

ANNUAL ACCOUNTS OF EESTI PANK FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

THE FINANCIAL POSITION OF EESTI PANK

Capital and reserves

Eesti Pank's capital as at 31 December 2018 stood at EUR 463.7 million euros. More detailed information on Eesti Pank's capital can be found under Item 30 "Capital and Reserves" in the notes on the Balance Sheet.

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

Following from risk assessments, Eesti Pank increased its provision for foreign exchange, interest rate, credit and gold price risks. The size of the provision and the continuing need for it is reassessed each year, with various factors considered. The risk assessment is based on a calculation of the value at risk of risk-bearing assets, which takes into account the size of the risk-bearing assets, the extent of risks that have realised during the year, and the forecast for the year to come. As at 31 December 2017 the provision made to cover foreign exchange, interest rate, credit and gold price risks was EUR 45 million. The bank transferred EUR 26.8 million to the provision in 2018 and as a result the risk provision increased to EUR 71.8 million. See also Item 28 "Provisions" in the notes on the Balance Sheet.

Provision for the obligation to exchange Estonian kroons for euros

It is highly probable that not all the kroons that were issued will be exchanged for euros in the future, as some will have been destroyed and some retained as souvenirs. For this reason a special purpose provision of EUR 29.6 million was set up in 2016. Future exchanges of kroons for euros will be funded from the provision. The provision was reduced in 2018 by EUR 392.7 thousand (EUR 498.5 thousand in 2017) through the return of kroons, and as a result the provision for the obligation to exchange kroons was reduced to EUR 28.7 million.

Revaluation accounts

Unrealised profit from gold, foreign currency and securities is not recorded as income in the Profit and Loss Account and is transferred to the revaluation accounts in the liabilities side of the Eesti Pank Balance Sheet. Assets on these accounts are used to reduce any future impact on the financial results of the bank from unfavourable developments in prices or exchange rates. In this way such financial buffers can help strengthen the resilience of the bank to underlying risks. The total value of the revaluation accounts for gold, currency and securities was EUR 8.7 million at the end of December 2018 and EUR 28 million at the end of 2017. For more details, see the notes on accounting principles, and Item 28 "Revaluation accounts" in the notes on the Balance Sheet.

Financial results for 2018

Eesti Pank's net profit in 2018 was 13.9 million euros, and it was 4.3 million euros in 2017.

Net interest income was EUR 28 million euros in 2018, and EUR 20 million in 2017. The majority of the interest income came from the excess reserves of Estonian credit institutions and securities purchased for monetary policy purposes. A large part of the investment income in 2018 came from the realisation of the equity portfolio. Prices fell by around 10% for risk assets, including equities, in 2018 because of the uncertain economic climate, and they fell by even more in Europe. At the same time there was a small rise in interest rates on bonds and the return on the bond portfolio over the year as a whole was positive. Additional sovereign bonds in foreign currencies were purchased in 2018, and so the volume of the portfolio increased notably. The net income of Eesti Pank was boosted by net income from pooling Eurosystem monetary income of EUR 7.4 million and income from equity and participation of EUR 6.9 million, which includes EUR 4.0 million of profit distributed by the European Central Bank. For more details, see Item 34 "Income from equity shares and participating interests", and Item 35 "Net result of

pooling of monetary income” in the notes on the Profit and Loss Account.

The total operating expenses of Eesti Pank, including depreciation, decreased from EUR 19.8 million in 2017 to EUR 19.7 million in 2018. The largest expenses were on staff costs, cash processing, and information and communications technology.

Risks

Eesti Pank has a risk management system that covers all the processes of the bank and allows various risks to be tackled in a single framework. Risk management aims to reduce the adverse 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 coming from the external environment have increased. Eesti Pank contributes to risk management for the whole of the euro area through the committees and management bodies of the European System of Central Banks. Contingency plans for services are used to reduce the impact of any possible interruption to processes the bank considers critical and to ensure the continuity of activity. The external auditors regularly assess the risk management of the bank.

The financial risks at Eesti Pank are assessed using both Value at Risk (VaR) and Expected Shortfall. 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 a division between decision-making and oversight functions.

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

In addition to the risks from reserve management, the assets of Eesti Pank are subject to risks from monetary policy transactions. Risks related to monetary policy transactions are managed jointly in the Eurosystem Risk Management Committee, which comprises representatives of the central banks of the euro area, including Eesti Pank. A risk framework has been established that sets out conditions for transaction counterparties, assets that qualify as collateral for monetary policy operations, the financial instruments to be purchased within the purchase programmes and similar. No major changes were made last year in the monetary policy collateral risk framework, though the risks of the Eurosystem were increased substantially because of the various asset purchase programmes above all. Under Article 32.4 of the Statute of the 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 shares¹.

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

APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 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 2018.

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 Bank². The parts of the Annual Accounts that are not regulated by ECB guidelines have been drawn up in accordance with the financial reporting standards generally accepted in Estonia. The Annual Accounts give a true and fair view of the assets and liabilities, equity and financial performance of Eesti Pank.

The preparation of the Annual Accounts in conformity with the above requirements requires the Executive Board to provide estimates of the determinants affecting the assets and liabilities of Eesti Pank as at the accounting date and income and expenses during the accounting period. These estimates are based on the information available about Eesti Pank, its intentions and risks as at the date of preparation of the Annual Accounts. The final outcome of the economic transactions reflected in the Annual Accounts may differ from the estimates of the Executive Board.

On 18 March 2019, all the members of the Executive Board of Eesti Pank on that day signed the Annual Accounts.

Ardo Hansson	Governor of Eesti Pank, Chairman of the Executive Board
Ülo Kaasik	Deputy Governor of Eesti Pank, Member of the Executive Board
Madis Müller	Deputy Governor of Eesti Pank, Member of the Executive Board

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

BALANCE SHEET AS AT 31 DECEMBER 2018 AND 2017*thousand EUR*

	Item	31/12/2018	31/12/2017
ASSETS			
Gold and gold receivables	1	9 248	8 926
Claims on non-euro area residents denominated in foreign currency		646 438	279 401
Receivables from the IMF	2	81 639	71 163
Balances with banks, security investments and other external assets	3	564 800	208 238
Claims on euro area residents denominated in foreign currency	4	55 265	103 065
Claims on non-euro area residents denominated in euro	5	34 314	25 402
Lending to euro area credit institutions related to monetary policy operations denominated in euro	6	50 000	91 210
Other claims on euro area credit institutions denominated in euro	7	8 545	7 365
Securities of euro area residents denominated in euro		5 691 135	5 152 215
Securities held for monetary policy purposes	8	5 649 200	5 103 761
Other securities	9	41 935	48 454
Intra-Eurosystem claims		2 390 432	2 708 062
Participating interest in the European Central Bank	10	88 853	88 853
Claims equivalent to the transfer of foreign reserves	11	111 730	111 730
Net claims related to the allocation of euro banknotes within the Eurosystem	12	1 414 982	1 550 197
Other claims within the Eurosystem (net)	13	774 867	957 282
Other assets		83 711	67 260
Tangible and intangible fixed assets	14	16 370	17 354
Other financial assets	15	234	234
Off-balance-sheet instruments revaluation differences	16	459	536
Accruals and prepaid expenses	17	46 885	43 314
Sundry	18	19 763	5 822
TOTAL ASSETS		8 969 089	8 442 906

The notes on pages 70–95 form an integral part of the Annual Accounts.

thousand EUR

	Item	31/12/2018	31/12/2017
LIABILITIES			
Banknotes in circulation	19	3 102 458	2 950 204
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		4 855 524	4 559 041
Current accounts (including cover for the minimum reserve system)	20	4 855 524	4 559 041
Other liabilities to euro area credit institutions denominated in euro	21	0	8 631
Liabilities to other euro area residents denominated in euro	22	217 448	220 216
General Government		204 453	208 591
Other liabilities		12 995	11 625
Liabilities to non-euro area residents denominated in euro	23	48 292	8 631
Liabilities to non-euro area residents denominated in foreign currency	24	8 907	0
Counterpart of the special drawing rights allocated by the IMF	25	75 313	73 590
Other liabilities		73 890	55 490
Off-balance-sheet instruments revaluation differences	16	13 036	158
Accruals and income collected in advance	26	5 525	6 032
Sundry	27	55 329	49 300
Provisions	28	100 972	74 312
Revaluation accounts	29	8 678	28 019
Capital and reserves	30	463 691	460 447
Capital		249 377	246 133
Reserves		214 314	214 314
Profit for the year		13 916	4 325
TOTAL LIABILITIES		8 969 089	8 442 906

The notes on pages 70–95 form an integral part of the Annual Accounts.

PROFIT AND LOSS ACCOUNT FOR 2018 AND 2017

		<i>thousand EUR</i>	
	Item	2018	2017
Interest income		64 930	43 951
Interest expenses		-36 677	-23 956
Net interest income	31	28 253	19 995
Realised gain arising from financial operations		29 946	2 009
Write-downs on financial assets		-14 827	-6 047
Provisions for foreign exchange rate, interest rate and credit risks		-26 800	-7 500
Net result of financial operations, write-downs and risk provisions	32	-11 681	-11 538
Fees and commissions income		225	109
Fees and commissions expenses		-142	-34
Net income from fees and commissions	33	83	75
Income from equity shares and participating interests	34	6 861	3 655
Net result of pooling of monetary income	35	7 389	10 567
Other income	36	2 744	1 363
	Total net income	33 649	24 117
Staff costs	37	-9 651	-9 409
Administrative expenses	38	-6 148	-5 821
Depreciation of tangible and intangible fixed assets	14	-1 880	-1 704
Banknote production services	39	-1 031	-856
Other operating expenses	40	-1 023	-2 002
	Operating expenses	-19 733	-19 792
	Profit for the year	13 916	4 325

The notes on pages 70–95 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 Bank³. The parts of the Annual Accounts that are not regulated by ECB guidelines have been drawn up in accordance with the financial reporting standards generally accepted in Estonia.

The preparation of the Annual Accounts requires the Executive Board to provide estimates of the determinants affecting the assets and liabilities of Eesti Pank and income and expenses during the accounting period as at the balance sheet date. These estimates are based on the information available about Eesti Pank and its intentions and risks as at the date of preparation of the Annual Accounts.

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

The Annual Accounts have been prepared in thousands of euro unless indicated otherwise.

The Balance Sheet items are grouped by residency (euro area, non-euro area) and currency (euro, other currency). The assets and liabilities related to monetary policy are recorded on separate rows.

The Annual Accounts have been prepared on the historical cost basis, except in cases explained in the following accounting principles.

Assets and liabilities

Assets and liabilities are recognised in the Balance Sheet when it is probable that any associated future economic benefit will flow to or from Eesti Pank; almost all of the risks and rewards related to assets and liabilities have been transferred; and the cost or value of an asset or a liability and the resulting gains or losses can be measured reliably.

Financial assets and liabilities

A financial asset is any asset that is cash, or a contractual right to receive cash or any other financial 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

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

liability settled between knowledgeable, disinterested and willing parties in an arm's length transaction. Financial assets recorded at market value are revalued on every balance sheet date.

Financial assets recorded at adjusted acquisition cost are written down if the recoverable amount of an asset is likely to be smaller than its carrying amount. The impairment of significant financial assets is measured for each object separately. The impairment of financial assets that are not individually significant and that are not expected to be impaired is measured for all assets together. Write-downs of financial assets are recorded as an expense of the accounting period in the Profit and Loss Account.

Recording of transactions in foreign currency

With the exception of spot transactions in securities, transactions in financial instruments denominated in foreign currency are recorded in off-balance-sheet accounts on the trade date. On the settlement date, off-balance-sheet entries are reversed and transactions are recorded on the Balance Sheet. The purchase and sale of foreign currency affect the net 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 2018.

The official daily fixings applied on 31 December 2018 and 2017 were as follows:

	31/12/2018	31/12/2017
USD	1.1450	1.1993
GBP	0.89453	0.88723
JPY	125.85	135.01
CNY	7.8751	7.8044
SDR	0.822774	0.842034

Gold

Gold is valued at the market price prevailing at the year-end. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold valuation is accounted for on the basis of the price in euros per fine ounce of gold, which, for the year ending 31 December 2018, was derived from the exchange rate of the euro against the US dollar on 31 December 2018.

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 2018, mid-market prices on 31 December 2018 were used.

Income recognition

Income and expenses are recorded in the Profit and Loss Account during the accounting period on an accrual basis regardless of when cash was received or paid. Realised gains and losses arising from the sale of foreign exchange, gold and securities are calculated from the average prices of each asset taken to the Profit and Loss Account.

Unrealised gains are not taken to the Profit and Loss Account, but are recognised on the Balance Sheet under "Revaluation accounts".

Unrealised losses are recorded in the Profit and Loss Account under "Write-downs on financial assets" if, at the year-end, they exceed previous revaluation gains registered in the corresponding revaluation account. Unrealised losses on any one currency or security or on gold are not netted against unrealised gains on other currencies or securities or gold. In the event of an unrealised loss on any currency or security or on gold at the year-end, the average cost of that item is reduced to the year-end exchange rate or market price.

Premiums or discounts arising on purchased securities are recorded as part of interest income and are amortised on a daily basis over the remaining life of the securities.

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

Reverse transactions

Repurchase transactions (sale/repurchase transactions) are recorded as collateralised loans taken at their fair value, meaning securities are recorded as assets on the Balance Sheet and the repurchase sum as a liability.

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

Investments in shares

Investment in shares is recorded at market value if it can be assessed reliably. The assessment of the market value of shares is not reliable if they are not actively traded and there are no alternative methods for assessing their value reliably. In this case shares are recorded at their acquisition cost subject to impairment. Profits and losses on the sale of shares are recorded in the Profit and Loss Account after all conditions of sale have been fulfilled. Dividend income is recorded as income for the period.

Fixed assets

Fixed assets are assets with a useful life over a year and an acquisition cost in excess of EUR 3200. Fixed assets are recorded at their acquisition cost, which is the purchase price and other expenditure directly related to bringing assets to the location and condition necessary for their intended use. Land, buildings, utility systems of buildings, IT hardware, software, and other assets with long-term useful lives are recorded as fixed assets on the Balance Sheet. Prepayments for fixed assets are also recorded as fixed assets.

Land and objects of art and culture are not depreciable assets. Other fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets at the following rates

	2018
Land and buildings	3%
Utility systems of buildings	10%
Hardware	20%
Software, motor vehicles	10–50%
Other fixed assets	7–20%

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

Subsequent expenditure incurred for items of fixed assets is recognised as fixed assets when it is probable that Eesti Pank will derive future expected benefits from the asset and the cost of the asset can be measured reliably. Current maintenance and repair costs are recognised as expenses for the period.

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

Given the nature of the operations of a central bank, Eesti Pank may set up provisions on the Balance Sheet for foreign exchange rate, interest rate, credit and gold price risks. The management of the bank decides to increase or reduce the provisions, using a reasonable estimate of the bank's exposure. Provisions are used to cover the uncovered losses in revaluation accounts to the extent approved by the Executive Board. If the size of the provision is reduced because of risk estimates, the amount it is reduced by is recorded as income for the recording period.

Claims and liabilities to Finantsinspektsioon (the Financial Supervision Authority)

The Balance Sheet of Eesti Pank contains a claim on Finantsinspektsioon for services provided and the acquisition of low-value assets by Eesti Pank, and a liability to Finantsinspektsioon in relation to its settlement account held with Eesti Pank.

Off-balance-sheet instruments

Currency instruments, namely foreign exchange forward instruments, forward legs of foreign exchange swaps and other currency instruments involving an exchange of one cur-

rency for another at a future date, are included in the net foreign currency position for the purpose of calculating foreign exchange gains and losses.

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

Contingent liabilities

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

Post-balance-sheet events

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

Banknotes in circulation

The European Central Bank and the euro area national central banks, which together comprise the Eurosystem, issue euro banknotes⁴. 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 key⁵.

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 liabilities⁶ 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 year⁷ the

4 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.

5 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.

6 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.

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

intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes from previous years in the relative income positions of the Eurosystem central banks. The adjustments are effected by taking into account the differences for the observation period⁸ 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 the sixth year after the cash changeover year when income on banknotes is allocated fully in proportion to the Eurosystem central bank's paid-up shares in the ECB's capital. The interest income and 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) and the asset-backed securities purchase programme (ABSPP) shall be due in full to the Eurosystem central banks in the same financial year it accrues. Unless otherwise decided by the Governing Council, the European Central Bank distributes this income in January of the following year in the form of an interim distribution of profit⁹. It is distributed in full, unless the European Central Bank's net profit for the year is less than its income earned. The distributed profit may be reduced if the Governing Council decides to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to charge costs incurred by the European Central Bank in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

The amount distributed to the Eurosystem central banks is disclosed in the Profit and Loss Account under "Income from equity shares and participating interests".

Intra-Eurosystem balances

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

Intra-Eurosystem balances arising from the transfer of foreign reserve assets to the ECB by NCBs joining the Eurosystem are denominated in euro and reported under "Claims equivalent to the transfer of foreign reserves".

⁸ 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.

⁹ 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).

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

Intra-Eurosystem balances result primarily from cross-border payments in the European Union which are settled in central bank money in euro. These transactions are for the most part initiated by private entities, meaning credit institutions, corporations and individuals. These transactions are settled in TARGET2¹⁰ and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted out and then assigned to the ECB on a daily basis, leaving each national central bank with a net bilateral position towards the ECB. Intra-Eurosystem balances of euro area NCBs towards the ECB arising from TARGET2, and other intra-Eurosystem balances denominated in euro such as interim profit distributions to NCBs or monetary income results are presented in the Balance Sheet as a single net asset or liability position and disclosed under “Other claims within the Eurosystem (net)” or “Other liabilities within the Eurosystem (net)”.

¹⁰ 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:

	31/12/2018	31/12/2017
Gold (ounces)	8250.171	8250.171
Ounce market value (EUR)	1120.961	1081.881
Revaluation (thousand EUR)	2 060	1 738
Market value (thousand EUR)	9 248	8 926

ITEM 2 – RECEIVABLES FROM THE IMF

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

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
SDR account in the IMF	29 892	29 258
Reserve position in the IMF	51 747	41 905
Participation in the IMF	295 838	289 272
IMF No.1 account	-244 091	-247 367
Total	81 639	71 163

The SDR account in the IMF

An SDR account is generated for each IMF Member State for conducting loan transactions and various other related operations. The SDR account is used to record the SDRs distributed to support the foreign reserves of IMF Member States and to increase global liquidity (see Item 25 "Counterpart of the Special Drawing Rights Allocated by the IMF").

Reserve position in the IMF

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

At the end of 2018 the quota of the Republic of Estonia in the International Monetary Fund was SDR 243.6 million.

The reserve position in the IMF comprises the net amount of the quota and the IMF No.1 account. The size of the reserve position is affected by the participation of the Republic of Estonia in the IMF's Financial Transactions Plan (FTP). The increase in the reserve position in 2018 was due to payments in to the FTP of SDR 8.0 million and the amounts refunded in relation to the FTP with a total value of SDR 0.73 million; in 2017 it was reduced by SDR 14.3 million because of amounts refunded. Estonia has participated in the IMF's FTP since 2012.

ITEM 3 – BALANCES WITH BANKS, SECURITY INVESTMENTS AND OTHER EXTERNAL ASSETS

Item 3 reflects bank balances in foreign currency with credit institutions outside the euro area, term deposits and reverse repurchase agreements denominated in US dollars, and security investments denominated in United States, Canadian and Australian dollars of non-euro area res-

idents. Eesti Pank's foreign reserves were invested mainly in US government-guaranteed mortgage-backed securities funds and government bonds of Australia and Canada.

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
Securities	402 295	99 280
Securities funds	101 178	97 535
Equities	40 482	0
Current accounts	10 666	10 256
Fixed-term deposits	1 223	1 167
Reverse repurchase transactions	8 956	0
Total	564 800	208 238

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
USD	458 236	99 759
AUD	48 790	50 085
CAD	48 721	49 767
CHF	8 769	8 455
GBP	178	105
JPY	129	59
CNH	32	32
NOK	6	0
DKK	2	2
NZD	-31	-5
SEK	-32	-21
Total	564 800	208 238

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

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

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
Equities	53 021	101 272
Current accounts	2 244	1 793
Total	55 265	103 065

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
USD	54 590	102 418
CAD	341	390
AUD	220	268

thousand EUR

	31/12/2018	31/12/2017
SEK	187	198
CHF	9	8
NZD	0	2
NOK	0	1
GBP	-32	-188
JPY	-50	-32
Total	55 265	103 065

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

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

thousand EUR

	31/12/2018	31/12/2017
Securities	17 560	15 959
Reverse repurchase transactions	16 112	8 993
Current accounts	642	450
Total	34 314	25 402

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

The total Eurosystem holding of monetary policy assets amounts to 734,381 million euros, of which Eesti Pank holds 50 million euros (91.2 million euros in 2017) of long-term refinancing transactions with maturities of 48 months. Under Article 32.4 of the Statute of the ESCB, any losses from monetary policy operations, if they were to materialise, are shared in full by the Eurosystem central banks in proportion to the prevailing ECB capital key shares. Eesti Pank's share in the capital key is 0.2739%.

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

In 2016 the Governing Council of the ECB introduced a new series of four targeted longer-term refinancing operations (TLTRO II). These operations have a four-year maturity, with a possibility of repayment after two years. In accordance with the Governing Council's decisions, the final interest rate applicable to each TLTRO-II operation depended on the credit behaviour of the counterparty in the period 1 February 2016 – 31 January 2018, and fell between the rate for main refinancing operations and the deposit facility rate. As the actual interest rate only became clear in 2018 and could not earlier be calculated reliably, the calculation of TLTRO-II interest rates until the end of 2017 had taken the prudent approach of using the interest rate on the standing deposit facility. Interest income for this period that comes from the difference between the standing facility rate and the actual interest rate is recorded on the Profit and Loss Account under "Interest Income".

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

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

ITEM 8 – SECURITIES HELD FOR MONETARY POLICY PURPOSES

Item 8 reflects securities acquired by Eesti Pank within the scope of the second purchase programmes for covered bonds (CBPP2)¹¹, the Securities Markets Programme (SMP)¹² and the public sector asset purchase programme (PSPP)¹³.

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

In 2018 the Eurosystem continued with its purchases under the expanded asset purchase programme (APP)¹⁴, which covers the third covered bond purchase programme (CBPP3)¹⁵, the asset-backed securities purchase programme (ABSPP)¹⁶, and the public sector purchase programme (PSPP), and the corporate sector purchase programme (CSPP)¹⁷.

The national central banks and the ECB made monthly net asset purchases of an average of 30 billion euros a month until September 2018 and of 15 billion euros a month from October to the end of the year, when net purchases were ended. The Governing Council of the ECB intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

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 value¹⁸ of securities, which are not recorded on the Balance Sheet or Profit and Loss Account and are presented only for the purposes of information, are:

	31/12/2018		31/12/2017	
	Amortised acquisition cost	Market value	Amortised acquisition cost	Market value
Public sector purchase programme	5 576 850	5 592 876	5 006 947	5 016 371
Bonds of institutions	5 576 850	5 592 876	4 947 756	4 957 024
Elering	0	0	59 191	59 347
Securities Markets Programme	64 861	66 882	89 329	95 785
Second covered bond purchase programme	7 489	8 177	7 485	8 379
Total	5 649 200	5 667 935	5 103 761	5 120 534

thousand EUR

11 Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme, OJ L 297, 16.11.2011, p 70.

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

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

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

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

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

17 Decision ECB/2016/16 of 1 June 2016 on the implementation of the corporate sector purchase programme, OJ L 1, 6.1.2015, p 4 as amended.

18 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.

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

The Governing Council of the European Central Bank gave Eesti Pank exceptional permission to buy bonds issued by the transmission system operator Elering as an alternative under the asset purchase programme. The Governing Council made an exception because unlike the other national central banks of the euro area, Eesti Pank is not able to buy bonds issued by its own government from the secondary market. The Elering bond matured on 12 July 2018.

The total Eurosystem central banks holding of Securities Market Programme securities amounts to EUR 67,514 million euros, of which Eesti Pank holds EUR 64.8 million euros. The total Eurosystem central banks holding of securities under the covered bond purchase programmes amounts to EUR 241,144 million. The total holding of bonds of European institutions purchased under the public sector asset purchase programme amounts to EUR 225,039 million, of which Eesti Pank holds EUR 5577 million.

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities held under these programmes. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year end.

Under Article 32.4 of the Statute of the ESCB, the Eurosystem central banks share any losses that materialise from securities 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 shares.

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

The impairment test of the portfolio of the corporate sector purchase programme at the end of 2018 found that the value of one security had fallen. In accordance with the principle of prudence, the Governing Council of the European Central Bank deemed it appropriate to establish a provision against losses in monetary policy operations (see Item 28 "Provisions").

ITEM 9 – OTHER SECURITIES

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

ITEM 10 – PARTICIPATING INTEREST IN THE ECB

Item 10 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.

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

	Capital key from 1/01/2015	Subscribed capital as of 1/01/2015	Paid-in capital as of 1/01/2015
	%	€	€
Nationale Bank van België / Banque Nationale de Belgique	2.4778	268 222 025	268 222 025
Deutsche Bundesbank	17.9973	1 948 208 997	1 948 208 997
Eesti Pank	0.1928	20 870 614	20 870 614

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

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

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

ITEM 11 – CLAIMS EQUIVALENT TO THE TRANSFER OF FOREIGN RESERVES

Item 11 reflects claims of Eesti Pank arising from the transfers of foreign reserves assets to the ECB when Eesti Pank joined the Eurosystem. These foreign reserves were 85% in Japanese yen and 15% in gold. The claims are denominated in euro at a value fixed at the time of their transfer. The remuneration of claims translated from foreign currency is calculated daily at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component.

ITEM 12 – NET CLAIMS RELATED TO THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSYSTEM

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

ITEM 13 – OTHER CLAIMS WITHIN THE EUROSYSTEM (NET)

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

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
TARGET2	763 962	943 821
Monetary income reallocation	7 642	10 755
Interim profit distribution of the ECB	3 263	2 705
Total	774 867	957 281

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 decline in the TARGET2 account in 2018 is mainly due to the increase in the volume of the securities purchased for monetary policy purposes (see Item 8 of the Balance Sheet, "Securities held for monetary policy purposes").

Claims on the ECB in connection with the reallocation of monetary income come from the difference between the amounts pooled and allocated by the Eurosystem NCBs (see Item 35 "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 1191 million in 2018 between the national central banks of the euro area (see Item 34 "Income from equity shares and participating interests").

ITEM 14 – TANGIBLE AND INTANGIBLE FIXED ASSETS

	<i>thousand EUR</i>					
Acquisition cost	Buildings	Hardware	Software	Inventory	Motor vehicles	Total
Balance at the end of 2017	28 030	4 220	4 875	6 004	31	43 160
Acquisitions	137	288	868	147	0	1 440
Disposals	0	-501	-278	-62	0	-841

¹⁹ In accordance with the accounting methods chosen by the Eurosystem for euro banknotes, 8% of the total value of euro banknotes in circulation is allocated to the ECB on a monthly basis. The 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 EUR

Acquisition cost	Buildings	Hardware	Software	Inventory	Motor vehicles	Total
Balance at the end of 2018	28 167	4 007	5 465	6 089	31	43 759
Accumulated depreciation						
Balance at the end of 2017	14 587	2 950	3 441	5 414	26	26 418
Depreciation charge	988	362	349	178	3	1 880
Disposals	0	-501	-278	-62	0	-841
Balance at the end of 2018	15 575	2 811	3 512	5 530	29	27 457
Carrying amount						
Balance at the end of 2017	13 443	1 270	1 434	590	5	16 742
Balance at the end of 2018	12 592	1 196	1 953	559	2	16 302
Prepayments for fixed assets						
Balance at the end of 2017	0	0	599	13	0	612
Balance at the end of 2018	0	0	68	0	0	68
Total fixed assets						
Balance at the end of 2017	13 443	1 270	2 033	603	5	17 354
Balance at the end of 2018	12 592	1 196	2 021	559	2	16 370

The cost of fixed assets acquired in 2017 was EUR 1440 thousand; in 2017 it was 2565 thousand euros. The largest share of the spending on procurements for buildings was spent on the renovation of buildings. Hardware acquisition is related to the purchase of servers, network equipment, and backup systems. The largest software procurements were the data submission portal, planning and risk management software, firewall software, and the development of the statistics module, and contributions to the development of other ESCB software systems. The major part of inventory acquisition was for the renewal of licences for banknote sorters and purchases of security equipment for the bank.

ITEM 15 – OTHER FINANCIAL ASSETS

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

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

ITEM 16 – OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

Item 16 reflects valuation changes in swap and forward transactions in foreign currency outstanding at year-end. These valuation changes are the result of the conversion of such transactions into their euro equivalents at the exchange rates prevailing on the balance sheet date, compared with the euro values resulting from the conversion of the transactions at the average cost of the respective foreign currency on that date.

ITEM 17 – ACCRUALS AND PREPAID EXPENSES

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
Interest claims	44 722	41 113
Securities	43 142	39 863
Derivative instruments	896	634
Monetary policy operations	480	455
Fixed-term deposits and current accounts	194	152
Reverse repurchase transactions	9	8
Loans	1	1
Claims on Finantsinspektsioon	920	878
Prepaid expenses	919	970
Other claims	324	353
Total	46 885	43 314

Item 17 records interest from financial instruments using the accrual principle, and various pre-payments for services. It also records a claim on the Finantsinspektsioon in relation to services provided by Eesti Pank and acquisition of current assets.

ITEM 18 – SUNDRY ASSETS

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
Foreign exchange transactions	15 300	292
Loans to employees of Eesti Pank	4 224	5 033
Credits related to margin calls	118	420
Other	67	45
Forward transactions in foreign currency	42	0
Derivative instruments	12	32
Total	19 763	5 822

Housing loans secured by real estate have been granted to employees of Eesti Pank for a maximum of 30 years. The interest rate on housing loans granted before 2012 is the deposit facility interest payable to credit institutions plus the risk margin but together not more than the upper limit of the interest rate. The deposit facility rate equals the ECB deposit interest rate, which was -0.4% in 2018; in 2017 it was also -0.4%. The upper limit on the interest rate is twice the interest rate on the European Central Bank's main refinancing operations. The interest rate on housing loans granted since 2012 is the six-month EURIBOR plus 0.5% but no more than the upper limit on the interest rate. The interest rate on housing loans granted since June 2014 is the six-month EURIBOR plus 1.25%. In addition, study loans have been granted to employees for a maximum of ten years with an interest rate of 5%. From 1 July 2015, Eesti Pank ceased providing loans to employees.

The item reflects balances related to currency exchange transactions and forward transactions in foreign currency outstanding at year-end. These balances arise from the conversion of such transactions into their euro equivalents at the respective currency's average cost on the balance sheet date, compared with the euro values at which the transactions were initially recorded.

ITEM 19 – BANKNOTES IN CIRCULATION

Item 19 reflects Eesti Pank's share of the total euro banknotes in circulation (see "Banknotes in circulation" in the notes on accounting policies). The value of euro banknotes actually issued by Eesti Pank is smaller than the allocation of such banknotes to Eesti Pank. The claim arising from this difference is reflected in Item 12 "Net claims related to the allocation of euro banknotes within the Eurosystem".

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
Euro banknotes	1 687 475	1 400 007
Adjustments of euro banknotes	1 684 745	1 806 722
ECB banknotes (8%)	-269 762	-256 525
Total	3 102 458	2 950 204

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

Item 20 reflects the current accounts of credit institutions with Eesti Pank. The remuneration paid on the balance on the current accounts of credit institutions, held to cover the minimum reserve, is calculated at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. The balances held in excess of the minimum reserve requirements are remunerated at the lower rate of either 0% or the deposit facility rate. The deposit facility rate equals the ECB deposit interest rate, which was -0.4% in 2018; in 2017 it was also -0.4%. The average balance on the accounts of credit institutions was EUR 3,890,313,394 in 2018 (EUR 3,220,392,672 in 2017).

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

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

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

Item 22 reflects mainly the current accounts of Finantsinspektsioon and the Guarantee Fund held with Eesti Pank. Interest on the current account of Finantsinspektsioon is calculated monthly from the daily balance of the current account using the EONIA (euro overnight index average) interest rate, and the interest rate on the Guarantee Fund account is the deposit facility rate.

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

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

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

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

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

Item 25 reflects the liability to the IMF arising from the IMF's decision of 7 August 2009 to increase the SDR issues for all of its member states. This was done in order to increase global liquidity using support from the foreign reserves of the member states. As a result, Estonia received SDR 61,965,241 (see Item 2 "Receivables from the IMF").

ITEM 26 – ACCRUALS AND DEFERRED INCOME

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
Interest liabilities	1 507	1 463
Derivative instruments	954	925
Monetary policy operations	411	445
SDR allocation	135	88
Repurchase transactions	7	5
Accounts payable	1 523	1 203
Tax liabilities	1 049	1 015
Employee salaries payable	729	675
Vacation reserve	512	493
Other liabilities	205	1 183
Total	5 525	6 032

Item 26 reflects accrued interest on financial instruments and liabilities that were expected but unpaid on the balance sheet date, most of which are unpaid bills for services provided to Eesti Pank and tax liabilities.

ITEM 27 – SUNDRY LIABILITIES

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
Euro coins	55 273	49 146
Derivative instruments	26	7
Other liabilities	20	41
Credits related to margin calls	10	0
Forward transactions in foreign currency	0	105
Total	55 329	49 299

Item 27 reflects balances related to forward transactions in foreign currency outstanding at year-end. These balances arise from the conversion of such transactions into their euro equivalents at the respective currency's average cost on the balance sheet date, compared with the euro values at which the transactions were initially recorded.

ITEM 28 – PROVISIONS

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
Provisions for foreign exchange, interest, credit and gold price risks	71 800	45 000
Exchange liability for Estonian kroons	28 731	29 124
Write-downs of securities held for monetary policy purposes	441	189
Total	100 972	74 312

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

The aim of 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 such as Value at Risk and Expected Shortfall. In deciding the size of the provision, the amounts set aside for it in the past five years and the size of the bank's reserves are considered as well as the risk assessments. The decrease in the revaluation accounts that resulted from the realisation of the equity portfolio was also taken into consideration. There was an additional provision of EUR 26.8 million on 31 December 2018 (EUR 7.5 million in 2017), and the total general risk provision increased to EUR 71.8 million. The increase in risk was mainly due to the continued purchase of securities under the asset purchase programmes²⁰. Under Article 32.4 of the Statute of the ESCB, the Eurosystem central banks share any losses that materialise from securities 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 shares.

A provision of EUR 29.6 million was set up in 2016 to cover the liability for exchanging kroons for euros. Future exchanges of kroons for euros will be funded from the provision. The provision was reduced in 2018 by EUR 392.7 thousand through the return of kroons; in 2017 it was reduced by EUR 498.5 thousand. 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.

In 2017 a provision was created to cover losses on monetary policy operations with a total value of EUR 68.9 million for one security held by a central bank in the Eurosystem. Under Article 32.4 of the statutes of the ESCB the provision is funded by the central banks of all the member states in proportion to their participation in the capital key in 2017. In consequence a provision of EUR 188,635 was created, which is 0.2739% of the total value of the provision. In calculating the size of the provision, account was taken of the sale of the security in January 2018, and so in 2018 the realised loss was covered in full by the provision.

As a result of the impairment test in 2018 conducted on the portfolio of the corporate sector purchase programme, the Governing Council deemed it appropriate to establish a provision against losses in monetary policy operations with a total value of EUR 161 million to cover one security held by a central bank in the Eurosystem. Under Article 32.4 of the statutes of the ESCB this provision is funded by all the central banks of participating member states in proportion to their subscribed capital key in 2018. In consequence a provision of EUR 441,179 was created, which is 0.2739% of the total value of the provision; see Item 35 "Net result of pooling of monetary income" in the notes on the Profit and Loss Account.

²⁰ The expanded asset purchase programme covers the third covered bond purchase programme, the asset-backed securities purchase programme, the public sector purchase programme, and the corporate sector purchase programme. For more on the asset purchase programmes, see the ECB website <https://www.ecb.europa.eu/mopo/implementation/omt/html/index.en.html>

ITEM 29 – REVALUATION ACCOUNTS

	<i>thousand EUR</i>	
	31/12/2018	31/12/2017
Securities	5 883	729
Gold	2 060	1 738
Derivative instruments	471	111
Foreign currency	264	364
Equities	0	25 077
Total	8 678	28 019

Revaluation accounts represent revaluation reserves that arise from unrealised gains on assets and liabilities.

The unrealised losses at the end of the year are recognised in the Profit and Loss Account as expenses under “Write-downs on financial assets”.

ITEM 30 – CAPITAL AND RESERVES

Changes in capital and reserves in 2018:

	<i>thousand EUR</i>		
	31/12/2018	Distribution of profit for 2017	31/12/2017
Fixed capital	100 000	0	100 000
Reserve capital	149 377	3 244	146 133
Special purpose reserve	214 314	0	214 314
Total	463 691	3 244	460 447

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 Riigikogu²¹. The amount set by the Riigikogu in the statutory capital is given in the Eesti Pank Act as EUR 100 million²². 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 capital²³. Following the decision of the Eesti Pank Supervisory Board of 28 April 2015 on the distribution of Eesti Pank’s profits for 2014, Eesti Pank’s reserve capital was equal to its statutory capital. When Eesti Pank’s reserve capital became equal to its statutory capital, the Riigikogu decided on 12 April 2016 to continue increasing Eesti Pank’s reserve capital to EUR 300 million. After these allocations, part of the profit can be allocated for establishing and supplementing endowments and foundations for specific purposes, at the decision of the Supervisory Board of Eesti Pank. The remaining profit is transferred to the state budget. The bank transferred 25% of its profit for 2017, or EUR 1.1 million, to the state budget in 2018.

21 Eesti Pank Act § 30 (2)

22 Eesti Pank Act § 25 (2)

23 Eesti Pank Act § 30 (3)

NOTES ON THE PROFIT AND LOSS ACCOUNT

ITEM 31 – NET INTEREST INCOME

	<i>thousand EUR</i>	
	2018	2017
Net interest income	28 253	19 995
Interest income	64 930	43 951
Intra-Eurosystem balances	27 170	19 152
Derivative instruments	25 125	13 951
Securities	8 547	7 856
Securities fund	2 741	1 971
Deposits	714	619
Current accounts	306	168
Reverse repurchase transactions	279	200
Fixed-term deposits	40	24
Loans to employees of Eesti Pank	8	10
Interest expenses	-36 677	-23 956
Derivative instruments	-32 691	-17 726
Securities	-2 848	-5 290
Current accounts	-754	-437
Intra-Eurosystem balances	-203	-365
Repurchase transactions	-181	-138

	<i>thousand EUR</i>	
	2018	2017
Intra-Eurosystem interest income	27 170	19 152
Monetary policy operations	15 261	12 262
Securities held for monetary policy purposes	11 909	6 890
Intra-Eurosystem interest expenses	-203	-365
Monetary policy operations	-203	-365

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

	<i>thousand EUR</i>	
	2018	2017
Net result of financial operations, write-downs and risk provisions	-11 681	-11 538
Realised gain arising from financial operations	29 946	2 009
Equities	24 723	1 759
Exchange rate income/expenses	4 646	-1 413
Derivative instruments	1 351	-627
Securities	-722	2 290
Financial asset management costs	-52	0

	<i>thousand EUR</i>	
	2018	2017
Write-downs on financial assets	-14 827	-6 047
Equities	-12 267	0
Securities fund	-1 707	-45
Derivative instruments	-326	-166
Securities	-303	-862
Exchange rate write-downs	-230	-4 977
Net change of loan portfolio write-downs	6	3
Provisions for foreign exchange rate, interest rate and credit risks	-26 800	-7 500

ITEM 33 – NET INCOME FROM FEES AND COMMISSIONS

	<i>thousand EUR</i>	
	2018	2017
Net income from fees and commissions	83	75
Fees and commissions income	225	109
Current accounts service fees	225	107
Fines, arrears and other	0	2
Fees and commissions expenses	-142	-34
Commission fees	-141	-32
Other fees and commissions	-1	-2

ITEM 34 – INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

	<i>thousand EUR</i>	
	2018	2017
Income from equity shares and participating interests	6 861	3 655
Interim profit distribution of the ECB	3 263	2 705
Dividends from investments	2 390	0
Partial allocation of ECB profit	786	622
Dividends from participation in the IMF	361	249
Dividends from the Bank for International Settlements	61	79

The item mainly shows the 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 and the public sector purchase programme (see "Interim profit distribution of the ECB" in the notes on accounting policies).

ITEM 35 – NET RESULT OF POOLING OF MONETARY INCOME

	<i>thousand EUR</i>	
	2018	2017
Net result of pooling of monetary income	7 389	10 567
Monetary income reallocation	6 914	10 764
Monetary income pooled by Eesti Pank	-26 519	-18 787

Monetary income allocated to Eesti Pank	33 433	29 551
Adjustment for the monetary income of previous years	728	-8
Write-downs of securities held for monetary policy purposes	-253	-189

The net result of pooling of monetary income from the Eurosystem central banks in 2018 totalled EUR 12,206,558,855, which includes the share of Eesti Pank. The monetary income pooled by the Eurosystem is allocated among the Eurosystem central banks in line with their subscription to the ECB's capital key. The difference between the monetary income pooled by Eesti Pank of EUR 26,519,557 and that reallocated to Eesti Pank of EUR 33,433,363 is the net result EUR 6,913,806 in monetary income.

The amount of each national central bank's monetary income is determined by measuring the actual annual income that derives from the earmarkable assets held against its liability base.

Earmarkable assets are: lending to euro area credit institutions related to monetary policy operations denominated in euro; securities held for monetary policy purposes; claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions; net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; interest claims accrued recorded at the end of the month on monetary policy operations with a maturity of over one year; and a limited amount of each national central bank's gold holdings in proportion to each national central bank's capital key share.

The liability base consists mainly of: banknotes in circulation; liabilities to euro area credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET2 transactions; net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem; and interest liabilities accrued recorded at the end of the month on monetary policy operations with a maturity of over one year. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

Gold is considered to generate no income. Securities held for monetary policy purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bonds purchase programme, Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme, and Decision ECB/2015/10 of 4 March 2015 on a secondary markets public sector purchase programme are considered to generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference is offset by applying to the value of the difference the latest available marginal rate for the Eurosystem's main refinancing operations and the total income or expense for the year is considered in the allocation of monetary income.

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

The item also covers Eesti Pank's share of the loss caused by the sale of a security held by a national central bank of the Eurosystem in its portfolio of the corporate sector purchase programme and the cancellation of the provision set up in 2017 to cover the loss in monetary policy operations (see Item 28 "Provisions").

ITEM 36 – OTHER INCOME

	<i>thousand EUR</i>	
	2018	2017
Other income	2 744	1 363
Income from the sale of collector coins and numismatic products	1 518	609

Expenses reimbursed by Finantsinspektsioon	658	634
Exchange liability for euro collector coins	498	38
Other income	30	22
Rental income	23	17
Income on financial asset management	17	43

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

Income from asset management includes the service fee paid by the Guarantee Fund to Eesti Pank for investing their assets. Income from the rent of the training centre of Eesti Pank is recorded under "Rental income".

ITEM 37 – STAFF COSTS

	<i>thousand EUR</i>	
	2018	2017
Staff costs	-9 651	-9 409
Salaries	-7 071	-6 894
Social tax	-2 374	-2 315
Compensations and benefits	-152	-148
Unemployment insurance tax	-54	-52

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

On average, there were 226.6 full-time equivalent employees at Eesti Pank in 2018, and 232.9 in 2017.

ITEM 38 – ADMINISTRATIVE EXPENSES

	<i>thousand EUR</i>	
	2018	2017
Administrative expenses	-6 148	-5 821
Information technology maintenance	-2 141	-1 752
Financial asset management	-1 433	-1 259
Real estate renovation and management	-913	-926
Business travel	-428	-467
Public relations and publications	-306	-478
Training	-202	-162
Office	-162	-151
External representation	-115	-97
Economic research	-112	-226
Communications and transport	-65	-44
Legal expertise and arbitration	-3	-2
Other administrative expenses	-268	-257

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. There were a total of 638 business trips in 2018; there were 698 in 2017.

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 5-euro and 50-euro banknotes for the Eurosystem was paid for.

ITEM 40 – OTHER OPERATING EXPENSES

	thousand EUR	
	2018	2017
Other operating expenses	-1 023	-2 002
Production of coins	-507	-793
Production of collector coins and numismatic products	-248	-927
Cash circulation management	-59	-76
Other expenses	-209	-206

ITEM 41 – DERIVATIVE INSTRUMENTS

	thousand EUR	
	31/12/2018	31/12/2017
Currency swaps and forward transactions		
Purchase	564 007	300 755
Sale	-563 056	-300 541
Value of interest rate future contracts		
Purchase	328 320	323 755
Sale	-256 403	-340 318
Value of currency futures contracts		
Purchase	9 738	10 629
Sale	-9 937	-12 550
Value of interest rate swap contracts		
Purchase	68 528	48 383
Sale	-47 569	-31 207
Value of interest rate option contracts		
Purchase	0	132 838
Sale	-14 084	-251 500

ITEM 42 – CONTINGENT LIABILITIES

Bank for International Settlements

Since 1930 Eesti Pank has had 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 635 859 at the end of 2018 (see Item 15 “Other financial assets”).

ITEM 43 – IMPORTANT POST-BALANCE-SHEET EVENTS

Following the five-yearly adjustment of the capital key under article 29.3 of the Statute of the ESCB and ECB, the capital key subscriptions of the national central banks changed on 1 January 2019.

	Capital key from	Capital key until
	01/01/2019	31/12/2018
	%	%
Nationale Bank van België / Banque Nationale de Belgique	2.5280	2.4778
Deutsche Bundesbank	18.3670	17.9973
Eesti Pank	0.1968	0.1928
Central Bank of Ireland	1.1754	1.1607
Bank of Greece	1.7292	2.0332
Banco de España	8.3391	8.8409
Banque de France	14.2061	14.1792
Banca d'Italia	11.8023	12.3108
Central Bank of Cyprus	0.1503	0.1513
Latvijas Banka	0.2731	0.2821
Lietuvos bankas	0.4059	0.4132
Banque centrale du Luxembourg	0.2270	0.2030
Central Bank of Malta	0.0732	0.0648
De Nederlandsche Bank	4.0677	4.0035
Oesterreichische Nationalbank	2.0325	1.9631
Banco de Portugal	1.6367	1.7434
Banka Slovenije	0.3361	0.3455
Národná banka Slovenska	0.8004	0.7725
Suomen Pankki – Finlands Bank	1.2708	1.2564
Subtotal – euro area national central banks	69.6176	70.3915
Българска народна банка (Bulgarian National Bank)	0.8511	0.8590
Česká národní banka	1.6172	1.6075
Danmarks Nationalbank	1.4986	1.4873
Hrvatska narodna banka	0.5673	0.6023
Magyar Nemzeti Bank	1.3348	1.3798
Narodowy Bank Polski	5.2068	5.1230
Banca Națională a României	2.4470	2.6024
Sveriges Riksbank	2.5222	2.2729
Bank of England	14.3374	13.6743
Subtotal – non-euro area national central banks	30.3824	29.6085
Total	100.0000	100.0000

The adjusted capital key was used for revaluing the payments of the central banks of the EU member states to the capital of the ECB and the contributions of the euro area central banks to the foreign currency reserve. Following the adjustment of the capital key, Eesti Pank transferred on 2 January 2019 an additional capital contribution of EUR 433,000 and transferred EUR 2,318,042 into the foreign reserves, and on 22 February 2019 it transferred an additional EUR 2,860,597 of the ECB's net equity to the ECB.