

ANNUAL ACCOUNTS OF EESTI PANK FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

THE FINANCIAL POSITION OF EESTI PANK

CAPITAL AND RESERVES

Eesti Pank had EUR 474.1 million of capital as at 31 December 2019. More detailed information on the capital of Eesti Pank is given under Item 29 “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 are realised during the year, and the forecast for the year to come. As at 31 December 2018 the provision made to cover financial risks was EUR 71.8 million. The bank made an additional provision of EUR 9.8 million in 2019, and as a result the total risk provision increased to EUR 71.8 million. See also Item 27 “Provisions” in the notes on the Balance Sheet.

PROVISION FOR THE OBLIGATION TO EXCHANGE ESTONIAN KROONS FOR EUROS

Nine years have passed since the euro was introduced and there are still some EUR 44.6 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 euros was set up in 2016. Future exchanges of kroons for euros will be funded from the provision. The provision was reduced in 2019 by EUR 387.8 thousand (EUR 392.7 thousand in 2018) as kroons were returned, and consequently the provision for the obligation to exchange kroons was reduced to 28.3 million euros.

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 on the liability 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. 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 34.8 million euros at the end of December 2019 and EUR 11.6 million at the end of 2018. For more details, see the notes on accounting principles, and Item 28 “Revaluation Accounts” in the notes to the Balance Sheet.

FINANCIAL RESULTS FOR 2019

Eesti Pank’s net profit in 2019 was EUR 28.4 million, and it was EUR 10.7 million in 2018.

Net interest income rose to EUR 29.4 million in 2019 from EUR 28.3 million in 2018. 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 2019, with the largest contribution coming from the rise of around 30% in the equity portfolio from its low price level at the start of the year. The bond portfolio also made a major contribution, as the income curve shifted downward quite substantially because of the changing direction in the monetary policy of the larger central banks during the year. More foreign currency bonds were purchased

in 2019, increasing the size of the portfolio substantially. The net income of Eesti Pank was increased by income from equity shares and participating interest of EUR 8.3 million euros, which includes EUR 4.0 million of profit distributed by the European Central Bank. For more details, see Item 33 “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 19.7 million in 2018 to EUR 20.3 million in 2019. 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 effects 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 have been drawn up for services the bank considers critical to reducing the impact of any possible interruption and to ensuring the continuity of services. 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 measures. The need to use multiple measures 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 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 management 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 the 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 last year 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 shares¹⁸.

APPROVAL OF THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 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 2019.

The Annual Accounts have been drawn up in accordance with the rules established in Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank. 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 16 March 2020, 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

Maive Rute Deputy Governor of Eesti Pank, Member of the Executive Board

BALANCE SHEET AS AT 31 DECEMBER 2019 AND 2018

		<i>thousand euros</i>	
	Item	31.12.2019	31.12.2018*
ASSETS			
Gold and gold receivables	1	11 172	9 248
Claims on non-euro area residents denominated in foreign currency		1 228 839	646 439
Receivables from the IMF	2	82 899	81 639
Balances with banks, security investments and other external assets	3	1 145 940	564 800
Claims on euro area residents denominated in foreign currency	4	35 614	55 265
Claims on non-euro area residents denominated in euro	5	33 330	34 314
Lending to euro area credit institutions related to monetary policy operations denominated in euro	6	23 000	50 000
Other claims on euro area credit institutions denominated in euro	7	7 590	8 545
Securities of euro area residents denominated in euro		5 661 519	5 691 135
Securities held for monetary policy purposes	8	5 620 962	5 649 200
Other securities	9	40 557	41 935
Intra-Eurosystem claims		2 242 673	2 390 432
Participating interest in the European Central Bank	10	92 147	88 853
Claims equivalent to the transfer of foreign reserves	11	114 048	111 730
Net claims related to the allocation of euro banknotes within the Eurosystem	12	1 408 675	1 414 982
Other claims within the Eurosystem (net)	13	627 803	774 867
Other assets		92 647	80 535
Tangible and intangible fixed assets	14	15 711	16 370
Other financial assets	15	234	234
Off-balance-sheet instruments revaluation differences	16	397	459
Accruals and prepaid expenses	17	59 944	46 885
Sundry	18	16 361	16 587
TOTAL ASSETS		9 336 384	8 965 913

* Data for 2018 have been corrected (see "Correction to the comparative data in the Annual Accounts in the Annual Report for 2019" in the appendix on accounting principles).

The notes on pages 78–104 form an integral part of the Annual Accounts.

		<i>thousand euros</i>	
	Item	31.12.2019	31.12.2018*
LIABILITIES			
Banknotes in circulation	19	3 361 129	3 102 458
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		4 901 979	4 855 524
Current accounts (including cover for the minimum reserve system)	20	4 901 979	4 855 524
Liabilities to other euro area residents denominated in euro	21	244 767	217 448
General Government		228 992	204 453
Other liabilities		15 775	12 995
Liabilities to non-euro area residents denominated in euro	22	14 520	48 292
Liabilities to non-euro area residents denominated in foreign currency	23	9 310	8 907
Counterpart of the special drawing rights allocated by the IMF	24	76 459	75 313
Other liabilities		80 734	70 998
Off-balance-sheet instruments revaluation differences	16	130	10 144
Accruals and income collected in advance	25	19 641	5 525
Sundry	26	60 963	55 329
Provisions	27	110 188	100 972
Revaluation accounts	28	34 815	11 570
Capital and reserves	29	474 128	463 691
Capital		259 814	249 377
Reserves		214 314	214 314
Profit for the year		28 355	10 740
TOTAL LIABILITIES		9 336 384	8 965 913

* Data for 2018 have been corrected (see "Correction to the comparative data in the Annual Accounts in the Annual Report for 2019" in the appendix on accounting principles).

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2019 PROFIT AND LOSS ACCOUNT FOR 2019 AND 2018

		<i>thousand euros</i>	
	Item	2019	2018*
Interest income		115 389	64 930
Interest expenses		-85 964	-36 677
Net interest income	30	29 425	28 253
Realised gain arising from financial operations		19 928	26 770
Write-downs on financial assets		-2 757	-14 827
Provision for financial risks		-9 800	-26 800
Net result of financial operations, write-downs and risk provisions	31	7 371	-14 857
Fees and commissions income		327	225
Fees and commissions expenses		-42	-142
Net income from fees and commissions	32	285	83
Income from equity shares and participating interests	33	8 295	6 861
Net result of pooling of monetary income	34	1 772	7 389
Other income	35	1 470	2 744
	Total net income	48 618	30 473
Staff costs	36	-10 433	-9 651
Administrative expenses	37	-6 231	-6 148
Depreciation of tangible and intangible fixed assets	14	-1 911	-1 880
Banknote production services	38	-704	-1 031
Other operating expenses	39	-984	-1 023
	Operating expenses	-20 263	-19 733
	Profit for the year	28 355	10 740

* Data for 2018 have been corrected (see "Correction to the comparative data in the Annual Accounts in the Annual Report for 2019" in the appendix on accounting principles).

The notes on pages 78–104 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 Bank¹⁹. 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 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.

Changes to the accounting principles

Several changes were made to the accounting principles in 2019 to make financial reporting more efficient²⁰. The most important of these changes are listed below.

- Marketable investment funds are to be valued at market prices on a net basis, excluding any underlying assets, provided that they meet the following criteria:
 - a. the purchase is for investment purposes only and does not affect day-to-day sales and purchase decisions;
 - b. the investment strategy and mandate of the fund are defined in advance and all conditions are set out in the contract;
 - c. the result of the investment is assessed as one investment in line with the investment strategy of the fund;
 - d. the fund is an independent unit whatever its legal form, and it is managed independently, including in its day-to-day investment decisions.
- Reverse transactions denominated in euro with euro area residents other than credit institutions are recorded under the item "other financial assets" on the assets side and in the item "liabilities to other euro area residents denominated in euro" on the liabilities side.
- The scope of the general risk provision was broadened to cover all financial risks on the bank's balance sheet, as it was earlier limited to currency, interest rate, credit and gold price risks. In this context, all financial risks is defined as meaning market, liquidity and credit risks.

These changes did not result in any recalculation of the comparison data for 2018.

¹⁹ 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, p3.

²⁰ Decision of the ECB of 28 November 2019 (ECB/2019/34) amending Decision (EU) 2016/2249 on the legal framework for accounting and financial reporting in the European System of Central Banks, OJ L 332, 23.12.2019, p184.

Correction to the comparative data in the Annual Accounts in the Annual Report for 2019

A technical accounting error meant that the profit of Eesti Pank for 2018 was overstated in error by EUR 3.2 million. When allocating the reserves of the central bank, Eesti Pank manages the exchange rate risk through currency swaps. The error occurred when the counterparty of a currency swap changed its location from the United Kingdom to Germany in anticipation of Brexit at a time when the first half of the transaction had already been completed. The change of location of the counterparty meant that the financial transaction software did not close the currency swap at the right time and the error was then transferred into the accounting entries.

The financial department discovered the error at the end of April 2019. As the profit for 2018 was misreported as EUR 3.2 million higher, the result of the correction was that the profit for 2018 was EUR 3.2 million lower, and the undistributed profit of the central bank was reduced by the same amount. Eesti Pank has since introduced additional control measures to prevent similar errors in the future, and has also conducted an additional internal audit of the accounts.

To make the data comparable with those of 2019, the Balance Sheet and Income Statement in the annual accounts for 2018 have been amended as follows:

<i>thousand euros</i>				
	Item	As at 31.12.2018	Correction	As corrected at 31.12.2018
Other assets		83 711	-3 176	80 535
Sundry	18	19 763	-3 176	16 587
TOTAL ASSETS		8 969 089	-3 176	8 965 913

<i>thousand euros</i>				
	Item	As at 31.12.2018	Correction	As corrected at 31.12.2018
Other liabilities		73 890	-2 892	70 998
Off-balance-sheet instruments revaluation differences	16	13 036	-2 892	10 144
Revaluation accounts	28	8 678	2 892	11 570
Profit for the year		13 916	-3 176	10 740
TOTAL LIABILITIES		8 969 089	-3 176	8 965 913

<i>thousand euros</i>				
	Item	Before correction 2018	Correction	As corrected 2018
Realised gain arising from financial operations		29 946	-3 176	26 770
Net result of financial operations, write-downs and risk provisions	31	-11 681	-3 176	-14 857
Total net income		33 649	-3 176	30 473
Profit for the year		13 916	-3 176	10 740

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 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 for which it is not known directly whether impairment has happened 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 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 2019.

The official daily fixings applied on 31 December 2019 and 2018 were as follows:

	31.12.2019	31.12.2018
USD	1.1234	1.1450
GBP	0.85080	0.89453
JPY	121.94	125.85
CNY	7.8205	7.8751
SDR	0.810438	0.822774

Gold

Gold is valued at the market price prevailing at the year end, and no distinction is made between price and currency devaluation differences for gold. Instead, a single gold valuation is accounted for on the basis of the price in euro per fine ounce of gold, which, for the year ending 31 December 2019, was derived from the exchange rate of the euro against the US dollar on 31 December 2019.

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 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 2019, mid-market prices on 31 December 2019 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 price 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 of over a year and an acquisition cost in excess of EUR 3200. Fixed assets are recorded at their acquisition cost, which is the purchase price and other expenditure directly related to bringing assets to the location and condition necessary for their intended use. Land, buildings, utility systems of buildings, IT hardware, software and other assets with long-term useful lives are recorded as fixed assets on the Balance Sheet. Prepayments for fixed assets are also recorded as fixed assets.

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

	2019
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 are recognised as fixed assets when it is probable that Eesti Pank will derive future expected benefits from the asset and the cost of the asset can be measured reliably. Current maintenance and repair costs are recognised as expenses for the period.

Provision for financial risks

Given the nature of the operations of the central bank, Eesti Pank may set up a provision on the balance sheet for financial risks. The management of the bank decides to increase or reduce the provision, using a reasonable estimate of the bank's exposure. The provision is used to cover the uncovered losses in revaluation accounts to the extent approved by the Executive Board. If the size of the provision is reduced because of risk estimates, the amount it is reduced by is recorded as income for the recording period.

Claims and liabilities to Finantsinspeksioon

The Balance Sheet of Eesti Pank contains a claim on Finantsinspeksioon for services provided by Eesti Pank and the acquisition of low-value assets, and a liability to Finantsinspeksioon 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 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 exchange rate and the exchange rate at maturity is treated on both the purchase and sale sides as an accrued interest liability or asset.

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 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 banknotes²¹. 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 key²².

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 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 liabilities²³ 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 year²⁴ the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes from previous years in the relative income positions of the Eurosystem central banks. The adjustments are effected by taking into account the differences for the observation period²⁵ 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 banks' 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 on the Balance Sheet as the probability of the coins being bought back is very small and their value as precious metal exceeds their nominal value. Income from the sale of collector coins is recorded in the Profit and Loss Account as it is generated.

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

21 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.

22 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.

23 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.

24 The year of changeover to the euro is the year when euro banknotes become the legal tender of a member state.

25 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.

of the following year in the form of an interim distribution of profit²⁶. 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". 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 subscriptions of national central banks to the subscribed capital of the ECB, net amounts paid by the national central banks because of an increase in their share in the equity capital of the ECB²⁷ following an adjustment of the capital key, and contributions under article 48.2 of the statutes 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 euro. These transactions are for the most part initiated by private entities, meaning credit institutions, corporations and individuals. These transactions are settled in TARGET2²⁸ 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)".

26 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).

27 The total value of equity capital covers all the reserves of the European Central Bank, revaluation accounts and a provision for the same value as reserves, minus the loss carried over from earlier 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.

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

NOTES ON THE BALANCE SHEET

NOTE 1 – GOLD AND GOLD RECEIVABLES

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

	31.12.2019	31.12.2018
Gold (ounces)	8250.171	8250.171
Ounce market value (EUR)	1354.104	1120.961
Revaluation (thousand EUR)	3 984	2 060
Market value (thousand EUR)	11 172	9 248

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>	
	31.12.2019	31.12.2018
SDR account in the IMF	30 364	29 892
Reserve position in the IMF	52 535	51 747
Participation in the IMF	300 976	295 838
IMF No.1 account	-248 441	-244 091
Total	82 899	81 639

The SDR account in the IMF

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

Reserve position in the IMF

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

At the end of 2019 the quota of the Republic of Estonia 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 Estonia's participation in the IMF's Financial Transactions Plan (FTP). No loan payments were made under the FTP in 2019; in 2018 payments in to the FTP of SDR 8.0 million were made and amounts were refunded in relation to the FTP of SDR 0.73 million. 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; shares, reverse repurchase agreements and term deposits denominated in US dollars; and security investments denominated in United States, Canadian and Australian dollars of non-euro area residents. Eesti Pank's foreign reserves were invested mainly in US government-guaranteed mortgage-backed securities funds, and government bonds of Australia and Canada. The fair value of investments is based on the prices quoted in active markets.

thousand euros

	31.12.2019	31.12.2018
Securities	936 382	402 295
Equities	100 846	40 482
Securities funds	97 897	101 178
Reverse repurchase transactions	9 310	8 956
Fixed-term deposits	980	1 223
Current accounts	525	10 666
Total	1 145 940	564 800

thousand euros

	31.12.2019	31.12.2018
USD	750 420	458 236
CAD	212 921	48 721
AUD	182 513	48 790
JPY	47	129
CNH	32	32
NOK	14	6
GBP	4	178
CHF	3	8 769
DKK	1	2
NZD	-2	-31
SEK	-13	-32
Total	1 145 940	564 800

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

	31.12.2019	31.12.2018
Securities	30 040	0
Current accounts	5 574	2 244
Equities	0	53 021
Total	35 614	55 265

thousand euros

	31.12.2019	31.12.2018
USD	34 111	54 590
AUD	478	220
GBP	425	-32
CAD	318	341
SEK	180	187
JPY	94	-50
CHF	8	9
Total	35 614	55 265

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

Item 5 reflects investments denominated in euro by non-euro area residents in securities, reverse repurchase transactions and bank balances in euros in credit institutions outside the euro area.

	<i>thousand euros</i>	
	31.12.2019	31.12.2018
Securities	18 234	17 560
Reverse repurchase transactions	14 852	16 112
Current accounts	244	642
Total	33 330	34 314

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 624,232 million euros, of which Eesti Pank holds 23 million euros (50 million euros in 2018) 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 0.2827%.

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 2019 the Governing Council of the ECB introduced a new series of seven targeted long-term refinancing operations (TLTRO-III). These operations have a three-year maturity, and may be repaid after two years. In accordance with the Governing Council decisions, the final interest rate applicable to each TLTRO-III operation may be as low as the average deposit facility interest rate that applied during the operation. As the actual interest rate will only become clear from 2021 and it is not possible to estimate it reliably until then, a conservative stance has been taken and the calculation of interest for the TLTRO-III in 2019 uses the interest rate on the deposit facility.

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 programme for covered bonds (CBPP2)²⁹, the Securities Markets Programme (SMP)³⁰ and the public sector asset purchase programme (PSPP)³¹.

The Securities Market Programme was ended on 6 September 2012. The second Covered Bond Purchase Programme was ended on 31 October 2012.

The Eurosystem's expanded asset purchase programme (APP)³² covers the third covered bonds

29 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).

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

31 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, with amendments).

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

purchase programme (CBPP3)³³, the asset backed securities purchase programme (ABSPP)³⁴, the public sector securities purchase programme (PSPP), and the corporate bond purchase programme (CSPP)³⁵.

On 1 November 2019 the Eurosystem restarted net purchases of an average of 20 billion euros of securities a month within the expanded asset purchase programme. This was preceded by a 10-month period from the end of 2018 when the Eurosystem only handled the reinvestment in full of the principal payments from maturing securities purchased under the asset purchase programme. The Governing Council expects the net purchases to run for as long as it is necessary to support the impact of its interest rates, and to end shortly before the Governing Council starts to raise the key ECB 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 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 value³⁶ 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:

thousand euros

	31.12.2019		31.12.2018	
	Amortised acquisition cost	Market value	Amortised acquisition cost	Market value
Public sector asset purchase programme	5 589 017	5 757 697	5 576 850	5 592 876
Securities Markets Programme	24 953	25 916	64 861	66 882
Second covered bond purchase programme	6 992	7 497	7 489	8 177
Total	5 620 962	5 791 110	5 649 200	5 667 935

The total Eurosystem central banks holding of Securities Market Programme securities amounts to EUR 44,216 million, the holding under the third covered bond purchase programme amounts to EUR 241,934 million, and the holding of bonds of European institutions purchased under the public sector purchase programme amounts to EUR 225,169 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, 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.

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 the impairment test conducted on the portfolio of the corporate sector purchase programme, the Governing Council considered it appropriate to maintain the provision in 2019 against the credit risks from monetary policy operations (see item 27 "Provisions").

The impairment test of securities purchased in 2019 under the third covered bond purchase programme (CBPP3) found that the value of one security had fallen. This security was issued by a credit institution that remained in serious financial difficulties in 2019. The Governing Council considered

33 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).

34 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).

35 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).

36 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.

that the fall in value did not affect the future expected cash flow. In consequence the loss from the fall in the value of the security purchased under the third covered bond purchase programme was not reflected at the end of the year.

ITEM 9 – OTHER SECURITIES

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

ITEM 10 – PARTICIPATING INTEREST IN THE ECB

Item 10 reflects the participating interest of Eesti Pank in the 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 reflects the subscription to the subscribed capital of the ECB, net amounts paid by Eesti Pank because of an increase in its share in the equity capital of the ECB following an adjustment of the capital key, and contributions under article 48.2 of the statutes of the ESCB.

Under article 29.3 of the statute of the ESCB and the ECB the capital key adjustment that happens every five years changed the capital key weightings of the national central banks in the ECB on 1 January 2019.

	Capital key weigh- ting from 01.01.2019 %	Subscribed capital from 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

	Capital key weighing from 01.01.2019 %	Subscribed capital from 31.12.2018 %
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

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

Following the adjustment to the capital key, the subscribed capital and equity capital of the central banks of the European Union countries in the ECB were recalculated. Following the recalculation, Eesti Pank paid the ECB an additional EUR 433 thousand on 2 January 2019.

The subscriptions of the central banks of the European Union to the capital of the ECB are shown in the following table.

	Subscribed capital as of 01.01.2019	Paid-in capital as of 01.01.2019	Subscribed capital as at 31.12.2018	Paid-in capital as at 31.12.2018
Nationale Bank van België / Banque Nationale de Belgique	273 656 179	273 656 179	268 222 025	268 222 025
Deutsche Bundesbank	1 988 229 048	1 988 229 048	1 948 208 997	1 948 208 997
Eesti Pank	21 303 614	21 303 614	20 870 614	20 870 614
Central Bank of Ireland	127 237 133	127 237 133	125 645 857	125 645 857
Bank of Greece	187 186 022	187 186 022	220 094 044	220 094 044
Banco de España	902 708 165	902 708 165	957 028 050	957 028 050
Banque de France	1 537 811 329	1 537 811 329	1 534 899 402	1 534 899 402
Banca d'Italia	1 277 599 809	1 277 599 809	1 332 644 970	1 332 644 970
Central Bank of Cyprus	16 269 986	16 269 986	16 378 236	16 378 236
Latvijas Banka	29 563 094	29 563 094	30 537 345	30 537 345
Lietuvos Bankas	43 938 704	43 938 704	44 728 929	44 728 929
Banque centrale du Luxembourg	24 572 766	24 572 766	21 974 764	21 974 764
Central Bank of Malta	7 923 905	7 923 905	7 014 605	7 014 605
De Nederlandsche Bank	440 328 813	440 328 813	433 379 158	433 379 158
Oesterreichische Nationalbank	220 018 269	220 018 269	212 505 714	212 505 714
Banco de Portugal	177 172 891	177 172 891	188 723 173	188 723 173
Banka Slovenije	36 382 849	36 382 849	37 400 399	37 400 399
Národná banka Slovenska	86 643 357	86 643 357	83 623 180	83 623 180
Suomen Pankki – Finlands Bank	137 564 190	137 564 190	136 005 389	136 005 389
Subtotal – euro area national central banks*	7 536 110 122	7 536 110 122	7 619 884 851	7 619 884 851
Българска народна банка (Bulgarian National Bank)	92 131 635	3 454 936	92 986 811	3 487 005
Česká národní banka	175 062 014	6 564 826	174 011 989	6 525 450
Danmarks Nationalbank	162 223 556	6 083 383	161 000 330	6 037 512
Hrvatska narodna banka	61 410 265	2 302 885	65 199 018	2 444 963
Magyar Nemzeti Bank	144 492 194	5 418 457	149 363 448	5 601 129
Narodowy Bank Polski	563 636 468	21 136 368	554 565 112	20 796 192
Banca Națională a României	264 887 923	9 933 297	281 709 984	10 564 124
Sveriges Riksbank	273 028 328	10 238 562	246 041 586	9 226 559
Bank of England	1 552 024 564	58 200 921	1 480 243 942	55 509 148
Subtotal – non-euro area national central banks*	3 288 896 948	123 333 636	3 205 122 218	120 192 083
Total*	10 825 007 070	7 659 443 757	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 recognises the total amount paid for the reserves, revaluation accounts and the risk provisions of the ECB of EUR 70,843 thousand.

ITEM 11 – CLAIMS EQUIVALENT TO THE TRANSFER OF FOREIGN RESERVES

Item 11 reflects claims of Eesti Pank arising from the transfers of foreign reserve assets to the ECB when Eesti Pank joined the Eurosystem. These foreign reserves were 85% in Japanese yen and 15% in gold. The claims are denominated in euro at a value fixed at the time of the 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.

Following the adjustment to the capital key, Eesti Pank paid an additional amount of EUR 2,318 thousand to the foreign reserves of the ECB on 2 January 2019.

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

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)³⁷. 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 EUROSISTEM (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 euros</i>	
	31.12.2019	31.12.2018
TARGET2	622 182	763 962
Monetary income reallocation	1 576	7 642
Interim profit distribution of the ECB	4 045	3 263
Total	627 803	774 867

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.

Claims on the ECB in connection with the reallocation of monetary income come from the difference between the amounts collected and allocated by the Eurosystem NCBs (see item 34 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 1,431 million in 2019 between the national central banks of the euro area (see item 33 of the Profit and Loss account "Income from equity shares and participating interests").

³⁷ Under the calculation methodology chosen for the euro banknotes of the Eurosystem, the ECB is allocated 8% of the total value of the euro banknotes in circulation each month. The remaining 92% of euro banknotes in circulation is divided between the national central banks each month and the national central banks report their euro banknotes on their balance sheets in the proportion of their subscribed capital of the ECB. In accordance with this accounting methodology, the difference between the value of euro banknotes allocated to a national central bank and the amount of euro banknotes issued into circulation is recorded under "Intra-Eurosystem net claims/liabilities related to the allocation of euro banknotes within the Eurosystem".

ITEM 14 – TANGIBLE AND INTANGIBLE FIXED ASSETS

thousand euros

Acquisition cost	Buildings	Hardware	Software	Other fixed assets	Motor vehicles	Total
Balance at the end of 2018	28 167	4 007	5 465	6 089	31	43 759
Acquisitions	89	437	188	394	0	1 108
Disposals	0	-286	-157	-63	0	-506
Balance at the end of 2019	28 256	4 158	5 496	6 420	31	44 361
Accumulated depreciation						
Balance at the end of 2018	15 575	2 811	3 512	5 530	29	27 457
Depreciation charge	997	409	330	173	2	1 911
Disposals	0	-280	-157	-64	0	-501
Balance at the end of 2019	16 572	2 940	3 685	5 639	31	28 867
Carrying amount						
Balance at the end of 2018	12 592	1 196	1 953	559	2	16 302
Balance at the end of 2019	11 684	1 218	1 811	781	0	15 494
Prepayments for fixed assets						
Balance at the end of 2018	0	0	68	0	0	68
Balance at the end of 2019	9	0	208	0	0	217
Total fixed assets						
Balance at the end of 2018	12 592	1 196	2 021	559	2	16 370
Balance at the end of 2019	11 693	1 218	2 019	781	0	15 711

The cost of fixed assets acquired in 2019 was EUR 1,108 thousand; in 2018 it was EUR 1,440 thousand. The largest share of the spending on procurements for buildings was spent on the renovation of buildings. The central server room was expanded and the Finantsinspektsioon entrance was renovated. Hardware procurement was related to the acquisition of information technology equipment. The largest software procurements were the data submission portal, planning and risk management software, payment and settlement software, and development of the statistics module, and contributions to the development of other ESCB software systems. The major part of the acquisition of other fixed assets was for the renewal of licences for banknote sorters and purchases of security equipment for the bank. The outdated technology in the press room of the museum was also replaced.

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 five 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 result from 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. The year-end sum for 2018 has been corrected (see “ Correction to the comparative data in the Annual Accounts in the Annual Report for 2019” in the appendix on accounting principles).

ITEM 17 – ACCRUALS AND PREPAID EXPENSES

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

	<i>thousand euros</i>	
	31.12.2019	31.12.2018
Interest claims	57 684	44 722
Securities	43 340	43 142
Derivative instruments	13 951	896
Fixed-term deposits and current accounts	197	194
Monetary policy operations	187	480
Reverse repurchase transactions	8	9
Loans	1	1
Claims on Finantsinspektsioon	1 098	920
Prepaid expenses	976	919
Other claims	186	324
Total	59 944	46 885

ITEM 18 – SUNDRY ASSETS

	<i>thousand EUR</i>	
	31.12.2019	31.12.2018
Foreign exchange transactions	9 057	12 124
Loans to employees of Eesti Pank	3 808	4 224
Correction of the profit distribution for 2018	3 176	0
Forward transactions in foreign currency	154	42
Credits related to margin calls	98	118
Other	61	67
Derivative instruments	7	12
Total	16 361	16 587

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% to -0.5% in 2019; in 2018 it was -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 a 5% interest rate. From 1 July 2015, Eesti Pank ceased providing loans to employees.

The item also 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.

The item also includes corrected amounts for currency exchange transactions in 2018. The uncorrected profit in the annual report for 2018 was divided in full between the Eesti Pank reserves and the state budget, and the correction of an error in the financial data for 2018 meant there was an uncovered loss in 2018. Under the legislative framework of financial reporting and accounting for the

European system of Central Banks, losses from previous years are recorded before they are covered under "Sundry other assets". Following the correction, the profit distribution for 2019 will be adjusted by the amount corrected for 2018 (see "Correction to the comparative data in the Annual Accounts in the Annual Report for 2019" in the appendix on accounting principles).

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>	
	31.12.2019	31.12.2018
Euro banknotes	1 952 454	1 687 475
Adjustments of euro banknotes	1 701 028	1 684 745
ECB banknotes (8%)	-292 353	-269 762
Total	3 361 129	3 102 458

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. From 30 October 2019, the Governing Council of the ECB introduced a two-tier system for reserve remuneration, so that some of the excess liquidity the banks hold at the central bank would be exempt from the negative deposit facility rate. The annual interest rate on this part of the excess liquidity is 0%. The size of the reserves held in excess of the minimum reserve requirements, which were exempt from the interest rate on the deposit facility as at the end of the year, was fixed at six times the mandatory reserve requirement³⁸. The excess liquidity to which the exemption does not apply continues to be 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% to -0.5% in 2019; in 2018 it was -0.4%. The average balance on the accounts of credit institutions was 4,552,226,653 euros in 2019 (3,890,313,394 euros in 2018).

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

Item 21 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 22 – LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

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

³⁸ The Governing Council of the ECB may over time adjust this multiplier following changes in the level of excess liquidity held.

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

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

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

Item 24 reflects the liability to the IMF arising from the IMF's decision of 7 August 2009 to increase the SDR issues for all of its member states. This was done in order to increase global liquidity using support from the foreign reserves of the member states. As a result, Estonia received SDR 61,965,241 (see Item 2 "Receivables from the IMF").

ITEM 25 – ACCRUALS AND DEFERRED INCOME

	<i>thousand EUR</i>	
	31.12.2019	31.12.2018
Interest liabilities	15 932	1 507
Derivative instruments	15 819	954
SDR allocation	99	135
Repurchase transactions	10	7
Monetary policy operations	4	411
Tax liabilities	1 206	1 049
Accounts payable	853	1 523
Employee salaries payable	785	729
Vacation reserve	508	512
Other liabilities	357	205
Total	19 641	5 525

Item 25 reflects accrued interest on financial instruments, most of which are interest liabilities on derivative instruments.

ITEM 26 – SUNDRY LIABILITIES

	<i>thousand EUR</i>	
	31.12.2019	31.12.2018
Euro coins	60 915	55 273
Other liabilities	32	20
Derivative instruments	16	26
Credits related to margin calls	0	10
Total	60 963	55 329

Item 26 mainly reflects euro coins issued.

ITEM 27 – PROVISIONS

	<i>thousand EUR</i>	
	31.12.2019	31.12.2018
Provision for financial risks	81 600	71 800
Exchange liability for Estonian kroons	28 343	28 731
Write-downs of securities held for monetary policy purposes	245	441
Total	110 188	100 972

Item 27 reflects the risk provision for financial risks, the provision to cover the exchange liability for the kroon, and the provision for the impairment of the 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 amount set aside for it in the past five years, which averages EUR 10.7 million, and the size of the bank's reserves are considered as well as the risk assessments. There was an additional provision of EUR 9.8 million on 31 December 2019 (EUR 26.8 million in 2018), meaning the total general risk provision increased to EUR 81.6 million. The increase in risk was mainly due to the continued purchase of securities under the asset purchase programmes³⁹. 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 29.6 million euros was set up in 2016 to cover the liability for exchanging kroons for euros, which covered 66% of the liability. Future exchanges of kroons for euros will be funded from the provision. The revision was reduced in 2019 by EUR 387.8 thousand (EUR 392.7 thousand in 2018) through the return of kroons. Estonian kroon banknotes and coins can be exchanged for euros at the shop of the Eesti Pank Museum with no limit of amount or duration at the 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.

In line with the decision of the Governing Council of the ECB and under Article 32.4 of the statute of the ESCB the provision to cover credit risks stemming from monetary policy operations is funded by the central banks of all member states in proportion to their participation in the capital key in the year when the value initially fell. During the annual impairment test conducted on the portfolio of the corporate sector purchase programme, the Governing Council of the ECB reviewed the size of the provision for the credit risk that materialised in 2018, and decided to reduce the total size of the provision from EUR 161,074,918 on 31 December 2018 to EUR 89,388,328 by 31 December 2019. Eesti Pank's share in this provision totalled EUR 244,832, or 0.2739% of the total provision, having been EUR 441,179 in 2018.

This change is recorded in the Profit and Loss Account of the central bank. Eesti Pank earned income of EUR 196,347 from this in 2019 (see Item 34 "Net result of pooling monetary income" in the notes on the Profit and Loss Account).

ITEM 28 – REVALUATION ACCOUNTS

	<i>thousand EUR</i>	
	31.12.2019	31.12.2018
Equities	19 275	0
Securities	7 965	5 883
Gold	3 984	2 060
Securities funds	3 093	0
Derivative instruments	344	471
Foreign currency	154	3 156
Total	34 815	11 570

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".

³⁹ 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 bond purchase programme (CSPP). For more on the asset purchase programme, see the ECB website <http://www.ecb.europa.eu/mopo/implementation/omt/html/index.en.html>

The foreign currency revaluation account for the end of 2018 has been corrected (see “Correction to the comparative data in the Annual Accounts in the Annual Report for 2019” in the appendix on accounting principles).

ITEM 29 – CAPITAL AND RESERVES

Changes in capital and reserves in 2019:

	31.12.2019	Distribution of profit for 2018	31.12.2018
Fixed Capital	100 000	0	100 000
Reserve capital	159 814	10 437	149 377
Special purpose reserve	214 314	0	214 314
Total	474 128	10 437	463 691

thousand EUR

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 Riigikogu⁴⁰. The amount set by the Riigikogu for the statutory capital is given in the Eesti Pank Act as EUR 100 million⁴¹. 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 capital⁴². 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. Eesti Pank transferred profit of EUR 3.5 million for 2018 to the state budget in 2019.

40 Eesti Pank Act § 30 (2)

41 Eesti Pank Act § 25 (2)

42 Eesti Pank Act § 30 (3)

NOTES ON THE PROFIT AND LOSS ACCOUNT

ITEM 30 – NET INTEREST INCOME

	<i>thousand EUR</i>	
	2019	2018
Net interest income	29 425	28 253
Interest income	115 389	64 930
Derivative instruments	62 041	25 125
Intra-Eurosystem balances	30 360	27 170
Securities	18 392	8 547
Securities funds	2 828	2 741
Deposits	920	714
Reverse repurchase transactions	468	279
Current accounts	333	306
Fixed-term deposits	40	40
Loans to employees of Eesti Pank	7	8
Interest expenses	-85 964	-36 677
Derivative instruments	-81 046	-32 691
Securities	-3 309	-2 848
Current accounts	-841	-754
Repurchase transactions	-735	-181
Intra-Eurosystem balances	-33	-203

	<i>thousand EUR</i>	
	2019	2018
Intra-Eurosystem interest income	30 360	27 170
Monetary policy operations	17 528	15 261
Securities held for monetary policy purposes	12 832	11 909
Intra-Eurosystem interest expenses	-33	-203
Monetary policy operations	-33	-203

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

	<i>thousand EUR</i>	
	2019	2018
Net result of financial operations, write-downs and risk provisions	7 371	-14 857
Realised gain arising from financial operations	19 928	26 770
Securities	11 863	-722
Exchange rate income/expenses	4 491	1 470
Equities	2 592	24 867
Derivative instruments	907	1 351

	<i>thousand EUR</i>	
	2019	2018
Securities funds	204	-144
Financial asset management costs	-129	-52
Write-downs on financial assets	-2 757	-14 827
Securities	-2 121	-303
Exchange rate write-downs	-497	-230
Derivative instruments	-139	-326
Equities	0	-12 267
Securities funds	0	-1 707
Net change of loan portfolio write-downs	0	6
Provision for financial risks	-9 800	-26 800

Exchange rate income/expenses for the end of 2018 has been corrected (see "Correction to the comparative data in the Annual Accounts in the Annual Report for 2019" in the appendix on accounting principles).

ITEM 32 – NET INCOME FROM FEES AND COMMISSIONS

	<i>thousand EUR</i>	
	2019	2018
Net income from fees and commissions	285	83
Fees and commissions income	327	225
Current accounts service fees	326	225
Fines, arrears and other	1	0
Fees and commissions expenses	-42	-142
Commission fees	-41	-141
Other fees and commissions	-1	-1

ITEM 33 – INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

	<i>thousand EUR</i>	
	2019	2018
Income from equity shares and participating interests	8 295	6 861
Interim profit distribution of the ECB	4 045	3 263
Dividends from investments	2 644	2 390
Partial allocation of ECB profit	1 052	786
Dividends from participation in the IMF	490	361
Dividends from the Bank for International Settlements	64	61

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 asset purchase programme (see "Interim profit distribution of the ECB" in the notes on accounting policies).

ITEM 34 – NET RESULT OF POOLING OF MONETARY INCOME

	<i>thousand EUR</i>	
	2019	2018
Net result of pooling of monetary income	1 772	7 389
Monetary income reallocation	1 620	6 914
Monetary income pooled by Eesti Pank	-30 326	-26 519
Monetary income allocated to Eesti Pank	31 946	33 433
Adjustment for the monetary income of previous years	-44	728
Write-downs of securities held for monetary policy purposes	196	-253

The net result of pooling of monetary income from the Eurosystem central banks in 2018 totalled EUR 11,300,936 thousand, 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 30,326 thousand and that reallocated to Eesti Pank of EUR 31,946 thousand is the net result of EUR 1,620 thousand in monetary income.

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

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

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

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

The item also covers Eesti Pank's share of the provision against losses in monetary policy operations (see Item 27 "Provisions").

ITEM 35 – OTHER INCOME

	<i>thousand EUR</i>	
	2019	2018
Other income	1 470	2 744
Expenses compensated by Finantsinspektsioon	752	658
Income from the sale of collector coins and other numismatic products	479	1 518
Income from sales of assets	102	1
Exchange liability for euro collector coins	71	498
Income on financial asset management	17	17
Rental income	15	23
Other income	34	29

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 36 – STAFF COSTS

	<i>thousand EUR</i>	
	2019	2018
Staff costs	-10 433	-9 651
Salaries	-7 604	-7 071
Social tax	-2 569	-2 374
Compensations and benefits	-203	-152
Unemployment insurance tax	-57	-54

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 223.9 employees at Eesti Pank in full-time equivalent in 2019, and 226.6 in 2018.

ITEM 37 – ADMINISTRATIVE EXPENSES

	<i>thousand EUR</i>	
	2019	2018
Administrative expenses	-6 231	-6 148
Information technology maintenance	-2 012	-2 141
Financial asset management	-1 483	-1 433
Real estate renovation and management	-985	-913
Public relations and publications	-489	-306
Business travel	-428	-428
Training	-180	-202

	<i>thousand EUR</i>	
	2019	2018
Economic research	-168	-112
Office	-162	-162
Communications and transport	-42	-65
Legal expertise and arbitration	-7	-3
External representation	0	-115
Other administrative expenses	-275	-268

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 of 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 619 business trips in 2019; there were 638 in 2018.

ITEM 38 – 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 39 – OTHER OPERATING EXPENSES

	<i>thousand EUR</i>	
	2019	2018
Other operating expenses	-984	-1 023
Production of collector coins and numismatic products	-378	-248
Production of coins	-312	-507
Cash circulation management	-87	-59
Other expenses	-207	-209

ITEM 40 – DERIVATIVE INSTRUMENTS

	<i>thousand EUR</i>	
	31.12.2019	31.12.2018
Currency swaps and forward transactions		
Purchase	1 080 513	564 007
Sale	-1 071 301	-563 056
Value of interest rate future contracts		
Purchase	38 958	328 320
Sale	-72 592	-256 403

thousand EUR

	31.12.2019	31.12.2018
Value of currency futures contracts		
Purchase	8 602	9 738
Sale	-9 065	-9 937
Value of interest rate swap contracts		
Purchase	23 470	68 528
Sale	-33 465	-47 569
Value of interest rate option contracts		
Purchase	6 600	0
Sale	-15 400	-14 084

ITEM 41 – 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 648 thousand at the end of 2019 (see Item 15 “Other financial assets”).

ITEM 43 – IMPORTANT POST-BALANCE-SHEET EVENTS

Following the departure of the United Kingdom from the European Union and the departure of the Bank of England from the European System of Central Banks, the capital key subscriptions of the national central banks changed on 1 February 2020.

	Capital key weighting from 01.02.2020 %	Subscribed capital from 31.01.2020 %
Nationale Bank van België / Banque Nationale de Belgique	2.9630	2.5280
Deutsche Bundesbank	21.4394	18.3670
Eesti Pank	0.2291	0.1968
Central Bank of Ireland	1.3772	1.1754
Bank of Greece	2.0117	1.7292
Banco de España	9.6981	8.3391
Banque de France	16.6108	14.2061
Banca d'Italia	13.8165	11.8023
Central Bank of Cyprus	0.1750	0.1503
Latvijas Banka	0.3169	0.2731
Lietuvos Bankas	0.4707	0.4059
Banque centrale du Luxembourg	0.2679	0.2270
Central Bank of Malta	0.0853	0.0732
De Nederlandsche Bank	4.7662	4.0677
Oesterreichische Nationalbank	2.3804	2.0325
Banco de Portugal	1.9035	1.6367
Banka Slovenije	0.3916	0.3361
Národná banka Slovenska	0.9314	0.8004
Suomen Pankki – Finlands Bank	1.4939	1.2708
Subtotal – euro area national central banks*	81.3286	69.6176

	Capital key weighting from 01.02.2020 %	Subscribed capital from 31.01.2020 %
Българска народна банка (Bulgarian National Bank)	0.9832	0.8511
Česká národní banka	1.8794	1.6172
Danmarks Nationalbank	1.7591	1.4986
Hrvatska narodna banka	0.6595	0.5673
Magyar Nemzeti Bank	1.5488	1.3348
Narodowy Bank Polski	6.0335	5.2068
Banca Națională a României	2.8289	2.4470
Sveriges Riksbank	2.9790	2.5222
Bank of England	0.0000	14.3374
Subtotal – non-euro area national central banks*	18.6714	30.3824
Total*	100.0000	100.0000

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

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 3 February 2020 an additional capital contribution of EUR 59 thousand to the ECB. Eesti Pank will transfer the remaining capital contribution to the ECB in two parts in 2021 and 2022 to make a total contribution of EUR 3,437 thousand. Eesti Pank's share of the ECB's foreign reserves was reduced by EUR 400 thousand, and the reserves, revaluation accounts and risk provision of the ECB were reduced by EUR 391 thousand.

The wide spread of the coronavirus (SARS-CoV-2) has made it more probable that all risks will be realised. We currently believe that our continuity processes and reserves are sufficient to survive the period of the pandemic successfully. We are monitoring the situation and will adjust our operations accordingly.



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

To the Supervisory Board of Eesti Pank

Opinion

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

- the balance sheet as at 31 December 2019,
- the profit and loss account for the year then ended, and
- notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Eesti Pank as at 31 December 2019, and of its financial performance for the year then ended in accordance with the Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34), and the Bank of Estonia (Eesti Pank) Act.

Basis for Opinion

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

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

Other Information

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

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

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

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

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

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



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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Tallinn, 16 March 2020

/signed/

Eero Kaup
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ
Licence No 17