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PRESS RELEASE

ANNUAL ACCOUNTS OF THE EUROPEAN CENTRAL BANK FOR THE YEAR ENDING 31 DECEMBER 2010

The Governing Council of the European Central Bank (ECB) today approved the audited Annual Accounts of the ECB for the year ending 31 December 2010.

The ECB earned a surplus of €1,334 million in 2010, compared with a surplus of €2,218 million in 2009.¹ Factors contributing to the lower surplus in 2010 were lower net interest income as a result of lower interest rates, both on the Eurosystem's main refinancing operations and on the US dollar-denominated foreign exchange reserves, and the fact that no gold sales took place in 2010.

The Governing Council decided to transfer, as at 31 December 2010, an amount of €1,163 million to the risk provision, thereby increasing it to the level of its present ceiling of €5,184 million. As a result, the ECB's declared net profit for 2010 amounted to €171 million, which the Governing Council decided at today's meeting to distribute in its entirety to the euro area national central banks (NCBs).

The purpose of the risk provision is to cover foreign exchange rate, interest rate, credit and gold price risks. The size of and the continuing requirement for this provision are reviewed annually.

The ECB's regular income derives mainly from investment earnings on its foreign reserve assets and its own funds portfolio, from interest income on its 8% share of the total euro banknotes in circulation, and from net interest income arising from securities purchased for monetary policy purposes under the covered bond purchase programme (starting from July 2009) and the Securities Markets Programme (starting from May 2010).

Net interest income amounted to €1,422 million in 2010 (2009: €1,547 million). It included interest income of €654 million earned on the ECB's share of euro banknotes in circulation (2009: €787 million), net interest income of €140 million (2009: €18 million) arising from securities purchased under the covered bond purchase programme, and

¹ Following a technical adjustment as at 31 December 2009, an amount of €35 million was released from the ECB's risk provision, therefore, the declared net result for 2009 was slightly increased to €2,253 million.

net interest income of €438 million arising from securities purchased under the Securities Markets Programme.

The ECB paid remuneration of €346 million (2009: €443 million) to the NCBs on their claims in respect of the foreign reserve assets transferred by them to the ECB, while interest income on foreign reserve assets amounted to €366 million (2009: €700 million). Realised gains arising from financial operations decreased from €1,103 million (in 2009) to €474 million, as no gold sales took place in 2010. Write-downs of €195 million in 2010 arose mainly from unrealised losses on marketable securities other than those held for monetary policy purposes, compared with write-downs of €38 million in 2009.

The ECB's administrative expenses for staff, rental of premises, professional fees, and other goods and services amounted to €415 million in 2010 (including depreciation charges on fixed assets amounting to €14 million), compared with €401 million in 2009.

The Annual Accounts, together with a management report for the year ending 31 December 2010, will be published in the ECB's Annual Report on 19 April 2011.

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Notes for editors

- (1) *Accounting policies of the ECB:* Common accounting policies have been established by the Governing Council for the Eurosystem, including the ECB, in accordance with Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank (Statute of the ESCB), and have been published in the Official Journal of the European Union.² Although generally based on internationally accepted accounting practice, these policies were designed with special regard to the unique circumstances of the central banks of the Eurosystem. They include the market valuation of marketable securities other than those classified as held-to-maturity, of gold and of all other on-balance-sheet and off-balance-sheet assets and liabilities denominated in foreign currency. Marketable securities classified as held-to-maturity are valued at cost subject to impairment. Particular attention is given to the issue of prudence, owing to the large foreign exchange exposures of most of the Eurosystem central banks. This prudent approach applies particularly to the differing treatment of unrealised gains and unrealised losses for the purpose of recognising income, and to the prohibition of netting unrealised losses on one asset against unrealised gains on another. Unrealised gains are transferred directly to revaluation accounts, whereas unrealised losses at the end of the year that exceed the related revaluation account balances are treated as expenses. All euro area NCBs are required to follow these policies for the purpose of reporting their operations as part of the Eurosystem, which are included in the Eurosystem's weekly consolidated financial statements. Moreover, they voluntarily apply broadly the same policies as the ECB in preparing their own annual financial statements.
- (2) *Remuneration of foreign reserve assets transferred to the ECB:* On transferring foreign reserve assets to the ECB upon joining the Eurosystem, each NCB acquires a remunerated claim on the ECB equivalent to the amount it transfers. The Governing Council has decided that these claims are denominated in euro, and are remunerated on a daily basis at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to take account of the zero rate of return on the gold component.
- (3) *Distribution of the ECB's income on euro banknotes in circulation and the ECB's net income arising from securities purchased under the Securities Markets*

² Decision ECB/2006/17 of 10 November 2006, OJ L 348, 11.12.2006, p. 38, as amended, containing the detailed accounting policies of the ECB, was repealed and replaced by Decision ECB/2010/21 of 11 November 2010, OJ L 35, 9.2.2011, p. 1, with effect from 31 December 2010.

Programme: The Governing Council has decided that this income is due to the euro area NCBs in the financial year in which it accrues. The income on euro banknotes in circulation is to be distributed on the second working day of the following year, while the income arising from securities purchased under the Securities Markets Programme is to be distributed on the last working day in January of the following year.³ Both amounts are to be distributed in full unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation and the net income arising from securities purchased under the Securities Markets Programme, and subject to a decision by the Governing Council before the end of the financial year to transfer part or all of this income to the provision for foreign exchange rate, interest rate, credit and gold price risks.

- (4) *Profit distribution/allocation of losses*: Pursuant to Article 33 of the Statute of the ESCB, up to 20% of the net profit for any year may be transferred to the general reserve fund, subject to a limit equal to 100% of the ECB's capital. The remaining net profit is to be distributed to the euro area NCBs 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 for the relevant financial year in proportion and up to the amounts allocated to the euro area NCBs in accordance with Article 32.5 of the Statute of the ESCB.

³ 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.