EUROPEAN CENTRAL BANK

EUROSYSTEM

Annual Accounts

2014

February 2015

Postal address 60640 Frankfurt am Main, Germany
Telephone +49 69 1344 0
Internet www.ecb.europa.eu

ISSN 2443-4760
ISBN 978-92-899-1540-3
DOI 10.2866/0982
EU catalogue number QB-BS-15-001-EN-N

Contents

Management report for the year ending 31 December 2014

1 Purpose of the ECB's management report

This management report is an integral part of the ECB's annual financial reporting. It provides contextual information that enables readers to better understand the business of the ECB, its operational framework and the impact of the ECB's operations on its financial statements.

This report provides information on the key resources and processes of the ECB, including information on corporate governance. In addition, given that the ECB's activities and operations are undertaken in support of its monetary policy objectives, its financial outcome should be viewed in conjunction with its policy actions. This report therefore also provides information on the ECB's main risks and how they are affected by its operations, as well as on the available financial resources and the impact of the ECB's key activities on its financial statements.

2 Key objectives and tasks

The ECB's primary objective is to maintain price stability. Its main tasks, as described in the Statute of the ESCB, comprise the implementation of the monetary policy of the European Union, the conduct of foreign exchange operations, the management of the official foreign reserves of the euro area countries and the promotion of the smooth operation of payment systems.

Furthermore, on 4 November 2014 the ECB assumed its banking supervision tasks with the objective of protecting the safety and soundness of credit institutions and the stability of the financial system of the European Union.

3 Key resources and processes

3.1 Governance of the ECB

The Executive Board, the Governing Council and the General Council are the decision-making bodies of the ECB.[1] In addition, the corporate governance of the ECB includes a high-level Audit Committee and a number of internal and external control layers.

1 Further information on the decision-making bodies of the ECB is provided on the ECB's website (https://www.ecb.europa.eu/ecb/orga/decisions/govc/html/index.en.html).

3.1.1 Audit Committee

In order to further strengthen the corporate governance of the ECB and the Eurosystem, the Audit Committee provides assistance to the Governing Council regarding its responsibilities in respect of the integrity of financial information, the oversight of internal controls, compliance with applicable laws, regulations and codes of conduct, and the performance of the audit functions of the ECB and the Eurosystem. In particular, the Audit Committee, in accordance with its mandate, assesses the ECB's Annual Accounts and considers whether they provide a true and fair view and were drawn up in accordance with approved accounting rules. The Audit Committee is chaired by Erkki Liikanen (Governor of Suomen Pankki – Finlands Bank) and comprises two other Governing Council members (Vítor Constâncio and Christian Noyer) as well as two external members (Hans Tietmeyer and Jean-Claude Trichet).

3.1.2 External control layers

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 and the European Court of Auditors, which examines the operational efficiency of the management of the ECB. The reports of the European Court of Auditors, together with the ECB's reply, are published on the ECB's website[2] and in the Official Journal of the European Union. 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. Good practices for selecting external auditors and determining their mandate provide high-level guidance for Eurosystem central banks. They also enable the Governing Council to formulate its recommendations to the EU Council on the basis of harmonised, consistent and transparent selection criteria. In 2013 Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was appointed as the external auditors of the ECB until the end of the financial year 2017.

3.1.3 Internal control layers

A three-tier system of internal controls has been established at the ECB consisting of, first, management controls, second, various risk and compliance oversight functions and, third, independent audit assurance.

Resource controlling

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

---

2 See http://www.ecb.europa.eu/ecb/orga/governance/html/index.en.html

monitors strategic planning in respect of the ECB's resources, as well as the related operational budget. These tasks are carried out in cooperation with the business areas, while applying the separation principle,[3] and the outcome is reflected in the annual work programmes of the divisions. 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 BCO, and by the Governing Council with the assistance of the Budget 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.

Financial risk oversight functions

With regard to financial risks, the ECB's Directorate Risk Management is responsible for proposing policies and procedures that ensure an appropriate level of protection against financial risks for (a) the Eurosystem, including the ECB, in the conduct of monetary policy operations, and (b) the ECB in the management of its foreign reserves, gold and euro-denominated investment portfolios. The Directorate Risk Management also assesses and proposes improvements to the Eurosystem's monetary and foreign exchange policy operational frameworks from a risk management perspective. Furthermore, the Risk Management Committee (RMC), which comprises experts from Eurosystem central banks, assists the decision-making bodies in ensuring an appropriate level of protection for the Eurosystem by managing and controlling the financial risks originating from its market operations, in the context of both the Eurosystem's monetary policy operations and the ECB's foreign reserves portfolio. With regard to these activities, the RMC contributes inter alia to the monitoring, measuring and reporting of financial risks in the Eurosystem balance sheet and the definition and review of the associated methodologies and frameworks.

Operational risk oversight functions

Under the operational risk management (ORM) framework, each organisational unit of the ECB is responsible for managing its own operational risks and implementing its own controls in order to ensure the effectiveness and efficiency of its operations. The Operational Risk Committee is responsible for the definition and maintenance of the ORM framework, providing methodological support and training, and establishing an ECB-wide overview of risks. The Operational Risk Committee supports the Executive Board in its oversight role in respect of the management of the ECB's operational risks. Furthermore, the Organisational Development Committee, which comprises experts from Eurosystem central banks, provides a second layer of control in the

[3] The separation principles refers to the requirement as laid down in the SSM Regulation for the ECB to carry out its supervisory tasks without prejudice to and separately from its tasks relating to monetary policy and any other tasks.

context of operational risk management at the Eurosystem level and assists the decision-making bodies in their task of ensuring an appropriate level of protection for the Eurosystem.

Independent assurance

In addition, and independently of the internal control structure and risk monitoring of the ECB, the Directorate Internal Audit performs audit missions under the direct responsibility of the Executive Board. In accordance with the mandate defined in the ECB's Audit Charter, the ECB's internal auditors provide independent and objective assurance and consulting services, bringing a systematic approach to evaluating and improving the effectiveness of risk management, control and governance processes. The ECB's internal audit activities conform to the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. Furthermore, a Eurosystem/ESCB committee, the Internal Auditors Committee, which is composed of internal audit experts from the ECB, the NCBs and the national competent authorities, assists in the achievement of the objectives of the Eurosystem/ESCB and Single Supervisory Mechanism (SSM) by providing independent, objective assurance and consulting services designed to add value and to improve the Eurosystem/ESCB and SSM.

3.1.4 Anti-fraud measures

In 1999 the European Parliament and the EU Council adopted a Regulation[4] to allow for, inter alia, the internal investigation by the European Anti-Fraud Office (OLAF) of suspected fraud within the EU institutions, bodies, offices and agencies. In 2004 the Governing Council endorsed the legal framework covering the terms and conditions for investigations by OLAF of the ECB in relation to the prevention of fraud, corruption and any other illegal activities.

3.1.5 Anti-money laundering/counter-terrorist financing programme

In 2007 the ECB established its internal anti-money laundering (AML) and counter-terrorist financing (CTF) schemes. A compliance function within the ECB identifies, analyses and addresses the risks associated with money laundering and terrorist financing for all relevant activities of the ECB. In particular, ensuring compliance with applicable AML/CTF legislation is part of the process of assessing and monitoring the eligibility of the ECB's counterparties. In this context, particular attention is paid to restrictive measures adopted by the EU and public statements issued by the Financial Action Task Force. An internal reporting system complements the ECB's AML/CTF framework to ensure that all relevant information is systematically collected and duly communicated to the Executive Board.

---

4 Regulation (EC) No 1073/1999.

3.2 Employees

The preparations for the launch of the SSM on 4 November 2014 had a major impact on staffing at the ECB. The average number of staff (full-time equivalents) holding contracts with the ECB rose from 1,683 in 2013 to 2,155 in 2014. At the end of 2014 2,577 staff members were employed. For further information, see note 31, “Staff costs”, of the Annual Accounts.

The two-year career transition support programme, launched in January 2013, came to a successful end, with 45 members of staff taking up the support provided to pursue careers outside the ECB.

3.3 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 own funds investment portfolio, denominated in euro. In addition, the funds relating to the ECB’s pension plans are invested in an externally managed portfolio. The ECB also holds euro-denominated securities for monetary policy purposes, acquired in the context of the Securities Markets Programme (SMP), the asset-backed securities purchase programme (ABSPP) and the three covered bond purchase programmes (CBPP).

3.4 Production of the ECB’s financial accounts

The Annual Accounts of the ECB are drawn up by the Executive Board, in accordance with the accounting policies established by the Governing Council.[5]

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 made available in a timely manner to the external auditors and to the decision-making bodies.

The ECB’s Assets and Liabilities Committee, which is composed of representatives from the ECB’s market operations, accounting, financial reporting, risk management and budget functions, systematically monitors and assesses all factors that may have a bearing on the ECB’s Balance Sheet and Profit and Loss Account. It reviews the Annual Accounts and the related documentation before they are submitted to the Executive Board for endorsement.

The financial reporting processes and the ECB’s Annual Accounts may be subject to internal audits. All internal audit reports, which may include audit recommendations addressed to the business areas concerned, are submitted to the Executive Board.

---

5 See the notes on accounting policies.

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 examine the books and accounts of the ECB and have full access to all 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 accounting policies established by the Governing Council. In this regard, the external auditors evaluate the adequacy of internal controls applied to the preparation and presentation of the Annual Accounts and assess the appropriateness of the accounting policies used.

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 Audit Committee for review prior to their submission to the Governing Council for approval.

The ECB's Annual Accounts are approved by the Governing Council in February of each year and published immediately thereafter. From 2015 the Annual Accounts will be published together with the management report and the consolidated balance sheet of the Eurosystem.

4 Risk management

The ECB is exposed to both financial and operational risks. Risk management is therefore a critical component of its activities and is conducted through a continuous process of risk identification, assessment, mitigation and monitoring.

4.1 Financial risks

Financial risks arise from the ECB's core activities and associated exposures, in particular its (a) foreign reserves and gold, (b) euro-denominated investment portfolios, and (c) holdings of securities purchased for monetary policy purposes within the scope of the three CBPPs, the SMP and the ABSPP. Financial risks arising from these exposures and activities encompass credit, market and liquidity risks. The ECB decides its asset allocation and implements appropriate risk management and due diligence frameworks, taking into account the objectives and purposes of the various portfolios and the financial exposures, as well as the risk preferences of its decision-making bodies. To ensure such preferences are met at all times, the ECB monitors and measures risks on a regular basis, takes appropriate risk mitigation actions when needed and regularly reviews its asset allocation as well as its risk management frameworks.

Financial risks can be quantified using a variety of risk measures. In order to estimate such risks, the ECB applies risk estimation techniques developed in-house, which rely on a joint market and credit risk simulation framework. The core modelling concepts, techniques and assumptions underlying the risk measures draw on market standards.[6] In order to obtain a comprehensive understanding of potential risk events that could occur at different frequencies with different degrees of severity, the ECB uses two types of statistical measure, Value at Risk (VaR) and Expected Shortfall,[7] which are calculated for a number of confidence levels. Furthermore, sensitivity and stress scenario analyses are used to better understand and complement the statistical risk estimates.

Measured as VaR at a 95% confidence level over a one-year horizon (VaR95%), as at 31 December 2014 the financial risks to which the ECB was exposed through its financial assets amounted to a total of €8.6 billion, which was unchanged compared with the aggregate risks estimated as at 31 December 2013.[8]

4.1.1 Credit risk

The ECB manages its credit risk, which comprises credit default and credit migration risks,[9] mainly through its asset allocation policies, eligibility criteria, due diligence assessments, systems of exposure limits and, in certain credit operations, also by means of collateralisation techniques. The risk controls and limits that the ECB uses to determine its credit risk exposure differ across types of operation, reflecting the policy or investment objectives of the different portfolios and the risk characteristics of the underlying assets.

The ECB's foreign reserves holdings are subject to both credit default and credit migration risks. However, these risks are minimal, as the reserves are invested in assets with a high credit quality.

The ECB's holdings of gold are not subject to credit risk, as gold is not lent to third parties.

The purpose of the euro-denominated investment portfolio is to provide the ECB with income to help cover its operating expenses, while preserving the invested capital. Return considerations therefore play a relatively greater role in the asset allocation and risk control framework for these holdings than they do for the ECB's foreign

---

6 Default and rating migration probabilities are derived from default and rating transition studies published by the major rating agencies. Volatilities, correlations and, more generally, the co-movement of credit and market risk variables are modelled by means of a multi-factor copula approach, calibrated on the basis of historical data.

7 Value at Risk (VaR) is defined as the maximum potential loss threshold for the portfolio of financial assets that, according to a statistical model, will not be exceeded with a given probability (confidence level) over a specified risk horizon. Expected Shortfall is a coherent risk measure that is more conservative than VaR when using the same horizon and the same confidence level, as it measures the probability-weighted average losses that could occur in the worst-case scenarios that exceed the VaR threshold. Losses, in this context, are defined as differences between the net worth of the ECB's portfolios as stated on the Balance Sheet at the beginning of the horizon, compared with simulated values at the end of the horizon.

8 Risk estimates provided in this management report have been produced using a consistent set of methodologies and assumptions for exposures measured as at 31 December 2013 and 31 December 2014.

9 Credit default risk is defined as the risk of incurring financial losses owing to a "default event" which stems from the failure of an obligor (counterparty or issuer) to meet its financial obligations in a timely manner. Credit migration risk is the risk of incurring financial losses owing to a re-pricing of financial assets following a deterioration in their credit quality and ratings.

reserves. Notwithstanding, the credit risk in respect of these holdings is kept at moderate levels.

The securities acquired for monetary policy purposes within the scope of the CBPP, the SMP and the ABSPP are valued at amortised cost subject to impairment and are therefore not revalued at market prices. As a consequence, credit migration risk associated with these exposures does not directly affect the financial accounts of the ECB. However, these securities may be subject to credit default risk and a deterioration in their credit quality can affect the financial accounts of the ECB through the regular process of analysis and recognition of impairments. In the case of the SMP, the credit risk profile is determined by the allocation of past purchases across countries, which was driven by monetary policy considerations. In the case of the three CBPP portfolios, the credit default risk is kept at moderate levels through the asset allocation policies, exposure limits and eligibility frameworks, which result in a diversified portfolio of covered bonds with a high credit quality. The credit default risk associated with the ABSPP is managed via a comprehensive due diligence process that complements the applied eligibility criteria, ensuring that only high-quality, simple and transparent asset-backed securities are purchased. The resulting level of credit risk associated with securities held for monetary policy purposes is within the tolerance levels of the ECB.

4.1.2 Market risk[10]

The main types of market risk to which the ECB is subject in managing its holdings are currency and commodity (gold price) risks.[11] The ECB is also exposed to interest rate risk.[12]

Currency and commodity risks

The ECB is exposed to currency risks and commodity risks owing to its holdings of foreign reserves and gold. Given the size of its exposure and the volatility of exchange rates and gold prices, currency and commodity risks dominate the ECB's financial risk profile.

In view of the policy role of gold and foreign reserves, the ECB does not seek to eliminate currency and commodity risks. These risks are largely mitigated by the diversification of the holdings across different currencies and gold, even though the asset allocation is primarily driven by the potential need for policy interventions.

[10] Market risk is the risk of incurring financial losses owing to movements in market prices and interest rates that are not related to credit events.

[11] Currency risk is the risk of incurring financial losses on positions denominated in foreign currency, owing to fluctuations in exchange rates. Commodity risk is the risk of incurring financial losses on holdings of commodities, owing to fluctuations in their market prices.

[12] Interest rate risk is defined as the risk of incurring financial losses owing to a mark-to-market decline in the value of financial instruments as a result of adverse changes in applicable interest rates (yields).

The contributions of currency and commodity risks dominate the ECB's total risk profile. The bulk of the risks stem from the volatility of gold prices and of the US dollar exchange rate. In line with the Eurosystem rules, the gold and US dollar revaluation accounts, which amounted to €12.1 billion (2013: €10.1 billion) and €6.2 billion (2013: €1.7 billion) respectively as at 31 December 2014, can be used to absorb the impact of future unfavourable movements in the prices of the underlying assets, thereby mitigating or even preventing any impact on the ECB's Profit and Loss Account.

Interest rate risk

Securities acquired within the scope of the three CBPPs, the SMP and the ABSPP are valued at amortised cost subject to impairment and are therefore not revalued at market prices. Thus, they are not directly exposed to interest rate risk.

Conversely, the bulk of the ECB's foreign reserves and euro-denominated investment portfolios is invested in fixed income securities which are revalued at market prices and are therefore exposed to interest rate risk. The interest rate risk arising from these portfolios is managed through asset allocation policies and market risk limits which ensure that the market risk remains contained at levels that reflect the ECB's risk-return preferences for the different portfolios. When expressed in terms of the modified duration[13] of the fixed income portfolios, the different risk-return preferences result in a longer modified duration for the euro-denominated investment portfolio than for the foreign reserves holdings.

The interest rate risk to which the ECB is exposed is limited, and it remained broadly stable at low levels over the course of 2014.

4.1.3 Liquidity risk

In view of the role of the euro as a major reserve currency, the ECB's role as a central bank and its asset and liability structure, the only significant liquidity risk that the ECB is subject to is the risk of incurring financial losses owing to the inability to liquidate an asset at its prevailing market value within an appropriate time frame. In this regard, given the stability of the ECB's portfolios and their distinct objectives, the ECB's main exposure to liquidity risk stems from its foreign reserves, as, in order to carry out foreign exchange interventions, large amounts of these holdings may have to be liquidated within short periods of time.

The liquidity risk in respect of the ECB's foreign reserves is managed by establishing an asset allocation and limits which ensure that a sufficiently large share of the ECB's holdings are invested in assets that can be liquidated quickly with a negligible impact on the price.

13 Modified duration is a measure of the sensitivity of the value of the portfolios to parallel shifts in yield curves.

The liquidity risk profile of the ECB's portfolios remained broadly stable in 2014.

4.2 Operational risk

Within the ECB, operational risk is defined as the risk of a negative financial, business or reputational impact resulting from people,[14] the inadequate implementation or failure of internal governance and business processes, the failure of systems on which processes rely, or external events (e.g. natural disasters or external attacks). The main objectives of ORM at the ECB are (a) to contribute to ensuring that the ECB achieves its mission and objectives; and (b) to protect its reputation and other assets against loss, misuse and damage.

Under the ORM framework, each business area is responsible for identifying, assessing, responding to, reporting on and monitoring its operational risks. In this context, the ECB's risk tolerance policy provides guidance with regard to risk response strategies and risk acceptance procedures. It is linked to a risk matrix based on the ECB's impact and likelihood grading scales (which apply quantitative and qualitative criteria).

The ORM/BCM function is responsible for maintaining the ORM and business continuity management (BCM) frameworks and providing methodological assistance in respect of ORM and BCM activities to risk owners. Moreover, it provides annual and ad-hoc reports on operational risks to the Operational Risk Committee and the Executive Board and it supports the decision-making bodies in their oversight role regarding the management of the ECB's operational risks. It coordinates and implements the BCM programme, conducting regular tests and reviews of business continuity arrangements for the ECB's critical operations and supporting the Crisis Management Team, its support structures and business areas in the event of severe business disruption.

5 Financial resources

5.1 Capital

As a consequence of Latvia's adoption of the single currency on 1 January 2014, Latvijas Banka paid an amount of €29.4 million as at that date. As a result of this payment, as well as the adjustment of the NCBs' weightings in the ECB's capital key, the ECB's paid-up capital amounted to €7,697 million on 31 December 2014. Detailed information on the capital of the ECB is provided in note 16.1, "Capital", of the Annual Accounts.

---

14 The term "people" is used in a broad sense and covers any negative impact resulting from actions of the workforce, as well as from deficient personnel resourcing and personnel policies.

5.2 Provision for foreign exchange rate, interest rate, credit and gold price risks

In view of the ECB's considerable exposure to financial risks as outlined in Section 4, 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 2013 the provision for foreign exchange rate, interest rate, credit and gold price risks amounted to €7,530 million. Latvijas Banka contributed an amount of €30.5 million with effect from 1 January 2014. After taking the results of its risk assessment into account, the Governing Council decided to increase the size of the risk provision to €7,575 million as at 31 December 2014. This amount equates to the value of the ECB's capital paid up by the euro area NCBs as at 31 December 2014.

5.3 Revaluation accounts

Unrealised gains on gold, foreign currencies and securities, with the exception of those valued at amortised cost, are not recognised as income in the Profit and Loss Account but are transferred directly to revaluation accounts shown on the liability side of the ECB's Balance Sheet. These balances can be used to absorb the impact of any future unfavourable movements in the prices and/or exchange rates, and therefore constitute a financial buffer that strengthens the ECB's resilience to the underlying risks.

The total amount of revaluation accounts for gold, foreign currencies and securities as at the end of December 2014 stood at €20.2 billion.[15] For further information, see the notes on accounting policies and note 15, "Revaluation accounts", in the notes on the Balance Sheet.

15 In addition, the balance sheet item "Revaluation accounts" also includes remeasurements in respect of post-employment benefits.

6 Impact of key activities on financial statements

The table provides an overview of the main operations and functions of the ECB in pursuit of its mandate, and their impact on the ECB's financial statements.

Operation/Function	Impact on the ECB's Annual Accounts
Monetary policy operations	Standard monetary policy operations are implemented in a decentralised manner by the NCBs of the Eurosystem. Consequently, these operations have no direct impact on the ECB's Annual Accounts.
Securities held for monetary policy purposes (CBPPs, SMP and ABSPP)	Securities purchased by the ECB are recorded under the item "Securities held for monetary policy purposes". Holdings in these portfolios are accounted for at amortised cost and an impairment test is conducted at least annually. Coupon accruals and amortisation of discounts/premiums are included in the Profit and Loss Account.[16]
Investment activities (management of foreign reserves and own funds)	The foreign reserves of the ECB are presented on-balance sheet[17] or are reflected in off-balance-sheet accounts until the settlement date. The own funds portfolio of the ECB is presented on-balance sheet, mainly under the item "Other financial assets". Net interest income, including coupon accruals and the amortisation of discounts/premiums, is included in the Profit and Loss Account.[18] Unrealised price and exchange rate losses, as well as realised gains and losses arising from the sale of securities, are also included in the Profit and Loss Account,[19] while unrealised gains are recorded on-balance sheet under the item "Revaluation accounts".
Payment systems (TARGET2)	Intra-Eurosystem balances of euro area NCBs vis-à-vis the ECB arising from TARGET2 are presented on the Balance Sheet of the ECB as a single net asset or liability position. The remuneration of those balances is included in the Profit and Loss Account under the items "Other Interest Income" and "Other Interest Expense".
Banknotes in circulation	The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation. This share is backed by claims on the NCBs, which bear interest at the rate on the main refinancing operations. This interest is included in the Profit and Loss Account under the item "Interest income arising from the allocation of euro banknotes within the Eurosystem". Expenses arising from 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, are borne centrally by the ECB. These expenses are presented in the Profit and Loss Account under the heading "Banknote production services".
Banking supervision	The annual costs of the ECB in relation to its supervisory tasks are recovered via the annual supervisory fee levied on the supervised entities. Since the beginning of November 2014 supervisory fees have been recorded on an accrual basis in the Profit and Loss Account under the heading "Net income from fees and commissions".

16 Under the items "Other Interest Income" and "Other Interest Expense".

17 Mainly under "Gold and gold receivables", "Claims on non-euro area residents denominated in foreign currency", "Claims on euro area residents denominated in foreign currency" and "Liabilities to non-euro area residents denominated in foreign currency".

18 Income related to the ECB's foreign reserves is disclosed under the item "Interest income on foreign reserve assets", while the interest income and expenses on own funds are reflected in "Other interest income" and "Other interest expense".

19 Under the items "Write-downs on financial assets and positions" and "Realised gains/losses arising from financial operations".

7 Financial result for 2014

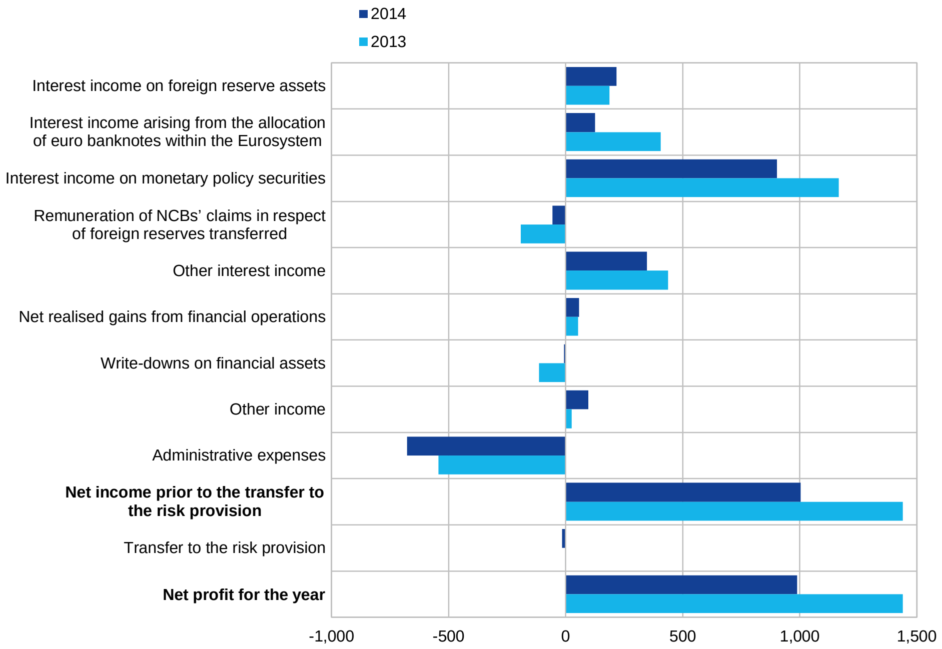
In 2014 the ECB's net profit was €989 million (2013: €1,440 million) after a transfer to the risk provision of €15 million (2013: €0.4 million).

Chart 1 presents the components of the ECB's Profit and Loss Account in 2014 and a comparison with 2013.

Chart 1

Breakdown of the ECB's Profit and Loss Account in 2014 and 2013

(EUR millions)



Source: ECB.

Key highlights

- In 2014 net interest income decreased to €1,536 million, compared with €2,005 million in 2013, due mainly to (a) the lower interest income on the ECB's share of the total euro banknotes in circulation as a result of the lower average rate on the main refinancing operations in 2014; and (b) a decrease in interest income generated on the securities purchased under the Securities Markets Programme and the first and second covered bond purchase programmes, as a result of the maturing of securities. The effects of these developments were partially offset by the lower interest expense arising from the euro area NCBs' claims in respect of the foreign reserve assets transferred by them to the ECB.

- In 2014 the overall increase in the market value of securities held in both the US dollar and the own funds portfolios resulted in substantially lower write-downs in that year, amounting to €8 million (2013: €115 million).

- The total administrative expenses of the ECB, including depreciation, amounted to €677 million in 2014, compared with €527 million in 2013. This increase was mainly due to expenses incurred in connection with the Single Supervisory Mechanism. 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.

- In November 2014 the ECB moved into its new premises. Consequently, the capitalised expenditure incurred up to that point was transferred from "Assets under construction" to the appropriate asset headings. Depreciation commenced in January 2015, in line with the ECB's depreciation policy.

- A change in the accounting policy: as outlined in the notes on accounting policies, the treatment of securities currently held for monetary policy purposes has been modified. These securities are now accounted for at amortised cost subject to impairment, regardless of the holding intention. This change had no impact on the ECB's financial result.

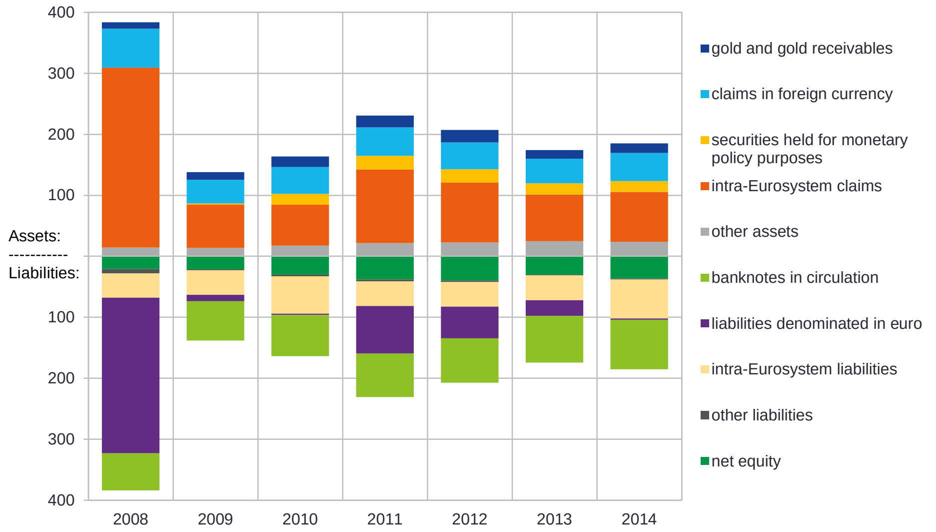
8 Long-term developments in the ECB's financial statements

Charts 2 and 3 present the evolution of the Balance Sheet and Profit and Loss Account of the ECB, as well as their components, over the period 2008-14.

Chart 2

Evolution of the ECB's Balance Sheet in the period 2008-14

(EUR billions)

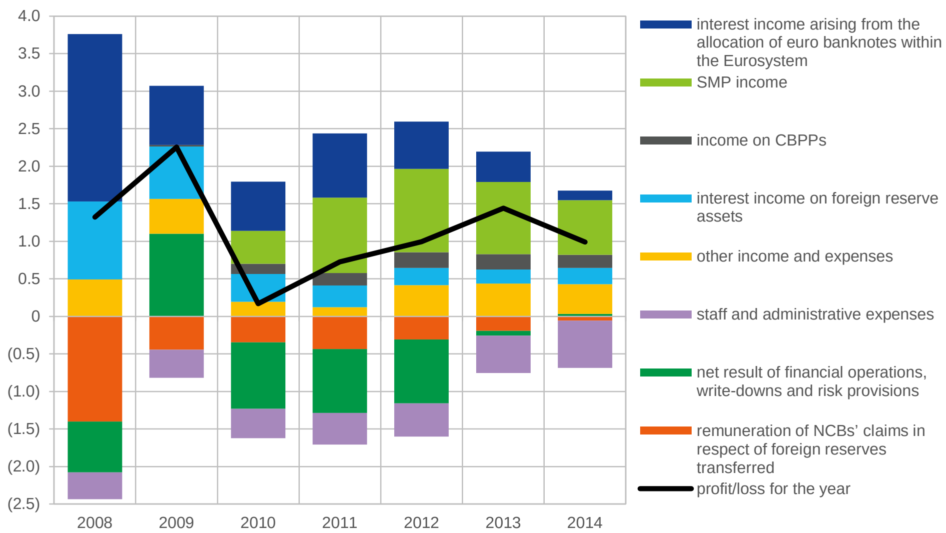


Source: ECB.

Chart 3

Evolution of the ECB's Profit and Loss Account in the period 2008-14

(EUR billions)



Source: ECB.

The ECB’s Balance Sheet has contracted significantly since 2008. The improvement in the US dollar funding conditions for Eurosystem counterparties resulted in a gradual reduction in US dollar liquidity-providing operations offered by the Eurosystem. The concomitant reduction in the intra-Eurosystem claims of the ECB and its liabilities denominated in euro was the main factor in the overall reduction of the ECB’s Balance Sheet over this period. This decrease was only partially offset by (a) the increase in banknotes in circulation; (b) the purchases of securities held for monetary policy purposes; and (c) the increase in net equity, consisting of the ECB’s capital, its general risk provision and the revaluation accounts.

The size of the ECB’s net profit over the same period was influenced by the following factors.

- The rate on the main refinancing operations decreased, significantly reducing the seigniorage income of the ECB. The average rate for 2014 was 0.16%, compared with 4% for 2008, and, as a result, interest income on banknotes in circulation fell from €2.2 billion in 2008 to €0.1 billion in 2014.
- The amount of €3.6 billion was transferred to the general risk provision for foreign exchange rate, interest rate, credit and gold price risks. Amounts transferred to this provision reduce the reported profit by an equivalent amount.
- The income earned on foreign reserve assets declined gradually, mainly owing to the reduction in US dollar yields and the resulting decrease in interest income generated on the US dollar portfolio. Net income on foreign reserve assets amounted to €0.2 billion in 2014, compared with €1.0 billion in 2008.
- Purchases of securities held for monetary policy purposes, in the context of the SMP and CBPP portfolios, have generated, on average, 55% of the ECB’s overall net interest income over the last five years.

Financial statements of the ECB

Balance Sheet as at 31 December 2014

ASSETS	Note number	2014 €	2013 €
Gold and gold receivables	1	**15,980,317,601**	**14,063,991,807**
Claims on non-euro area residents denominated in foreign currency	2		
Receivables from the IMF	2.1	669,336,060	627,152,259
Balances with banks and security investments, external loans and other external assets	2.2	43,730,904,005	38,764,255,039
		44,400,240,065	**39,391,407,298**
Claims on euro area residents denominated in foreign currency	2.2	**1,783,727,949**	**1,270,792,764**
Claims on non-euro area residents denominated in euro	3		
Balances with banks, security investments and loans	3.1	**0**	**535,000,000**
Other claims on euro area credit institutions denominated in euro	4	**2,120,620**	**9,487**
Securities of euro area residents denominated in euro	5		
Securities held for monetary policy purposes	5.1	**17,787,948,367**	**18,159,937,704**
Intra-Eurosystem claims	6		
Claims related to the allocation of euro banknotes within the Eurosystem	6.1	**81,322,848,550**	**76,495,146,585**
Other assets	7		
Tangible and intangible fixed assets	7.1	1,249,596,659	971,175,790
Other financial assets	7.2	20,626,359,858	20,466,245,900
Off-balance-sheet instruments revaluation differences	7.3	319,624,726	104,707,529
Accruals and prepaid expenses	7.4	725,224,031	977,552,068
Sundry	7.5	1,092,627,246	1,739,308,724
		24,013,432,520	**24,258,990,011**
Total assets		**185,290,635,672**	**174,175,275,656**

LIABILITIES	Note number	2014 €	2013 €
Banknotes in circulation	8	**81,322,848,550**	**76,495,146,585**
Liabilities to other euro area residents denominated in euro	9		
Other liabilities	9.1	**1,020,000,000**	**1,054,000,000**
Liabilities to non-euro area residents denominated in euro	10	**900,216,447**	**24,765,513,795**
Liabilities to non-euro area residents denominated in foreign currency	11		
Deposits, balances and other liabilities	11.1	**458,168,063**	**18,478,777**
Intra-Eurosystem liabilities	12		
Liabilities equivalent to the transfer of foreign reserves	12.1	40,553,154,708	40,309,644,425
Other liabilities within the Eurosystem (net)	12.2	23,579,372,965	119,857,494
		64,132,527,673	**40,429,501,919**
Other liabilities	13		
Off-balance-sheet instruments revaluation differences	13.1	178,633,615	185,010,549
Accruals and income collected in advance	13.2	96,191,651	370,542,207
Sundry	13.3	869,549,503	786,331,706
		1,144,374,769	**1,341,884,462**
Provisions	14	**7,688,997,634**	**7,619,546,534**
Revaluation accounts	15	**19,937,644,696**	**13,358,190,073**
Capital and reserves	16		
Capital	16.1	**7,697,025,340**	**7,653,244,411**
Profit for the year		**988,832,500**	**1,439,769,100**
Total liabilities		**185,290,635,672**	**174,175,275,656**

Profit and Loss Account for the year ending 31 December 2014

	Note number	2014 €	2013 €
Interest income on foreign reserve assets	24.1	217,003,159	187,279,973
Interest income arising from the allocation of euro banknotes within the Eurosystem	24.2	125,806,228	406,310,130
Other interest income	24.4	2,512,243,088	6,477,297,658
Interest income		*2,855,052,475*	*7,070,887,761*
Remuneration of NCBs' claims in respect of foreign reserves transferred	24.3	(57,015,146)	(192,248,631)
Other interest expense	24.4	(1,262,336,836)	(4,873,777,652)
Interest expense		*(1,319,351,982)*	*(5,066,026,283)*
Net interest income	24	**1,535,700,493**	**2,004,861,478**
Realised gains/losses arising from financial operations	25	57,260,415	52,122,402
Write-downs on financial assets and positions	26	(7,863,293)	(114,607,365)
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks		(15,009,843)	(386,953)
Net result of financial operations, write-downs and risk provisions		**34,387,279**	**(62,871,916)**
Net income/expense from fees and commissions	27, 28	**28,158,654**	**(2,126,773)**
Income from equity shares and participating interests	29	**780,935**	**1,168,907**
Other income	30	**67,253,502**	**26,107,807**
Total net income		**1,666,280,863**	**1,967,139,503**
Staff costs	31	(301,142,390)	(240,523,980)
Administrative expenses	32	(353,579,537)	(268,183,737)
Depreciation of tangible and intangible fixed assets		(15,312,728)	(10,468,686)
Banknote production services	33	(7,413,708)	(8,194,000)
Profit for the year		**988,832,500**	**1,439,769,100**

Frankfurt am Main, 10 February 2015

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 securities held for monetary policy purposes), 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

---

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. This Decision was last amended by Decision ECB/2014/55 of 15 December 2014, not yet published in the Official Journal.

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.

currency are calculated and recorded daily, and the foreign currency position is also affected daily by these accruals.

Gold and foreign currency assets and liabilities

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

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

Gold is valued at the market price prevailing at the year-end. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold valuation is accounted for on the basis of the price in euro per fine ounce of gold, which, for the year ending 31 December 2014, was derived from the exchange rate of the euro against the US dollar on 31 December 2014.

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 2014.

Securities

Securities held for monetary policy purposes

Prior to 2014 all securities held for monetary policy purposes had been classified as held-to-maturity and were therefore valued at amortised cost subject to impairment. In 2014 the Governing Council decided that securities currently held for monetary policy purposes will be accounted for at amortised cost subject to impairment regardless of the holding intention. This change to the accounting policy did not result in an adjustment of the comparable figures for 2013 as all such existing securities were already valued at amortised cost subject to impairment.

Other securities

Marketable securities (other than securities held for monetary policy purposes) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. Options embedded in securities are not separated for valuation purposes. For the year ending 31 December 2014, mid-market prices on 30 December 2014 were used. Illiquid equity shares are 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 currency, 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. Unrealised losses on interest rate swaps that are taken to the Profit and Loss Account at the year-end are amortised in subsequent years.

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 are calculated and presented as part of interest income and are amortised over the remaining contractual life of the securities.

Reverse transactions

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

Under a repurchase agreement, securities are sold for cash with a simultaneous agreement to repurchase them from the counterparty at an agreed price on a set future date. Repurchase agreements are recorded as collateralised deposits on the liability side of the Balance Sheet. 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

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

where collateral is provided in the form of cash placed on an account of the ECB. In 2014 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. Land and works of art are valued at cost. For the depreciation of the ECB’s new premises, costs are assigned to the appropriate asset components which will be depreciated in accordance with their estimated useful lives. Depreciation is calculated on a straight-line basis over the expected useful life of the assets, beginning in the quarter after the asset is available for use. The useful lives applied for the main asset classes are as follows:

Buildings	20, 25 or 50 years
Plant in building	10 or 15 years
Technical equipment	4, 10 or 15 years
Computers, related hardware and software, and motor vehicles	4 years
Furniture	10 years

The depreciation period for capitalised refurbishment expenditure relating to the ECB’s existing rented premises is adjusted to take account of any events that have an impact on the expected useful life of the affected asset.

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.

4 As at 31 December 2014 the non-euro area NCBs participating in TARGET2 were Българска народна банка (Bulgarian National Bank), Danmarks Nationalbank, Lietuvos bankas, Narodowy Bank Polski and Banca Naţională a României.

The ECB's pension plans, other post-employment benefits and other long-term benefits

The ECB operates defined benefit plans for its staff and the members of the Executive Board, as well as for the members of the Supervisory Board employed by the ECB.

The staff pension plan is funded by assets held in a long-term employee benefit fund. The compulsory contributions made by the ECB and the staff are 19.5% and 6.7% of basic salary respectively and are reflected in the defined benefit pillar of the plan. Staff can make additional contributions on a voluntary basis in a defined contribution pillar that can be used to provide additional benefits.[5] These additional benefits are determined by the amount of voluntary contributions together with the investment returns arising from these contributions.

Unfunded arrangements are in place for the post-employment and other long-term benefits of members of the Executive Board and members of the Supervisory Board employed by the ECB. For staff, unfunded arrangements are in place for post-employment benefits other than pensions and for other long-term benefits.

Net defined benefit liability

The liability recognised in the Balance Sheet under "Other liabilities" in respect of the defined benefit plans 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.

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.

Net defined benefit cost

The net defined benefit cost is split into components reported in the Profit and Loss Account and remeasurements in respect of post-employment benefits shown in the Balance Sheet under "Revaluation accounts".

---

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.

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) net interest at the discount rate on the net defined benefit liability; and

(c) remeasurements in respect of other long-term benefits, in their entirety.

The net amount shown under “Revaluation accounts” comprises the following items:

(a) actuarial gains and losses on the defined benefit obligation;

(b) the actual return on plan assets, excluding amounts included in the net interest on the net defined benefit liability; and

(c) any change in the effect of the asset ceiling, excluding amounts included in the net interest on the net defined benefit liability.

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”.

---

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

[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.

Interim profit distribution

The ECB's income on euro banknotes in circulation and income arising from the securities held for monetary policy purposes purchased under (a) the Securities Markets Programme; (b) the third covered bond purchase programme; and (c) the asset-backed securities purchase 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 aforementioned programmes, 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.

Reclassifications

Fixed assets costing less than €10,000 were previously fully written off in the year of acquisition, and their cost was recorded under the heading "Depreciation of tangible and intangible fixed assets". Owing to the nature of this expense, the ECB decided in 2014 to include the related amounts under the heading "Administrative expenses". The comparable amounts for 2013 have been adjusted as follows:

	Published in 2013 €	Adjustment owing to reclassification €	Restated amount €
Depreciation of tangible and intangible fixed assets	(18,581,856)	8,113,170	(10,468,686)
Administrative expenses	(260,070,567)	(8,113,170)	(268,183,737)

This reclassification had no impact on the net profit reported for 2013.

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 Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as the external auditors of the ECB for a five-year period up to the end of the financial year 2017.

[9] Decision ECB/2014/57 of 15 December 2014 on the interim distribution of the income of the European Central Bank (recast), not yet published in the Official Journal.

Notes on the Balance Sheet

1 Gold and gold receivables

As at 31 December 2014 the ECB held 16,178,193 ounces[10] of fine gold (2013: 16,142,871 ounces). The increase was due to the transfer by Latvijas Banka to the ECB of 35,322 ounces of fine gold[11] upon the adoption of the single currency by Latvia. However, the increase in the euro equivalent value of the ECB's holdings of fine gold was mainly due to the rise in the price of gold during 2014 (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies and note 15, "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 2014. 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). The increase in the euro equivalent value of the ECB's holdings of SDRs was mainly due to the appreciation of the SDR against the euro during 2014.

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	2014 €	2013 €	Change €
Current accounts	2,618,332,591	939,722,501	1,678,610,090
Money market deposits	1,035,952,558	1,001,428,468	34,524,090
Reverse repurchase agreements	986,131,163	87,738,380	898,392,783
Security investments	39,090,487,693	36,735,365,690	2,355,122,003
Total	**43,730,904,005**	**38,764,255,039**	**4,966,648,966**

10 This corresponds to 503.2 tonnes.

11 The transfer, with a value equivalent to €30.8 million, was made with effect from 1 January 2014.

Claims on euro area residents	2014 €	2013 €	Change €
Current accounts	4,035,172	4,242,115	(206,943)
Money market deposits	1,599,827,033	1,266,550,649	333,276,384
Reverse repurchase agreements	179,865,744	0	179,865,744
Total	**1,783,727,949**	**1,270,792,764**	**512,935,185**

The increase in these items in 2014 was mainly due to the appreciation of the US dollar against the euro.

Additionally, upon the adoption of the single currency by Latvia with effect from 1 January 2014, Latvijas Banka transferred foreign reserve assets denominated in Japanese yen with a value of €174.5 million to the ECB.

The ECB's net foreign currency holdings of US dollars and Japanese yen,[12] as at 31 December 2014, were as follows:

	2014 Currency in millions	2013 Currency in millions
US dollars	45,649	45,351
Japanese yen	1,080,094	1,051,062

3 Claims on non-euro area residents denominated in euro

3.1 Balances with banks, security investments and loans

As at 31 December 2013, 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 could borrow euro against eligible collateral in order to support its domestic liquidity-providing operations.

No related claims remained outstanding as at 31 December 2014.

4 Other claims on euro area credit institutions denominated in euro

As at 31 December 2014 this item consisted of current accounts with euro area residents.

[12] 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.

5 Securities of euro area residents denominated in euro

5.1 Securities held for monetary policy purposes

As at 31 December 2014 this item consisted of securities acquired by the ECB within the scope of the three covered bond purchase programmes, the Securities Markets Programme and the asset-backed securities purchase programme.

Purchases under the first covered bond purchase programme were completed on 30 June 2010, while the second covered bond purchase programme ended on 31 October 2012. The Securities Markets Programme was terminated on 6 September 2012.

On 2 October 2014 the Governing Council announced the operational details of the third covered bond purchase programme and the asset-backed securities purchase programme. These programmes, which will last for at least two years, will facilitate credit provision to the euro area economy, generate positive spillovers to other markets and, as a result, ease the ECB's monetary policy stance. Under the two programmes, the ECB and the NCBs may purchase, in both the primary and secondary markets, euro-denominated covered bonds issued in the euro area and senior and guaranteed mezzanine tranches of asset-backed securities that are denominated in euro and issued by entities that are resident in the euro area.

Securities purchased under all five programmes 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 estimated recoverable amounts as at the year-end. The Governing Council considered that the identified impairment indicators had not affected the estimated future cash flows expected to be received by the ECB. Consequently, no losses were recorded for these securities in 2014.

The amortised cost of these securities, as well as their market value[13] (which is not recorded on the Balance Sheet or in the Profit and Loss Account but is provided for comparison purposes only), are as follows:

	2014 €		2013 €		Change €	
	Amortised cost	Market value	Amortised cost	Market value	Amortised cost	Market value
First covered bond purchase programme	2,395,178,568	2,576,479,183	3,710,724,329	3,880,523,066	(1,315,545,761)	(1,304,043,883)
Second covered bond purchase programme	1,249,397,951	1,367,880,767	1,459,074,444	1,559,027,391	(209,676,493)	(191,146,624)
Third covered bond purchase programme	2,298,798,185	2,314,787,199	-	-	2,298,798,185	2,314,787,199
Securities Markets Programme	10,100,343,269	11,247,795,991	12,990,138,931	13,689,860,491	(2,889,795,662)	(2,442,064,500)
Asset-backed securities purchase programme	1,744,230,394	1,742,441,349	-	-	1,744,230,394	1,742,441,349
Total	**17,787,948,367**	**19,249,384,489**	**18,159,937,704**	**19,129,410,948**	**(371,989,337)**	**119,973,541**

13 Market values are indicative and were derived on the basis of market quotes. When market quotes were not available, market prices were estimated using internal Eurosystem models.

The decrease in the amortised cost of the portfolios held under (a) the first and second covered bond purchase programmes, and (b) the Securities Markets Programme was due to redemptions.

The Governing Council assesses on a regular basis the financial risks associated with the securities held under the Securities Markets Programme, the asset-backed securities purchase programme and the three 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").

7 Other assets

7.1 Tangible and intangible fixed assets

These assets comprised the following items on 31 December 2014:

	2014 €	2013 €	Change €
Cost			
Land and buildings	997,154,850	170,824,151	826,330,699
Plant in building	212,838,181	72,341	212,765,840
Computer hardware and software	71,812,322	76,353,659	(4,541,337)
Equipment, furniture and motor vehicles	82,854,876	13,746,611	69,108,265
Assets under construction	16,163,065	847,217,209	(831,054,144)
Other fixed assets	8,241,408	7,751,953	489,455
Total cost	**1,389,064,702**	**1,115,965,924**	**273,098,778**
Accumulated depreciation			
Land and buildings	(88,477,513)	(86,542,592)	(1,934,921)
Plant in building	(72,342)	(72,341)	(1)
Computer hardware and software	(38,380,961)	(45,004,046)	6,623,085
Equipment, furniture and motor vehicles	(11,908,686)	(12,797,447)	888,761
Other fixed assets	(628,541)	(373,708)	(254,833)
Total accumulated depreciation	**(139,468,043)**	**(144,790,134)**	**5,322,091**
Net book value	**1,249,596,659**	**971,175,790**	**278,420,869**

The ECB's new premises became available for use in November 2014 and the related costs were therefore transferred from the item "Assets under construction" to the appropriate headings. The increase in the cost of the “Land and buildings”, “Plant in building” and “Equipment, furniture and motor vehicles” categories mainly reflects this transfer, as well as activities in the last two months of 2014 related to the ECB’s new premises.

Moreover, the contribution from the City of Frankfurt of €15.3 million for the preservation of the Grossmarkthalle, which in previous years was disclosed under “Accruals and income collected in advance”, was netted against the cost of the new building.

7.2 Other financial assets

This item consists of the investment of the ECB’s own funds[14] 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.

The components of this item are as follows:

	2014 €	2013 €	Change €
Current accounts in euro	4,684,410	4,620,701	63,709
Securities denominated in euro	19,091,635,302	18,068,315,142	1,023,320,160
Reverse repurchase agreements in euro	1,488,138,078	2,351,403,533	(863,265,455)
Other financial assets	41,902,068	41,906,524	(4,456)
Total	**20,626,359,858**	**20,466,245,900**	**160,113,958**

The net increase in this item in 2014 was due mainly to (a) the reinvestment of interest income generated on the own funds portfolio; and (b) the increase in the market value of the securities denominated in euro.

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 2014 (see note 22, “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”).

[14] Repurchase agreements conducted in the context of the management of the own funds portfolio are reported under “Sundry” on the liabilities side (see note 13.3, “Sundry”).

7.4 Accruals and prepaid expenses

In 2014 this item included accrued coupon interest on securities, including outstanding interest paid at acquisition, amounting to €603.9 million (2013: €708.3 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 December 2014, amounting to €25.5 million (2013: €155.1 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 €10.0 million (2013: €69.2 million).

This item also includes (a) accrued income from common Eurosystem projects (see note 30, "Other income"); (b) accrued income in connection with the Single Supervisory Mechanism (see note 28, "Income and expenses related to supervisory tasks"); (c) accrued interest income on other financial assets; and (d) miscellaneous prepayments.

7.5 Sundry

This item consisted mainly of the accrued amounts of the ECB's interim profit distribution (see "Interim profit distribution" in the notes on accounting policies and note 12.2, "Other liabilities within the Eurosystem (net)").

It also included:

(a) balances related to swap and forward transactions in foreign currency outstanding on 31 December 2014 that arose 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).

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

8 Banknotes in circulation

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

9 Liabilities to other euro area residents denominated in euro

9.1 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.

10 Liabilities to non-euro area residents denominated in euro

As at 31 December 2014 this item comprised an amount of €0.9 billion (2013: €24.6 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 decrease in these balances in 2014 was due to payments from non-euro area residents to euro area residents and resulted in an increase in the TARGET2 balances of the euro area NCBs vis-à-vis the ECB (see note 12.2, "Other liabilities within the Eurosystem (net)").

In 2013 this item also included an amount of €0.2 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 swap transactions, 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. In 2014 the Governing Council decided, in view of the considerable improvement in US dollar funding conditions and the low demand for US dollar liquidity-providing operations, to gradually reduce its offering of such operations. No related balances remained outstanding as at 31 December 2014. In the future the ECB will, on a regular basis, assess the need for such operations, taking into account the fact that the established standing swap lines have created a framework for the provision of US dollar liquidity to counterparties, if warranted by market conditions.

11 Liabilities to non-euro area residents denominated in foreign currency

11.1 Deposits, balances and other liabilities

This item consists of liabilities that arose under repurchase agreements conducted with non-euro area residents in connection with the management of the foreign currency reserves of the ECB.

12 Intra-Eurosystem liabilities

12.1 Liabilities equivalent to the transfer of foreign reserves

These represent the liabilities to the euro area NCBs that arose from the transfer of foreign reserve assets to the ECB when they joined the Eurosystem.

The adjustment of the NCBs' weightings in the ECB's capital key (see note 16, "Capital and reserves"), together with Latvijas Banka's transfer of foreign reserve assets upon Latvia's adoption of the single currency, led to an increase of €243,510,283 in these liabilities.

	Since 1 January 2014 €	As at 31 December 2013 €
Nationale Bank van België/Banque Nationale de Belgique	1,435,910,943	1,401,024,415
Deutsche Bundesbank	10,429,623,058	10,871,789,515
Eesti Pank	111,729,611	103,152,857
Central Bank of Ireland	672,637,756	643,894,039
Bank of Greece	1,178,260,606	1,129,060,170
Banco de España	5,123,393,758	4,782,873,430
Banque de France	8,216,994,286	8,190,916,316
Banca d'Italia	7,134,236,999	7,218,961,424
Central Bank of Cyprus	87,679,928	77,248,740
Latvijas Banka	163,479,892	-
Banque centrale du Luxembourg	117,640,617	100,776,864
Central Bank of Malta	37,552,276	36,798,912
De Nederlandsche Bank	2,320,070,006	2,298,512,218
Oesterreichische Nationalbank	1,137,636,925	1,122,511,702
Banco de Portugal	1,010,318,483	1,022,024,594
Banka Slovenije	200,220,853	189,499,911
Národná banka Slovenska	447,671,807	398,761,127
Suomen Pankki – Finlands Bank	728,096,904	721,838,191
Total	**40,553,154,708**	**40,309,644,425**

Latvijas Banka's claim was set at €163,479,892 in order to ensure that the ratio between this claim and the aggregate claim credited to the other NCBs of Member States whose currency is the euro will be equal to the ratio between Latvijas Banka's weighting in the ECB's capital key and the other euro area NCBs' aggregate weighting in this key. The difference between the claim and the value of the assets transferred (see note 1, "Gold and gold receivables", and note 2.2, "Balances with banks and security investments, external loans and other external assets; and Claims on euro area residents denominated in foreign currency") was treated as part of the contributions of Latvijas Banka, due under Article 48.2 of the Statute of the ESCB, to the reserves and provisions equivalent to reserves of the ECB existing as at 31 December 2013 (see note 14, "Provisions", and note 15, "Revaluation accounts").

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").

12.2 Other liabilities within the Eurosystem (net)

In 2014 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 increase in this position resulted mainly from the settlement in TARGET2 of payments from non-euro area residents to euro area residents (see note 10, “Liabilities to non-euro area residents denominated in euro”). The reduction in the amounts related to back-to-back swap transactions conducted with NCBs in connection with US dollar liquidity-providing operations also contributed to the increase in the net liability in 2014. The impact of these two factors was partially offset by redemptions of securities purchased under the Securities Markets Programme and the first two covered bond purchase programmes that were settled via TARGET2 accounts.

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).

	2014 €	2013 €
Due from euro area NCBs in respect of TARGET2	(590,153,944,468)	(687,997,098,717)
Due to euro area NCBs in respect of TARGET2	612,892,597,646	686,747,265,644
Due to euro area NCBs in respect of the ECB’s interim profit distribution	840,719,787	1,369,690,567
Other liabilities within the Eurosystem (net)	**23,579,372,965**	**119,857,494**

13 Other liabilities

13.1 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 2014 (see note 22, “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”).

13.2 Accruals and income collected in advance

As at 31 December 2014 the two main items under this heading were accrued interest payable to the NCBs for the whole of 2014 in respect of their claims relating to foreign reserves transferred to the ECB (see note 12.1, "Liabilities equivalent to the transfer of foreign reserves") and accrued interest payable on TARGET2 balances due to NCBs for the final month of 2014. These amounts were settled in January 2015. Other accruals, including accruals on financial instruments, are also reported in this item.

	2014 €	2013 €	Change €
Foreign reserves transferred to the ECB	57,015,146	192,248,631	(135,233,485)
TARGET2	26,309,091	155,757,290	(129,448,199)
Other accruals	12,867,414	22,536,286	(9,668,872)
Total	**96,191,651**	**370,542,207**	**(274,350,556)**

13.3 Sundry

In 2014 this item included outstanding repurchase transactions of €150.1 million (2013: €480.4 million) conducted in connection with the management of the ECB's own funds (see note 7.2, "Other financial assets").

It also included balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2014 (see note 22, "Foreign exchange swap and forward transactions"). These balances arose 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).

The ECB's pension plans, other post-employment benefits and other long-term benefits[15]

In addition, this item included the ECB's net defined benefit liability in respect of the post-employment and other long-term benefits of its staff and the members of the Executive Board, as well as the members of the Supervisory Board employed by the ECB, amounting to €459.7 million (2013: €131.9 million).

Balance Sheet

The amounts recognised in the Balance Sheet in respect of post-employment and other long-term employee benefits were as follows:

[15] In all tables of this note, the column labelled "Boards" reports the amounts in respect of both the Executive Board and the Supervisory Board from 2014 onwards.

	2014 Staff	2014 Boards	2014 Total	2013 Staff	2013 Boards	2013 Total
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Present value of obligation	1,087.1	24.5	1,111.6	650.6	17.8	668.4
Fair value of plan assets	(651.9)	-	(651.9)	(536.5)	-	(536.5)
Net defined benefit liability recognised in the Balance Sheet	**435.2**	**24.5**	**459.7**	**114.1**	**17.8**	**131.9**

In 2014 the present value of the obligation vis-à-vis staff of €1,087.1 million (2013: €650.6 million) included unfunded benefits amounting to €170.3 million (2013: €109.4 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 and members of the Supervisory Board.

Profit and Loss Account

The amounts recognised in the Profit and Loss Account in 2014 were as follows:

	2014 Staff	2014 Boards	2014 Total	2013 Staff	2013 Boards	2013 Total
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Current service cost	41.7	1.2	42.9	45.9	1.4	47.3
Net interest on the net defined benefit liability	4.5	0.7	5.2	8.6	0.6	9.2
of which:						
Cost on the obligation	*25.1*	*0.7*	*25.8*	*24.4*	*0.6*	*25.0*
Income on plan assets	*(20.6)*	*-*	*(20.6)*	*(15.8)*	*-*	*(15.8)*
Remeasurement (gains)/losses on other long-term benefits	7.8	0.3	8.1	(3.2)	0	(3.2)
Total included in “Staff costs”	**54.0**	**2.2**	**56.2**	**51.3**	**2.0**	**53.3**

Changes in the defined benefit obligation, plan assets and remeasurement results

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

	2014 Staff	2014 Boards	2014 Total	2013 Staff	2013 Boards	2013 Total
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Opening defined benefit obligation	650.6	17.8	668.4	677.8	17.8	695.6
Current service cost	41.7	1.2	42.9	45.9	1.4	47.3
Interest cost on the obligation	25.1	0.7	25.8	24.4	0.6	25.0
Contributions paid by plan participants	14.0	0.1	14.1	12.3	0.1	12.4
Benefits paid	(7.1)	(0.8)	(7.9)	(5.5)	(1.1)	(6.6)
Remeasurement (gains)/losses	362.8	5.5	368.3	(104.3)	(1.0)	(105.3)
Closing defined benefit obligation	**1,087.1**	**24.5**	**1,111.6**	**650.6**	**17.8**	**668.4**

The total remeasurement losses of €368.3 million for 2014 on the defined benefit obligation arose primarily owing to the decrease in the discount rate from 3.75% in 2013 to 2.0% in 2014. This compares with remeasurement gains of €105.3 million for

2013 which arose primarily owing to the lower conversion factors applied for the calculation of future pension payments, as well as the increase in the discount rate from 3.5% in 2012 to 3.75% in 2013.

Changes in 2014 in the fair value of plan assets in the defined benefit pillar relating to staff were as follows:

	2014 € millions	2013 € millions
Opening fair value of plan assets	536.5	439.3
Interest income on plan assets	20.6	15.8
Remeasurement gains	49.7	39.8
Contributions paid by employer	36.4	33.2
Contributions paid by plan participants	14.0	12.3
Benefits paid	(5.3)	(3.9)
Closing fair value of plan assets	**651.9**	**536.5**

Remeasurement gains on plan assets in both 2014 and 2013 reflected the fact that actual returns on the fund units were higher than the estimated interest income on plan assets.

In 2014, following a funding valuation of the ECB's staff pension plan carried out by the ECB's actuaries as at 31 December 2013, the Governing Council decided to reduce from €10.3 million to €6.8 million the annual supplementary contributions payable up to 2023. This decision will be reviewed upon receipt of the next funding valuation, which is planned for 2015. This reduction was more than offset by (a) the increase in the contributions made by the ECB to the staff pension plan (see "The ECB's pension plans, other post-employment benefits and other long-term benefits" in the notes on accounting policies); and (b) the increase in the number of plan members in the context of the preparations for the launch of the Single Supervisory Mechanism (see note 31, "Staff costs"). Consequently, the values reported under the item "Contributions paid by employer" increased to €36.4 million (2013: €33.2 million).

Changes in 2014 in the remeasurement results (see note 15, "Revaluation accounts") were as follows:

	2014 € millions[16]	2013 € millions
Opening remeasurement gains/(losses)	4.8	(137.1)
Gains on plan assets	49.7	39.8
Gains/(losses) on obligation	(368.3)	105.3
Losses/(gains) recognised in the Profit and Loss Account	8.1	(3.2)
Closing remeasurement gains/(losses) included under "Revaluation accounts"	**(305.6)**	**4.8**

[16] Totals may not add up due to rounding.

Key assumptions

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:

	2014 %	2013 %
Discount rate	2.00	3.75
Expected return on plan assets[17]	3.00	4.75
General future salary increases[18]	2.00	2.00
Future pension increases[19]	1.40	1.40

Furthermore, voluntary contributions made by staff in a defined contribution pillar in 2014 amounted to €110.6 million (2013: €96.5 million). These assets are invested in plan assets but also give rise to a corresponding obligation of equal value.

14 Provisions

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

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 these 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 2013 the provision for foreign exchange rate, interest rate, credit and gold price risks amounted to €7,529,669,242. In addition, Latvijas Banka contributed an amount of €30,476,837 with effect from 1 January 2014.[20] Taking the results of its assessment into account, the Governing Council decided to transfer, as

17 These assumptions were used for calculating the part of the ECB's defined benefit obligation which is funded by assets with an underlying capital guarantee.

18 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.

19 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 plans permits such an increase.

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

at 31 December 2014, an amount of €15,009,843 to the provision. This transfer reduced the ECB's net profit for 2014 to €988,832,500 and increased the size of the provision to €7,575,155,922. Following the increase in the ECB's paid-up capital in 2014 (see note 16, "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 2014.

15 Revaluation accounts

This item consists mainly of 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). It also includes the remeasurements of the ECB's net defined benefit liability in respect of post-employment benefits (see "The ECB's pension plans, other post-employment benefits and other long-term benefits" in the notes on accounting policies and note 13.3, "Sundry").

Upon the adoption of the single currency by Latvia, Latvijas Banka contributed an amount of €54.1 million to these balances with effect from 1 January 2014.

	2014 €	2013 €	Change €
Gold	12,065,394,836	10,138,805,097	1,926,589,739
Foreign currency	7,046,435,041	2,540,202,558	4,506,232,483
Securities and other instruments	1,131,424,399	674,356,531	457,067,868
Net defined benefit liability in respect of post-employment benefits	(305,609,580)	4,825,887	(310,435,467)
Total	**19,937,644,696**	**13,358,190,073**	**6,579,454,623**

The increase in the size of the revaluation accounts is predominately due to the depreciation of the euro against the US dollar and gold in 2014.

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

Exchange rates	2014	2013
US dollars per euro	1.2141	1.3791
Japanese yen per euro	145.23	144.72
Euro per SDR	1.1924	1.1183
Euro per fine ounce of gold	987.769	871.220

16 Capital and reserves

16.1 Capital

(A) Change to the ECB's capital key

Pursuant to Article 29 of the Statute of the ESCB, the shares of the NCBs in the ECB's capital key are weighted according to the shares of the respective Member States in the EU's total population and GDP in equal measure, as notified to the ECB by the European Commission. These weights are adjusted every five years and whenever new Member States join the EU. The third such adjustment following the establishment of the ECB was made on 1 January 2014.

Based on Council Decision 2003/517/EC of 15 July 2003 on the statistical data to be used for the adjustment of the key for subscription to the capital of the European Central Bank,[21] the NCBs' capital key shares were adjusted on 1 January 2014 as follows:

	Capital key since 1 January 2014 %	Capital key as at 31 December 2013 %
Nationale Bank van België/Banque Nationale de Belgique	2.4778	2.4176
Deutsche Bundesbank	17.9973	18.7603
Eesti Pank	0.1928	0.1780
Central Bank of Ireland	1.1607	1.1111
Bank of Greece	2.0332	1.9483
Banco de España	8.8409	8.2533
Banque de France	14.1792	14.1342
Banca d'Italia	12.3108	12.4570
Central Bank of Cyprus	0.1513	0.1333
Latvijas Banka	0.2821	-
Banque centrale du Luxembourg	0.2030	0.1739
Central Bank of Malta	0.0648	0.0635
De Nederlandsche Bank	4.0035	3.9663
Oesterreichische Nationalbank	1.9631	1.9370
Banco de Portugal	1.7434	1.7636
Banka Slovenije	0.3455	0.3270
Národná banka Slovenska	0.7725	0.6881
Suomen Pankki – Finlands Bank	1.2564	1.2456
Subtotal for euro area NCBs	**69.9783**	**69.5581**
Българска народна банка (Bulgarian National Bank)	0.8590	0.8644
Česká národní banka	1.6075	1.4539
Danmarks Nationalbank	1.4873	1.4754
Hrvatska narodna banka	0.6023	0.5945
Latvijas Banka	-	0.2742
Lietuvos bankas	0.4132	0.4093
Magyar Nemzeti Bank	1.3798	1.3740
Narodowy Bank Polski	5.1230	4.8581
Banca Naţională a României	2.6024	2.4449
Sveriges Riksbank	2.2729	2.2612
Bank of England	13.6743	14.4320
Subtotal for non-euro area NCBs	**30.0217**	**30.4419**
Total	**100.0000**	**100.0000**

(B) Capital of the ECB[22]

Latvia adopted the single currency on 1 January 2014. In accordance with Article 48.1 of the Statute of the ESCB, Latvijas Banka paid up an amount of €29,424,264 as at 1 January 2014, representing the remainder of its capital subscription to the ECB. The adjustment of the NCBs' capital key shares in conjunction with Latvia

21 OJ L 181, 19.7.2003, p. 43.

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

joining the euro area led to an increase of €43,780,929 in the paid-up capital of the ECB, which rose to €7,697,025,340.

The non-euro area NCBs are required to pay up 3.75% of their subscribed capital as a contribution to the operational costs of the ECB. This contribution amounted to a total of €121,869,418 at the end of 2014. The non-euro area NCBs are not entitled to receive any share of the distributable profits of the ECB, including income arising from the allocation of euro banknotes within the Eurosystem, nor are they liable to fund any loss of the ECB.

	Subscribed capital since 1 January 2014 €	Paid-up capital since 1 January 2014 €	Subscribed capital as at 31 December 2013 €	Paid-up capital as at 31 December 2013 €
Nationale Bank van België/ Banque Nationale de Belgique	268,222,025	268,222,025	261,705,371	261,705,371
Deutsche Bundesbank	1,948,208,997	1,948,208,997	2,030,803,801	2,030,803,801
Eesti Pank	20,870,614	20,870,614	19,268,513	19,268,513
Central Bank of Ireland	125,645,857	125,645,857	120,276,654	120,276,654
Bank of Greece	220,094,044	220,094,044	210,903,613	210,903,613
Banco de España	957,028,050	957,028,050	893,420,308	893,420,308
Banque de France	1,534,899,402	1,534,899,402	1,530,028,149	1,530,028,149
Banca d'Italia	1,332,644,970	1,332,644,970	1,348,471,131	1,348,471,131
Central Bank of Cyprus	16,378,236	16,378,236	14,429,734	14,429,734
Latvijas Banka	30,537,345	30,537,345	-	-
Banque centrale du Luxembourg	21,974,764	21,974,764	18,824,687	18,824,687
Central Bank of Malta	7,014,605	7,014,605	6,873,879	6,873,879
De Nederlandsche Bank	433,379,158	433,379,158	429,352,255	429,352,255
Oesterreichische Nationalbank	212,505,714	212,505,714	209,680,387	209,680,387
Banco de Portugal	188,723,173	188,723,173	190,909,825	190,909,825
Banka Slovenije	37,400,399	37,400,399	35,397,773	35,397,773
Národná banka Slovenska	83,623,180	83,623,180	74,486,874	74,486,874
Suomen Pankki – Finlands Bank	136,005,389	136,005,389	134,836,288	134,836,288
Subtotal for euro area NCBs	**7,575,155,922**	**7,575,155,922**	**7,529,669,242**	**7,529,669,242**
Българска народна банка (Bulgarian National Bank)	92,986,811	3,487,005	93,571,361	3,508,926
Česká národní banka	174,011,989	6,525,450	157,384,778	5,901,929
Danmarks Nationalbank	161,000,330	6,037,512	159,712,154	5,989,206
Hrvatska narodna banka	65,199,018	2,444,963	64,354,667	2,413,300
Latvijas Banka	-	-	29,682,169	1,113,081
Lietuvos bankas	44,728,929	1,677,335	44,306,754	1,661,503
Magyar Nemzeti Bank	149,363,448	5,601,129	148,735,597	5,577,585
Narodowy Bank Polski	554,565,112	20,796,192	525,889,668	19,720,863
Banca Naţională a României	281,709,984	10,564,124	264,660,598	9,924,772
Sveriges Riksbank	246,041,586	9,226,559	244,775,060	9,179,065
Bank of England	1,480,243,942	55,509,148	1,562,265,020	58,584,938
Subtotal for non-euro area NCBs	**3,249,851,147**	**121,869,418**	**3,295,337,827**	**123,575,169**
Total	**10,825,007,070**	**7,697,025,340**	**10,825,007,070**	**7,653,244,411**

17 Post-balance-sheet events

17.1 Entry of Lithuania into the euro area

Pursuant to Council Decision 2014/509/EU of 23 July 2014, taken in accordance with Article 140(2) of the Treaty on the Functioning of the European Union, Lithuania adopted the single currency on 1 January 2015. In accordance with Article 48.1 of the Statute of the ESCB and the legal acts adopted by the Governing Council on 31 December 2014,[23] Lietuvos bankas paid up an amount of €43,051,594 as at 1 January 2015, representing the remainder of its capital subscription to the ECB. In accordance with Article 48.1, in conjunction with Article 30.1, of the Statute of the ESCB, Lietuvos bankas transferred foreign reserve assets with a total value equivalent to €338,656,542 to the ECB with effect from 1 January 2015. These foreign reserve assets comprised amounts of US dollars in the form of cash, and gold, in proportions of 85 to 15 respectively.

Lietuvos bankas was credited with claims in respect of the paid-up capital and foreign reserve assets equivalent to the amounts transferred. The latter is to be treated in an identical manner to the existing claims of the other euro area NCBs (see note 12.1, “Liabilities equivalent to the transfer of foreign reserves”).

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 designated eligible counterparties. Under this agreement, reverse transactions with a value of €4.8 billion (2013: €3.8 billion) were outstanding as at 31 December 2014.

19 Interest rate futures

As at 31 December 2014 the following foreign currency transactions, presented at year-end market rates, were outstanding:

Foreign currency interest rate futures	2014 Contract value €	2013 Contract value €	Change €
Purchases	911,374,681	495,975,636	415,399,045
Sales	1,001,647,311	1,727,870,268	(726,222,957)

23 Decision ECB/2014/61 of 31 December 2014 on the paying-up of capital, transfer of foreign reserve assets and contributions by Lietuvos bankas to the European Central Bank’s reserves and provisions, not yet published in the Official Journal; Agreement of 31 December 2014 between Lietuvos bankas and the European Central Bank regarding the claim credited to Lietuvos bankas by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank, not yet published in the Official Journal.

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 €270.8 million (2013: €252.0 million), presented at year-end market rates, were outstanding as at 31 December 2014. These transactions were conducted in the context of the management of the ECB's foreign reserves.

21 Forward transactions in securities

Forward purchases of securities in the amount of €245.2 million remained outstanding as at 31 December 2014. These transactions were conducted in the context of the management of the ECB's foreign reserves.

22 Foreign exchange swap and forward transactions

Foreign exchange swap and forward transactions were conducted in 2014 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 2014:

Foreign exchange swap and forward transactions	2014 €	2013 €	Change €
Claims	1,899,819,430	1,845,947,763	53,871,667
Liabilities	1,777,894,537	1,730,929,184	46,965,353

23 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 2014 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[24] and Kreditanstalt für Wiederaufbau,[25] as lenders, the Hellenic Republic, as the borrower, and the Bank of Greece, as the agent of the borrower, the ECB is responsible for processing all related payments on behalf of the lenders and the borrower.

---

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

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

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 2014 the ECB processed payments in relation to loans granted to Ireland and Portugal under the EFSM scheme and loans granted to Ireland, Greece and Portugal under the EFSF scheme.

Moreover, the ECB administers payments in relation to the authorised capital stock and stability support operations of the European Stability Mechanism (ESM).[26] In 2014 the ECB processed payments from the Member States whose currency is the euro, in respect of the ESM's authorised capital stock, as well as payments from the ESM related to loans granted to Cyprus and Spain.

[26] The Treaty establishing the European Stability Mechanism entered into force on 27 September 2012.

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:

	2014 €	2013 €	Change €
Interest income on current accounts	571,710	601,611	(29,901)
Interest income on money market deposits	4,234,448	6,868,776	(2,634,328)
Interest income on reverse repurchase agreements	867,860	742,788	125,072
Net interest income on securities	206,165,493	172,250,735	33,914,758
Net interest income on interest rate swaps	407,588	1,833,740	(1,426,152)
Net interest income on foreign exchange swap and forward transactions	4,570,710	5,237,310	(666,600)
Total interest income on foreign reserve assets	**216,817,809**	**187,534,960**	**29,282,849**
Interest expense on current accounts	(23,076)	(42,758)	19,682
Net interest expense on repurchase agreements	208,426	(212,229)	420,655
Interest income on foreign reserve assets (net)	**217,003,159**	**187,279,973**	**29,723,186**

The overall increase in net interest income in 2014 was due mainly to higher 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 8% 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"). Despite a 5.4% increase in the average value of banknotes in circulation, there was a decrease in income in 2014 owing to the fact that the average main refinancing rate was lower than in 2013 (at 0.16% in 2014, compared with 0.55% in 2013).

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 12.1, "Liabilities equivalent to the transfer of foreign reserves") is disclosed under this heading. The decrease in this remuneration in 2014 predominantly reflected the fact that the average main refinancing rate was lower than in 2013.

24.4 Other interest income; and other interest expense

In 2014 these items included interest income of €1.1 billion (2013: €4.7 billion) and expenses of €1.1 billion (2013: €4.7 billion) arising from TARGET2 balances (see note 12.2, “Other liabilities within the Eurosystem (net)”, and note 10, “Liabilities to non-euro area residents denominated in euro”).

They also included net interest income of €727.7 million (2013: €961.9 million) on the securities purchased by the ECB under the Securities Markets Programme, €174.2 million (2013: €204.2 million) on those purchased under the covered bond purchase programmes and €0.7 million (2013: €0 million) on those purchased under the asset-backed securities purchase programme. Interest income and interest expense in respect of other assets and liabilities denominated in euro are also shown under these headings.

25 Realised gains/losses arising from financial operations

Net realised gains arising from financial operations in 2014 were as follows:

	2014 €	2013 €	Change €
Net realised price gains	47,223,558	41,335,392	5,888,166
Net realised exchange rate and gold price gains	10,036,857	10,787,010	(750,153)
Net realised gains arising from financial operations	**57,260,415**	**52,122,402**	**5,138,013**

Net realised price gains included realised gains and losses on securities, interest rate futures and interest rate swaps. The overall increase in net realised price gains in 2014 was due mainly to higher realised price gains generated on securities in the US dollar portfolio.

26 Write-downs on financial assets and positions

Write-downs on financial assets and positions in 2014 were as follows:

	2014 €	2013 €	Change €
Unrealised price losses on securities	(7,664,489)	(114,606,755)	106,942,266
Unrealised price losses on interest rate swaps	(198,804)	(610)	(198,194)
Total write-downs	**(7,863,293)**	**(114,607,365)**	**106,744,072**

In 2014 the overall increase in the market value of the securities held in both the US dollar portfolio and the own funds portfolio resulted in substantially lower write-downs compared with 2013.

27 Net income/expense from fees and commissions

	2014 €	2013 €	Change €
Income from fees and commissions	30,024,834	25,917	29,998,917
Expenses relating to fees and commissions	(1,866,180)	(2,152,690)	286,510
Net income/expense from fees and commissions	**28,158,654**	**(2,126,773)**	**30,285,427**

In 2014 income under this heading consisted mainly of accrued supervisory fees (see note 28, “Income and expenses related to supervisory tasks”) and also included penalties imposed on credit institutions for non-compliance with the minimum reserve requirements. Expenses consisted of fees relating to current accounts and to interest rate futures transactions (see note 19, “Interest rate futures”).

28 Income and expenses related to supervisory tasks

On 4 November 2014 the ECB assumed its supervisory tasks in accordance with Article 33 of Council Regulation 1024/2013/EU of 15 October 2013.

The annual costs of the ECB in relation to its supervisory tasks will be recovered via the payment of annual supervisory fees. The supervisory fees cover, but do not exceed, the expenditure incurred by the ECB that is related to its supervisory tasks in the relevant fee period. This expenditure primarily consists of costs that are directly related to the ECB’s supervisory tasks, namely the costs of the new business areas that have been established for (a) the supervision of significant banks; (b) oversight of the supervision of less significant banks; and (c) horizontal tasks and specialised services. It also includes costs that are indirectly related to the ECB’s supervisory tasks, namely the costs of services provided by the ECB’s existing functions, including premises, human resources management and information technology services.

For 2014 the ECB will recover its costs for the period commencing in November 2014, which is when it assumed its supervisory tasks.

The related income of the ECB for November and December 2014, which will be invoiced in 2015, was as follows:

	2014 €	2013 €
Supervisory fees	29,973,012	-
of which:		
Fees levied on significant banks	*25,622,812*	-
Fees levied on less significant banks	*4,350,200*	-
Total income from banking supervision tasks	**29,973,012**	**-**

Income from supervisory fees is included under “Net income from fees and commissions” (see note 27, “Net income/expense from fees and commissions”).

In addition, the ECB is entitled to impose fines or periodic penalty payments on undertakings for failure to comply with obligations under its regulations and decisions. No such fines or penalties were imposed in 2014.

The expenditure incurred by the ECB for the period of November and December 2014 was as follows:

	2014 €	2013 €
Salaries and benefits	18,456,945	-
Rent and building maintenance	2,199,243	-
Other operating expenditure	9,316,824	-
Total expenditure related to banking supervision tasks	**29,973,012**	**-**

29 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.

30 Other income

Other miscellaneous income during 2014 mainly arose from the accrued contributions of the euro area NCBs to the costs incurred by the ECB in connection with joint Eurosystem projects.

31 Staff costs

Salaries, allowances, staff insurance and other miscellaneous costs of €244.9 million (2013: €187.3 million) are included under this heading. Also included in this item is an amount of €56.2 million (2013: €53.3 million) recognised in connection with the ECB's pension plans, other post-employment benefits and other long-term benefits (see note 13.3, "Sundry"). Staff costs of €1.2 million (2013: €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 and the members of the Supervisory Board employed by the ECB receive a basic salary, while part-time members of the Supervisory Board employed by the ECB are also paid a variable salary, based on the number of meetings attended. In addition, the members of the Executive Board and the full-time members of the Supervisory Board employed by the ECB receive 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 both boards 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.

In 2014 basic salaries paid to members of the Executive Board and members of the Supervisory Board employed by the ECB (i.e. excluding representatives of national supervisors) were as follows:

	2014 €	2013 €
Mario Draghi (President)	379,608	378,240
Vítor Constâncio (Vice-President)	325,392	324,216
Peter Praet (Board Member)	271,140	270,168
Jörg Asmussen (Board Member until January 2014)	*4,912*	*270,168*
Benoît Cœuré (Board Member)	271,140	270,168
Yves Mersch (Board Member)	271,140	281,833
Sabine Lautenschläger (Board Member since January 2014)	253,457	-
Total Executive Board	**1,776,789**	**1,794,793**
Total SSM Supervisory Board (members employed by the ECB)[27]	**508,589**	-
of which:		
Danièle Nouy (Chair of the Supervisory Board since January 2014)	271,140	-
Total	**2,285,378**	**1,794,793**

Furthermore, the variable salary paid to members of the Supervisory Board amounted to €74,776 (2013: €0).

The total allowances paid to members of both boards and the ECB's contributions to the medical and accident insurance schemes on their behalf amounted to €674,470 (2013: €526,615).

In addition, benefits on appointment or termination of service paid to the members of both boards amounted to €68,616 (2013: €44,538). They are reported under "Administrative expenses" in the Profit and Loss Account.

Transitional payments may be made to former members of the Executive Board and the Supervisory Board for a limited period after the end of their terms of office. In 2014 these payments, the related family allowances and the ECB's contributions to the medical and accident insurance schemes of former members amounted to €243,178 (2013: €618,189). Pension payments, including related allowances, to former board members or their dependents and contributions to the medical and accident insurance schemes amounted to €599,589 (2013: €472,891).

27 With the exception of Sabine Lautenschläger whose salary is reported with those of the other members of the Executive Board.

At the end of 2014 the actual full-time equivalent number of staff holding contracts with the ECB was 2,577,[28] including 278 with managerial positions. The change in the number of staff during 2014 was as follows:

	2014	2013
Total staff as at 1 January	1,790	1,638
Newcomers/change of contractual status	1,458	496
Resignations/end of contract	(681)	(347)
Net increase due to changes in part-time working patterns	10	3
Total staff as at 31 December	**2,577**	**1,790**
Average number of staff employed	**2,155**	**1,683**

The increase in the number of staff in 2014 was mainly due to the preparations for the launch of the Single Supervisory Mechanism in November 2014.

32 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. The preparations for the launch of the Single Supervisory Mechanism contributed to the increase in administrative expenses in 2014.

33 Banknote production services

This expense arises predominantly 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.

[28] 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.

Building a better
working world

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft
Mergenthalerallee 3-5
65760 Eschborn/Frankfurt/M.
Postfach 53 23
65728 Eschborn/Frankfurt/M.

Claus-Peter Wagner
Managing Partner
EMEIA Financial Services
Telefon +49 6196 996 26512
Telefax +49 181 3943 26512
claus-peter.wagner@de.ey.com
www.de.ey.com

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

10 February 2015

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 2014, 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 at 31 December 2014, 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,

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Victor Veger
Certified Public Accountant

Claus-Peter Wagner
Wirtschaftsprüfer

Note on profit distribution/allocation of losses

This note is not part of the financial statements of the ECB for the year 2014.

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 2014 was €988.8 million. Following a decision by the Governing Council, there was no transfer to the general reserve fund and an interim profit distribution, amounting to €840.7 million, was paid out to the euro area NCBs on 30 January 2015. Furthermore, the Governing Council decided to distribute the remaining profit of €148.1 million to the euro area NCBs.

Profits are distributed to the NCBs in proportion to their paid-up shares in the subscribed capital of the ECB. Non-euro area NCBs are not entitled to receive any share of the ECB's distributable profits, nor are they liable to fund any loss of the ECB.

	2014 €	2013 €
Profit for the year	988,832,500	1,439,769,100
Interim profit distribution	(840,719,787)	(1,369,690,567)
Retention owing to adjustments to profits earned in previous years	0	(9,503,000)
Profit for the year after the interim profit distribution and retention	148,112,713	60,575,533
Distribution of the remaining profit	(148,112,713)	(60,575,533)
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.