

MANAGEMENT REPORT FOR THE YEAR ENDING 31 DECEMBER 2009

1 NATURE OF THE BUSINESS

The ECB's activities in 2009 are described in detail in the relevant chapters of the Annual Report.

2 OBJECTIVES AND TASKS

The ECB's objectives and tasks are described in the Statute of the ESCB (Articles 2 and 3). An overview of performance against these objectives is included in the President's foreword to the Annual Report.

3 KEY RESOURCES, RISKS AND PROCESSES

GOVERNANCE OF THE ECB

Information relating to the governance of the ECB is given in Chapter 7 of the Annual Report.

MEMBERS OF THE EXECUTIVE BOARD

The members of the Executive Board are appointed from among persons of recognised standing and professional experience in monetary or banking matters by a qualified majority of the governments of the Member States at the level of the Heads of State or Government, upon a recommendation from the EU Council after it has consulted the European Parliament and the Governing Council.

The terms and conditions of members' employment are determined by the Governing Council, based on a proposal from a Committee comprising three members appointed by the Governing Council and three members appointed by the EU Council.

The emoluments of the members of the Executive Board are set out in note 30, "Staff costs", of the Annual Accounts.

EMPLOYEES

The average number of staff (full-time equivalent) holding contracts with the ECB¹ rose from 1,499 in 2008 to 1,530 in 2009. At the end of that year 1,563 staff were employed. For further details, see note 30, "Staff costs", of the Annual Accounts and Section 2 of Chapter 7 of the Annual Report which also describes the ECB's human resources strategy.

INVESTMENT ACTIVITIES AND RISK MANAGEMENT

The ECB's foreign reserves portfolio consists of foreign reserve assets transferred to it by the euro area NCBs in accordance with the provisions of Article 30 of the Statute of the ESCB, and the income thereon. It serves to fund the ECB's operations in the foreign exchange market for the purposes set out in the Treaty.

The ECB's own funds portfolio reflects the investment of (a) its paid-up capital, (b) the counterpart of the provision for foreign exchange rate, interest rate, credit and gold price risks, (c) the general reserve fund, and (d) income accumulated on the portfolio in the past. Its purpose is to provide the ECB with income to contribute to the coverage of its operating expenses.

The ECB's investment activities and its management of the associated risks are described in greater detail in Chapter 2 of the Annual Report.

THE BUDGET PROCESS

The Budget Committee (BUCOM), composed of ECB and euro area NCB experts, is a key contributor to the ECB's financial governance process. In accordance with Article 15 of the Rules of Procedure, BUCOM supports the Governing Council by providing a detailed evaluation of annual ECB budget proposals and

¹ Staff on unpaid leave of absence are excluded. This number includes staff with permanent, fixed or short-term contracts and the participants in the ECB's Graduate Programme. Staff on maternity or long-term sick leave are also included.

requests for supplementary budget funding by the Executive Board, prior to their submission to the Governing Council for approval. Spending against agreed budgets is monitored regularly by the Executive Board, taking into account the advice of the ECB's internal controlling function, and by the Governing Council with the assistance of BUCOM.

4 FINANCIAL RESULT

FINANCIAL ACCOUNTS

Under Article 26.2 of the Statute of the ESCB, the Annual Accounts of the ECB are drawn up by the Executive Board, in accordance with the principles established by the Governing Council. The accounts are then approved by the Governing Council and subsequently published.

PROVISION FOR FOREIGN EXCHANGE RATE, INTEREST RATE, CREDIT AND GOLD PRICE RISKS

Since most of the ECB's assets and liabilities are periodically revalued at current market exchange rates and security prices, the ECB's profitability is strongly affected by exchange rate exposures and, to a lesser extent, interest rate exposures. These exposures stem mainly from its holdings of foreign reserve assets held in US dollars, Japanese yen and gold, which are predominantly invested in interest-bearing instruments.

In 2005, taking into account the ECB's large exposure to these risks and the size of its revaluation accounts, the Governing Council decided to establish a provision for foreign exchange rate, interest rate and gold price risks. The Governing Council also decided that the provision, together with any amounts held in the ECB's general reserve fund, may not exceed the value of the capital shares paid up by the euro area NCBs. In 2009, following the establishment of the programme for the purchase of covered bonds (see note 5, "Securities of euro area

residents denominated in euro", of the Annual Accounts), the Governing Council decided to extend the scope of the risk provision to also cover credit risk.

As at 31 December 2008 this provision amounted to €4,014,961,580. In accordance with Article 49.2 of the Statute of the ESCB, Národná banka Slovenska contributed an amount of €40,290,173 to the provision with effect from 1 January 2009. In addition, after taking the results of its assessment into account, the Governing Council decided to release, as at 31 December 2009, an amount of €34,806,031 from the provision in order to comply with the maximum allowed ceiling. The net effect of the above developments was an increase in the size of the provision to €4,020,445,722, which is the value of the ECB's capital paid up by the euro area NCBs as at 31 December 2009.

This provision will be used to cover realised and unrealised losses, in particular valuation losses not covered by the revaluation accounts. The size and continuing requirement for this provision is reviewed annually, taking a range of factors into account, including in particular the level of holdings of risk-bearing assets, the extent of materialised risk exposures in the current financial year, projected results for the coming year, and a risk assessment involving calculations of Values at Risk (VaR) on risk-bearing assets, which is applied consistently over time.

FINANCIAL RESULT FOR 2009

In 2009 the net income of the ECB prior to the release from the provision for risks was €2,218 million, compared with €2,661 million in 2008. The net profit, amounting to €2,253 million after this release, was distributed to the NCBs.

In 2008 the depreciation of the euro vis-à-vis the Japanese yen and the US dollar resulted in unrealised gains of €3.6 billion. These gains were recorded in revaluation accounts, in line

with the common accounting policies that have been established by the Governing Council for the Eurosystem. In 2009 the appreciation of the euro vis-à-vis the Japanese yen and the US dollar resulted in a reduction of €1.5 billion in those revaluation accounts, while the significant rise in the price of gold during 2009 has led to an increase of €2.0 billion in the related unrealised gains.

In 2009 net interest income decreased to €1,547 million from €2,381 million in 2008, owing mainly to (a) the decrease in interest income arising from the allocation of euro banknotes within the Eurosystem, which reflected the fact that the average marginal rate for the Eurosystem's main refinancing operations was lower in 2009, and (b) lower net interest income on foreign reserve assets in 2009 that was due mainly to the fact that interest rates on US dollar-denominated assets were lower on average in that year. The resulting decrease was only partially offset by a decrease in the remuneration of NCBs' claims in respect of foreign reserves transferred to the ECB.

Net realised gains arising from financial operations increased from €662 million in 2008 to €1,103 million in 2009, owing mainly to (a) higher net realised gains from security sales in 2009, and (b) higher realised gains from the sale of gold, as a result of the significant rise in the price of gold during 2009, combined with the larger volume of gold sold in that year. These sales were conducted in accordance with the Central Bank Gold Agreement, which came into effect on 27 September 2004 and of which the ECB is a signatory.

Total administrative expenses of the ECB, including depreciation, increased from €388 million in 2008 to €401 million in 2009.

CHANGE TO THE CAPITAL OF THE ECB

Under Article 29.3 of the Statute of the ESCB, the capital key for the NCBs' subscriptions to the ECB's capital must be adjusted every five

years. The second such adjustment following the establishment of the ECB took place on 1 January 2009.

In addition, pursuant to Council Decision 2008/608/EC of 8 July 2008, taken in accordance with Article 122(2) of the Treaty, Slovakia adopted the single currency on 1 January 2009. Consequently, in accordance with Article 49.1 of the Statute of the ESCB, Národná banka Slovenska paid up the remainder of its capital subscription to the ECB as of that date.

The adjustment of the NCBs' capital key shares in conjunction with Slovakia joining the euro area resulted in an increase in the ECB's paid-up capital from €4,137 million on 31 December 2008 to €4,142 million on 1 January 2009. Details of these changes are contained in note 16, "Capital and reserves", of the Annual Accounts.

5 OTHER ISSUES

REVIEW OF THE ECB'S RETIREMENT PLAN

In 2009 the ECB reviewed its retirement plan for staff members in order to ensure the plan's long-term financial sustainability. As a result of this review, the existing Retirement Plan was frozen on 31 May 2009 and a new Pension Scheme was introduced on 1 June 2009. For further details, see "The ECB's retirement plan and other post-employment benefits" under the Accounting Policies section of the Annual Accounts and Section 2 of Chapter 7 of the Annual Report which also describes the employment conditions at the ECB.

BALANCE SHEET AS AT 31 DECEMBER 2009

ASSETS	NOTE NUMBER	2009 €	2008 €
Gold and gold receivables	1	12,355,158,122	10,663,514,154
Claims on non-euro area residents denominated in foreign currency	2		
Receivables from the IMF		346,455,675	346,651,334
Balances with banks and security investments, external loans and other external assets		35,109,527,121	41,264,100,632
		35,455,982,796	41,610,751,966
Claims on euro area residents denominated in foreign currency	2	3,293,593,476	22,225,882,711
Claims on non-euro area residents denominated in euro	3		
Balances with banks, security investments and loans		0	629,326,381
Other claims on euro area credit institutions denominated in euro	4	5,000	25,006
Securities of euro area residents denominated in euro	5		
Securities held for monetary policy purposes		2,181,842,083	0
Intra-Eurosystem claims	6		
Claims related to the allocation of euro banknotes within the Eurosystem		64,513,307,300	61,021,794,350
Other claims within the Eurosystem (net)		6,359,967,425	234,095,515,333
		70,873,274,725	295,117,309,683
Other assets	7		
Tangible fixed assets		221,886,920	202,690,344
Other financial assets		11,816,451,684	10,351,859,696
Off-balance-sheet instruments revaluation differences		20,951,426	23,493,348
Accruals and prepaid expenses		775,782,372	1,806,184,794
Sundry		1,003,035,232	1,272,185,672
		13,838,107,634	13,656,413,854
Total assets		137,997,963,836	383,903,223,755

LIABILITIES	NOTE NUMBER	2009 €	2008 €
Banknotes in circulation	8	64,513,307,300	61,021,794,350
Liabilities to other euro area residents denominated in euro	9	1,056,000,000	1,020,000,000
Liabilities to non-euro area residents denominated in euro	10	9,515,160,271	253,930,530,070
Liabilities to euro area residents denominated in foreign currency	11	0	272,822,807
Liabilities to non-euro area residents denominated in foreign currency	11		
Deposits, balances and other liabilities		18,752,058	1,444,797,283
Intra-Eurosystem liabilities	12		
Liabilities equivalent to the transfer of foreign reserves		40,204,457,215	40,149,615,805
Other liabilities	13		
Off-balance-sheet instruments revaluation differences		196,041,410	1,130,580,103
Accruals and income collected in advance		731,468,960	2,284,795,433
Sundry		409,204,389	1,797,414,878
		1,336,714,759	5,212,790,414
Provisions	14	4,042,873,982	4,038,858,227
Revaluation accounts	15	10,915,251,958	11,352,601,325
Capital and reserves	16		
Capital		4,142,260,189	4,137,159,938
Profit for the year		2,253,186,104	1,322,253,536
Total liabilities		137,997,963,836	383,903,223,755

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31 DECEMBER 2009

	NOTE NUMBER	2009 €	2008 €
Interest income on foreign reserve assets		700,216,277	1,036,423,272
Interest income arising from the allocation of euro banknotes within the Eurosystem		787,157,441	2,230,477,327
Other interest income		5,608,442,130	9,956,981,127
<i>Interest income</i>		<i>7,095,815,848</i>	<i>13,223,881,726</i>
Remuneration of NCBs' claims in respect of foreign reserves transferred		(443,045,045)	(1,400,368,012)
Other interest expense		(5,105,724,953)	(9,442,319,040)
<i>Interest expense</i>		<i>(5,548,769,998)</i>	<i>(10,842,687,052)</i>
Net interest income	24	1,547,045,850	2,381,194,674
Realised gains/losses arising from financial operations	25	1,102,597,118	662,342,084
Write-downs on financial assets and positions	26	(37,939,649)	(2,662,102)
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks		34,806,031	(1,339,019,690)
Net result of financial operations, write-downs and risk provisions		1,099,463,500	(679,339,708)
Net expense from fees and commissions	27	(16,010)	(149,007)
Income from equity shares and participating interests	28	934,492	882,152
Other income	29	6,783,936	7,245,593
Total net income		2,654,211,768	1,709,833,704
Staff costs	30	(187,314,707)	(174,200,469)
Administrative expenses	31	(186,447,503)	(183,224,063)
Depreciation of tangible fixed assets		(21,042,602)	(23,284,586)
Banknote production services	32	(6,220,852)	(6,871,050)
Profit for the year		2,253,186,104	1,322,253,536

Frankfurt am Main, 23 February 2010

EUROPEAN CENTRAL BANK

Jean-Claude Trichet
President

ACCOUNTING POLICIES¹

FORM AND PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements of the ECB have been designed to present fairly the financial position of the ECB and the results of its operations. They have been drawn up in accordance with the following accounting policies,² which the Governing Council of the ECB considers to be appropriate to the nature of central bank activity.

ACCOUNTING PRINCIPLES

The following accounting principles have been applied: economic reality and transparency, prudence, recognition of post-balance-sheet events, materiality, the accruals principle, going concern, consistency and comparability.

RECOGNITION OF ASSETS AND LIABILITIES

An asset or liability is only recognised in the Balance Sheet when it is probable that any associated future economic benefit will flow to or from the ECB, substantially all of the associated risks and rewards have been transferred to the ECB, and the cost or value of the asset or the amount of the obligation can be measured reliably.

BASIS OF ACCOUNTING

The accounts have been prepared on a historical cost basis, modified to include the market valuation of marketable securities (other than those classified as held-to-maturity), gold and all other on-balance-sheet and off-balance-sheet assets and liabilities denominated in foreign currency. Transactions in financial assets and liabilities are reflected in the accounts on the basis of the date on which they were settled.

With the exception of securities, transactions in financial instruments denominated in foreign currency are recorded in off-balance-sheet accounts on the trade date. At the settlement date the off-balance-sheet entries are reversed and transactions are booked on-balance-sheet.

Purchases and sales of foreign currency affect the net foreign currency position on the trade date, and realised results arising from sales are also calculated on that date. Accrued interest, premiums and discounts related to financial instruments denominated in foreign currency are calculated and recorded daily, and the foreign currency position is also affected daily by these accruals.

GOLD AND FOREIGN CURRENCY ASSETS AND LIABILITIES

Assets and liabilities denominated in foreign currency are converted into euro at the exchange rate prevailing on the Balance Sheet date. Income and expenses are converted at the exchange rate prevailing on the recording date. The revaluation of foreign exchange assets and liabilities, including on-balance-sheet and off-balance-sheet instruments, is performed on a currency-by-currency basis.

Revaluation to the market price for assets and liabilities denominated in foreign currency is treated separately from the exchange rate revaluation.

Gold is valued at the market price prevailing at the year-end. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold valuation is accounted for on the basis of the price in euro per fine ounce of gold, which, for the year ending 31 December 2009, was derived from the exchange rate of the euro against the US dollar on 31 December 2009.

SECURITIES

Marketable securities (other than those classified as held-to-maturity) and similar assets are valued either at the mid-market

¹ The detailed accounting policies of the ECB are laid down in Decision ECB/2006/17, OJ L 348, 11.12.2006, p. 38, as amended.

² These policies are consistent with the provisions of Article 26.4 of the Statute of the ESCB, which require a harmonised approach to the rules governing the accounting and financial reporting of Eurosystem operations.

prices or on the basis of the relevant yield curve prevailing on the Balance Sheet date, on a security-by-security basis. For the year ending 31 December 2009, mid-market prices on 30 December 2009 were used.

Marketable securities classified as held-to-maturity, non-marketable securities and illiquid equity shares are all valued at cost subject to impairment.

INCOME RECOGNITION

Income and expenses are recognised in the period in which they are earned or incurred. Realised gains and losses arising from the sale of foreign exchange, gold and securities are taken to the Profit and Loss Account. Such realised gains and losses are calculated by reference to the average cost of the respective asset.

Unrealised gains are not recognised as income but are transferred directly to a revaluation account.

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

Impairment losses are taken to the Profit and Loss Account and are not reversed in subsequent years unless the impairment decreases and the decrease can be related to an observable event that occurred after the impairment was first recorded.

Premiums or discounts arising on purchased securities, including those classified as held-to-maturity, are calculated and presented as part of interest income and are amortised over the remaining life of the assets.

REVERSE TRANSACTIONS

Reverse transactions are operations whereby the ECB buys or sells assets under a repurchase agreement or conducts credit operations against collateral.

Under a repurchase agreement, securities are sold for cash with a simultaneous agreement to repurchase them from the counterparty at an agreed price on a set future date. Repurchase agreements are recorded as collateralised inward deposits on the liability side of the Balance Sheet and also lead to an interest expense in the Profit and Loss Account. Securities sold under such an agreement remain on the Balance Sheet of the ECB.

Under a reverse repurchase agreement, securities are bought for cash with a simultaneous agreement to sell them back to the counterparty at an agreed price on a set future date. Reverse repurchase agreements are recorded as collateralised loans on the asset side of the Balance Sheet but are not included in the ECB's security holdings. They give rise to interest income in the Profit and Loss Account.

Reverse transactions (including security lending transactions) conducted under an automated security lending programme are recorded on the Balance Sheet only where collateral is provided in the form of cash placed on an account of the ECB. In 2009 the ECB did not receive any collateral in the form of cash in connection with such transactions.

OFF-BALANCE-SHEET INSTRUMENTS

Currency instruments, namely foreign exchange forward transactions, forward legs of foreign exchange swaps and other currency instruments involving an exchange of one currency for another at a future date, are included in the net foreign currency position for the purpose of calculating foreign exchange gains and losses.

Interest rate instruments are revalued on an item-by-item basis. Daily changes in the variation margin of open interest rate futures contracts

are recorded in the Profit and Loss Account. The valuation of forward transactions in securities 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.

POST-BALANCE-SHEET EVENTS

Assets and liabilities are adjusted for events that occur between the annual Balance Sheet date and the date on which the Governing Council approves the financial statements, if such events materially affect the condition of assets and liabilities at the Balance Sheet date.

Important post-balance-sheet events that do not affect the condition of assets and liabilities at the Balance Sheet date are disclosed in the notes.

INTRA-ESCB BALANCES/INTRA-EUROSYSTEM BALANCES

Intra-ESCB transactions are cross-border transactions that occur between two EU central banks. These transactions are processed primarily via TARGET2 – the Trans-European Automated Real-time Gross settlement Express Transfer system (see Chapter 2 of the Annual Report) – and give rise to bilateral balances in accounts held between those EU central banks connected to TARGET2. These bilateral balances are then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-à-vis the ECB only. This position in the books of the ECB represents the net claim or liability of each NCB against the rest of the ESCB.

Euro-denominated intra-ESCB balances of the euro area NCBs with the ECB (except for the capital of the ECB and positions resulting from the transfer of foreign reserve assets to the ECB) are described as intra-Eurosystem claims or liabilities and are presented in the Balance Sheet of the ECB as a single net asset or liability position.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a single net asset

under “Claims related to the allocation of euro banknotes within the Eurosystem” (see “Banknotes in circulation” in the notes on accounting policies).

Intra-ESCB balances of non-euro area NCBs with the ECB, arising from their participation in TARGET2,³ are disclosed under “Liabilities to non-euro area residents denominated in euro”.

TREATMENT OF FIXED ASSETS

Fixed assets, with the exception of land, are valued at cost less depreciation. Land is valued at cost. Depreciation is calculated on a straight-line basis, beginning in the quarter after acquisition and continuing over the period for which the asset is expected to be available for use, as follows:

Computers, related hardware and software, and motor vehicles	4 years
Equipment, furniture and plant in building	10 years
Fixed assets costing less than €10,000	Written off in the year of acquisition

The depreciation period for capitalised building and refurbishment expenditure relating to the ECB’s existing rented premises has been reduced in order to ensure that these assets are completely written off before the ECB moves to its new premises.

THE ECB’S RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The ECB operates a defined benefit plan for its staff. This is funded by assets held in a long-term employee-benefit fund.

In 2009 the ECB reviewed its retirement plan for staff members in order to ensure the plan’s long-term financial sustainability. As a result of this review, the existing Retirement Plan was frozen on 31 May 2009 and the related rights acquired by existing staff were preserved.

³ As at 31 December 2009 the non-euro area NCBs participating in TARGET2 were: Danmarks Nationalbank, Latvijas Banka, Lietuvos bankas, Narodowy Bank Polski and Eesti Pank.

A new Pension Scheme for both existing staff and new entrants was introduced on 1 June 2009. Under this new scheme, the compulsory contributions of the ECB and the staff were increased from 16.5% to 18% and from 4.5% to 6% of basic salary respectively. Similarly to the frozen Retirement Plan, staff can make additional contributions under the new scheme on a voluntary basis in a defined contribution pillar that can be used to provide additional benefits.⁴

BALANCE SHEET

The liability recognised in the Balance Sheet in respect of the defined benefit plans is the present value of the defined benefit obligation as at the Balance Sheet date, *less* the fair value of plan assets used to fund the obligation, adjusted for unrecognised actuarial gains or losses.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, using interest rates of high quality corporate bonds that are denominated in euro and have similar terms of maturity to the term of the related pension liability.

Actuarial gains and losses can arise from experience adjustments (where actual outcomes are different from the actuarial assumptions previously made) and changes in actuarial assumptions.

PROFIT AND LOSS ACCOUNT

The net amount charged to the Profit and Loss Account comprises:

- (a) the current service cost of the benefits accruing for the year;
- (b) interest at the discount rate on the defined benefit obligation;
- (c) the expected return on the plan assets; and

(d) any actuarial gains and losses recognised in the Profit and Loss Account, using a “10% corridor” approach.

“10% CORRIDOR” APPROACH

Net cumulative unrecognised actuarial gains and losses which exceed the greater of (a) 10% of the present value of the defined benefit obligation and (b) 10% of the fair value of plan assets, are to be amortised over the expected average remaining working lives of the participating employees.

PENSIONS OF EXECUTIVE BOARD MEMBERS AND OTHER POST-RETIREMENT OBLIGATIONS

Unfunded arrangements are in place for the pensions of members of the Executive Board of the ECB and disability benefit provisions for the staff. The expected costs of these benefits are accrued over the Executive Board/staff members’ terms of office/employment using an accounting approach similar to that of defined benefit pension plans. Actuarial gains and losses are recognised in the same manner as outlined above.

These obligations are valued annually by independent actuaries to establish the appropriate liability in the financial statements.

BANKNOTES IN CIRCULATION

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes.⁵ The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with the banknote allocation key.⁶

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, which

⁴ Each member’s voluntary funds can be used at retirement to purchase an additional pension. This pension would be included in the defined benefit liability from that point onwards.

⁵ Decision ECB/2001/15 of 6 December 2001 on the issue of euro banknotes, OJ L 337, 20.12.2001, p. 52, as amended.

⁶ “Banknote allocation key” means the percentages that result from taking into account the ECB’s share in the total euro banknote issue and applying the subscribed capital key to the NCBs’ share in that total.

is disclosed under the Balance Sheet liability item “Banknotes in circulation”. The ECB’s share of the total euro banknote issue is backed by claims on the NCBs. These claims, which bear interest,⁷ are disclosed under the sub-item “Intra-Eurosystem claims: claims related to the allocation of euro banknotes within the Eurosystem” (see “Intra-ESCB balances/intra-Eurosystem balances” in the notes on accounting policies). Interest income on these claims is included within the item “Net interest income”. This income is due to the NCBs in the financial year in which it accrues, but is distributed on the second working day of the following year.⁸ It is distributed in full unless the ECB’s net profit for the year is less than its income earned on euro banknotes in circulation, and subject to any decisions by the Governing Council to make transfers to a provision for foreign exchange rate, interest rate, credit and gold price risks and/or to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against this income.

RECLASSIFICATIONS

Interest income and interest expense in foreign currency arising from US dollar and Swiss franc liquidity-providing operations were previously recorded under the heading “Interest income on foreign reserve assets”. The ECB has decided to reclassify these items under the headings “Other interest income” and “Other interest expense”,⁹ so that only interest income arising from the management of its foreign reserves is reported under the heading “Interest income on foreign reserve assets”. The comparable amounts for 2008 have been adjusted as follows:

	Published in 2008	Adjustment owing to reclassification	Restated amount
	€	€	€
Interest income on foreign reserve assets	997,075,442	39,347,830	1,036,423,272
Interest income arising from the allocation of euro banknotes within the Eurosystem	2,230,477,327	0	2,230,477,327

	Published in 2008	Adjustment owing to reclassification	Restated amount
	€	€	€
Other interest income	8,430,894,437	1,526,086,690	9,956,981,127
<i>Interest income</i>	<i>11,658,447,206</i>	<i>1,565,434,520</i>	<i>13,223,881,726</i>
Remuneration of NCBs’ claims in respect of foreign reserves transferred	(1,400,368,012)	0	(1,400,368,012)
Other interest expense	(7,876,884,520)	(1,565,434,520)	(9,442,319,040)
<i>Interest expense</i>	<i>(9,277,252,532)</i>	<i>(1,565,434,520)</i>	<i>(10,842,687,052)</i>
Net interest income	2,381,194,674	0	2,381,194,674

OTHER ISSUES

Taking account of the ECB’s role as a central bank, the Executive Board considers that the publication of a cash flow statement would not provide the readers of the financial statements with any additional relevant information.

In accordance with Article 27 of the Statute of the ESCB, and on the basis of a recommendation of the Governing Council, the EU Council has approved the appointment of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the external auditors of the ECB for a five-year period up to the end of the financial year 2012.

7 Decision ECB/2001/16 of 6 December 2001 on the allocation of monetary income of the national central banks of participating Member States from the financial year 2002, OJ L 337, 20.12.2001, p. 55, as amended.

8 Decision ECB/2005/11 of 17 November 2005 on the distribution of the income of the European Central Bank on euro banknotes in circulation to the national central banks of the participating Member States, OJ L 311, 26.11.2005, p. 41.

9 The reclassifications comply with the accounting policies of the ECB laid down in Decision ECB/2006/17, OJ L 348, 11.12.2006, p. 38, as amended.

NOTES ON THE BALANCE SHEET

1 GOLD AND GOLD RECEIVABLES

As at 31 December 2009 the ECB held 16,122,146 ounces¹⁰ of fine gold (2008: 17,156,546 ounces). The reduction was due to (a) sales of 1,141,248 ounces of fine gold in accordance with the Central Bank Gold Agreement, which came into effect on 27 September 2004 and of which the ECB is a signatory, and (b) the transfer by Národná banka Slovenska to the ECB of 106,848 ounces of fine gold¹¹ upon the adoption of the single currency by Slovakia, in accordance with Article 30.1 of the Statute of the ESCB. The decrease in the euro equivalent value of this holding, resulting from these transactions, was more than offset by a significant rise in the price of gold during 2009 (see “Gold and foreign currency assets and liabilities” in the notes on accounting policies).

2 CLAIMS ON NON-EURO AREA AND EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

RECEIVABLES FROM THE IMF

This asset represents the ECB’s holdings of special drawing rights (SDRs) as at 31 December 2009. It arises as the result of a two-way SDR buying and selling arrangement with the International Monetary Fund (IMF), whereby the IMF is authorised to arrange sales or purchases of SDRs against euro, on behalf of the ECB, within minimum and maximum holding levels. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of the exchange rates of four major currencies (euro, Japanese yen, pound sterling and US dollar). For accounting purposes, SDRs are treated as a foreign currency (see “Gold and foreign currency assets and liabilities” in the notes on accounting policies).

BALANCES WITH BANKS AND SECURITY INVESTMENTS, EXTERNAL LOANS AND OTHER EXTERNAL ASSETS; AND CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

These two items consist of balances with banks and loans denominated in foreign currency, and investments in securities denominated in US dollars and Japanese yen.

<i>Claims on non-euro area residents</i>	2009 €	2008 €	Change €
Current accounts	845,908,975	5,808,582,148	(4,962,673,173)
Money market deposits	636,977,905	573,557,686	63,420,219
Reverse repurchase agreements	0	379,961,453	(379,961,453)
Security investments	33,626,640,241	34,501,999,345	(875,359,104)
Total	35,109,527,121	41,264,100,632	(6,154,573,511)

<i>Claims on euro area residents</i>	2009 €	2008 €	Change €
Current accounts	677,846	619,534	58,312
Money market deposits	3,292,915,630	22,225,263,177	(18,932,347,547)
Total	3,293,593,476	22,225,882,711	(18,932,289,235)

The value of current accounts held with non-euro area residents decreased owing mainly to the following factors:

- (a) As at 31 December 2008 current accounts included an amount of €3.9 billion arising from the settlement of the Danish krone leg of outstanding swap transactions with Danmarks Nationalbank.¹² No such swap transactions remained outstanding as at 31 December 2009;

¹⁰ This corresponds to 501.5 tonnes.

¹¹ The transfer, with an aggregate value equivalent to €66.5 million, was made with effect from 1 January 2009.

¹² A reciprocal currency arrangement (swap line) was established by Danmarks Nationalbank and the ECB in 2008. Under this arrangement, the ECB provides euro funds to Danmarks Nationalbank against Danish kroner for the duration of the transactions. The resulting funds are used in support of measures to improve liquidity in euro short-term markets.

(b) Balances in Swiss francs,¹³ arising in connection with the swap arrangement established with the Swiss National Bank, were lower as a result of significantly reduced outstanding operations as at 31 December 2009 (see note 10, “Liabilities to non-euro area residents denominated in euro”).

The depreciation of the Japanese yen and the US dollar against the euro and the reduction in unrealised gains on securities (see note 15, “Revaluation accounts”) have also contributed to the decrease in the total value of these items.

As at 31 December 2008 deposits related to operations conducted by Eurosystem central banks in order to provide US dollar liquidity to credit institutions in the euro area were included under the component money market deposits with euro area residents. No such deposits remained outstanding as at 31 December 2009, resulting in a significant decrease in this component.

Additionally, upon the adoption of the single currency by Slovakia with effect from 1 January 2009, Národná banka Slovenska transferred foreign reserve assets denominated in US dollars with an aggregate value of €376.6 million to the ECB, in accordance with Article 30.1 of the Statute of the ESCB.

The ECB’s net foreign currency holdings¹⁴ of US dollars and Japanese yen, as at 31 December 2009, were as follows:

	Currency in millions
US dollars	43,123
Japanese yen	1,093,848

3 CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO

As at 31 December 2008 this item consisted mainly of a claim of €460.0 million on the Magyar Nemzeti Bank in connection with an agreement established with the ECB on

repurchase transactions. This agreement provides the Magyar Nemzeti Bank with a facility to borrow up to €5 billion in order to support its domestic operations for the provision of euro liquidity. No related claims remained outstanding as at 31 December 2009.

4 OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

As at 31 December 2009 this claim consisted of a current account with a euro area resident.

5 SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO

As at 31 December 2009 this item consisted of securities acquired by the ECB within the scope of the purchase programme for covered bonds announced by the Governing Council on 4 June 2009. Under this programme, the ECB and the NCBs have, for monetary policy purposes, started to purchase euro-denominated covered bonds issued in the euro area. The purchases are expected to be fully implemented by the end of June 2010.

The Governing Council has decided to classify the covered bonds as held-to-maturity (see “Securities” in the notes on accounting policies). As at 31 December 2009 there was no objective evidence that these assets were impaired.

13 The balances in Swiss francs reflect the risk control measures applied by the ECB in its EUR/CHF foreign exchange swap tenders, which take the form of initial margins of 5% for one-week operations.

14 Assets minus liabilities denominated in the respective foreign currency that are subject to foreign currency revaluation. These are included under the headings “Claims on non-euro area residents denominated in foreign currency”, “Claims on euro area residents denominated in foreign currency”, “Accruals and prepaid expenses”, “Liabilities to euro area residents denominated in foreign currency”, “Liabilities to non-euro area residents denominated in foreign currency”, “Off-balance-sheet instruments revaluation differences” (liability side) and “Accruals and income collected in advance”, also taking into account foreign exchange forward and swap transactions under off-balance-sheet items. The effects of the price revaluation gains on financial instruments denominated in foreign currency are not included.

6 INTRA-EUROSYSTEM CLAIMS

CLAIMS RELATED TO THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSYSTEM

This item consists of the claims of the ECB vis-à-vis the euro area NCBs relating to the allocation of euro banknotes within the Eurosystem (see “Banknotes in circulation” in the notes on accounting policies).

OTHER CLAIMS WITHIN THE EUROSYSTEM (NET)

In 2009 this item consisted mainly of the TARGET2 balances of the euro area NCBs vis-à-vis the ECB (see “Intra-ESCB balances/intra-Eurosystem balances” in the notes on accounting policies). The decrease in this position was due mainly to the reduction in the outstanding amount related to the back-to-back swap transactions conducted with NCBs in connection with US dollar liquidity-providing operations (see note 10, “Liabilities to non-euro area residents denominated in euro”).

This item also includes the amount due to euro area NCBs in respect of the interim distribution of the ECB’s income derived from banknotes (see “Banknotes in circulation” in the notes on accounting policies).

	2009 €	2008 €
Due from euro area NCBs in respect of TARGET2	317,085,135,903	420,833,781,929
Due to euro area NCBs in respect of TARGET2	(309,938,011,037)	(185,532,591,178)
Due to euro area NCBs in respect of the interim distribution of the ECB’s income derived from banknotes	(787,157,441)	(1,205,675,418)
Other claims within the Eurosystem (net)	6,359,967,425	234,095,515,333

7 OTHER ASSETS

TANGIBLE FIXED ASSETS

These assets comprised the following items on 31 December 2009:

	2009 €	2008 €	Change €
Cost			
Land and buildings	168,811,800	159,972,149	8,839,651
Computer hardware and software	182,723,860	174,191,055	8,532,805
Equipment, furniture, plant in building and motor vehicles	29,786,515	28,862,720	923,795
Assets under construction	105,158,742	83,407,619	21,751,123
Other fixed assets	3,668,526	3,577,485	91,041
Total cost	490,149,443	450,011,028	40,138,415
Accumulated depreciation			
Land and buildings	(70,731,976)	(59,885,983)	(10,845,993)
Computer hardware and software	(169,735,407)	(160,665,542)	(9,069,865)
Equipment, furniture, plant in building and motor vehicles	(27,593,378)	(26,618,732)	(974,646)
Other fixed assets	(201,762)	(150,427)	(51,335)
Total accumulated depreciation	(268,262,523)	(247,320,684)	(20,941,839)
Net book value	221,886,920	202,690,344	19,196,576

The category “Land and buildings” increased owing mainly to the final payment related to the acquisition of the land for the ECB’s new premises.

The increase in the category “Assets under construction” is due mainly to activities related to the ECB’s new premises. Transfers from this category to the relevant fixed asset headings will occur once the assets are in use.

OTHER FINANCIAL ASSETS

This item consists of the investment of the ECB's own funds held as a direct counterpart to the capital and reserves of the ECB (see note 13, "Other liabilities"), as well as other financial assets which include 3,211 shares in the Bank for International Settlements (BIS) at the acquisition cost of €41.8 million.

The main components of this item are as follows:

	2009 €	2008 €	Change €
Current accounts in euro	8,748,115	4,936,630	3,811,485
Money market deposits in euro	0	150,000,000	(150,000,000)
Securities denominated in euro	11,295,095,956	9,675,505,128	1,619,590,828
Reverse repurchase agreements in euro	470,622,051	479,293,075	(8,671,024)
Other financial assets	41,985,562	42,124,863	(139,301)
Total	11,816,451,684	10,351,859,696	1,464,591,988

The net increase in this item was due mainly to the investment in the own funds portfolio of the counterpart of the amount transferred to the ECB's provision for foreign exchange rate, interest rate and gold price risks in 2008 and income received on the own funds portfolio in 2009.

OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

This item is composed mainly of valuation changes in swap and forward transactions in foreign currency that were outstanding on 31 December 2009 (see note 21, "Foreign exchange swap and forward transactions"). These valuation changes are the result of the conversion of such transactions into their euro equivalents at the exchange rates prevailing on the Balance Sheet date, compared with the euro values resulting from the conversion of the transactions at the average cost of the respective foreign currency on that date (see "Gold and

foreign currency assets and liabilities" in the notes on accounting policies).

Valuation gains in outstanding interest rate swap transactions are also included in this item (see note 20, "Interest rate swaps").

ACCRUALS AND PREPAID EXPENSES

In 2009 this position included accrued interest receivable on the TARGET2 balances due from euro area NCBs for the final month of 2009, amounting to €261.6 million (2008: €648.9 million), and accrued interest receivable on the ECB's claims related to the allocation of euro banknotes within the Eurosystem for the final quarter of the year (see "Banknotes in circulation" in the notes on accounting policies), amounting to €157.8 million (2008: €500.4 million).

Also included under this item is accrued interest on securities (see also note 2, "Claims on non-euro area and euro area residents denominated in foreign currency", note 5, "Securities of euro area residents denominated in euro", and note 7, "Other assets") and other financial assets.

SUNDRY

This item consists mainly of the accrued interim distribution of the ECB's income derived from banknotes (see "Banknotes in circulation" in the notes on accounting policies and note 6, "Intra-Eurosystem claims").

This item also includes positive balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2009 (see note 21, "Foreign exchange swap and forward transactions"). These balances arise from the conversion of such transactions into their euro equivalents at the respective currency's average cost on the Balance Sheet date, compared with the euro values at which the transactions were initially recorded (see "Off-balance-sheet instruments" in the notes on accounting policies).

A claim against the German Federal Ministry of Finance in respect of recoverable value added tax and other indirect taxes paid is also included under this heading. Such taxes are refundable under the terms of Article 3 of the Protocol on the privileges and immunities of the European Union, which applies to the ECB by virtue of Article 39 of the Statute of the ESCB.

8 BANKNOTES IN CIRCULATION

This item consists of the ECB's share (8%) of the total euro banknotes in circulation (see "Banknotes in circulation" in the notes on accounting policies).

9 LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

This item comprises deposits by members of the Euro Banking Association (EBA) which are used in order to provide the ECB with collateral in respect of the EBA's payments settled through the TARGET2 system.

10 LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

As at 31 December 2009 this item consisted mainly of a liability to the Federal Reserve amounting to €4.5 billion (2008: €219.7 billion) in connection with the US dollar Term Auction Facility. Under this programme, US dollars were provided by the Federal Reserve to the ECB by means of a temporary reciprocal currency arrangement (swap line), with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with euro area NCBs, which used the resulting funds to conduct US dollar liquidity-providing operations with Eurosystem counterparties in the form of reverse and swap transactions. The back-to-back swap transactions between the ECB and the NCBs resulted in intra-Eurosystem balances between

the ECB and the NCBs reported under "Other claims within the Eurosystem (net)".

A liability to the Swiss National Bank amounting to €1.8 billion (2008: €18.4 billion) is also included under this heading. Swiss francs were provided by the Swiss National Bank by means of a swap arrangement with the aim of offering short-term Swiss franc funding to Eurosystem counterparties. The ECB simultaneously entered into swap transactions with euro area NCBs, which used the resulting funds to conduct Swiss franc liquidity-providing operations with Eurosystem counterparties against euro cash in the form of swap transactions. The swap transactions between the ECB and the NCBs resulted in intra-Eurosystem balances reported under "Other claims within the Eurosystem (net)". In addition, in 2008 this item included a liability to the Swiss National Bank amounting to €15.4 billion that arose from the placement with the ECB of euro funds received by the Swiss National Bank from operations with other counterparties. No such related liability remained outstanding as at 31 December 2009.

The reduction in the value of the above liabilities in 2009 reflected the declining demand for US dollar and Swiss franc liquidity among Eurosystem counterparties.

The remainder of this item reflects balances held with the ECB by non-euro area NCBs arising from transactions processed via the TARGET2 system (see "Intra-ESCB balances/intra-Eurosystem balances" in the notes on accounting policies).

11 LIABILITIES TO EURO AREA AND NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

These two items consist mainly of repurchase agreements conducted with euro area and non-euro area residents in connection with the management of the foreign currency reserves of the ECB.

12 INTRA-EUROSISTEM LIABILITIES

These represent the liabilities to the euro area NCBs that arose from the transfer of foreign reserve assets to the ECB when they joined the Eurosystem. They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component (see note 24, "Net interest income").

Given the adjustment of the NCBs' weightings in the ECB's capital key (see note 16, "Capital and reserves"), together with Národná banka Slovenska's transfer of foreign reserve assets upon Slovakia's adoption of the single currency, the total liability was increased to €40,204,457,215 by a decision of the Governing Council pursuant to Article 30 of the Statute of the ESCB.

	From 1 January 2009	31 December 2008 ¹⁾
	€	€
Nationale Bank van België/Banque Nationale de Belgique	1,397,303,847	1,423,341,996
Deutsche Bundesbank	10,909,120,274	11,821,492,402
Central Bank and Financial Services Authority of Ireland	639,835,662	511,833,966
Bank of Greece	1,131,910,591	1,046,595,329
Banco de España	4,783,645,755	4,349,177,351
Banque de France	8,192,338,995	8,288,138,644
Banca d'Italia	7,198,856,881	7,217,924,641
Central Bank of Cyprus	78,863,331	71,950,549
Banque centrale du Luxembourg	100,638,597	90,730,275
Central Bank of Malta	36,407,323	35,831,258
De Nederlandsche Bank	2,297,463,391	2,243,025,226
Oesterreichische Nationalbank	1,118,545,877	1,161,289,918
Banco de Portugal	1,008,344,597	987,203,002
Banka Slovenije	189,410,251	183,995,238
Národná banka Slovenska	399,443,638	-
Suomen Pankki – Finlands Bank	722,328,205	717,086,011
Total	40,204,457,215	40,149,615,805

1) Individual amounts are shown rounded to the nearest euro. The components may not add up to the total owing to rounding.

Národná banka Slovenska's claim was set at €399,443,638 in order to ensure that the ratio

between this claim and the aggregate claim credited to the other NCBs that have adopted the euro will be equal to the ratio between Národná banka Slovenska's weighting in the ECB's capital key and the other participating NCBs' aggregate weighting in this key. The difference between the claim and the value of the assets transferred (see note 1, "Gold and gold receivables", and note 2, "Claims on non-euro area and euro area residents denominated in foreign currency") was treated as part of the contributions of Národná banka Slovenska, due under Article 49.2 of the Statute of the ESCB, to the reserves and provisions equivalent to reserves of the ECB existing as at 31 December 2008 (see note 14, "Provisions", and note 15, "Revaluation accounts").

13 OTHER LIABILITIES

OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

This item is composed mainly of valuation changes in swap and forward transactions in foreign currency that were outstanding on 31 December 2009 (see note 21, "Foreign exchange swap and forward transactions"). These valuation changes are the result of the conversion of such transactions into their euro equivalents at the exchange rates prevailing on the Balance Sheet date, compared with the euro values resulting from the conversion of the transactions at the average cost of the respective foreign currency on that date (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies and note 7, "Other assets").

Valuation losses on interest rate swaps are also included in this item.

ACCRUALS AND INCOME COLLECTED IN ADVANCE

This item consists mainly of interest payable to the NCBs in respect of their claims relating to the foreign reserves transferred (see note 12,

“Intra-Eurosystem liabilities”), amounting to €443.0 million (2008: €1,400.4 million). It also includes accruals on balances due to NCBs in respect of TARGET2 amounting to €259.7 million (2008: €570.8 million), accruals on financial instruments and other accruals.

Also included under this heading is a contribution to the ECB from the City of Frankfurt of €15.3 million for the preservation of the listed Grossmarkthalle building in connection with the construction of the ECB’s new premises. This amount will be netted against the cost of the building once it comes into use (see note 7, “Other assets”).

SUNDRY

This item includes negative balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2009 (see note 21, “Foreign exchange swap and forward transactions”). These balances arise from the conversion of such transactions into their euro equivalents at the respective currency’s average cost on the Balance Sheet date, compared with the euro values at which the transactions were initially recorded (see “Off-balance-sheet instruments” in the notes on accounting policies).

This item also includes outstanding repurchase transactions of €146.6 million (2008: €337.6 million) conducted in connection with the management of the ECB’s own funds (see note 7, “Other assets”) and the net liability in respect of the ECB’s pension obligations as described below.

THE ECB’S RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The amounts recognised in the Balance Sheet in respect of the ECB’s pension obligations (see “The ECB’s retirement plan and other post-employment benefits” in the notes on accounting policies) are as follows:

	2009 € millions	2008 € millions
Present value of obligations	443.9	317.0
Fair value of plan assets	(333.2)	(226.7)
Unrecognised actuarial gains/(losses)	(24.0)	7.6
Liability recognised in the Balance Sheet	86.7	97.9

The present value of the obligations includes unfunded obligations of €44.9 million (2008: €42.3 million) relating to the pensions of Executive Board members and to staff disability provisions.

The amounts recognised in the Profit and Loss Account in 2009 and 2008 in respect of “Current service cost”, “Interest on obligation”, “Expected return on plan assets” and “Net actuarial (gains)/losses recognised in the year” are as follows:

	2009 € millions	2008 € millions
Current service cost	24.7	24.7
Interest on obligation	14.2	10.7
Expected return on plan assets	(9.9)	(10.0)
Net actuarial (gains)/losses recognised in the year	(0.3)	(1.1)
Total included in “Staff costs”	28.7	24.3

Under the “10% corridor” approach (see “The ECB’s retirement plan and other post-employment benefits” in the notes on accounting policies), net cumulative unrecognised actuarial gains and losses exceeding the greater of (a) 10% of the present value of the defined benefit obligation and (b) 10% of the fair value of plan assets, are amortised over the expected average remaining working lives of the participating employees.

Changes in the present value of the defined benefit obligation are as follows:

	2009 € millions	2008 € millions
Opening defined benefit obligation	317.0	285.8
Service cost	24.7	24.7
Interest cost	14.2	10.7
Contributions paid by plan participants	21.5	17.9
Other net changes in liabilities representing plan participants' contributions	(26.6)	(12.3)
Benefits paid	(3.9)	(3.8)
Actuarial (gains)/losses	97.0	(6.0)
Closing defined benefit obligation	443.9	317.0

Changes in the fair value of plan assets are as follows:

	2009 € millions	2008 € millions
Opening fair value of plan assets	226.7	229.8
Expected return	9.9	10.0
Actuarial gains/(losses)	65.7	(32.7)
Contributions paid by employer	39.7	17.5
Contributions paid by plan participants	21.3	17.8
Benefits paid	(3.5)	(3.4)
Other net changes in assets representing plan participants' contributions	(26.6)	(12.3)
Closing fair value of plan assets	333.2	226.7

The actuarial losses for 2009 on the defined benefit obligation amounted to €97.0 million. This amount includes the effects of (a) the decrease in the discount rate from 5.75% to 5.50% that resulted in an increase in the liability value; (b) greater than expected growth in the value of the guaranteed benefits; and (c) the explicit inclusion of the obligation arising in connection with dependents' benefits. Prior to 2009 the (net) liability for dependents' benefits was assumed to be immaterial and was thus not explicitly included. However, as this liability has grown, it was decided to formally include it in the calculation of the defined benefit obligation. Similarly, the explicit inclusion of the corresponding assets in the actuarial valuation resulted in actuarial gains on plan assets amounting to €42.1 million, out of the total actuarial gains of €65.7 million for 2009.

As a result of the application of the annual Capital Guarantee on 31 December 2008, and given the loss of capital in the plan members' Core Benefit Accounts, the Governing Council, acting on actuarial advice and in line with the rules of the ECB's Retirement Plan, decided in 2009 to make a supplementary contribution of approximately €19.9 million out of the general assets of the ECB. This contribution resulted in an increase in the contributions paid by the ECB in 2009 compared with the respective figure for 2008.

In preparing the valuations referred to in this note, the actuaries have used assumptions which the Executive Board has accepted for the purposes of accounting and disclosure. The principal assumptions used for the purposes of calculating the staff scheme liability are as follows:

	2009 %	2008 %
Discount rate	5.50	5.75
Expected return on plan assets	6.50	6.50
General future salary increases ¹⁾	2.00	2.00
Future pension increases	2.00	2.00

1) In addition, allowance is made for prospective individual salary increases of between 0% and 2.25% per annum, depending on the age of the members of the plan.

14 PROVISIONS

This item consists of a provision for foreign exchange rate, interest rate, credit and gold price risks and other miscellaneous provisions. The latter include an appropriate provision against the contractual obligation of the ECB to restore its current premises to their original condition when they are vacated and the ECB moves to its new site.

The Governing Council, taking into account the ECB's large exposure to foreign exchange rate, interest rate and gold price risks, and the size of its revaluation accounts, deemed it appropriate to establish a provision as at 31 December 2005 for these risks. In 2009, following the establishment of the programme for the purchase of covered bonds (see note 5, "Securities of euro area residents denominated in euro"), the Governing Council decided to

extend the scope of the risk provision to also cover credit risk. This provision will be used to the extent deemed necessary by the Governing Council to offset future realised and unrealised losses, in particular valuation losses not covered by the revaluation accounts. The size and continuing requirement for this provision is reviewed annually, based on the ECB's assessment of its exposure to the above risks. This assessment takes a range of factors into account, including in particular the level of holdings of risk-bearing assets, the extent of materialised risk exposures in the current financial year, projected results for the coming year, and a risk assessment involving calculations of Values at Risk (VaR) on risk-bearing assets, which is applied consistently over time.¹⁵ The provision, together with any amount held in the general reserve fund, may not exceed the value of the ECB's capital paid up by the euro area NCBs.

As at 31 December 2008 the provision for the above risks amounted to €4,014,961,580. In accordance with Article 49.2 of the Statute of the ESCB, Národná banka Slovenska contributed an amount of €40,290,173 to the provision with effect from 1 January 2009. In addition, given (a) the adjustment of the NCBs' capital key shares (see note 16, "Capital and reserves"), and (b) the contribution by Národná banka Slovenska, and also after taking the results of its assessment into account, the Governing Council decided to release, as at 31 December 2009, an amount of €34,806,031 from the provision in order to comply with the maximum allowed ceiling.

The net effect of the above developments was an increase in the size of the provision to €4,020,445,722, which is also the value of the ECB's capital paid up by the euro area NCBs as at 31 December 2009.

15 REVALUATION ACCOUNTS

These accounts represent revaluation balances arising from unrealised gains on assets and liabilities. In accordance with Article 49.2 of the Statute of the ESCB, Národná banka Slovenska contributed the amount of €113.9 million to these balances with effect from 1 January 2009.

	2009 €	2008 €	Change €
Gold	8,418,303,639	6,449,713,267	1,968,590,372
Foreign currency	2,070,299,334	3,616,514,710	(1,546,215,376)
Securities and other instruments	426,648,985	1,286,373,348	(859,724,363)
Total	10,915,251,958	11,352,601,325	(437,349,367)

The foreign exchange rates used for the year-end revaluation were as follows:

Exchange rates	2009	2008
US dollars per euro	1.4406	1.3917
Japanese yen per euro	133.16	126.14
Euro per SDR	1.0886	1.1048
Swiss francs per euro	1.4836	1.4850
Danish kroner per euro	Not used	7.4506
Euro per fine ounce of gold	766.347	621.542

16 CAPITAL AND RESERVES

(a) CHANGES TO THE ECB'S CAPITAL KEY

Pursuant to Article 29 of the Statute of the ESCB, the shares of the NCBs in the ECB's capital key are weighted according to the shares of the respective Member States in the EU's total population and GDP in equal measure, as notified to the ECB by the European Commission. These weights are adjusted every five years.¹⁶ The second such adjustment

¹⁵ See also Chapter 2 of the Annual Report.

¹⁶ These weights are also adjusted whenever new Member States join the EU.

following the establishment of the ECB was made on 1 January 2009. Based on Council Decision 2003/517/EC of 15 July 2003 on the statistical data to be used for the adjustment of the key for subscription to the capital of the European Central Bank,¹⁷ the NCBs' capital key shares were adjusted on 1 January 2009 as follows:

	Capital key from 1 January 2009 %	Capital key on 31 December 2008 %
Nationale Bank van België/ Banque Nationale de Belgique	2.4256	2.4708
Deutsche Bundesbank	18.9373	20.5211
Central Bank and Financial Services Authority of Ireland	1.1107	0.8885
Bank of Greece	1.9649	1.8168
Banco de España	8.3040	7.5498
Banque de France	14.2212	14.3875
Banca d'Italia	12.4966	12.5297
Central Bank of Cyprus	0.1369	0.1249
Banque centrale du Luxembourg	0.1747	0.1575
Central Bank of Malta	0.0632	0.0622
De Nederlandsche Bank	3.9882	3.8937
Oesterreichische Nationalbank	1.9417	2.0159
Banco de Portugal	1.7504	1.7137
Banka Slovenije	0.3288	0.3194
Národná banka Slovenska	0.6934	-
Suomen Pankki – Finlands Bank	1.2539	1.2448
Subtotal for euro area NCBs	69.7915	69.6963
Българска народна банка (Bulgarian National Bank)	0.8686	0.8833
Česká národní banka	1.4472	1.3880
Danmarks Nationalbank	1.4835	1.5138
Eesti Pank	0.1790	0.1703
Latvijas Banka	0.2837	0.2813
Lietuvos bankas	0.4256	0.4178
Magyar Nemzeti Bank	1.3856	1.3141
Narodowy Bank Polski	4.8954	4.8748
Banca Națională a României	2.4645	2.5188
Národná banka Slovenska	-	0.6765
Sveriges Riksbank	2.2582	2.3313
Bank of England	14.5172	13.9337
Subtotal for non-euro area NCBs	30.2085	30.3037
Total	100.0000	100.0000

(b) CAPITAL OF THE ECB

Pursuant to Council Decision 2008/608/EC of 8 July 2008, taken in accordance with Article 122(2) of the Treaty, Slovakia adopted the single currency on 1 January 2009. In accordance with Article 49.1 of the Statute of the ESCB and the legal acts adopted by the Governing Council on 31 December 2008,¹⁸ Národná banka Slovenska paid up an amount of €37,216,407 as at 1 January 2009, representing the remainder of its capital subscription to the ECB.

The adjustment of the NCBs' capital key shares in conjunction with Slovakia joining the euro area resulted in an increase of €5,100,251 in the ECB's paid-up capital, as shown in the table below:¹⁹

¹⁷ OJ L 181, 19.7.2003, p. 43.

¹⁸ Decision ECB/2008/33 of 31 December 2008 on the paying-up of capital, transfer of foreign reserve assets and contributions by Národná banka Slovenska to the European Central Bank's reserves and provisions, OJ L 21, 24.1.2009, p. 83; Agreement of 31 December 2008 between Národná banka Slovenska and the European Central Bank regarding the claim credited to Národná banka Slovenska by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank, OJ C 18, 24.1.2009, p. 3.

¹⁹ Individual amounts are shown rounded to the nearest euro. Subtotals in the tables of this section may not add up to the total owing to rounding.

	Subscribed capital from 1 January 2009 €	Paid-up capital from 1 January 2009 €	Subscribed capital on 31 December 2008 €	Paid-up capital on 31 December 2008 €
Nationale Bank van België/Banque Nationale de Belgique	139,730,385	139,730,385	142,334,200	142,334,200
Deutsche Bundesbank	1,090,912,027	1,090,912,027	1,182,149,240	1,182,149,240
Central Bank and Financial Services Authority of Ireland	63,983,566	63,983,566	51,183,397	51,183,397
Bank of Greece	113,191,059	113,191,059	104,659,533	104,659,533
Banco de España	478,364,576	478,364,576	434,917,735	434,917,735
Banque de France	819,233,899	819,233,899	828,813,864	828,813,864
Banca d'Italia	719,885,688	719,885,688	721,792,464	721,792,464
Central Bank of Cyprus	7,886,333	7,886,333	7,195,055	7,195,055
Banque centrale du Luxembourg	10,063,860	10,063,860	9,073,028	9,073,028
Central Bank of Malta	3,640,732	3,640,732	3,583,126	3,583,126
De Nederlandsche Bank	229,746,339	229,746,339	224,302,523	224,302,523
Oesterreichische Nationalbank	111,854,588	111,854,588	116,128,992	116,128,992
Banco de Portugal	100,834,460	100,834,460	98,720,300	98,720,300
Banka Slovenije	18,941,025	18,941,025	18,399,524	18,399,524
Národná banka Slovenska	39,944,364	39,944,364	-	-
Suomen Pankki – Finlands Bank	72,232,820	72,232,820	71,708,601	71,708,601
Subtotal for euro area NCBs	4,020,445,722	4,020,445,722	4,014,961,580	4,014,961,580
Българска народна банка (Bulgarian National Bank)	50,037,027	3,502,592	50,883,843	3,561,869
Česká národní banka	83,368,162	5,835,771	79,957,855	5,597,050
Danmarks Nationalbank	85,459,278	5,982,149	87,204,756	6,104,333
Eesti Pank	10,311,568	721,810	9,810,391	686,727
Latvijas Banka	16,342,971	1,144,008	16,204,715	1,134,330
Lietuvos bankas	24,517,337	1,716,214	24,068,006	1,684,760
Magyar Nemzeti Bank	79,819,600	5,587,372	75,700,733	5,299,051
Narodowy Bank Polski	282,006,978	19,740,488	280,820,283	19,657,420
Banca Națională a României	141,971,278	9,937,989	145,099,313	10,156,952
Národná banka Slovenska	-	-	38,970,814	2,727,957
Sveriges Riksbank	130,087,053	9,106,094	134,298,089	9,400,866
Bank of England	836,285,431	58,539,980	802,672,024	56,187,042
Subtotal for non-euro area NCBs	1,740,206,681	121,814,468	1,745,690,822	122,198,358
Total	5,760,652,403	4,142,260,189	5,760,652,403	4,137,159,938

The non-euro area NCBs are required to pay up 7% of their subscribed capital as a contribution to the operational costs of the ECB. This contribution amounted to a total of €121,814,468 at end-2009. The non-euro area NCBs are not entitled to receive any share of the distributable profits of the ECB, including income arising from the allocation of euro banknotes within the Eurosystem, nor are they liable to fund any loss of the ECB.

17 POST-BALANCE-SHEET EVENTS

US DOLLAR AND SWISS FRANC LIQUIDITY-PROVIDING OPERATIONS

The Governing Council decided that after 31 January 2010 it would stop conducting (a) US dollar liquidity-providing operations, given the improvements seen in the functioning of financial market over the past year; and

(b) Swiss franc liquidity-providing operations, against the background of declining demand and improved conditions in the funding markets. Consequently, no related balances remained outstanding shortly after that date (see note 2, “Claims on non-euro area and euro area residents denominated in foreign currency”, note 10, “Liabilities to non-euro area residents denominated in euro”, and note 21, “Foreign exchange swap and forward transactions”). These decisions concerning the US dollar and Swiss franc operations were taken in agreement with other central banks including the Federal Reserve and the Swiss National Bank respectively.

OFF-BALANCE-SHEET INSTRUMENTS

18 AUTOMATIC SECURITY LENDING PROGRAMME

As part of the management of the ECB’s own funds, the ECB has concluded an automatic security lending programme agreement, whereby an appointed agent enters into security lending transactions on behalf of the ECB with a number of counterparties, designated by the ECB as eligible counterparties. Under this agreement, reverse transactions with a value of €2.1 billion (2008: €1.2 billion) were outstanding as at 31 December 2009 (see “Reverse transactions” in the notes on accounting policies).

19 INTEREST RATE FUTURES

Interest rate futures are used as part of the management of the ECB’s foreign reserves and own funds. As at 31 December 2009 the following transactions were outstanding:

Foreign currency interest rate futures	2009 Contract value €	2008 Contract value €	Change €
Purchases	541,523,368	2,041,082,857	(1,499,559,489)
Sales	2,706,847,703	1,209,470,518	1,497,377,185

Euro interest rate futures	2009 Contract value €	2008 Contract value €	Change €
Purchases	25,000,000	50,000,000	(25,000,000)
Sales	379,000,000	33,000,000	346,000,000

20 INTEREST RATE SWAPS

Interest rate swap transactions with a contract value of €724.4 million (2008: €459.3 million) were outstanding as at 31 December 2009. These transactions were conducted in the context of the management of the ECB’s foreign reserves.

21 FOREIGN EXCHANGE SWAP AND FORWARD TRANSACTIONS

MANAGEMENT OF THE FOREIGN RESERVES

The following foreign exchange swap and forward transactions remained outstanding, in the context of the management of the ECB’s foreign reserves, as at 31 December 2009:

Foreign exchange swap and forward transactions	2009 €	2008 €	Change €
Claims	1,017,926,290	358,050,555	659,875,735
Liabilities	1,008,562,032	404,319,418	604,242,614

LIQUIDITY-PROVIDING OPERATIONS

Forward claims on NCBs and liabilities to the Federal Reserve, which arose in connection with the provision of US dollar liquidity to Eurosystem counterparties (see note 10, “Liabilities to non-euro area residents denominated in euro”), were outstanding on 31 December 2009.

Forward claims on NCBs and liabilities to the Swiss National Bank, which arose in connection with the provision of Swiss franc liquidity to Eurosystem counterparties (see note 10, “Liabilities to non-euro area residents denominated in euro”), were also outstanding on 31 December 2009.

22 ADMINISTRATION OF BORROWING AND LENDING OPERATIONS

In accordance with Article 123(2) of the Treaty, as in force until 1 December 2009, and Article 21.2 of the Statute of the ESCB, together

with Article 9 of Council Regulation (EC) No 332/2002 of 18 February 2002, as last amended by Council Regulation (EC) No 431/2009 of 18 May 2009, the ECB continues to be responsible for the administration of the borrowing and lending operations of the EU under the medium-term financial assistance mechanism. Under this scheme, loans from the EU to Latvia, Hungary and Romania for a total amount of €9.2 billion were outstanding as at 31 December 2009.

23 PENDING LAWSUITS

An action for damages was brought against the ECB before the Court of First Instance of the European Communities (CFI) by Document Security Systems Inc. (DSSI), alleging that the ECB had infringed a DSSI patent²⁰ in the production of euro banknotes. The CFI dismissed DSSI's action for damages against the ECB.²¹ The ECB is currently pursuing actions to revoke the patent in a number of national jurisdictions. Furthermore, the ECB firmly maintains that it has in no way infringed the patent, and will consequently also enter a defence against any infringement action brought by DSSI before any competent national court.

As a result of the CFI's dismissal of DSSI's action for damages against the ECB, as well as the ECB's successful actions to date in certain national jurisdictions to revoke national portions of DSSI's patent, the ECB remains confident that the possibility of payments to DSSI is remote. The ECB is actively monitoring all developments in the continuing litigation.

20 DSSI's European Patent No 0455 750 B1.

21 Order of the Court of First Instance of 5 September 2007, Case T-295/05. Available at www.curia.eu.

NOTES ON THE PROFIT AND LOSS ACCOUNT

24 NET INTEREST INCOME

INTEREST INCOME ON FOREIGN RESERVE ASSETS

This item includes interest income, net of interest expense, in respect of the ECB's net foreign reserve assets, as follows:

	2009 €	2008 €	Change €
Interest income on current accounts	1,333,874	10,303,881	(8,970,007)
Interest income on money market deposits	17,682,787	109,653,055	(91,970,268)
Interest income on reverse repurchase agreements	1,524,055	42,404,485	(40,880,430)
Interest income on securities	663,881,906	885,725,044	(221,843,138)
Net interest income on interest rate swaps	7,374,057	2,299,631	5,074,426
Net interest income on swap and forward transactions in foreign currency	9,519,685	15,575,487	(6,055,802)
Total interest income on foreign reserve assets	701,316,364	1,065,961,583	(364,645,219)
Interest expense on current accounts	(219,800)	(45,896)	(173,904)
Net interest expense on repurchase agreements	(880,287)	(29,492,415)	28,612,128
Interest income on foreign reserve assets (net)	700,216,277	1,036,423,272	(336,206,995)

Interest income and interest expense arising from US dollar and Swiss franc liquidity-providing operations, that were previously disclosed under this heading, have now been reclassified under "Other interest income" and "Other interest expense" (see "Reclassifications" in the notes on accounting policies).

INTEREST INCOME ARISING FROM THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSISTEM

This item consists of the interest income relating to the ECB's share of the total euro banknote issue. Interest on the claims of the ECB in respect

of its share of banknotes is earned at the latest available marginal rate for the Eurosystem's main refinancing operations. The decrease in income in 2009 mainly reflected the fact that the average main refinancing rate was lower than in 2008.

This income is distributed to the NCBs as described under "Banknotes in circulation" in the notes on accounting policies. Based on the ECB's estimated financial result for 2009, the Governing Council decided to distribute this income in its entirety to the euro area NCBs, in accordance with their respective shares in the ECB's capital.

REMUNERATION OF NCBS' CLAIMS IN RESPECT OF FOREIGN RESERVES TRANSFERRED

Remuneration paid to euro area NCBs on their claims on the ECB in respect of the foreign reserve assets transferred under Article 30.1 of the Statute of the ESCB is disclosed under this item.

OTHER INTEREST INCOME AND OTHER INTEREST EXPENSE

These items include interest income of €4.0 billion (2008: €8.0 billion) and expenses of €3.7 billion (2008: €7.6 billion) on balances arising from TARGET2 (see "Intra-ESCB balances/intra-Eurosystem balances" in the notes on accounting policies). Interest income and expenses in respect of other assets and liabilities denominated in euro as well as interest income and interest expense arising from the US dollar and Swiss franc liquidity-providing operations are also shown here (see "Reclassifications" in the notes on accounting policies).

25 REALISED GAINS/(LOSSES) ARISING FROM FINANCIAL OPERATIONS

Net realised gains/(losses) arising from financial operations in 2009 were as follows:

	2009 €	2008 €	Change €
Net realised price gains/(losses) on securities, interest rate futures and interest rate swaps	563,594,643	349,179,481	214,415,162
Net realised exchange rate and gold price gains	539,002,475	313,162,603	225,839,872
Realised gains arising from financial operations	1,102,597,118	662,342,084	440,255,034

The overall increase in net realised exchange rate and gold price gains was due mainly to a significant rise in the price of gold during 2009, combined with the larger volume of gold sold in that year (see note 1, “Gold and gold receivables”).

26 WRITE-DOWNS ON FINANCIAL ASSETS AND POSITIONS

	2009 €	2008 €	Change €
Unrealised price losses on securities	(34,163,743)	(2,164,000)	(31,999,743)
Unrealised price losses on interest rate swaps	(3,774,314)	(476,831)	(3,297,483)
Unrealised exchange rate losses	(1,592)	(21,271)	19,679
Total write-downs	(37,939,649)	(2,662,102)	(35,277,547)

In 2009 this expense was due mainly to the write-down of the acquisition cost of a number of securities shown on the Balance Sheet to their market value as at 30 December 2009.

27 NET EXPENSE FROM FEES AND COMMISSIONS

	2009 €	2008 €	Change €
Income from fees and commissions	679,416	588,052	91,364
Expenses relating to fees and commissions	(695,426)	(737,059)	41,633
Net expense from fees and commissions	(16,010)	(149,007)	132,997

In 2009 income under this heading consisted of penalties imposed on credit institutions for non-compliance with the minimum reserve requirements. Expenses relate to fees payable on current accounts and in connection with the execution of interest rate futures (see note 19, “Interest rate futures”).

28 INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

Dividends received on shares which the ECB holds in the BIS (see note 7, “Other assets”) are shown under this heading.

29 OTHER INCOME

In 2009 the main item of other miscellaneous income included under this heading was income arising from the contributions of other central banks to the cost of a service contract held centrally by the ECB with an external provider of an IT network.

30 STAFF COSTS

Salaries, allowances, staff insurance and other miscellaneous costs of €158.6 million (2008: €149.9 million) are included under this heading. Also included under this item is an amount of €28.7 million (2008: €24.3 million) recognised in connection with the ECB’s retirement plan and other post-employment benefits (see note 13, “Other liabilities”). Staff costs of €1.2 million (2008: €1.1 million) incurred in connection with the construction of the ECB’s new premises have been capitalised and are excluded from this item.

Salaries and allowances, including the emoluments of holders of senior management positions, are modelled in essence on, and are comparable with, the remuneration scheme of the European Union.

Members of the Executive Board receive a basic salary and additional allowances for residence and representation. In the case of the President, an official residence owned by the ECB is provided in lieu of a residence allowance. Subject to the Conditions of Employment for Staff of the European Central Bank, members of the Executive Board are entitled to household, child and education allowances, depending on their individual circumstances. Basic salaries are subject to a tax for the benefit of the European Union as well as to deductions in respect of contributions to the pension, medical and accident insurance schemes. Allowances are non-taxable and non-pensionable.

Basic salaries paid to members of the Executive Board in 2009 and 2008 were as follows:

	2009 €	2008 €
Jean-Claude Trichet (President)	360,612	351,816
Lucas D. Papademos (Vice-President)	309,096	301,548
Gertrude Tumpel-Gugerell (Board Member)	257,568	251,280
José Manuel González-Páramo (Board Member)	257,568	251,280
Lorenzo Bini Smaghi (Board Member)	257,568	251,280
Jürgen Stark (Board Member)	257,568	251,280
Total	1,699,980	1,658,484

The total allowances paid to the members of the Executive Board and their benefits from the ECB's contributions to the medical and accident insurance schemes amounted to €614,879 (2008: €600,523), resulting in total emoluments of €2,314,859 (2008: €2,259,007).

Transitional payments are made to former members of the Executive Board for a period after the end of their terms of office. In 2009 no such payments were made since no former Executive Board member was in receipt of such benefits (2008: €30,748, including the ECB's contributions to the medical and accident insurance schemes). Pension payments, including related allowances, to former members of the Executive Board or their dependents and contributions to the medical and accident insurance schemes amounted to €348,410 (2008: €306,798).

At the end of 2009 the actual full-time equivalent number of staff holding contracts with the ECB was 1,563,²² including 150 with managerial positions. The change in the number of staff during 2009 was as follows:

	2009	2008
As at 1 January	1,536	1,478
Newcomers/change of contract status	320	307
Resignations/end of contract	283	238
Net decrease due to changes in part-time working patterns	10	11
As at 31 December	1,563	1,536
Average number of staff employed	1,530	1,499

31 ADMINISTRATIVE EXPENSES

These cover all other current expenses relating to the renting and maintenance of premises, goods and equipment of a non-capital nature, professional fees and other services and supplies, together with staff-related expenses including recruitment, relocation, installation, training and resettlement expenses.

32 BANKNOTE PRODUCTION SERVICES

This expense relates to costs arising mainly from the cross-border transportation of euro banknotes between NCBs. These costs are borne centrally by the ECB.

²² Staff on unpaid leave of absence are excluded. This number includes staff with permanent, fixed or short-term contracts and the participants in the ECB's Graduate Programme. Staff on maternity or long-term sick leave are also included.

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24 February 2010

Independent auditor's report

We have audited the accompanying annual accounts of the European Central Bank, which comprise the balance sheet as at 31 December 2009, the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The responsibility of the European Central Bank's Executive Board for the annual accounts

The Executive Board is responsible for the preparation and fair presentation of these annual accounts in accordance with the principles established by the Governing Council, which are set out in Decision ECB/2006/17 on the annual accounts of the European Central Bank, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the entity's preparation and fair presentation of the annual accounts 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

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

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of the European Central Bank as of 31 December 2009, and of the results of its operations for the year then ended in accordance with the principles established by the Governing Council, which are set out in Decision ECB/2006/17 on the annual accounts of the European Central Bank, as amended.

Frankfurt am Main, 24 February 2010

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NOTE ON PROFIT DISTRIBUTION/ ALLOCATION OF LOSSES

This note is not part of the financial statements of the ECB for the year 2009.

INCOME RELATED TO THE ECB'S SHARE OF TOTAL BANKNOTES IN CIRCULATION

In respect of 2008, following a decision by the Governing Council, an amount of €1,206 million, comprising part of the income earned on the ECB's share of total euro banknotes in circulation, was distributed to the NCBs on 5 January 2009. In respect of 2009 the full income earned on the ECB's share of total euro banknotes in circulation, amounting to €787 million, was distributed to the NCBs on 5 January 2010. Both amounts were distributed to the euro area NCBs in proportion to their paid-up shares in the subscribed capital of the ECB.

PROFIT DISTRIBUTION/COVERAGE OF LOSSES

Pursuant to Article 33 of the Statute of the ESCB, the net profit of the ECB shall be transferred in the following order:

- (a) an amount to be determined by the Governing Council, which may not exceed 20% of the net profit, shall be transferred to the general reserve fund subject to a limit equal to 100% of the capital; and
- (b) the remaining net profit shall be distributed to the shareholders of the ECB in proportion to their paid-up shares.

In the event of a loss incurred by the ECB, the shortfall may be offset against the general reserve fund of the ECB and, if necessary, following a decision by the Governing Council, against the monetary income of the relevant financial year in proportion and up to the amounts allocated to the NCBs in accordance with Article 32.5 of the Statute of the ESCB.¹

Just as for 2008, the Governing Council decided on 4 March 2010 to make no transfer to the general reserve fund and to distribute

the remaining balance of the profit for 2009, amounting to €1,466 million, to the euro area NCBs, in proportion to their paid-up shares.

Non-euro area NCBs are not entitled to receive any share of the ECB's profit, nor are they liable to fund any loss of the ECB.

	2009 €	2008 €
Profit for the year	2,253,186,104	1,322,253,536
Income on the ECB's banknote issue distributed to NCBs	(787,157,441)	(1,205,675,418)
Profit for the year after distribution of income on the ECB's banknote issue	1,466,028,663	116,578,118
Distribution of profit to NCBs	(1,466,028,663)	(116,578,118)
Total	0	0

¹ Under Article 32.5 of the Statute of the ESCB, the sum of the NCBs' monetary income shall be allocated to the NCBs in proportion to their paid-up shares in the capital of the ECB.