

MANAGEMENT REPORT FOR THE YEAR ENDING 31 DECEMBER 2011

1 NATURE OF THE BUSINESS

The ECB's activities in 2011 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

The Executive Board, the Governing Council and the General Council are the decision-making bodies of the ECB.

The ECB's governance framework includes a variety of internal and external controls. In the context of the external controls, the European Court of Auditors reviews the operational efficiency of the management of the ECB, while an external auditor is appointed to audit the ECB's Annual Accounts. To reinforce the independence of the external auditor, the ECB appoints a different external audit firm every five years.

In the context of the internal control structure of the ECB, each organisational unit is responsible for managing its own risks and implementing its own controls, as well as for the effectiveness and efficiency of its operations. In addition, independent audit missions are performed by the Directorate Internal Audit under the direct responsibility of the Executive Board. In order to further strengthen the ECB's corporate governance, the Governing Council established the ECB Audit Committee in 2007. The Committee provides assistance to the Governing

Council as regards its responsibilities in respect of the integrity of financial information, the oversight of internal controls and the performance of the ECB's and the Eurosystem's audit functions.

To reflect the significant increase in the role of the risk management function, and in line with best practices, in July 2011 the ECB reorganised its Risk Management Division as a Risk Management Office (RMO), establishing it as an independent business area. The RMO is responsible for the risk management framework applicable to all of the ECB's financial market operations and for monitoring, assessing and proposing improvements to the Eurosystem's operational framework for monetary policy and foreign exchange policy from a risk management perspective.

A comprehensive ethics framework for the staff of the ECB, which is regularly updated, provides guidance and sets ethics conventions, standards and benchmarks. All staff are expected to maintain high standards of professional ethical behaviour in the performance of their duties, as well as in their relations with NCBs, public authorities, market participants, media representatives and the general public. Two additional codes of conduct deal exclusively with the ethical regime applicable to the ECB's decision-making bodies. The Ethics Officer appointed by the Executive Board ensures that the rules applicable to Executive Board members and staff are interpreted consistently. An Ethics Adviser has been appointed by the Governing Council to provide guidance to its members on aspects of professional conduct.

Further information relating to the governance of the ECB is provided in Section 1 of 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 the European Council, 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 ECB is fully cognisant of the importance of having a constructive dialogue with its staff. In 2011 the ECB continued to develop and implement human resources management policies in four areas: working culture, recruitment, professional development and employment conditions. Developments related to the working culture of the ECB continued to focus on diversity and professional ethics. The ECB organised a high-level diversity forum in March 2011 and enhanced the regular monitoring of gender diversity data.

Mobility and staff development measures remained the main tools for professional development. Moreover, the ECB continued to support staff in the areas of childcare and the reconciliation of work and family commitments.

The average number of staff (full-time equivalents) holding contracts with the ECB¹ rose from 1,565 in 2010 to 1,601 in 2011. At the end of 2011 1,609 staff were employed. For further information, see note 30, "Staff costs", of the Annual Accounts and Section 2 of Chapter 7 of the Annual Report which also describes developments in the area of human resources management in more detail.

RISK MANAGEMENT PRACTICES RELATED TO THE ECB'S INVESTMENT ACTIVITIES AND MONETARY POLICY PORTFOLIOS

The ECB holds two types of investment portfolio, namely the foreign reserves portfolio and the own funds portfolio. In addition, the ECB also holds securities for monetary policy purposes, acquired in the context of the Securities Markets Programme and the two covered bond purchase programmes. The various purposes and objectives of the ECB's investment and monetary policy portfolios, as well as the associated risk management practices, are described in detail in Section 1 of Chapter 2 of the Annual Report.

The ECB is exposed to financial risks arising from its investment portfolios and its holdings of securities purchased for monetary policy purposes. They encompass credit, market and liquidity risks. The ECB closely monitors and measures such risks on an ongoing basis and, where appropriate, mitigates them through the implementation of risk management frameworks. These frameworks take into account the objectives and purposes of the various holdings of securities, as well as the risk preferences specified by the ECB's decision-making bodies. They also include eligibility criteria and a system of exposure limits.

BUDGET PROCESS

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 the Budget Committee (BUCOM). 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 ECB's Rules of Procedure,

¹ Staff on unpaid leave 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.

BUCOM supports the Governing Council by providing a detailed evaluation of the ECB's annual budget proposals and requests for supplementary budget funding by the Executive Board, prior to their submission to the Governing Council for approval.

4 FINANCIAL RESOURCES

CAPITAL

In December 2010 the ECB decided to increase its subscribed capital by €5 billion, from €5.8 billion to €10.8 billion. This decision resulted from an assessment of the adequacy of its statutory capital, which was launched in 2009. The capital increase was deemed appropriate in view of increased volatility in foreign exchange rates, interest rates and gold prices, as well as in view of the ECB's exposure to credit risk. In order to smooth the transfer of capital to the ECB, the Governing Council decided that the euro area NCBs should pay their additional capital contributions in three equal annual instalments due in December 2010, 2011 and 2012.

As a consequence of Estonia's adoption of the single currency on 1 January 2011, Eesti Pank paid up an amount of €13 million as of that date. This amount included the first instalment of Eesti Pank's contribution to the increase in the ECB's subscribed capital at end-December 2010.

On 28 December 2011 the NCBs of the euro area, including Eesti Pank, paid an amount of €1,166 million as the second instalment of their contribution to the increase in the ECB's subscribed capital.

As a result of the above payments in 2011, the ECB's paid-up capital amounted to €6,484 million on 31 December 2011. Detailed information on these changes is provided in note 17, "Capital and reserves", of the Annual Accounts.

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 gold and foreign reserve assets denominated in US dollars and Japanese yen, 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. 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.

The size of 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. The risk provision, together with any amounts held in the ECB's general reserve fund, may not exceed the value of the capital paid up by the euro area NCBs.

As at 31 December 2010 the provision for foreign exchange rate, interest rate, credit and gold price risks amounted to €5,184 million. In accordance with Article 48.2 of the Statute of the ESCB, Eesti Pank contributed an amount of €13 million to the provision with effect from 1 January 2011. In addition, after taking the

results of its risk assessment into account, the Governing Council decided to further increase the size of the risk provision to €6,363 million as at 31 December 2011. This sum represents the current maximum allowed ceiling.

5 FINANCIAL RESULTS

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.

FINANCIAL RESULT FOR 2011

In 2011 the net income of the ECB prior to the transfer of €1,166 million to the risk provision was €1,894 million, compared with €1,334 million in 2010. The net profit, amounting to €728 million after this transfer, was distributed to the euro area NCBs.

In 2011 net interest income amounted to €1,999 million, compared with €1,422 million in 2010. The increase in net interest income was mainly due to additional income generated on the securities purchased under the Securities Markets Programme and an increase in interest income on the ECB's share of the total euro banknotes in circulation as a result of a higher average rate used by the Eurosystem in its tenders for main refinancing operations in 2011.

Net realised gains arising from financial operations decreased marginally from €474 million in 2010 to €472 million in 2011. Higher net exchange rate gains on foreign currency outflows, which were mainly due to Japanese yen outflows in the context of the ECB's participation in the concerted international intervention in the foreign exchange markets in March 2011, were offset by lower net realised price gains on sales of securities.

Write-downs, mainly owing to unrealised price losses on security holdings which are shown on the Balance Sheet at their market value as at end-2011, amounted to €157 million in 2011, compared with €195 million in 2010.

As at end-2010 unrealised foreign exchange gains, mainly arising on the US dollar portfolio and the Japanese yen portfolio, amounted to €6,271 million, and unrealised gold price gains amounted to €13,079 million. In 2011 the depreciation of the euro vis-à-vis the Japanese yen and the US dollar resulted in an increase in unrealised foreign exchange gains, which rose to €7,976 million, while the rise in the price of gold during 2011 led to unrealised gold price gains amounting to €15,718 million. In line with the Eurosystem's accounting policies, these gains were recorded in revaluation accounts.

No impairment losses were recorded at the year-end. Regarding the ECB's holdings of Greek government bonds purchased under the Securities Markets Programme, the private sector involvement (PSI) initiative announced in 2011 was not expected to result in changes to any future contractual cash flows associated with these holdings, as it was designed to voluntarily restructure debt held by the private sector.

Total administrative expenses of the ECB, including depreciation, amounted to €442 million in 2011, compared with €415 million in 2010. The vast majority of the costs incurred in connection with the construction of the ECB's new premises have been capitalised and are excluded from this item.

BALANCE SHEET AS AT 31 DECEMBER 2011

ASSETS	NOTE NUMBER	2011 €	2010 €
Gold and gold receivables	1	19,643,678,205	17,015,600,109
Claims on non-euro area residents denominated in foreign currency	2		
Receivables from the IMF	2.1	664,189,254	414,722,811
Balances with banks and security investments, external loans and other external assets	2.2	40,763,380,487	39,298,995,950
		41,427,569,741	39,713,718,761
Claims on euro area residents denominated in foreign currency	2.2	4,827,713,607	4,326,557,549
Claims on non-euro area residents denominated in euro	3		
Balances with banks, security investments and loans	3.1	1,456,000,000	1,800,000,000
Other claims on euro area credit institutions denominated in euro	4	204,931,400	33,368,000
Securities of euro area residents denominated in euro	5		
Securities held for monetary policy purposes	5.1	22,819,128,768	17,925,976,508
Intra-Eurosystem claims	6		
Claims related to the allocation of euro banknotes within the Eurosystem	6.1	71,090,081,710	67,176,191,390
Other claims within the Eurosystem (net)	6.2	49,393,103,654	0
		120,483,185,364	67,176,191,390
Other assets	7		
Tangible and intangible fixed assets	7.1	441,349,493	281,925,625
Other financial assets	7.2	16,040,825,454	13,249,960,731
Off-balance-sheet instruments revaluation differences	7.3	264,245,011	147,260,366
Accruals and prepaid expenses	7.4	1,861,875,764	1,319,491,653
Sundry	7.5	1,400,781,867	532,963,278
		20,009,077,589	15,531,601,653
Total assets		230,871,284,674	163,523,013,970

LIABILITIES	NOTE NUMBER	2011 €	2010 €
Banknotes in circulation	8	71,090,081,710	67,176,191,390
Other liabilities to euro area credit institutions denominated in euro	9	204,926,300	33,363,000
Liabilities to other euro area residents denominated in euro	10		
Other liabilities	10.1	1,056,000,000	1,072,000,000
Liabilities to non-euro area residents denominated in euro	11	77,116,620,293	1,201,602,021
Liabilities to non-euro area residents denominated in foreign currency	12		
Deposits, balances and other liabilities	12.1	406,665,121	478,028,926
Intra-Eurosystem liabilities	13		
Liabilities equivalent to the transfer of foreign reserves	13.1	40,307,572,893	40,204,457,215
Other liabilities within the Eurosystem (net)	6.2	0	21,225,255,926
		40,307,572,893	61,429,713,141
Other liabilities	14		
Off-balance-sheet instruments revaluation differences	14.1	869,160,478	568,235,002
Accruals and income collected in advance	14.2	1,251,205,972	749,630,881
Sundry	14.3	623,759,817	494,466,366
		2,744,126,267	1,812,332,249
Provisions	15	6,407,941,415	5,216,716,613
Revaluation accounts	16	24,324,930,772	19,626,699,159
Capital and reserves	17		
Capital	17.1	6,484,283,669	5,305,536,076
Profit for the year		728,136,234	170,831,395
Total liabilities		230,871,284,674	163,523,013,970

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31 DECEMBER 2011

	NOTE NUMBER	2011 €	2010 €
Interest income on foreign reserve assets	24.1	290,220,291	366,179,478
Interest income arising from the allocation of euro banknotes within the Eurosystem	24.2	856,392,005	653,509,659
Other interest income	24.4	8,331,260,026	4,796,498,245
<i>Interest income</i>		<i>9,477,872,322</i>	<i>5,816,187,382</i>
Remuneration of NCBs' claims in respect of foreign reserves transferred	24.3	(433,970,898)	(346,484,251)
Other interest expense	24.4	(7,044,498,398)	(4,047,227,079)
<i>Interest expense</i>		<i>(7,478,469,296)</i>	<i>(4,393,711,330)</i>
Net interest income	24	1,999,403,026	1,422,476,052
Realised gains/losses arising from financial operations	25	472,219,229	474,313,327
Write-downs on financial assets and positions	26	(157,457,283)	(195,213,437)
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks		(1,166,175,000)	(1,163,191,667)
Net result of financial operations, write-downs and risk provisions		(851,413,054)	(884,091,777)
Net expense from fees and commissions	27	(1,980,780)	(1,409,017)
Income from equity shares and participating interests	28	1,048,891	2,612,858
Other income	29	23,122,157	46,537,026
Total net income		1,170,180,240	586,125,142
Staff costs	30	(216,065,185)	(196,470,934)
Administrative expenses	31	(208,017,979)	(196,636,534)
Depreciation of tangible and intangible fixed assets		(11,488,672)	(13,601,111)
Banknote production services	32	(6,472,170)	(8,585,168)
Profit for the year		728,136,234	170,831,395

Frankfurt am Main, 28 February 2012

EUROPEAN CENTRAL BANK

Mario Draghi
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, going concern, the accruals principle, 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 spot transactions in 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 2011, was derived from the exchange rate of the euro against the US dollar on 30 December 2011.

The special drawing right (SDR) is defined in terms of a basket of currencies. To revalue the ECB's holdings of SDRs, the value of the

1 Decision ECB/2006/17 of 10 November 2006, OJ L 348, 11.12.2006, p. 38, as amended, containing the detailed accounting policies of the ECB, was repealed and replaced by Decision ECB/2010/21 of 11 November 2010, OJ L 35, 9.2.2011, p. 1, with effect from 31 December 2010.

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.

SDR was calculated as the weighted sum of the exchange rates of four major currencies (the US dollar, euro, Japanese yen and pound sterling) converted into euro as at 30 December 2011.

SECURITIES

Marketable securities (other than those classified as held-to-maturity) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. For the year ending 31 December 2011, mid-market prices on 30 December 2011 were used.

Marketable securities classified as held-to-maturity 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 on any one security or currency or on gold are not netted against unrealised gains on 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 securities.

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 deposits on the liability side of the Balance Sheet and 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 2011 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, as well as discount factors from the settlement dates to the valuation date.

POST-BALANCE-SHEET EVENTS

The values of assets and liabilities are, in principle, 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 balances result from cross-border payments in the EU that are settled in central bank money in euro. These transactions are for the most part initiated by private entities (i.e. credit institutions, corporations and individuals). They are settled in 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 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 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. Intra-Eurosystem balances of euro area NCBs vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (e.g. interim profit distributions to NCBs), are presented on the Balance Sheet of the ECB as a single net asset or liability position and disclosed under “Other claims within the Eurosystem (net)” or “Other liabilities within the Eurosystem (net)”. Intra-ESCB balances of non-euro area NCBs vis-à-vis the ECB, arising from their participation in TARGET2,³ are disclosed under “Liabilities to non-euro area residents denominated in euro”.

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-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 “Liabilities equivalent to the transfer of foreign reserves”.

TREATMENT OF FIXED ASSETS

Fixed assets, with the exception of land and works of art, are valued at cost less depreciation. Land and works of art are 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
Technical equipment	4 or 10 years
Furniture and plant in building	10 years
Fixed assets costing less than €10,000	Written off in the year of acquisition

3 As at 31 December 2011 the non-euro area NCBs participating in TARGET2 were Българска народна банка (Bulgarian National Bank), Danmarks Nationalbank, Latvijas Banka, Lietuvos bankas, Narodowy Bank Polski and Banca Națională a României.

The length of the depreciation period for capitalised building and refurbishment expenditure relating to the ECB's existing rented premises has been adjusted to ensure that these assets are fully depreciated before the ECB moves to its new premises.

Costs incurred in relation to the ECB's new premises are recorded under the heading "Assets under construction" if they comply with the capitalisation criteria. These costs will be transferred to the relevant fixed asset headings once the assets are available for use. For the depreciation of the ECB's new premises, costs will be assigned to the appropriate components and depreciated in accordance with the estimated useful lives of the assets.

THE ECB'S PENSION PLAN, OTHER POST-EMPLOYMENT BENEFITS AND OTHER LONG-TERM BENEFITS

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

The compulsory contributions made by the ECB and the staff are 18% and 6% of basic salary respectively. Staff can make additional contributions 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 plan is the present value of the defined benefit obligation 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 calculated by discounting the estimated future cash flows using a rate which is determined by reference to market yields at the balance sheet date on high

quality euro-denominated corporate bonds that have similar terms of maturity to the term of the pension obligation.

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 defined benefits accruing for the year;
- (b) interest at the discount rate on the defined benefit obligation;
- (c) the expected return on plan assets held against the defined benefit obligation;
- (d) any actuarial gains and losses arising from post-employment benefits, using a "10% corridor" approach; and
- (e) any actuarial gains and losses arising from other long-term benefits, in their entirety.

"10% corridor" approach

Net cumulative unrecognised actuarial gains and losses on post-employment benefits 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 held against the defined benefit obligation, are amortised over the expected average remaining working lives of the participating employees.

Unfunded benefits

Unfunded arrangements are in place for the post-employment and other long-term benefits of members of the Executive Board of the ECB.

⁴ The funds accumulated by a staff member through voluntary contributions can be used at retirement to purchase an additional pension. This pension is included in the defined benefit obligation from that point on.

For staff, unfunded arrangements are in place for post-employment benefits other than pensions and for other long-term benefits. 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 manner outlined under the heading "Profit and Loss Account".

These amounts 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 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 in the item "Net interest income".

INTERIM PROFIT DISTRIBUTION

The ECB's income on euro banknotes in circulation and income arising from securities purchased under the Securities Markets Programme is due to the euro area NCBs in the financial year in which it accrues. The ECB distributes this income in January of the following year by means of an interim profit distribution.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 securities purchased under the Securities Markets Programme, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

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.

5 Decision ECB/2010/29 of 13 December 2010 on the issue of euro banknotes (recast), OJ L 35, 9.2.2011, p. 26.

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.

7 Decision ECB/2010/23 of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast), OJ L 35, 9.2.2011, p. 17, as amended.

8 Decision ECB/2010/24 of 25 November 2010 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the Securities Markets Programme (recast), OJ L 6, 11.1.2011, p. 35.

NOTES ON THE BALANCE SHEET

I GOLD AND GOLD RECEIVABLES

As at 31 December 2011 the ECB held 16,142,871 ounces⁹ of fine gold (2010: 16,122,143 ounces). The increase was due mainly to the transfer by Eesti Pank to the ECB of 20,728 ounces of fine gold¹⁰ upon the adoption of the single currency by Estonia, in accordance with Article 30.1 of the Statute of the ESCB. In addition, minor weight differences arose under the substitution programme that the ECB initiated in 2010. However, the increase in the euro equivalent value of the ECB's holdings of fine gold was mainly due to a significant rise in the price of gold during 2011 (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies and note 16, "Revaluation accounts").

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

2.1 RECEIVABLES FROM THE IMF

This asset represents the ECB's holdings of SDRs as at 31 December 2011. 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. For accounting purposes, SDRs are treated as a foreign currency (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies).

2.2 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>	2011 €	2010 €	Change €
Current accounts	967,861,820	1,415,134,235	(447,272,415)
Money market deposits	598,657,080	881,467,443	(282,810,363)
Reverse repurchase agreements	623,065,152	54,632,540	568,432,612
Security investments	38,573,796,435	36,947,761,732	1,626,034,703
Total	40,763,380,487	39,298,995,950	1,464,384,537

<i>Claims on euro area residents</i>	2011 €	2010 €	Change €
Current accounts	1,439,838	3,522,840	(2,083,002)
Money market deposits	4,826,273,769	4,254,182,741	572,091,028
Reverse repurchase agreements	0	68,851,968	(68,851,968)
Total	4,827,713,607	4,326,557,549	501,156,058

The increase in these items in 2011 was mainly due to the appreciation of the US dollar and the Japanese yen against the euro, which was partially offset by a decrease in the holdings of Japanese yen as a result of the ECB's participation in the concerted international intervention in the foreign exchange markets on 18 March 2011. Income received in 2011, primarily on the US dollar portfolio, and an increase in unrealised gains from the revaluation of securities (see note 16, "Revaluation accounts") also contributed to the increase in the total value of these items.

Additionally, upon the adoption of the single currency by Estonia with effect from 1 January 2011, Eesti Pank transferred foreign reserve assets denominated in Japanese yen with a value of €124.0 million to the ECB, in accordance with Article 48.1 and Article 30.1 of the Statute of the ESCB.

⁹ This corresponds to 502.1 tonnes.

¹⁰ The transfer, with a value equivalent to €21.9 million, was made with effect from 1 January 2011.

The ECB's net foreign currency holdings of US dollars and Japanese yen,¹¹ as at 31 December 2011, were as follows:

	2011 Currency in millions	2010 Currency in millions
US dollars	44,614	43,952
Japanese yen	1,041,238	1,101,816

3 CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO

3.1 BALANCES WITH BANKS, SECURITY INVESTMENTS AND LOANS

As at 31 December 2011 this item consisted of a claim on a non-euro area central bank in connection with an agreement on repurchase transactions established with the ECB. Under this agreement the non-euro area central bank can borrow euro against eligible collateral in order to support its domestic liquidity-providing operations.

4 OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

This item consisted mainly of claims that arose under reverse repurchase transactions, conducted in the context of covered bond lending operations (see note 9, "Other liabilities to euro area credit institutions denominated in euro").

5 SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO

5.1 SECURITIES HELD FOR MONETARY POLICY PURPOSES

As at 31 December 2011 this item consisted of securities acquired by the ECB within the scope of the two covered bond purchase programmes¹² and the Securities Markets Programme.¹³

	2011 €	2010 €	Change €
First covered bond purchase programme	4,814,370,827	4,823,413,246	(9,042,419)
Second covered bond purchase programme	212,604,879	-	212,604,879
Securities Markets Programme	17,792,153,062	13,102,563,262	4,689,589,800
Total	22,819,128,768	17,925,976,508	4,893,152,260

The purchases under the first covered bond purchase programme were fully implemented by the end of June 2010. In 2011 the amortisation of premiums and discounts relating to these holdings resulted in a net decrease in this item (see "Income recognition" in the notes on accounting policies).

On 6 October 2011 the Governing Council announced the second covered bond purchase programme. Under this programme, the ECB and the NCBs started to purchase euro-denominated covered bonds issued in the euro area with the objective of easing funding conditions for credit institutions and enterprises, as well as encouraging credit institutions to maintain and expand lending to their clients. The purchases are expected to be fully implemented by the end of October 2012.

11 These holdings comprise assets minus liabilities denominated in the given foreign currency that are subject to foreign currency revaluation. They 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 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. Price gains on financial instruments denominated in foreign currency arising as a result of revaluations are not included.

12 As announced in the ECB's press releases of 4 June 2009 and 6 October 2011.

13 As announced in the ECB's press release of 10 May 2010 on measures to address severe tensions in financial markets.

Under the Securities Markets Programme, established in May 2010, the ECB and the NCBs may purchase euro area public and private debt securities in order to address the malfunctioning of certain segments of the euro area debt securities markets and restore the proper functioning of the monetary policy transmission mechanism. The net increase in this item in 2011 was due to further purchases that more than offset redemptions in 2011.

Securities purchased under the Securities Markets Programme and the covered bond purchase programmes are classified as held-to-maturity securities and are valued on an amortised cost basis subject to impairment (see “Securities” in the notes on accounting policies). Annual impairment tests were conducted on the basis of the information available and estimated recoverable amounts as at the end of 2011.

In this context, the Governing Council considered the impact of the private sector involvement (PSI) initiative announced in 2011, which proposed a restructuring of part of the debt issued by the Hellenic Republic to secure debt sustainability in the long term. Part of the ECB’s holdings under the Securities Markets Programme comprises debt securities issued by the Hellenic Republic. However, given that the initiative was designed to voluntarily restructure debt held by the private sector, it was not expected to result in changes to any future contractual cash flows associated with the ECB’s holdings of these securities. As at 31 December 2011 the Governing Council considered that there was no evidence to assume that the initiative would not be successfully implemented, therefore, no impairment losses were recorded at the year-end.

Furthermore, no impairment was recorded in respect of the other securities purchased under the Securities Markets Programme or the securities bought under the two covered bond purchase programmes.

The Governing Council assesses on a regular basis the financial risks associated with the securities held under the Securities Markets Programme and the two covered bond purchase programmes.

POST-BALANCE-SHEET EVENTS

In February 2012 the Eurosystem central banks exchanged their holdings of Greek government bonds purchased under the Securities Markets Programme for new securities issued by the Hellenic Republic. The newly acquired securities have the same characteristics as those purchased under the Securities Markets Programme in terms of their nominal values, coupon rates, interest payment dates and redemption dates. The new securities were not included on the list of eligible securities that were subject to restructuring in the context of the PSI initiative.

6 INTRA-EUROSYSTEM CLAIMS

6.1 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). 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 (see note 24.2, “Interest income arising from the allocation of euro banknotes within the Eurosystem”).

6.2 OTHER CLAIMS/LIABILITIES WITHIN THE EUROSYSTEM (NET)

In 2011 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 ECB had a net liability vis-à-vis the euro area NCBs at the end of 2010 but a net claim at the end of 2011. This change resulted mainly from an increase in the outstanding amounts related to back-to-back swap transactions conducted with NCBs in connection with US dollar liquidity-providing operations (see note 11, “Liabilities to non-euro area residents denominated in euro”). The remuneration of TARGET2 positions, with the exception of balances arising from these back-to-back swap transactions, is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

In 2011 this item also included the amount due to euro area NCBs in respect of the interim distribution of the ECB’s income derived from banknotes in circulation (see “Interim profit distribution” in the notes on accounting policies). With respect to 2010, the Governing Council decided to retain the full amount of this income, as well as income earned on securities purchased under the Securities Markets Programme, and no related amounts were due at the end of 2010.

	2011 €	2010 €
Due from euro area NCBs in respect of TARGET2	842,032,488,071	435,850,611,581
Due to euro area NCBs in respect of TARGET2	(791,987,384,417)	(457,075,867,507)
Due to euro area NCBs in respect of the interim distribution of the ECB’s income derived from banknotes in circulation	(652,000,000)	0
Other claims/ (liabilities) within the Eurosystem (net)	49,393,103,654	(21,225,255,926)

7 OTHER ASSETS

7.1 TANGIBLE AND INTANGIBLE FIXED ASSETS

These assets comprised the following items on 31 December 2011:

	2011 €	2010 €	Change €
Cost			
Land and buildings	168,916,034	168,714,234	201,800
Computer hardware and software	187,324,734	188,781,597	(1,456,863)
Equipment, furniture, plant in building and motor vehicles	30,891,846	30,325,142	566,704
Assets under construction	339,020,767	174,386,237	164,634,530
Other fixed assets	1,656,957	1,525,084	131,873
Total cost	727,810,338	563,732,294	164,078,044
Accumulated depreciation			
Land and buildings	(79,214,734)	(74,965,599)	(4,249,135)
Computer hardware and software	(177,313,517)	(177,760,956)	447,439
Equipment, furniture, plant in building and motor vehicles	(29,730,082)	(28,878,352)	(851,730)
Other fixed assets	(202,512)	(201,762)	(750)
Total accumulated depreciation	(286,460,845)	(281,806,669)	(4,654,176)
Net book value	441,349,493	281,925,625	159,423,868

The increase in the category “Assets under construction” is due mainly to activities related to the ECB’s new premises.

7.2 OTHER FINANCIAL ASSETS

This item consists of the investment of the ECB’s own funds¹⁴ held as a direct counterpart to the capital and reserves of the ECB, as well as

¹⁴ Repurchase agreements conducted in the context of the management of the own funds portfolio are reported under “Sundry” on the liabilities side (see note 14.3, “Sundry”).

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:

	2011 €	2010 €	Change €
Current accounts in euro	4,934,974	4,377,086	557,888
Securities denominated in euro	13,285,988,281	11,534,194,166	1,751,794,115
Reverse repurchase agreements in euro	2,707,978,069	1,669,436,200	1,038,541,869
Other financial assets	41,924,130	41,953,279	(29,149)
Total	16,040,825,454	13,249,960,731	2,790,864,723

The net increase in this item was due mainly to the investment in the own funds portfolio of (a) amounts received from the euro area NCBs in 2011 in respect of the second instalment of their contribution to the increase in the ECB's subscribed capital in 2010 (see note 17, "Capital and reserves"); (b) the counterpart of the amount transferred to the ECB's provision for foreign exchange rate, interest rate, credit and gold price risks in 2010; and (c) income received in 2011.

7.3 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 2011 (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 "Off-balance-sheet instruments" and "Gold and foreign

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

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

7.4 ACCRUALS AND PREPAID EXPENSES

In 2011 this position included accrued interest receivable on the TARGET2 balances due from euro area NCBs for the final month of 2011, amounting to €752.6 million (2010: €364.7 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 €230.6 million (2010: €166.7 million).

Also included in this item is accrued coupon interest on securities (see note 2.2, "Balances with banks and security investments, external loans and other external assets; and Claims on euro area residents denominated in foreign currency", note 5, "Securities of euro area residents denominated in euro", and note 7.2, "Other financial assets") as well as accrued interest on other financial assets.

7.5 SUNDRY

This item includes positive balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2011 (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 the accrued amounts of the interim distribution of the ECB's income derived from banknotes in circulation

(see “Interim profit distribution” in the notes on accounting policies and note 6.2, “Other claims/liabilities within the Eurosystem (net”).

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 OTHER LIABILITIES TO EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

In 2010 the Governing Council decided that the Eurosystem central banks would make available for lending bonds bought under the first covered bond purchase programme. The ECB implemented these lending operations through matched repurchase transactions, whereby amounts received under repurchase agreements are fully and simultaneously reinvested with the same counterparty under a reverse repurchase agreement (see note 4, “Other claims on euro area credit institutions denominated in euro”). In 2011 the Governing Council decided to extend the scope of such lending operations to include bonds bought under the second covered bond purchase programme.

As at 31 December 2011 repurchase agreements conducted in the context of the covered bond lending operations with a value of €204.9 million (2010: €33.4 million) remained outstanding. They related solely to bonds bought under the first covered bond purchase programme.

10 LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

10.1 OTHER LIABILITIES

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.

11 LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

As at 31 December 2011 this item consisted mainly of a liability amounting to €64.2 billion (2010: €0.1 billion) arising from the temporary reciprocal currency arrangement with the Federal Reserve. Under this arrangement, US dollars were provided by the Federal Reserve to the ECB by means of a temporary 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 transactions. The back-to-back swap transactions resulted in intra-Eurosystem balances between the ECB and the NCBs.

The remainder of this item reflects balances held with the ECB by other non-euro area central banks, including balances held 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).

12 LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

12.1 DEPOSITS, BALANCES AND OTHER LIABILITIES

This item consists of liabilities that arose under repurchase agreements conducted with

non-euro area residents in connection with the management of the foreign currency reserves of the ECB.

13 INTRA-EUROSYSTEM LIABILITIES

13.1 LIABILITIES EQUIVALENT TO THE TRANSFER OF FOREIGN RESERVES

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. The remuneration of these liabilities is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations, adjusted to reflect a zero return on the gold component (see note 24.3, “Remuneration of NCBs’ claims in respect of foreign reserves transferred”).

Eesti Pank’s transfer of foreign reserve assets upon the adoption of the single currency by Estonia led to an increase in this item of €103,115,678.

	Since 1 January 2011 €	31 December 2010 €
Nationale Bank van België/ Banque Nationale de Belgique	1,397,303,847	1,397,303,847
Deutsche Bundesbank	10,909,120,274	10,909,120,274
Eesti Pank	103,115,678	-
Central Bank of Ireland	639,835,662	639,835,662
Bank of Greece	1,131,910,591	1,131,910,591
Banco de España	4,783,645,755	4,783,645,755
Banque de France	8,192,338,995	8,192,338,995
Banca d’Italia	7,198,856,881	7,198,856,881
Central Bank of Cyprus	78,863,331	78,863,331
Banque centrale du Luxembourg	100,638,597	100,638,597
Central Bank of Malta	36,407,323	36,407,323
De Nederlandsche Bank	2,297,463,391	2,297,463,391
Oesterreichische Nationalbank	1,118,545,877	1,118,545,877
Banco de Portugal	1,008,344,597	1,008,344,597
Banka Slovenije	189,410,251	189,410,251
Národná banka Slovenska	399,443,638	399,443,638
Suomen Pankki – Finlands Bank	722,328,205	722,328,205
Total	40,307,572,893	40,204,457,215

Eesti Pank’s claim was set at €103,115,678 in order to ensure that the ratio between this claim and the aggregate claim credited to the other NCBs of Member States whose currency is the euro will be equal to the ratio between Eesti Pank’s weighting in the ECB’s capital key and the other euro area 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 2.2, “Balances with banks and security investments, external loans and other external assets; and Claims on euro area residents denominated in foreign currency”) was treated as part of the contributions of Eesti Pank, due under Article 48.2 of the Statute of the ESCB, to the reserves and provisions equivalent to reserves of the ECB existing as at 31 December 2010 (see note 15, “Provisions”, and note 16, “Revaluation accounts”).

14 OTHER LIABILITIES

14.1 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 2011 (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 “Off-balance-sheet instruments” and “Gold and foreign currency assets and liabilities” in the notes on accounting policies).

Valuation losses on outstanding interest rate swaps are also included in this item (see note 20, “Interest rate swaps”).

14.2 ACCRUALS AND INCOME COLLECTED IN ADVANCE

As at 31 December 2011 the two main items under this heading were accrued interest payable on TARGET2 balances due to NCBs for the final month of 2011, amounting to €770.1 million (2010: €381.8 million), and accrued interest payable to the NCBs for the whole of 2011 in respect of their claims relating to foreign reserves transferred to the ECB (see note 13, “Intra-Eurosystem liabilities”), amounting to €434.0 million (2010: €346.5 million). Accruals on financial instruments and other accruals are also reported in this item.

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 7.1, “Tangible and intangible fixed assets”).

14.3 SUNDRY

This item includes outstanding repurchase transactions of €360.0 million (2010: €235.4 million) conducted in connection with the management of the ECB’s own funds (see note 7.2, “Other financial assets”).

This item also includes negative balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2011 (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).

In addition, it includes the net liability in respect of the ECB’s pension obligation of €112.5 million as described below.

THE ECB’S PENSION PLAN, OTHER POST-EMPLOYMENT BENEFITS AND OTHER LONG-TERM BENEFITS

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

	2011 Staff € millions	2011 Executive Board € millions	2011 Total € millions
Present value of obligation	549.1	17.9	567.0
Fair value of plan assets	(418.4)	-	(418.4)
Unrecognised actuarial gains/(losses)	(35.6)	(0.5)	(36.1)
Liability recognised in the Balance Sheet	95.1	17.4	112.5

	2010 Staff € millions	2010 Executive Board € millions	2010 Total € millions
Present value of obligation	539.6	15.9	555.5
Fair value of plan assets	(391.6)	-	(391.6)
Unrecognised actuarial gains/(losses)	(71.6)	0.5	(71.1)
Liability recognised in the Balance Sheet	76.4	16.4	92.8

The present value of the obligation vis-à-vis staff includes unfunded benefits amounting to €86.6 million (2010: €86.9 million) relating to post-employment benefits other than pensions and to other long-term benefits. Unfunded arrangements are also in place for the post-employment and other long-term benefits of members of the Executive Board (see “The ECB’s pension plan, other post-employment

benefits and other long-term benefits” in the notes on accounting policies).

The amounts recognised in the Profit and Loss Account in 2011 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:

	2011 Staff	2011 Executive Board	2011 Total
	€ millions	€ millions	€ millions
Current service cost	31.1	1.4	32.5
Interest on obligation	24.2	0.8	25.0
Expected return on plan assets	(20.1)	-	(20.1)
Net actuarial (gains)/losses recognised in the year	6.2	(0.6)	5.6
Total included in “Staff costs”	41.4	1.6	43.0

	2010 Staff	2010 Executive Board	2010 Total
	€ millions	€ millions	€ millions
Current service cost	25.4	1.2	26.6
Interest on obligation	21.1	0.8	21.9
Expected return on plan assets	(18.4)	-	(18.4)
Net actuarial (gains)/losses recognised in the year	(1.0)	(0.3)	(1.3)
Total included in “Staff costs”	27.1	1.7	28.8

Under the “10% corridor” approach (see “The ECB’s pension plan, other post-employment benefits and other long-term benefits” in the notes on accounting policies), net cumulative unrecognised actuarial gains and losses arising from post-employment benefits 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 obligation are as follows:

	2011 Staff	2011 Executive Board	2011 Total
	€ millions	€ millions	€ millions
Opening obligation	539.6	15.9	555.5
Service cost	31.1	1.4	32.5
Interest cost	24.2	0.8	25.0
Contributions paid by plan participants	16.3	0.2	16.5
Other net changes in liabilities representing plan participants’ contributions	(1.9)	0	(1.9)
Benefits paid	(5.4)	(0.8)	(6.2)
Actuarial (gains)/losses	(54.8)	0.4	(54.4)
Closing obligation	549.1	17.9	567.0

	2010 Staff	2010 Executive Board	2010 Total
	€ millions	€ millions	€ millions
Opening obligation	430.5	13.4	443.9
Service cost	25.4	1.2	26.6
Interest cost	21.1	0.8	21.9
Contributions paid by plan participants	17.4	0.1	17.5
Other net changes in liabilities representing plan participants’ contributions	4.5	0	4.5
Benefits paid	(4.8)	(0.4)	(5.2)
Actuarial (gains)/losses	45.5	0.8	46.3
Closing obligation	539.6	15.9	555.5

The actuarial losses of €46.3 million arising on the defined benefit obligation in 2010 were primarily due to the decrease in the discount rate from 5.50% to 5.00% and an increase in the value of the guaranteed benefits. These factors were only partially offset by the reduction in the assumed future increase in pensions from 2.00% to 1.65%.

Actuarial gains for 2011 on the defined benefit obligation relating to staff amounted to €54.8 million. This amount includes the effects of (a) lower than expected growth in the value of the minimum guaranteed benefits; (b) a downward revision of expected credited returns on the fund units with an underlying capital guarantee which are used for calculating the future pensions and consequently the

current value of the defined benefit obligation; and (c) lower projected growth in medical plan premiums.

Changes in the fair value of plan assets relating to staff, including those arising from voluntary contributions paid by plan participants, are as follows:

	2011 € millions	2010 € millions
Opening fair value of plan assets	391.6	333.2
Expected return	20.1	18.4
Actuarial gains/(losses)	(25.0)	0.6
Contributions paid by employer	22.7	22.4
Contributions paid by plan participants	16.3	17.3
Benefits paid	(5.4)	(4.8)
Other net changes in assets representing plan participants' contributions	(1.9)	4.5
Closing fair value of plan assets	418.4	391.6

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 benefits scheme liability are as follows:

	2011 %	2010 %
Discount rate	5.00	5.00
Expected return on plan assets	6.00	6.00
General future salary increases ¹⁾	2.00	2.00
Future pension increases	1.65	1.65

1) In addition, allowance is made for prospective individual salary increases of up to 1.8% per annum, depending on the age of the plan participants.

15 PROVISIONS

This item consists of a provision for foreign exchange rate, interest rate, credit and gold price risks and other miscellaneous provisions.

The provision for foreign exchange rate, interest rate, credit and gold price risks 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 of 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 2010 the provision for foreign exchange rate, interest rate, credit and gold price risks amounted to €5,183,637,388. Eesti Pank contributed an amount of €13,294,901 to the provision with effect from 1 January 2011.¹⁶ Taking the results of its assessment into account, the Governing Council decided to transfer, as at 31 December 2011, an amount of €1,166,175,000 to the provision out of income arising from securities purchased under the Securities Markets Programme (see note 24.4, "Other interest income; and Other interest expense") and out of part of the income on euro banknotes in circulation (see note 24.2, "Interest income arising from the allocation of euro banknotes within the Eurosystem"). This transfer reduced the ECB's net profit for 2011 to €728,136,234 and, together with the amount contributed by Eesti Pank, increased the size of the provision to €6,363,107,289. Following the increase in the ECB's paid-up capital in 2011 (see note 17, "Capital and reserves"), this amount corresponds to the value of the ECB's capital paid up by the euro area NCBs as at 31 December 2011.

16 REVALUATION ACCOUNTS

These accounts represent revaluation balances arising from unrealised gains on assets, liabilities and off-balance-sheet instruments (see "Income recognition", "Gold and foreign currency assets and liabilities", "Securities" and "Off-balance-

¹⁵ See also Chapter 2 of the Annual Report.

¹⁶ In accordance with Article 48.2 of the Statute of the ESCB.

sheet instruments” in the notes on accounting policies). In accordance with Article 48.2 of the Statute of the ESCB, Eesti Pank contributed an amount of €50.3 million to these balances with effect from 1 January 2011.

	2011 €	2010 €	Change €
Gold	15,718,491,496	13,078,746,071	2,639,745,425
Foreign currency Securities and other instruments	7,975,683,173	6,271,078,092	1,704,605,081
	630,756,103	276,874,996	353,881,107
Total	24,324,930,772	19,626,699,159	4,698,231,613

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

<i>Exchange rates</i>	2011	2010
US dollars per euro	1.2939	1.3362
Japanese yen per euro	100.20	108.65
Euro per SDR	1.1867	1.1572
Euro per fine ounce of gold	1,216.864	1,055.418

17 CAPITAL AND RESERVES

17.1 CAPITAL

With effect from 29 December 2010 the ECB increased its subscribed capital by €5 billion to €10,760,652,403.¹⁷ In addition, the Governing Council decided that the euro area NCBs would pay their additional capital contributions resulting from this increase in three equal annual instalments.¹⁸ Consequently, on 29 December 2010 the NCBs of the euro area (in its composition as at that date) paid an amount of €1,163,191,667 as their first instalment.

Eesti Pank paid up an amount of €12,572,592 as at 1 January 2011.¹⁹ This amount consisted of the first instalment of Eesti Pank’s contribution to the increase in the ECB’s subscribed capital at end-December 2010, amounting to €2,983,333, and the remainder of its share in the ECB’s subscribed capital before the increase, amounting to €9,589,259.

On 28 December 2011 the NCBs of the euro area, including Eesti Pank, paid an amount of

€1,166,175,000 as the second instalment of their contribution to the increase in the ECB’s subscribed capital. The third instalment will be paid at the end of 2012.

The combined effect of the above payments in 2011 was an increase in the paid-up capital of the ECB amounting to €1,178,747,592,²⁰ as shown in the table below:²¹

	Paid-up capital since 28 December 2011 €	Paid-up capital from 1 January to 27 December 2011 €	Paid-up capital as at 31 December 2010 €
Nationale Bank van België/Banque Nationale de Belgique	220,583,718	180,157,051	180,157,051
Deutsche Bundesbank	1,722,155,361	1,406,533,694	1,406,533,694
Eesti Pank	16,278,234	13,294,901	-
Central Bank of Ireland	101,006,900	82,495,233	82,495,233
Bank of Greece	178,687,726	145,939,392	145,939,392
Banco de España	755,164,576	616,764,576	616,764,576
Banque de France	1,293,273,899	1,056,253,899	1,056,253,899
Banca d’Italia	1,136,439,021	928,162,355	928,162,355
Central Bank of Cyprus	12,449,666	10,168,000	10,168,000
Banque centrale du Luxembourg	15,887,193	12,975,526	12,975,526
Central Bank of Malta	5,747,399	4,694,066	4,694,066
De Nederlandsche Bank	362,686,339	296,216,339	296,216,339
Oesterreichische Nationalbank	176,577,921	144,216,254	144,216,254
Banco de Portugal	159,181,126	130,007,793	130,007,793
Banka Slovenije	29,901,025	24,421,025	24,421,025
Národná banka Slovenska	63,057,697	51,501,030	51,501,030
Suomen Pankki – Finlands Bank	114,029,487	93,131,154	93,131,154
Subtotal for euro area NCBs	6,363,107,289	5,196,932,289	5,183,637,388

17 Decision ECB/2010/26 of 13 December 2010 on the increase of the European Central Bank’s capital, OJ L 11, 15.1.2011, p. 53.

18 Decision ECB/2010/27 of 13 December 2010 on the paying-up of the increase of the European Central Bank’s capital by the national central banks of Member States whose currency is the euro, OJ L 11, 15.1.2011, p. 54.

19 In accordance with Article 48.1 of the Statute of the ESCB and Decision ECB/2010/34 of 31 December 2010 on the paying-up of capital, transfer of foreign reserve assets and contributions by Eesti Pank to the European Central Bank’s reserves and provisions, OJ L 11, 15.1.2011, p. 58.

20 This increase may not be derived precisely from the figures provided in the table below due to rounding.

21 Individual amounts are shown rounded to the nearest euro. Consequently, totals and subtotals in the tables of this section may not add up due to rounding.

	Paid-up capital since 28 December 2011	Paid-up capital from 1 January to 27 December 2011	Paid-up capital as at 31 December 2010
	€	€	€
Българска народна банка (Bulgarian National Bank)	3,505,014	3,505,014	3,505,014
Česká národní banka	5,839,806	5,839,806	5,839,806
Danmarks Nationalbank	5,986,285	5,986,285	5,986,285
Eesti Pank	-	-	722,309
Latvijas Banka	1,144,799	1,144,799	1,144,799
Lietuvos bankas	1,717,400	1,717,400	1,717,400
Magyar Nemzeti Bank	5,591,235	5,591,235	5,591,235
Narodowy Bank Polski	19,754,137	19,754,137	19,754,137
Banca Națională a României	9,944,860	9,944,860	9,944,860
Sveriges Riksbank	9,112,389	9,112,389	9,112,389
Bank of England	58,580,454	58,580,454	58,580,454
Subtotal for non-euro area NCBs	121,176,379	121,176,379	121,898,688
Total	6,484,283,669	5,318,108,669	5,305,536,076

The non-euro area NCBs are required to pay up 3.75% of their share in the ECB's subscribed capital as a contribution to the operational costs of the ECB. This contribution amounted to €121,176,379 at end-2011. The non-euro area NCBs are not entitled to receive any share of the distributable profits of the ECB, nor are they liable to fund any loss of the ECB.

The ECB's capital key and subscribed capital remained unchanged in 2011. As a result of the adoption of the single currency by Estonia on 1 January 2011, the allocation of the capital key and the subscribed capital to the euro area and non-euro area NCBs changed as follows:²²

²² Individual amounts are shown rounded to the nearest euro. Consequently, totals and subtotals in the tables of this section may not add up due to rounding.

	Capital key since 1 January 2011	Subscribed capital since 1 January 2011	Capital key as at 31 December 2010	Subscribed capital as at 31 December 2010
	%	€	%	€
Nationale Bank van België/Banque Nationale de Belgique	2.4256	261,010,385	2.4256	261,010,385
Deutsche Bundesbank	18.9373	2,037,777,027	18.9373	2,037,777,027
Eesti Pank	0.1790	19,261,568	-	-
Central Bank of Ireland	1.1107	119,518,566	1.1107	119,518,566
Bank of Greece	1.9649	211,436,059	1.9649	211,436,059
Banco de España	8.3040	893,564,576	8.3040	893,564,576
Banque de France	14.2212	1,530,293,899	14.2212	1,530,293,899
Banca d'Italia	12.4966	1,344,715,688	12.4966	1,344,715,688
Central Bank of Cyprus	0.1369	14,731,333	0.1369	14,731,333
Banque centrale du Luxembourg	0.1747	18,798,860	0.1747	18,798,860
Central Bank of Malta	0.0632	6,800,732	0.0632	6,800,732
De Nederlandsche Bank	3.9882	429,156,339	3.9882	429,156,339
Oesterreichische Nationalbank	1.9417	208,939,588	1.9417	208,939,588
Banco de Portugal	1.7504	188,354,460	1.7504	188,354,460
Banka Slovenije	0.3288	35,381,025	0.3288	35,381,025
Národná banka Slovenska	0.6934	74,614,364	0.6934	74,614,364
Suomen Pankki – Finlands Bank	1.2539	134,927,820	1.2539	134,927,820
Subtotal for euro area NCBs	69.9705	7,529,282,289	69.7915	7,510,020,722

	Capital key since 1 January 2011 %	Subscribed capital since 1 January 2011 €	Capital key as at 31 December 2010 %	Subscribed capital as at 31 December 2010 €
Българска народна банка (Bulgarian National Bank)	0.8686	93,467,027	0.8686	93,467,027
Česká národní banka	1.4472	155,728,162	1.4472	155,728,162
Danmarks Nationalbank	1.4835	159,634,278	1.4835	159,634,278
Eesti Pank	-	-	0.1790	19,261,568
Latvijas Banka	0.2837	30,527,971	0.2837	30,527,971
Lietuvos bankas	0.4256	45,797,337	0.4256	45,797,337
Magyar Nemzeti Bank	1.3856	149,099,600	1.3856	149,099,600
Narodowy Bank Polski	4.8954	526,776,978	4.8954	526,776,978
Banca Națională a României	2.4645	265,196,278	2.4645	265,196,278
Sveriges Riksbank	2.2582	242,997,053	2.2582	242,997,053
Bank of England	14.5172	1,562,145,431	14.5172	1,562,145,431
Subtotal for non-euro area NCBs	30.0295	3,231,370,113	30.2085	3,250,631,681
Total	100.0000	10,760,652,403	100.0000	10,760,652,403

OFF-BALANCE-SHEET INSTRUMENTS

18 AUTOMATED SECURITY LENDING PROGRAMME

As part of the management of the ECB's own funds, the ECB has an automated security lending programme agreement in place, 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 €1.2 billion (2010: €1.5 billion) were outstanding as at 31 December 2011.

19 INTEREST RATE FUTURES

As at 31 December 2011 the following foreign currency transactions, presented at year-end market rates, were outstanding:

Foreign currency interest rate futures	2011 Contract value €	2010 Contract value €	Change €
Purchases	1,651,132,236	458,539,141	1,192,593,095
Sales	1,728,229,838	1,251,682,536	476,547,302

These transactions were conducted in the context of the management of the ECB's foreign reserves.

20 INTEREST RATE SWAPS

Interest rate swap transactions with a contract value of €225.7 million (2010: €742.4 million), presented at year-end market rates, were outstanding as at 31 December 2011. 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

Foreign exchange swap and forward transactions were conducted in 2011 in the context of the management of the ECB's foreign reserves. The following forward claims and liabilities resulting from these transactions, presented at year-end market rates, remained outstanding as at 31 December 2011:

Foreign exchange swap and forward transactions	2011 €	2010 €	Change €
Claims	2,304,007,744	1,697,483,530	606,524,214
Liabilities	2,309,882,385	1,740,464,038	569,418,347

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 11, “Liabilities to non-euro area residents denominated in euro”), were outstanding on 31 December 2011.

22 ADMINISTRATION OF BORROWING AND LENDING OPERATIONS²³

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 €11.4 billion were outstanding as at 31 December 2011.

In the context of the loan facility agreement between the Member States whose currency is the euro²⁴ and Kreditanstalt für Wiederaufbau,²⁵ as lenders, the Hellenic Republic, as the borrower, and the Bank of Greece, as the agent of the borrower, the ECB is responsible for processing all related payments on behalf of the lenders and the borrower. Under this scheme, pooled bilateral loans for the benefit of the Hellenic Republic amounting to €52.9 billion were outstanding as at 31 December 2011.

Furthermore, the ECB has an operational role in the administration of loans under the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF). Loans to Ireland and Portugal, amounting to €28 billion under the EFSM scheme and €16.3 billion under the EFSF scheme, were outstanding as at 31 December 2011.

23 PENDING LAWSUITS

An action for damages was brought against the ECB before the Court of First Instance of the European Communities (CFI)²⁶ by Document Security Systems Inc. (DSSI), alleging that the ECB had infringed a DSSI patent²⁷ in the production of euro banknotes. The CFI dismissed DSSI’s action for damages against

the ECB.²⁸ The ECB is currently pursuing actions to revoke the patent in certain national jurisdictions and has already succeeded in revoking it in a number of 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 a number of 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.

23 See also Chapter 2 of the Annual Report.

24 Other than the Hellenic Republic and the Federal Republic of Germany.

25 Acting in the public interest, subject to the instructions of and with the benefit of the guarantee of the Federal Republic of Germany.

26 Following the entry into force of the Treaty of Lisbon on 1 December 2009, the name of the Court of First Instance was changed to the General Court.

27 DSSI’s European Patent No 0455 750 B1.

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

NOTES ON THE PROFIT AND LOSS ACCOUNT

24 NET INTEREST INCOME

24.1 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:

	2011 €	2010 €	Change €
Interest income on current accounts	2,088,888	1,328,753	760,135
Interest income on money market deposits	18,279,491	15,865,666	2,413,825
Interest income on reverse repurchase agreements	1,479,020	2,712,798	(1,233,778)
Net interest income on securities	254,699,342	335,790,909	(81,091,567)
Net interest income on interest rate swaps	6,284,214	4,611,662	1,672,552
Net interest income on foreign exchange swap and forward transactions	7,686,740	6,523,343	1,163,397
Total interest income on foreign reserve assets	290,517,695	366,833,131	(76,315,436)
Interest expense on current accounts	(6,126)	(8,795)	2,669
Net interest expense on repurchase agreements	(291,278)	(644,858)	353,580
Interest income on foreign reserve assets (net)	290,220,291	366,179,478	(75,959,187)

The overall decrease in net interest income in 2011 was due mainly to lower interest income generated on the US dollar portfolio.

24.2 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 (see "Banknotes in circulation" in the notes

on accounting policies and note 6.1, "Claims related to the allocation of euro banknotes within the Eurosystem"). The increase in income in 2011 mainly reflected the fact that the average main refinancing rate was higher than in 2010.

24.3 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 (see note 13, "Intra-Eurosystem liabilities") is disclosed under this heading. The increase in this remuneration in 2011 predominantly reflected the fact that the average main refinancing rate was higher than in 2010.

24.4 OTHER INTEREST INCOME; AND OTHER INTEREST EXPENSE

These items include interest income of €6.6 billion (2010: €3.8 billion) and expenses of €6.9 billion (2010: €3.9 billion) arising from TARGET2 balances (see note 6.2, "Other claims/liabilities within the Eurosystem (net)", and note 11, "Liabilities to non-euro area residents denominated in euro").

These items also include net income of €165.7 million (2010: €140.4 million) on the securities purchased by the ECB under the covered bond purchase programmes, including net income on the related security lending transactions, and €1,002.8 million (2010: €438.0 million) on those purchased under the Securities Markets Programme. Interest income and expenses in respect of other assets and liabilities denominated in euro, as well as interest income and interest expense arising from US dollar liquidity-providing operations, are also shown under these headings.

25 REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

Net realised gains arising from financial operations in 2011 were as follows:

	2011 €	2010 €	Change €
Net realised price gains on securities, interest rate futures and interest rate swaps	260,059,727	460,588,711	(200,528,984)
Net realised exchange rate and gold price gains	212,159,502	13,724,616	198,434,886
Net realised gains arising from financial operations	472,219,229	474,313,327	(2,094,098)

In 2011 this item included net realised price gains on sales of securities and net exchange rate gains on foreign currency outflows, which arose mainly as a result of Japanese yen outflows in the context of the ECB's participation in the concerted international intervention in the foreign exchange markets on 18 March 2011 (see note 2.2, "Balances with banks and security investments, external loans and other external assets; and Claims on euro area residents denominated in foreign currency").

26 WRITE-DOWNS ON FINANCIAL ASSETS AND POSITIONS

	2011 €	2010 €	Change €
Unrealised price losses on securities	(155,240,641)	(184,247,603)	29,006,962
Unrealised price losses on interest rate swaps	(2,216,642)	(10,963,861)	8,747,219
Unrealised exchange rate losses	0	(1,973)	1,973
Total write-downs	(157,457,283)	(195,213,437)	37,756,154

In 2011 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 2011.

27 NET EXPENSE FROM FEES AND COMMISSIONS

	2011 €	2010 €	Change €
Income from fees and commissions	77,858	110,661	(32,803)
Expenses relating to fees and commissions	(2,058,638)	(1,519,678)	(538,960)
Net expense from fees and commissions	(1,980,780)	(1,409,017)	(571,763)

In 2011 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 interest rate futures transactions (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 7.2, "Other financial assets") are shown under this heading.

29 OTHER INCOME

Other miscellaneous income during the year arose mainly from the accrued contributions of the euro area NCBs to the costs incurred by the ECB in connection with a major market infrastructure project.

30 STAFF COSTS

Salaries, allowances, staff insurance and other miscellaneous costs of €173.1 million (2010: €167.7 million) are included under this heading. Also included in this item is an amount of €43.0 million (2010: €28.8 million) recognised in connection with the ECB's pension plan, other post-employment benefits and other

long-term benefits (see note 14.3, “Sundry”). Staff costs of €1.3 million (2010: €1.3 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 2011 were as follows:

	2011 €	2010 €
Jean-Claude Trichet (President until October 2011)	309,290	367,863
Mario Draghi (President since November 2011)	61,858	-
<i>Lucas D. Papademos</i> (Vice-President until May 2010)	-	131,370
Vitor Constâncio (Vice-President since June 2010)	318,132	183,918
Gertrude Tumpel-Gugerell (Board Member until May 2011)	110,460	262,728
Peter Praet (Board Member since June 2011)	154,644	-
José Manuel González-Páramo (Board Member)	265,104	262,728
Lorenzo Bini Smaghi (Board Member)	265,104	262,728
Jürgen Stark (Board Member)	265,104	262,728
Total	1,749,696	1,734,063

The total allowances paid to the members of the Executive Board and the ECB’s contributions

to the medical and accident insurance schemes on their behalf amounted to €646,154 (2010: €660,731).

In addition, the benefits on appointment or termination of service paid to Executive Board members joining or leaving the ECB amounted to €159,594 (2010: €52,548). They are reported under “Administrative expenses” in the Profit and Loss Account (see note 31, “Administrative expenses”).

Transitional payments are made to former members of the Executive Board for a limited period after the end of their terms of office. In 2011 these payments, related family allowances and the ECB’s contributions to the medical and accident insurance schemes of former members amounted to €479,665 (2010: €34,868). 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 €321,929 (2010: €354,349). The total payments to former members of the Executive Board are reported as “Benefits paid” and reduce the ECB’s defined benefit obligation in respect of the post-employment benefits for the Executive Board (see note 14.3, “Sundry”).

At the end of 2011 the actual full-time equivalent number of staff holding contracts with the ECB was 1,609,²⁹ including 158 with managerial positions. The change in the number of staff during 2011 was as follows:

	2011	2010
Total staff as at 1 January	1,607	1,563
Newcomers/change of contractual status	313	328
Resignations/end of contract	(299)	(302)
Net increase/(decrease) due to changes in part-time working patterns	(12)	18
Total staff as at 31 December	1,609	1,607
Average number of staff employed	1,601	1,565

²⁹ Staff on unpaid leave 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.

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 is mainly due to the cross-border transportation of euro banknotes between banknote printing works and NCBs, for the delivery of new banknotes, and between NCBs, for the compensation of shortages with surplus stocks. These costs are borne centrally by the ECB.



PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Olof-Palme-Straße 35, 60439 Frankfurt am Main

President and Governing Council
of the European Central Bank
Frankfurt am Main

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Olof-Palme-Straße 35
60439 Frankfurt am Main
Postfach 50 03 64
60394 Frankfurt am Main
www.pwc.de

Tel.: +49 69 9585-3691
Fax: +49 69 9585 913023
muriel.atton@de.pwc.com

29 February 2012

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 2011, the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes (the "Annual Accounts").

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/2010/21 on the annual accounts of the European Central Bank, and for such internal control as the Executive Board determines is necessary to enable the preparation of the Annual Accounts that are free from material misstatement, whether due to fraud or error.

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 about 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 the Executive Board, 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 2011, 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/2010/21 on the annual accounts of the European Central Bank.

Frankfurt am Main, 29 February 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft


Jens Roennberg
Wirtschaftsprüfer


ppa. Muriel Atton
Wirtschaftsprüfer

NOTE ON PROFIT DISTRIBUTION/ ALLOCATION OF LOSSES

This note is not part of the financial statements of the ECB for the year 2011.

INCOME RELATED TO THE ECB'S SHARE OF TOTAL BANKNOTES IN CIRCULATION AND ITS HOLDINGS OF SECURITIES PURCHASED UNDER THE EUROSISTEM'S SECURITIES MARKETS PROGRAMME

In respect of 2010, following a decision by the Governing Council, the full income earned on the ECB's share of total euro banknotes in circulation and securities purchased under the Securities Markets Programme, amounting to €654 million and €438 million respectively, was transferred to the provision for foreign exchange rate, interest rate, credit and gold price risks and therefore no interim profit distribution took place.

In respect of 2011, following a decision by the Governing Council, the full income arising from securities purchased under the Securities Markets Programme and part of the income earned on the ECB's share of total euro banknotes in circulation, amounting to €1,002.8 million and €163.4 million respectively, were transferred to the provision for foreign exchange rate, interest rate, credit and gold price risks. On the occasion of the ECB's interim profit distribution, income earned on the ECB's share of total euro banknotes in circulation, amounting to €652 million, was distributed to the euro area NCBs on 3 January 2012, 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

The Governing Council decided on 8 March 2012 to make no transfer to the general reserve fund and to distribute the remaining profit for 2011, amounting to €76 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.

	2011 €	2010 €
Profit for the year	728,136,234	170,831,395
Interim distribution of income on the ECB's share of total euro banknotes in circulation and on securities purchased under the Securities Markets Programme ¹⁾	(652,000,000)	(0)
Profit for the year after distribution of income on the ECB's share of total euro banknotes in circulation and on securities purchased under the Securities Markets Programme	76,136,234	170,831,395
Distribution of profit to NCBs	(76,136,234)	(170,831,395)
Total	0	0

¹⁾ The Securities Markets Programme was established in May 2010.

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.