see "Correction of the reference data in the accounts in the annual report for 2021" in the notes on accounting principles).

	<i>thousand euros</i>	
	31.12.2021	31.12.2020
TARGET2	0	1 006 172
Monetary income reallocation	0	10 194
Interim profit distribution of the ECB	0	-3 550
Total	0	1 012 815

ITEM 26 – ACCRUALS AND DEFERRED INCOME

	<i>thousand euros</i>	
	31.12.2021	31.12.2020
Interest liabilities	35 160	15 019
Monetary policy operations	27 908	9 446
Derivative instruments	7 207	5 560
SDR allocation	33	13
Repurchase transactions	11	0
Tax liabilities	1 436	1 297
Accounts payable	1 113	1 624
Employee salaries payable	924	851
Vacation reserve	700	626
Other liabilities	511	120
Total	39 844	19 537

Item 26 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 27 – SUNDRY LIABILITIES

	<i>thousand euros</i>	
	31.12.2021	31.12.2020
Euro coins	73 293	66 785
Forward transactions in foreign currency	63	122
Credits related to margin calls	0	293
Other liabilities	14	15
Total	73 370	67 215

Item 27 mainly reflects euro coins issued.

The item reflects balances related to swap and forward transactions in foreign currency outstanding at year-end (see Item 41 “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 28 – PROVISIONS

	<i>thousand euros</i>	
	31.12.2021	31.12.2020
Provision for financial risks	103 600	92 600
Exchange liability for Estonian kroons	27 910	28 141
Total	131 510	120 741

Item 28 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. The increase in the risk provision stems from various risk assessments using Value at Risk, Expected Shortfall and other. In deciding the size of the provision, the amounts set aside for it in the past six years, which average 11.1 million euros, and the size of the bank’s reserves are considered as well as the risk assessments. There was an additional provision of EUR 11 million on 31 December 2021 (EUR 11 million in 2020), and the total general risk provision increased to EUR 103.6 million. The increase in risk was mainly due to the continued purchase of securities under the asset purchase programmes³⁵ and the new pandemic emergency purchase programme. 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.

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 2021 by EUR 230,929 through the return of kroons; in 2020 it was reduced by EUR 202,135. 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.

³⁵ The expanded asset purchase programme covers the third covered bond purchase programme (CBPP3), the asset backed securities purchase programme (ABSPP), the public sector securities purchase programme (PSPP), and the corporate sector purchase programme (CSPP). For more on the asset purchase programmes, see the ECB website <https://www.ecb.europa.eu/mopo/implementation/html/index.en.html>

ITEM 29 – REVALUATION ACCOUNTS

	<i>thousand euros</i>	
	31.12.2021	31.12.2020
Equity funds	54 042	30 167
Foreign currency	10 501	19
Gold	6 091	5 550
Securities	5 301	23 593
Securities funds	1 882	4 129
Derivative instruments	0	10
Total	77 817	63 468

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”.

ITEM 30 – CAPITAL AND RESERVES

Changes in capital and reserves in 2021:

	<i>thousand euros</i>		
	31.12.2021	Distribution of profit for 2020	31.12.2020
Fixed capital	100 000	0	100 000
Reserve capital	168 683	2 575	166 108
Special purpose reserve	214 314	0	214 314
Total	482 997	2 575	480 422

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 Riigikogu³⁶. The amount set by the Riigikogu in the statutory capital is given in the Eesti Pank Act as EUR 100 million³⁷. 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 capital³⁸. 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 euros from its profit for 2020 to the state budget in 2021.

36 Eesti Pank Act § 30 (2)

37 Eesti Pank Act § 25 (2)

38 Eesti Pank Act § 30 (3)

NOTES ON THE PROFIT AND LOSS ACCOUNT

ITEM 31 – NET INTEREST INCOME

	<i>thousand euros</i>	
	2021	2020
Net interest income	27 902	26 849
Interest income	180 851	178 013
Derivative instruments	107 438	116 490
Intra-Eurosystem balances	35 395	31 670
Securities	32 655	24 900
Deposits	4 098	2 761
Securities funds	1 038	1 953
Reverse repurchase transactions	146	148
Current accounts	70	68
Fixed-term deposits	6	16
Loans to employees of Eesti Pank	4	7
Interest expenses	-152 949	-151 164
Derivative instruments	-117 003	-127 951
Securities	-16 582	-12 704
Intra-Eurosystem balances	-18 984	-9 459
Repurchase transactions	-252	-829
Current accounts	-128	-221

	<i>thousand euros</i>	
	2021	2020
Intra-Eurosystem interest income	35 395	31 670
Monetary policy operations	32 478	21 198
Securities held for monetary policy purposes	2 917	10 472
Intra-Eurosystem interest expenses	-18 984	-9 459
Monetary policy operations	-18 984	-9 459

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

	<i>thousand euros</i>	
	2021	2020
Net result of financial operations, write-downs and risk provisions	2 187	-3 798
Realised gain arising from financial operations	23 600	21 774
Equity funds	11 813	2 370
Securities	6 870	22 037
Exchange rate income/expenses	4 534	-2 115
Derivative instruments	228	-603
Securities funds	165	173
Financial asset management costs	-10	-88
Write-downs on financial assets	-10 414	-14 572
Unrealised losses from securities	-10 397	-145

	<i>thousand euros</i>	
	2021	2020
Unrealised losses from exchange rates	-20	-14 394
Net change of loan portfolio write-downs	4	-33
Provision for financial risks	-11 000	-11 000

ITEM 33 – NET INCOME FROM FEES AND COMMISSIONS

	<i>thousand euros</i>	
	2021	2020
Net income from fees and commissions	361	328
Fees and commissions income	368	365
Current accounts service fees	366	360
Fines, arrears and other	2	5
Fees and commissions expenses	-7	-37
Commission fees	-3	-35
Other fees and commissions	-4	-2

ITEM 34 – INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

	<i>thousand euros</i>	
	2021	2020
Income from equity shares and participating interests	5 039	8 478
Dividends from equity funds	3 368	2 178
Allocation of ECB profit	1 079	2 642
Interim profit distribution of the ECB	423	3 550
Dividends from the Bank for International Settlements	134	0
Dividends from participation in the IMF	35	108

The item mainly shows dividends from equity funds and profit distributed to Eesti Pank by the European Central Bank earned on securities purchased under the Securities Markets Programme, the third covered bond purchase programme, the asset-backed securities purchase programme, the public sector purchase programme, and the pandemic emergency purchase programme. The amount of the ECB's interim profit distribution was reduced by the lower income from bonds and an increase in the provision to cover financial risks (see "Interim profit distribution of the ECB" in the notes on accounting policies).

ITEM 35 – NET RESULT OF POOLING OF MONETARY INCOME

	<i>thousand euros</i>	
	2021	2020
Net result of pooling of monetary income	-12 705	-9 949
Monetary income reallocation	-13 073	-10 025
Monetary income pooled by Eesti Pank	-16 369	-22 211
Monetary income allocated to Eesti Pank	3 296	12 186
Adjustment for the monetary income of previous years	367	-169
Write-downs of securities held for monetary policy purposes	0	245

The net result of pooling of monetary income from the Eurosystem central banks in 2021 totalled EUR 1,170.2 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 16.4 million and that allocated to

Eesti Pank of EUR 3.3 million is the net result EUR 13.1 million in monetary income. The monetary income pooled by Eesti Pank consists of intra-Eurosystem interest revenues and expenses, which are recorded under item 31 "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%.

For 2020 the item also covers Eesti Pank's share of the realised loss caused by the sale of the impaired securities bought by a national central bank of the Eurosystem in the corporate sector purchase programme and the release of the provision set up to cover the loss on those securities.

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 euros; 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 euros; 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: securities held for monetary policy purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bonds purchase programme; 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 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 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 36 – OTHER INCOME AND EXPENSES

	<i>thousand euros</i>	
	2021	2020
Other income and expenses	2 125	1 311
Other income	2 125	1 342
Expenses reimbursed by Finantsinspektsioon	944	824
Income from the sale of collector coins and numismatic products	598	400
Income from previous periods	416	0
Exchange liability for euro collector coins	106	61
Income on financial asset management	18	16
Rental income	7	2

thousand euros

	2021	2020
Income from sales of assets	1	2
Other income	36	37
Other expenses	0	-31

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".

The main part of the income of previous periods was the reserve amount collected from the International Monetary Fund to cover overdue loans repaid to the bank.

Other expenses reflects expenses from previous periods.

ITEM 37 – STAFF COSTS

thousand euros

	2021	2020
Staff costs	-11 337	-10 550
Salaries	-8 238	-7 684
Social tax	-2 794	-2 595
Compensations and benefits	-242	-213
Unemployment insurance tax	-63	-58

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

On average, there were 227.1 full-time equivalent employees at Eesti Pank in 2021, and 221.6 in 2020.

ITEM 38 – ADMINISTRATIVE EXPENSES

thousand euros

	2021	2020
Administrative expenses	-5 777	-5 974
Information technology maintenance	-2 201	-2 327
Real estate renovation and management	-1 399	-1 128
Financial asset management	-1 245	-1 515
Public relations and publications	-288	-222
Office	-124	-122
Training	-106	-95
Legal expertise and arbitration	-43	-7
Economic research	-85	-218
Communications and transport	-35	-43
Business travel	-20	-62
Other administrative expenses	-233	-235

The overall decrease in administrative expenses in 2021 arose mainly because management costs for financial assets were lower as the contracts with external managers were terminated; there was less need for information and communications technology hardware after the substantial demand for it in 2020 due to remote working because of the Covid-19 pandemic; and the contractual payment for the Estonian Household Finance and Consumption Survey (HFCS) was smaller.

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 market information, fees and costs for cross-border payments, and management costs of foreign reserves.

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

Business travel expenses reflect the costs of staff business travel on behalf of Eesti Pank and for work with international organisations and financial institutions. The restrictions introduced because of the pandemic meant that most work meetings were held online. There were a total of 71 business trips in 2021; there were 141 in 2020.

ITEM 39 – BANKNOTE PRODUCTION SERVICES

Eesti Pank participates in the production of euro banknotes together with other central banks of the euro area. The Governing Council of the ECB sets the amount of euro cash that must be produced each year for the euro area countries. Eesti Pank procured its euro banknotes through a joint tender with seven other euro area central banks. Production of the second series of 20-euro banknotes for the Eurosystem was paid for.

ITEM 40 – OTHER OPERATING EXPENSES

	<i>thousand euros</i>	
	2021	2020
Other operating expenses	-1 354	-587
Production of coins	-623	-249
Production of collector coins and numismatic products	-524	-104
Cash circulation management	-68	-73
Other expenses	-140	-161

ITEM 41 – DERIVATIVE INSTRUMENTS

	<i>thousand euros</i>	
	31.12.2021	31.12.2020
Foreign exchange swap and forward transactions		
Purchase	1 445 462	3 916 847
Sale	-1 442 607	-3 902 042
Value of interest rate future contracts		
Purchase	1 060	41 104
Sale	-2 432	-54 458
Value of foreign exchange futures contracts		
Purchase	0	12 742
Sale	0	-8 124
Value of interest rate option contracts		
Purchase	0	39 932
Sale	0	-44 200

ITEM 42 – 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 642,821 at the end of 2021 (see Item 14 “Other financial assets”).



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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 2021, 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 2021, 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 matter

The financial statements of Eesti Pank for the year ended 31 December 2020 were audited by another auditor, who expressed an unmodified opinion on them on 22 March 2021.

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, 21 March 2022

Olesia Abramova
Authorised Auditor's number 561
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Audit Company's Registration number 58
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