ANNUAL ACCOUNTS

MANAGEMENT REPORT FOR THE YEAR ENDING 31 DECEMBER 2012

1 NATURE OF THE BUSINESS

The ECB's activities in 2012 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 several layers of internal and external controls. The Statute of the ESCB provides for two layers of external controls, namely the external auditors appointed to audit the annual accounts of the ECB (Article 27.1), and the European Court of Auditors, which examines the operational efficiency of the management of the ECB (Article 27.2). In order to reinforce public assurance as to the independence of the ECB's external auditors, the principle of audit firm rotation every five years is applied.

In the context of the internal control structure of the ECB, an operational risk management framework is in place, whereby each organisational unit is responsible for managing its own operational risks and implementing its own controls, as well as for the effectiveness and efficiency of its operations. The Operational Risk Committee (ORC) supports the Executive Board in their oversight role regarding the management of the ECB's operational risks. The Risk Management Office[1] 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.

Within the ECB's internal control structure, responsibility and accountability for budget matters lies primarily with the individual business areas. The Budget, Controlling and Organisation Division (BCO) of the Directorate General Human Resources, Budget and Organisation develops the framework for and prepares and monitors strategic planning in respect of the ECB's resources, as well as the related operational budget, in cooperation with the business areas. BCO also provides planning and resource controlling, cost-benefit analysis and investment analysis for ECB and ESCB projects. Spending against agreed budgets is monitored regularly by the Executive Board, taking into account the advice of the BCO, and by the Governing Council with the assistance of the Budget

1 The Risk Management Office became the Directorate Risk Management on 1 January 2013.

Committee (BUCOM), which is composed of ECB and euro area NCB experts. In accordance with Article 15 of the ECB's Rules of Procedure, BUCOM supports the Governing Council by providing a detailed evaluation of the ECB's annual budget proposals and of requests for supplementary budget funding by the Executive Board, prior to their submission to the Governing Council for approval.

In addition, independent audit missions are performed by the Directorate Internal Audit under the direct responsibility of the Executive Board. Moreover, in order to further strengthen the ECB's corporate governance, the ECB Audit 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.

A comprehensive ethics framework for the staff of the ECB 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 members of 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.

Salaries, allowances and other benefits of the members of the Executive Board are set out in note 30, "Staff costs", of the Annual Accounts.

EMPLOYEES

The ECB fully recognises the importance of a constructive dialogue with its staff. In 2012 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, professional ethics and performance management. The ECB introduced a pilot mentoring programme to support the personal and professional development of its staff, focusing in particular on female staff members.

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 ECB[2] rose from 1,601 in 2011 to 1,615 in 2012. At the end of 2012 1,638 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.

PORTFOLIO MANAGEMENT

The ECB holds two types of investment portfolio, namely the foreign reserves investment portfolio, denominated in US dollars and Japanese yen, and an internal own funds investment portfolio denominated in euro. In addition, the funds relating to the ECB's pension plan are invested in an externally managed portfolio. The ECB also holds its share of 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, which include eligibility criteria for assets and counterparties and a system of exposure limits. 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.

PRODUCTION OF THE ECB'S FINANCIAL ACCOUNTS

Pursuant to 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.[3]

The Financial Reporting and Policy Division of the Directorate General Administration is responsible for producing the Annual Accounts in cooperation with other business areas and for ensuring that all related documentation is submitted in a timely manner to the auditors and thereafter to the decision-making bodies.

The Directorate Internal Audit provides independent and objective assurance and consulting services designed to improve the ECB's operations. In this context, financial reporting processes and the ECB's Annual Accounts may be subject to internal audits. Internal audit reports, which may include audit recommendations addressed to the business areas concerned, are submitted to the Executive Board.

The ECB's Assets and Liabilities Committee, which is composed of representatives from the ECB's market operations, financial reporting, risk management, budget and audit functions, systematically

2 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.

3 See the notes on accounting policies.

monitors and assesses all factors that may have a bearing on the ECB's Balance Sheet and Profit and Loss Account. It reviews and comments on the Annual Accounts and the related documentation before they are submitted to the Executive Board for endorsement.

Furthermore, the Annual Accounts of the ECB are audited by independent external auditors recommended by the Governing Council and approved by the EU Council. The external auditors have full power to examine all books and accounts of the ECB and obtain full information about its transactions. The responsibility of the external auditors is to express an opinion as to whether the Annual Accounts give a true and fair view of the financial position of the ECB and of the results of its operations, in accordance with the principles established by the Governing Council. In this regard, the external auditors consider the adequacy of internal controls applied to the preparation and presentation of the Annual Accounts and evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Executive Board.

After the Executive Board has authorised their issuance, the Annual Accounts, together with the external auditors' opinion and all relevant documentation, are submitted to the ECB's Audit Committee for review prior to their submission to the Governing Council for approval.

The Executive Board has decided that from 2013 the ECB's Annual Accounts will be approved at the second Governing Council meeting in February of each year and published immediately thereafter.

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.

On 27 December 2012 the NCBs of the euro area paid an amount of €1,166 million as the final instalment of their contributions to the increase in the ECB's subscribed capital. Consequently, the ECB's paid-up capital amounted to €7,650 million on 31 December 2012. Detailed information on this change 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. The ECB's investment portfolios and its holdings of securities purchased for monetary policy purposes entail a further exposure to credit risk.

In view of its large exposure to these risks and the size of its revaluation accounts, the ECB maintains a provision for foreign exchange rate, interest rate, credit and gold price risks. 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 2011 the provision for foreign exchange rate, interest rate, credit and gold price risks amounted to €6,363 million. After taking the results of its risk assessment into account, the Governing Council decided to increase the size of the risk provision to €7,529 million as at 31 December 2012. This amount equates to the current maximum allowed ceiling.

5 FINANCIAL RESULT FOR 2012

In 2012 the net income of the ECB prior to the transfer of €1,166 million to the risk provision was €2,164 million, compared with €1,894 million in 2011. The net profit, amounting to €998 million after this transfer, was distributed to the euro area NCBs.

In 2012 net interest income amounted to €2,289 million, compared with €1,999 million in 2011. The increase in net interest income was mainly due to (a) the lower net interest expense arising from TARGET2 balances; (b) the additional interest income generated on the securities purchased under the Securities Markets Programme and the second covered bond purchase programme; and (c) the lower interest expense arising from the euro area NCBs' claims in respect of the foreign reserve assets transferred by them to the ECB. The effects of these developments were partially offset by a decrease in interest income on the ECB's share of the total euro banknotes in circulation.

Net realised gains arising from financial operations decreased from €472 million in 2011 to €319 million in 2012, owing to lower net exchange rate gains that were only partially offset by higher net realised price gains on sales of securities. The exchange rate gains in 2011 mainly arose from Japanese yen outflows in the context of the ECB's participation in the concerted international intervention in the foreign exchange markets in March 2011.

In 2012 the overall increase in the market value of securities held in the ECB's own funds portfolio resulted in substantially lower write-downs in that year, amounting to €4 million (2011: €157 million).

As at the end of 2011 unrealised foreign exchange gains, mainly arising on the US dollar portfolio and the Japanese yen portfolio, amounted to €7,976 million, and unrealised gold price gains amounted to €15,718 million. In 2012 the appreciation of the euro vis-à-vis the Japanese yen and the US dollar resulted in a decrease in unrealised foreign exchange gains, which amounted to €6,053 million, while the rise in the price of gold during 2012 led to unrealised gold price gains amounting to €16,434 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 Governing Council identified two impairment indicators in particular, which occurred in the course of 2012. On the basis of the information available as at 31 December 2012, the Governing Council considered that the occurrence of these indicators did not warrant an impairment of the ECB's holdings, since there was no evidence of changes in the estimated future cash flows.

Total administrative expenses of the ECB, including depreciation, amounted to €461 million in 2012, compared with €442 million in 2011. 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 2012

ASSETS	NOTE NUMBER	2012 €	2011 €
Gold and gold receivables	1	**20,359,049,520**	**19,643,678,205**
Claims on non-euro area residents denominated in foreign currency	2		
Receivables from the IMF	2.1	653,250,711	664,189,254
Balances with banks and security investments, external loans and other external assets	2.2	40,669,958,425	40,763,380,487
		41,323,209,136	**41,427,569,741**
Claims on euro area residents denominated in foreign currency	2.2	**2,838,176,026**	**4,827,713,607**
Claims on non-euro area residents denominated in euro	3		
Balances with banks, security investments and loans	3.1	**0**	**1,456,000,000**
Other claims on euro area credit institutions denominated in euro	4	**5,000**	**204,931,400**
Securities of euro area residents denominated in euro	5		
Securities held for monetary policy purposes	5.1	**22,055,516,689**	**22,819,128,768**
Intra-Eurosystem claims	6		
Claims related to the allocation of euro banknotes within the Eurosystem	6.1	73,007,429,075	71,090,081,710
Other claims within the Eurosystem (net)	6.2	24,673,515,571	49,393,103,654
		97,680,944,646	**120,483,185,364**
Other assets	7		
Tangible and intangible fixed assets	7.1	638,474,832	441,349,493
Other financial assets	7.2	19,099,638,796	16,040,825,454
Off-balance-sheet instruments revaluation differences	7.3	207,025,391	264,245,011
Accruals and prepaid expenses	7.4	1,660,056,235	1,861,875,764
Sundry	7.5	1,423,836,885	1,400,781,867
		23,029,032,139	**20,009,077,589**
Total assets		**207,285,933,156**	**230,871,284,674**

LIABILITIES	NOTE NUMBER	2012 €	2011 €
Banknotes in circulation	8	**73,007,429,075**	**71,090,081,710**
Other liabilities to euro area credit institutions denominated in euro	9	**0**	**204,926,300**
Liabilities to other euro area residents denominated in euro	10		
Other liabilities	10.1	**1,024,000,000**	**1,056,000,000**
Liabilities to non-euro area residents denominated in euro	11	**50,887,527,294**	**77,116,620,293**
Liabilities to non-euro area residents denominated in foreign currency	12		
Deposits, balances and other liabilities	12.1	**0**	**406,665,121**
Intra-Eurosystem liabilities	13		
Liabilities equivalent to the transfer of foreign reserves	13.1	**40,307,572,893**	**40,307,572,893**
Other liabilities	14		
Off-balance-sheet instruments revaluation differences	14.1	585,953,062	869,160,478
Accruals and income collected in advance	14.2	975,648,659	1,251,205,972
Sundry	14.3	781,819,158	623,759,817
		2,343,420,879	**2,744,126,267**
Provisions	15	**7,595,452,415**	**6,407,941,415**
Revaluation accounts	16	**23,472,041,296**	**24,324,930,772**
Capital and reserves	17		
Capital	17.1	**7,650,458,669**	**6,484,283,669**
Profit for the year		**998,030,635**	**728,136,234**
Total liabilities		**207,285,933,156**	**230,871,284,674**

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31 DECEMBER 2012

	NOTE NUMBER	2012 €	2011 €
Interest income on foreign reserve assets	24.1	228,883,700	290,220,291
Interest income arising from the allocation of euro banknotes within the Eurosystem	24.2	633,084,427	856,392,005
Other interest income	24.4	10,917,006,128	8,331,260,026
Interest income		*11,778,974,255*	*9,477,872,322*
Remuneration of NCBs' claims in respect of foreign reserves transferred	24.3	(306,925,375)	(433,970,898)
Other interest expense	24.4	(9,182,641,280)	(7,044,498,398)
Interest expense		*(9,489,566,655)*	*(7,478,469,296)*
Net interest income	24	**2,289,407,600**	**1,999,403,026**
Realised gains/losses arising from financial operations	25	318,835,838	472,219,229
Write-downs on financial assets and positions	26	(4,180,784)	(157,457,283)
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks		(1,166,175,000)	(1,166,175,000)
Net result of financial operations, write-downs and risk provisions		**(851,519,946)**	**(851,413,054)**
Net expense from fees and commissions	27	**(2,127,108)**	**(1,980,780)**
Income from equity shares and participating interests	28	**1,188,176**	**1,048,891**
Other income	29	**21,938,157**	**23,122,157**
Total net income		**1,458,886,879**	**1,170,180,240**
Staff costs	30	(219,350,856)	(216,065,185)
Administrative expenses	31	(220,422,011)	(208,017,979)
Depreciation of tangible and intangible fixed assets		(12,918,830)	(11,488,672)
Banknote production services	32	(8,164,547)	(6,472,170)
Profit for the year		**998,030,635**	**728,136,234**

Frankfurt am Main, 13 February 2013

EUROPEAN CENTRAL BANK

Mario Draghi
President

ACCOUNTING POLICIES[1]

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.

1 The detailed accounting policies of the ECB are laid down in Decision ECB/2010/21 of 11 November 2010, OJ L 35, 9.2.2011, p. 1, as amended.
2 These policies are consistent with the provisions of Article 26.4 of the Statute of the ESCB, which require a harmonised approach to the rules governing the accounting and financial reporting of Eurosystem operations.

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 2012, was derived from the exchange rate of the euro against the US dollar on 31 December 2012.

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 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 31 December 2012.

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 2012, mid-market prices on 28 December 2012 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.[3] 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. Such 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 such 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.

3 A minimum threshold of €100,000 applies for administrative accruals and provisions.

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. 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.

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 2012 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 adjusted for events that occur between the annual balance sheet date and the date on which the Executive Board authorises the submission of the ECB's Annual Accounts to the Governing Council for approval, 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 primarily 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 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,[4] 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, including intangible assets, but with the exception of land and works of art, are valued at cost less depreciation. Depreciation is calculated on a straight-line basis over the expected useful life of the asset, beginning in the quarter after the asset is available for use. The useful lives applied for the main asset classes are 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

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. Land and works of art are valued at cost.

Fixed assets costing less than €10,000 are written off in the year of acquisition.

Fixed assets that comply with the capitalisation criteria but are still under construction or development are recorded under the heading "Assets under construction". The related costs are 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 asset components which will be depreciated in accordance with their estimated useful lives.

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.[5]

4 As at 31 December 2012 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 Naţională a României.

5 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.

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. 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.[6] 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.[7]

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, which is disclosed in the Balance Sheet under the 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,[8] 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 Profit and Loss Account under the item "Interest income arising from the allocation of euro banknotes within the Eurosystem".

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. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim profit distribution.[9] 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.

6 Decision ECB/2010/29 of 13 December 2010 on the issue of euro banknotes (recast), OJ L 35, 9.2.2011, p. 26.
7 "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.
8 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.
9 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, as amended.

NOTES ON THE BALANCE SHEET

1 GOLD AND GOLD RECEIVABLES

As at 31 December 2012 the ECB held 16,142,871 ounces[10] of fine gold (2011: 16,142,871 ounces). No transactions in gold took place in 2012. The increase in the euro equivalent value of the ECB's holdings of fine gold was due to the rise in the price of gold during 2012 (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 2012. 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.

Claims on non-euro area residents	2012 €	2011 €	Change €
Current accounts	1,503,909,190	967,861,820	536,047,370
Money market deposits	345,932,462	598,657,080	(252,724,618)
Reverse repurchase agreements	56,844,020	623,065,152	(566,221,132)
Security investments	38,763,272,753	38,573,796,435	189,476,318
Total	40,669,958,425	40,763,380,487	(93,422,062)

Claims on euro area residents	2012 €	2011 €	Change €
Current accounts	1,189,425	1,439,838	(250,413)
Money market deposits	2,836,986,601	4,826,273,769	(1,989,287,168)
Total	2,838,176,026	4,827,713,607	(1,989,537,581)

The decrease in these items in 2012 was mainly due to the depreciation of both the Japanese yen and the US dollar against the euro.

10 This corresponds to 502.1 tonnes.

The ECB's net foreign currency holdings of US dollars and Japanese yen,[11] as at 31 December 2012, were as follows:

	2012 Currency in millions	2011 Currency in millions
US dollars	45,235	44,614
Japanese yen	1,046,552	1,041,238

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. No related claims remained outstanding as at 31 December 2012.

4 OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

As at 31 December 2011 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"). No related claims remained outstanding as at 31 December 2012.

As at 31 December 2012 this item consisted of a current account with a euro area resident.

5 SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO

5.1 SECURITIES HELD FOR MONETARY POLICY PURPOSES

As at 31 December 2012 this item consisted of securities acquired by the ECB within the scope of the two covered bond purchase programmes[12] and the Securities Markets Programme.[13]

	2012 €	2011 €	Change €
First covered bond purchase programme	4,426,521,354	4,814,370,827	(387,849,473)
Second covered bond purchase programme	1,504,280,207	212,604,879	1,291,675,328
Securities Markets Programme	16,124,715,128	17,792,153,062	(1,667,437,934)
Total	22,055,516,689	22,819,128,768	(763,612,079)

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" (liabilities side) and "Accruals and income collected in advance" and take into account foreign exchange forward and swap transactions included in 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.

The purchases under the first covered bond purchase programme were fully implemented by the end of June 2010. The net decrease in this item in 2012 was mainly due to redemptions.

Under the second covered bond purchase programme, established in October 2011, the ECB and the NCBs purchased 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 net increase in this item in 2012 was due to purchases in that year in the period until the programme ended on 31 October 2012.

Under the Securities Markets Programme, established in May 2010, the ECB and the NCBs were able to 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 decrease in this item in 2012 was due to redemptions that more than offset the impact of purchases and of the amortisation of net discounts in that year. The Governing Council decided on 6 September 2012 to end the Securities Markets Programme.[14]

Part of the ECB's holdings under the Securities Markets Programme comprises debt securities issued by the Hellenic Republic. 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, and were not included on the list of eligible securities that were subject to restructuring in the context of the private sector involvement (PSI) initiative. Consequently, the ECB did not incur any realised losses on its holdings of Greek government bonds.

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 are conducted on the basis of the information available and estimated recoverable amounts as at the year-end.

In the context of the impairment test conducted as at the end of 2012 on securities purchased under the Securities Markets Programme, the Governing Council identified two impairment indicators in particular, relating to the holdings of Greek government bonds, which occurred in the course of 2012. The first was the restructuring in March 2012 of part of the debt issued by the Hellenic Republic in the context of the PSI initiative and the second was the debt buy-back operation carried out by the Greek government in December 2012. The Governing Council considered that the occurrence of these impairment indicators did not warrant an impairment of the ECB's holdings since, on the basis of the information available as at 31 December 2012, there was no evidence of changes in the estimated future cash flows. No impairment losses were therefore recorded at the year-end on the ECB's holdings of Greek government bonds under the Securities Markets Programme. Furthermore, no impairment losses were recorded in respect of the other securities purchased under the Securities Markets Programme.

14 As announced in the ECB's press release of 6 September 2012 on the technical features of Outright Monetary Transactions.

With regard to the impairment test conducted on securities purchased under the two covered bond purchase programmes, the Governing Council considered the fact that a number of issuers underwent restructuring in 2012. However, these restructuring operations have not affected the estimated future cash flows expected to be received by the ECB and therefore no impairment losses were recorded in respect of these holdings.

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.

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 WITHIN THE EUROSYSTEM (NET)

In 2012 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 net decrease in this position resulted mainly from a reduction in the outstanding amounts related to back-to-back swap transactions conducted with NCBs in connection with US dollar liquidity-providing operations. The impact of this reduction was partially offset by amounts paid from euro area to non-euro area residents that were settled in TARGET2 (see note 11, "Liabilities to non-euro area residents denominated in euro").

The remuneration of TARGET2 positions, with the exception of balances arising from back-to-back swap transactions in connection with US dollar liquidity-providing operations, is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

This item also included the amount due to euro area NCBs in respect of the ECB's interim profit distribution (see "Interim profit distribution" in the notes on accounting policies).

	2012 €	2011 €
Due from euro area NCBs in respect of TARGET2	981,081,428,771	842,032,488,071
Due to euro area NCBs in respect of TARGET2	(955,833,285,908)	(791,987,384,417)
Due to euro area NCBs in respect of the ECB's interim profit distribution	(574,627,292)	(652,000,000)
Other claims within the Eurosystem (net)	24,673,515,571	49,393,103,654

7 OTHER ASSETS

7.1 TANGIBLE AND INTANGIBLE FIXED ASSETS

These assets comprised the following items on 31 December 2012:

	2012 €	2011 €	Change €
Cost			
Land and buildings	170,824,151	168,916,034	1,908,117
Computer hardware and software	64,633,290	187,324,734	(122,691,444)
Equipment, furniture, plant in building and motor vehicles	13,926,711	30,891,846	(16,965,135)
Assets under construction	529,636,881	339,020,767	190,616,114
Other fixed assets	7,508,349	1,656,957	5,851,392
Total cost	**786,529,382**	**727,810,338**	**58,719,044**
Accumulated depreciation			
Land and buildings	(82,957,070)	(79,214,734)	(3,742,336)
Computer hardware and software	(51,687,755)	(177,313,517)	125,625,762
Equipment, furniture, plant in building and motor vehicles	(13,274,149)	(29,730,082)	16,455,933
Other fixed assets	(135,576)	(202,512)	66,936
Total accumulated depreciation	**(148,054,550)**	**(286,460,845)**	**138,406,295**
Net book value	**638,474,832**	**441,349,493**	**197,125,339**

The increase in the category "Assets under construction" was due to activities related to the ECB's new premises in 2012.

The decrease in both the cost and the accumulated depreciation in the categories "Computer hardware and software" and "Equipment, furniture, plant in building and motor vehicles" reflected mainly the derecognition of obsolete items that were no longer in use at the end of 2012.

The increase in the category "Other fixed assets" was primarily due to a licence fee paid in 2012 to acquire the intellectual property rights and know-how for technical features relating to the second series of euro banknotes. The derecognition in 2012 of other fixed assets that were obsolete and no longer in use also had an impact on both the cost and the accumulated depreciation in respect of this category.

7.2 OTHER FINANCIAL ASSETS

This item consists of the investment of the ECB's own funds[15] held as a direct counterpart to the capital and reserves of the ECB, as well as other financial assets which include 3,211 shares in the Bank for International Settlements (BIS) at the acquisition cost of €41.8 million.

15 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").

The components of this item are as follows:

	2012 €	2011 €	Change €
Current accounts in euro	5,193,816	4,934,974	258,842
Securities denominated in euro	16,349,560,714	13,285,988,281	3,063,572,433
Reverse repurchase agreements in euro	2,702,963,941	2,707,978,069	(5,014,128)
Other financial assets	41,920,325	41,924,130	(3,805)
Total	19,099,638,796	16,040,825,454	3,058,813,342

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 2012 in respect of the third instalment of their contributions to the increase in the ECB's subscribed capital in 2010 (see note 17, "Capital and reserves"); and (b) the counterpart of the amount transferred to the ECB's provision for foreign exchange rate, interest rate, credit and gold price risks 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 2012 (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 2012 this item included accrued coupon interest on securities, including outstanding interest paid at acquisition, amounting to €792.7 million (2011: €816.8 million) (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").

It also included accrued interest receivable on the TARGET2 balances due from euro area NCBs for the final month of 2012, amounting to €650.4 million (2011: €752.6 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 €136.7 million (2011: €230.6 million).

Other accrued income, including accrued interest income on other financial assets, and miscellaneous prepayments are also reported under this item.

7.5 SUNDRY

This item consisted mainly of positive balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2012 (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 included the accrued amounts of the ECB's interim profit distribution (see "Interim profit distribution" in the notes on accounting policies and note 6.2, "Other claims 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

As at 31 December 2011 this item consisted of liabilities that arose under repurchase agreements conducted in the context of the covered bond lending operations. These lending operations are implemented through matched repurchase transactions, whereby amounts received under the 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"). No liabilities were outstanding as at 31 December 2012.

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 2012 this item included an amount of €44.0 billion (2011: €13.0 billion), consisting of balances held with the ECB by non-euro area NCBs and other central banks that arise from, or are the counterpart of, transactions processed via the TARGET2 system.

The remainder of this item comprised an amount of €6.8 billion (2011: €64.2 billion) arising from the temporary reciprocal currency arrangement with the Federal Reserve. Under this arrangement, US dollars are 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 enters into back-to-back swap transactions with euro area NCBs, which use 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 result in intra-Eurosystem balances between the ECB and the NCBs. The swap transactions conducted with the Federal Reserve and the euro area NCBs also result in forward claims and liabilities that are recorded in off-balance-sheet accounts (see note 21, "Foreign exchange swap and forward transactions").

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

12.1 DEPOSITS, BALANCES AND OTHER LIABILITIES

In 2011 this item consisted 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. No balances were outstanding as at 31 December 2012.

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. No changes occurred in 2012.

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").

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

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 2012 (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 2012 the two main items under this heading were accrued interest payable on TARGET2 balances due to NCBs for the final month of 2012, amounting to €641.1 million (2011: €770.1 million), and accrued interest payable to the NCBs for the whole of 2012 in respect of their claims relating to foreign reserves transferred to the ECB (see note 13, "Intra-Eurosystem liabilities"), amounting to €306.9 million (2011: €434.0 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 Grossmarkthalle, which is a listed 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 is available for use (see note 7.1, "Tangible and intangible fixed assets").

14.3 SUNDRY

This item included outstanding repurchase transactions of €360.1 million (2011: €360.0 million) conducted in connection with the management of the ECB's own funds (see note 7.2, "Other financial assets").

It also included negative balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2012 (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 included the ECB's net liability in respect of the post-employment and other long-term benefits of its staff and the members of the Executive Board, amounting to €109.8 million, as described below (see "The ECB's pension plan, other post-employment benefits and other long-term benefits" in the notes on accounting policies).

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 were as follows:

	2012 Staff € millions	2012 Executive Board € millions	2012 Total € millions	2011 Staff € millions	2011 Executive Board € millions	2011 Total € millions
Present value of obligation	761.3	17.8	779.1	549.1	17.9	567.0
Fair value of plan assets	(522.7)	-	(522.7)	(418.4)	-	(418.4)
Unrecognised actuarial gains/(losses)	(144.5)	(2.1)	(146.6)	(35.6)	(0.5)	(36.1)
Liability recognised in the Balance Sheet	94.1	15.7	109.8	95.1	17.4	112.5

In 2012 the present value of the obligation vis-à-vis staff of €761.3 million included unfunded benefits amounting to €109.1 million (2011: €86.6 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.

The amounts recognised in the Profit and Loss Account in 2012 were as follows:

	2012 Staff € millions	2012 Executive Board € millions	2012 Total € millions	2011 Staff € millions	2011 Executive Board € millions	2011 Total € millions
Current service cost	29.0	1.3	30.3	31.1	1.4	32.5
Interest on obligation	24.5	0.9	25.4	24.2	0.8	25.0
Expected return on plan assets	(21.6)	-	(21.6)	(20.1)	-	(20.1)
Net actuarial (gains)/losses recognised in the year	0.7	0	0.7	6.2	(0.6)	5.6
Total included in "Staff costs"	32.6	2.2	34.8	41.4	1.6	43.0

Changes in the present value of the obligation in 2012 were as follows:

	2012 Staff € millions	2012 Executive Board € millions	2012 Total € millions	2011 Staff € millions	2011 Executive Board € millions	2011 Total € millions
Opening obligation	549.1	17.9	567.0	539.6	15.9	555.5
Service cost	29.0	1.3	30.3	31.1	1.4	32.5
Interest on obligation	24.5	0.9	25.4	24.2	0.8	25.0
Contributions paid by plan participants	16.5	0.1	16.6	16.3	0.2	16.5
Other net changes in liabilities representing plan participants' contributions[1]	8.9	0	8.9	(1.9)	0	(1.9)
Benefits paid	(6.3)	(4.0)	(10.3)	(5.4)	(0.8)	(6.2)
Actuarial (gains)/losses	139.6	1.6	141.2	(54.8)	0.4	(54.4)
Closing obligation	761.3	17.8	779.1	549.1	17.9	567.0

1) Amounts included under this heading represent the return on the funds arising from the voluntary contributions of plan participants.

Actuarial gains for 2011 on the defined benefit obligation relating to staff amounted to €54.8 million. This amount included 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.

The actuarial losses of €139.6 million on the defined benefit obligation relating to staff for 2012 arose primarily owing to the decrease in the discount rate from 5.00% to 3.50%. The resulting increase in the closing obligation was only partially offset by the impact of a reduction in the expected future increase in the guaranteed benefits, which are based on unit price developments, as well as the impact of a reduction in the assumed future increase in pensions from 1.65% to 1.40%.

Benefits paid in 2012 include the settlement of pension rights of some members of the Executive Board who left the ECB.

Changes in 2012 in the fair value of plan assets relating to staff, including those arising from voluntary contributions paid by plan participants, were as follows:

	2012 € millions	2011 € millions
Opening fair value of plan assets	418.4	391.6
Expected return	21.6	20.1
Actuarial gains/(losses)	30.0	(25.0)
Contributions paid by employer	33.6	22.7
Contributions paid by plan participants	16.5	16.3
Benefits paid	(6.3)	(5.4)
Other net changes in assets representing plan participants' contributions	8.9	(1.9)
Closing fair value of plan assets	522.7	418.4

In line with the Conditions of Employment for Staff of the European Central Bank, a long-term valuation of the ECB's pension plan was carried out by the ECB's actuaries as at 31 December 2011. Following this valuation, and acting on actuarial advice, the Governing Council approved on 2 August 2012 an annual supplementary contribution of €10.3 million, to be paid for a period of twelve years starting in 2012. This decision will be reviewed in 2014. The increase in contributions paid by the ECB in 2012 mainly reflected the payment of the supplementary contribution due in that year.

Actuarial gains on plan assets in 2012 reflected the higher than expected returns on the fund units in that year.

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:

	2012 %	2011 %
Discount rate	3.50	5.00
Expected return on plan assets[1]	4.50	6.00
General future salary increases[2]	2.00	2.00
Future pension increases[3]	1.40	1.65

1) These assumptions were used for calculating both the ECB's defined benefit obligation, which is funded by assets with an underlying capital guarantee, and the expected return on plan assets for the forthcoming year.
2) 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.
3) According to the ECB's pension plan rules, pensions will be increased annually. If general salary adjustments for ECB employees were below price inflation, any increase in pensions will be in line with the general salary adjustments. If the general salary adjustments exceed price inflation, they will be applied to determine the increase in pensions, provided that the financial position of the ECB's pension plan permits such an increase.

15 PROVISIONS

This item consists of a provision for foreign exchange rate, interest rate, credit and gold price risks as well as 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. 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 2011 the provision for foreign exchange rate, interest rate, credit and gold price risks amounted to €6,363,107,289. Taking the results of its assessment into account, the Governing Council decided to transfer, as at 31 December 2012, an amount of €1,166,175,000 to the provision. This transfer reduced the ECB's net profit for 2012 to €998,030,635 and increased the size of the provision to €7,529,282,289. Following the increase in the ECB's paid-up capital in 2012 (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 2012.

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-sheet instruments" in the notes on accounting policies).

	2012 €	2011 €	Change €
Gold	16,433,862,811	15,718,491,496	715,371,315
Foreign currency	6,053,396,675	7,975,683,173	(1,922,286,498)
Securities and other instruments	984,781,810	630,756,103	354,025,707
Total	23,472,041,296	24,324,930,772	(852,889,476)

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

Exchange rates	2012	2011
US dollars per euro	1.3194	1.2939
Japanese yen per euro	113.61	100.20
Euro per SDR	1.1657	1.1867
Euro per fine ounce of gold	1,261.179	1,216.864

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.[16] 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.[17] The first and second instalments were paid on 29 December 2010 and 28 December 2011 respectively. The final instalment, amounting to €1,166,175,000, was paid on 27 December 2012.

The ECB's capital key and subscribed capital remained unchanged in 2012. Owing to the payment of the final instalment of the capital contributions by the NCBs of the euro area, the paid-up capital of the ECB increased to €7,650,458,669, as shown in the table below:[18]

	Capital key %	Subscribed capital €	Paid-up capital 2012 €	Paid-up capital 2011 €
Nationale Bank van België/ Banque Nationale de Belgique	2.4256	261,010,385	261,010,385	220,583,718
Deutsche Bundesbank	18.9373	2,037,777,027	2,037,777,027	1,722,155,361
Eesti Pank	0.1790	19,261,568	19,261,568	16,278,234
Central Bank of Ireland	1.1107	119,518,566	119,518,566	101,006,900
Bank of Greece	1.9649	211,436,059	211,436,059	178,687,726
Banco de España	8.3040	893,564,576	893,564,576	755,164,576
Banque de France	14.2212	1,530,293,899	1,530,293,899	1,293,273,899
Banca d'Italia	12.4966	1,344,715,688	1,344,715,688	1,136,439,021
Central Bank of Cyprus	0.1369	14,731,333	14,731,333	12,449,666
Banque centrale du Luxembourg	0.1747	18,798,860	18,798,860	15,887,193
Central Bank of Malta	0.0632	6,800,732	6,800,732	5,747,399
De Nederlandsche Bank	3.9882	429,156,339	429,156,339	362,686,339
Oesterreichische Nationalbank	1.9417	208,939,588	208,939,588	176,577,921
Banco de Portugal	1.7504	188,354,460	188,354,460	159,181,126
Banka Slovenije	0.3288	35,381,025	35,381,025	29,901,025
Národná banka Slovenska	0.6934	74,614,364	74,614,364	63,057,697
Suomen Pankki – Finlands Bank	1.2539	134,927,820	134,927,820	114,029,487
Subtotal for euro area NCBs	***69.9705***	***7,529,282,289***	***7,529,282,289***	***6,363,107,289***
Българска народна банка (Bulgarian National Bank)	0.8686	93,467,027	3,505,014	3,505,014
Česká národní banka	1.4472	155,728,162	5,839,806	5,839,806
Danmarks Nationalbank	1.4835	159,634,278	5,986,285	5,986,285
Latvijas Banka	0.2837	30,527,971	1,144,799	1,144,799
Lietuvos bankas	0.4256	45,797,337	1,717,400	1,717,400
Magyar Nemzeti Bank	1.3856	149,099,600	5,591,235	5,591,235
Narodowy Bank Polski	4.8954	526,776,978	19,754,137	19,754,137
Banca Naţională a României	2.4645	265,196,278	9,944,860	9,944,860

16 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.

17 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 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.

18 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 %	Subscribed capital €	Paid-up capital 2012 €	Paid-up capital 2011 €
Sveriges Riksbank	2.2582	242,997,053	9,112,389	9,112,389
Bank of England	14.5172	1,562,145,431	58,580,454	58,580,454
Subtotal for non-euro area NCBs	***30.0295***	***3,231,370,113***	***121,176,379***	***121,176,379***
Total	**100.0000**	**10,760,652,403**	**7,650,458,669**	**6,484,283,669**

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 the end of 2012. 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.

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 €1.3 billion (2011: €1.2 billion) were outstanding as at 31 December 2012.

19 INTEREST RATE FUTURES

As at 31 December 2012 the following foreign currency transactions, presented at year-end market rates, were outstanding:

Foreign currency interest rate futures	2012 Contract value €	2011 Contract value €	Change €
Purchases	2,460,891,314	1,651,132,236	809,759,078
Sales	6,245,269,283	1,728,229,838	4,517,039,445

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 €355.1 million (2011: €225.7 million), presented at year-end market rates, were outstanding as at 31 December 2012. 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 2012 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 2012:

Foreign exchange swap and forward transactions	2012 €	2011 €	Change €
Claims	2,110,145,191	2,304,007,744	(193,862,553)
Liabilities	1,947,015,270	2,309,882,385	(362,867,115)

LIQUIDITY-PROVIDING OPERATIONS

US dollar-denominated 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 2012.

22 ADMINISTRATION OF BORROWING AND LENDING OPERATIONS

The ECB is responsible for the administration of the borrowing and lending operations of the EU under the medium-term financial assistance mechanism. In 2012 the ECB processed payments related to loans granted by the EU to Latvia, Hungary and Romania under this scheme.

In the context of the loan facility agreement between the Member States whose currency is the euro[19] and Kreditanstalt für Wiederaufbau,[20] 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.

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). In 2012 the ECB processed payments in relation to loans granted to Ireland and Portugal under the EFSM scheme and loans granted to Ireland, Portugal and Greece under the EFSF scheme.

Moreover, the ECB administers payments in relation to the authorised capital stock and stability support operations of the newly established European Stability Mechanism (ESM).[21] In 2012 the ECB processed payments from the Member States whose currency is the euro, in respect of the ESM's authorised capital stock.

19 Other than the Hellenic Republic and the Federal Republic of Germany.
20 Acting in the public interest, subject to the instructions of and with the benefit of the guarantee of the Federal Republic of Germany.
21 The Treaty establishing the European Stability Mechanism entered into force on 27 September 2012.

23 PENDING LAWSUITS

An action for damages was brought against the ECB before the Court of First Instance of the European Communities (CFI)[22] by Document Security Systems Inc. (DSSI), alleging that the ECB had infringed a DSSI patent[23] in the production of euro banknotes. The CFI dismissed DSSI's action for damages against the ECB.[24] The ECB is still pursuing actions to revoke the patent in one particular national jurisdiction and has already succeeded in revoking it in all other relevant jurisdictions. Furthermore, the ECB firmly maintains that it has in no way infringed the patent, and will consequently also enter a defence against any infringement action brought by DSSI before any competent national court.

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

22 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.
23 DSSI's European Patent No 0455 750 B1.
24 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:

	2012 €	2011 €	Change €
Interest income on current accounts	726,972	2,088,888	(1,361,916)
Interest income on money market deposits	16,294,022	18,279,491	(1,985,469)
Interest income on reverse repurchase agreements	1,881,260	1,479,020	402,240
Net interest income on securities	197,474,767	254,699,342	(57,224,575)
Net interest income on interest rate swaps	2,096,989	6,284,214	(4,187,225)
Net interest income on foreign exchange swap and forward transactions	10,581,922	7,686,740	2,895,182
Total interest income on foreign reserve assets	**229,055,932**	**290,517,695**	**(61,461,763)**
Interest expense on current accounts	(24,240)	(6,126)	(18,114)
Net interest expense on repurchase agreements	(147,992)	(291,278)	143,286
Interest income on foreign reserve assets (net)	**228,883,700**	**290,220,291**	**(61,336,591)**

The overall decrease in net interest income in 2012 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 EUROSYSTEM

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 decrease in income in 2012 mainly reflected the fact that the average main refinancing rate was lower than in 2011.

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 decrease in this remuneration in 2012 reflected the fact that the average main refinancing rate was lower than in 2011.

24.4 OTHER INTEREST INCOME; AND OTHER INTEREST EXPENSE

In 2012 these items included interest income of €8.8 billion (2011: €6.6 billion) and expenses of €8.9 billion (2011: €6.9 billion) arising from TARGET2 balances (see note 6.2, "Other claims within the Eurosystem (net)", and note 11, "Liabilities to non-euro area residents denominated in euro").

They also included net income of €1,107.7 million (2011: €1,002.8 million) on the securities purchased by the ECB under the Securities Markets Programme, and €209.4 million (2011: €165.7 million) on those purchased under the covered bond purchase programmes, including net income on the related security lending transactions. Interest income and interest expense 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 2012 were as follows:

	2012 €	2011 €	Change €
Net realised price gains	317,311,647	260,059,727	57,251,920
Net realised exchange rate and gold price gains	1,524,191	212,159,502	(210,635,311)
Net realised gains arising from financial operations	318,835,838	472,219,229	(153,383,391)

Net realised price gains included realised gains on securities, interest rate futures and interest rate swaps.

In 2011 net realised exchange rate and gold price gains 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.

26 WRITE-DOWNS ON FINANCIAL ASSETS AND POSITIONS

Write-downs on financial assets and positions in 2012 were as follows:

	2012 €	2011 €	Change €
Unrealised price losses on securities	(1,737,805)	(155,240,641)	153,502,836
Unrealised price losses on interest rate swaps	(2,442,218)	(2,216,642)	(225,576)
Unrealised exchange rate losses	(761)	0	(761)
Total write-downs	(4,180,784)	(157,457,283)	153,276,499

In 2012 the overall increase in the market value of the securities held in the ECB's own funds portfolio resulted in substantially lower write-downs compared with 2011.

27 NET EXPENSE FROM FEES AND COMMISSIONS

	2012 €	2011 €	Change €
Income from fees and commissions	90,314	77,858	12,456
Expenses relating to fees and commissions	(2,217,422)	(2,058,638)	(158,784)
Net expense from fees and commissions	(2,127,108)	(1,980,780)	(146,328)

In 2012 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 2012 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 €184.6 million (2011: €173.1 million) are included under this heading. Also included in this item is an amount of €34.8 million (2011: €43.0 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 (2011: €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 2012 were as follows:[25]

	2012 €	2011 €
Jean-Claude Trichet (President until October 2011)	-	*309,290*
Mario Draghi (President since November 2011)	374,124	61,858
Vítor Constâncio (Vice-President)	320,688	318,132
Gertrude Tumpel-Gugerell (Board Member until May 2011)	-	*110,460*
José Manuel González-Páramo (Board Member until May 2012)	*111,345*	*265,104*
Lorenzo Bini Smaghi (Board Member until December 2011)	-	*265,104*
Jürgen Stark (Board Member until December 2011)	-	*265,104*
Peter Praet (Board Member since June 2011)	267,228	154,644
Jörg Asmussen (Board Member since January 2012)	267,228	-
Benoît Cœuré (Board Member since January 2012)	267,228	-
Total	1,607,841	1,749,696

25 Mr Yves Mersch took office on 15 December 2012. The remuneration that accrued to him up to the end of 2012 was paid in January 2013 and is recorded in the staff costs for the financial year 2013.

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 €509,842 (2011: €646,154).

In addition, the benefits on appointment or termination of service paid to Executive Board members joining or leaving the ECB amounted to €133,437 (2011: €159,594). They are reported under "Administrative expenses" in the Profit and Loss Account.

Transitional payments are made to former members of the Executive Board for a limited period after the end of their terms of office. In 2012 these payments, related family allowances and the ECB's contributions to the medical and accident insurance schemes of former members amounted to €1,183,285 (2011: €479,665). 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 €324,830 (2011: €321,929). Upon leaving the ECB, two Board Members, Mr Lorenzo Bini Smaghi and Mr José Manuel González-Páramo, decided to forego their rights to future monthly pension payments and instead opted to receive the corresponding lump sums, amounting to €2,461,469, in accordance with the conditions of employment. 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 2012 the actual full-time equivalent number of staff holding contracts with the ECB was 1,638,[26] including 158 with managerial positions. The change in the number of staff during 2012 was as follows:

	2012	2011
Total staff as at 1 January	1,609	1,607
Newcomers/change of contractual status	370	313
Resignations/end of contract	(341)	(299)
Net increase/(decrease) due to changes in part-time working patterns	0	(12)
Total staff as at 31 December	1,638	1,609
Average number of staff employed	1,615	1,601

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 arises owing 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.

26 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.

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

13 February 2013

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 2012, 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, as amended, 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 2012, 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, as amended.

Yours sincerely,

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

ppa. Atton

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 2012.

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]

After the transfer to the risk provision, the ECB's net profit for 2012 was €998.0 million. Following a decision by the Governing Council, an interim profit distribution, amounting to €574.6 million, was made to the euro area NCBs on 31 January 2013. The Governing Council also decided to make no transfer to the general reserve fund and to distribute the remaining profit for 2012, amounting to €423.4 million, to the euro area NCBs. Profit is distributed to the 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.

	2012 €	2011 €
Profit for the year	998,030,635	728,136,234
Interim profit distribution	(574,627,292)	(652,000,000)
Profit for the year after the interim profit distribution	423,403,343	76,136,234
Distribution of the remaining profit to NCBs	(423,403,343)	(76,136,234)
Total	0	0

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