

MANAGEMENT REPORT FOR THE YEAR ENDING 31 DECEMBER 2008

1 NATURE OF THE BUSINESS

The ECB's activities in 2008 are described in detail in the relevant chapters of the Annual Report.

2 OBJECTIVES AND TASKS

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

3 KEY RESOURCES, RISKS AND PROCESSES

GOVERNANCE OF THE ECB

Information relating to the governance of the ECB is given in Chapter 8.

MEMBERS OF THE EXECUTIVE BOARD

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

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

The emoluments of the members of the Executive Board are set out in note 29 "Staff costs" of the Annual Accounts.

EMPLOYEES

The average number of staff (full-time equivalent) holding contracts with the ECB¹ rose from 1,448

in 2007 to 1,499 in 2008. At the end of that year 1,536 staff were employed. For further details, see note 29 "Staff costs" of the Annual Accounts and Chapter 8, Section 2, which also describes the ECB's human resources strategy.

INVESTMENT ACTIVITIES AND RISK MANAGEMENT

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

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

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

THE BUDGET PROCESS

The Budget Committee (BUCOM), composed of ECB and euro area NCB experts, is a key contributor to the ECB's financial governance process. In accordance with Article 15 of the Rules of Procedure, BUCOM supports the Governing Council by providing a detailed evaluation of annual ECB budget proposals and requests for supplementary budget funding by the Executive Board, prior to their submission to the Governing Council for approval. Spending against agreed budgets is monitored regularly by the Executive Board, taking into account the advice of the ECB's internal controlling

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

function, and by the Governing Council with the assistance of BUCOM.

4 FINANCIAL RESULT

FINANCIAL ACCOUNTS

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

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

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

In 2005, taking into account the ECB's large exposure to these risks and the size of its revaluation accounts, the Governing Council decided to establish a provision against foreign exchange rate, interest rate and gold price risks. As at 31 December 2007, this provision amounted to €2,668,758,313. In accordance with Article 49.2 of the Statute of the ESCB, the Central Bank of Cyprus and the Central Bank of Malta also contributed the amounts of €4,795,450 and €2,388,127 respectively to the provision with effect from 1 January 2008. Taking the results of its assessment into account, the Governing Council decided to transfer as at 31 December 2008 an additional amount of €1,339,019,690 to the provision. This transfer increased the size of the provision to its permitted maximum of €4,014,961,580. The Governing Council has decided that the provision, together with any amounts held in the ECB's general reserve fund, may not exceed the

value of the capital shares paid up by the euro area NCBs.

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

FINANCIAL RESULT FOR 2008

The net income of the ECB prior to the transfer to the provision against risks was €2,661 million, compared with €286 million in 2007. The net profit of €1,322 million after the transfer was made was distributed to the NCBs.

In 2007, the appreciation of the euro vis-à-vis the US dollar and, to a lesser extent, the Japanese yen resulted in write-downs in the euro value of the ECB's holdings of assets denominated in these currencies. These write-downs amounted to some €2.5 billion and were expensed in the Profit and Loss Account. In 2008, the depreciation of the euro vis-à-vis the Japanese yen and the US dollar resulted in unrealised gains of some €3.6 billion. These gains were recorded in revaluation accounts, in line with the common accounting policies that have been established by the Governing Council for the Eurosystem.

In 2008, net interest income decreased to €2,381 million from €2,421 million in 2007, owing mainly to (a) lower net interest income denominated in US dollars, and (b) higher remuneration of NCBs' claims in respect of foreign reserves transferred. The resulting decrease in net interest income was only partially offset by the increase in interest income arising from the allocation of euro banknotes within the Eurosystem, mainly reflecting the general increase in euro banknotes in circulation.

Net realised gains arising from financial operations decreased from €779 million in 2007 to €662 million in 2008, due mainly to the lower volume of gold sold in accordance with the Central Bank Gold Agreement, which came into effect on 27 September 2004 and of which the ECB is a signatory. The resulting lower realised gains from these operations were only partially offset by higher net realised gains from security sales in 2008, following the drop in US interest rates in that year.

Total administrative expenses of the ECB, including depreciation, increased from €385 million in 2007 to €388 million in 2008.

CHANGE TO THE CAPITAL OF THE ECB

Pursuant to Council Decisions 2007/503/EC and 2007/504/EC of 10 July 2007, Cyprus and Malta adopted the single currency on 1 January 2008. Consequently, in accordance with Article 49.1 of the Statute of the ESCB, the Central Bank of Cyprus and the Central Bank of Malta paid up the remainder of their capital subscription to the ECB as of that date. As a result of these payments, the ECB's paid-up capital increased from €4,127 million on 31 December 2007 to €4,137 million on 1 January 2008.

5 OTHER ISSUES

ENVIRONMENTAL ISSUES

On the basis of the ECB's "Environmental Policy Framework", adopted at the end of 2007, an inventory of environmental aspects of the ECB's administration and a first estimate of its ecological impact were prepared in 2008. The ECB has also decided to establish an environmental management system that is compliant with the internationally recognised standards ISO 14001 and EMAS. A project has been launched to obtain certification of the bank's environmental management system in 2010, and some measures were successfully implemented in 2008.

INFORMATION TECHNOLOGY SERVICE MANAGEMENT

In 2008, the ECB was the first central bank to receive certification of compliance with international standard ISO/IEC 20000 for excellence in IT service management (ITSM). ISO/IEC 20000 describes an integrated set of management processes for the effective delivery of IT services to the business and its customers. Its application was a major contribution to the delivery of IT services at the ECB and it has already resulted in measurable benefits and higher end-user satisfaction.

BALANCE SHEET AS AT 31 DECEMBER 2008

ASSETS	NOTE NUMBER	2008 €	2007 €
Gold and gold receivables	1	10,663,514,154	10,280,374,109
Claims on non-euro area residents denominated in foreign currency	2		
Receivables from the IMF		346,651,334	449,565,998
Balances with banks and security investments, external loans and other external assets		41,264,100,632	28,721,418,912
		41,610,751,966	29,170,984,910
Claims on euro area residents denominated in foreign currency	2	22,225,882,711	3,868,163,459
Claims on non-euro area residents denominated in euro	3		
Balances with banks, security investments and loans		629,326,381	0
Other claims on euro area credit institutions denominated in euro	4	25,006	13,774
Intra-Eurosystem claims	5		
Claims related to the allocation of euro banknotes within the Eurosystem		61,021,794,350	54,130,517,580
Other claims within the Eurosystem (net)		234,095,515,333	17,241,183,222
		295,117,309,683	71,371,700,802
Other assets	6		
Tangible fixed assets		202,690,344	188,209,963
Other financial assets		10,351,859,696	9,678,817,294
Off-balance-sheet instruments revaluation differences		23,493,348	34,986,651
Accruals and prepaid expenses		1,806,184,794	1,365,938,582
Sundry		1,272,185,672	69,064,934
		13,656,413,854	11,337,017,424
Total assets		383,903,223,755	126,028,254,478

LIABILITIES	NOTE NUMBER	2008 €	2007 €
Banknotes in circulation	7	61,021,794,350	54,130,517,580
Liabilities to other euro area residents denominated in euro	8	1,020,000,000	1,050,000,000
Liabilities to non-euro area residents denominated in euro	9	253,930,530,070	14,571,253,753
Liabilities to euro area residents denominated in foreign currency	10	272,822,807	0
Liabilities to non-euro area residents denominated in foreign currency	10		
Deposits, balances and other liabilities		1,444,797,283	667,076,397
Intra-Eurosystem liabilities	11		
Liabilities equivalent to the transfer of foreign reserves		40,149,615,805	40,041,833,998
Other liabilities	12		
Off-balance-sheet instruments revaluation differences		1,130,580,103	69,589,536
Accruals and income collected in advance		2,284,795,433	1,848,257,491
Sundry		1,797,414,878	659,763,920
		5,212,790,414	2,577,610,947
Provisions	13	4,038,858,227	2,693,816,002
Revaluation accounts	14	11,352,601,325	6,169,009,571
Capital and reserves	15		
Capital		4,137,159,938	4,127,136,230
Profit for the year		1,322,253,536	0
Total liabilities		383,903,223,755	126,028,254,478

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31 DECEMBER 2008

	NOTE NUMBER	2008 €	2007 €
Interest income on foreign reserve assets		997,075,442	1,354,887,368
Interest income arising from the allocation of euro banknotes within the Eurosystem		2,230,477,327	2,004,355,782
Other interest income		8,430,894,437	4,380,066,479
<i>Interest income</i>		<i>11,658,447,206</i>	<i>7,739,309,629</i>
Remuneration of NCBs' claims in respect of foreign reserves transferred		(1,400,368,012)	(1,356,536,045)
Other interest expense		(7,876,884,520)	(3,962,006,944)
<i>Interest expense</i>		<i>(9,277,252,532)</i>	<i>(5,318,542,989)</i>
Net interest income	23	2,381,194,674	2,420,766,640
Realised gains/losses arising from financial operations	24	662,342,084	778,547,213
Write-downs on financial assets and positions	25	(2,662,102)	(2,534,252,814)
Transfer to/from provisions for foreign exchange rate and price risks		(1,339,019,690)	(286,416,109)
Net result of financial operations, write-downs and risk provisions		(679,339,708)	(2,042,121,710)
Net expense from fees and commissions	26	(149,007)	(621,691)
Income from equity shares and participating interests	27	882,152	920,730
Other income	28	7,245,593	6,345,668
Total net income		1,709,833,704	385,289,637
Staff costs	29	(174,200,469)	(168,870,244)
Administrative expenses	30	(183,224,063)	(184,589,229)
Depreciation of tangible fixed assets		(23,284,586)	(26,478,405)
Banknote production services	31	(6,871,050)	(5,351,759)
Profit for the year		1,322,253,536	0

Frankfurt am Main, 24 February 2009

EUROPEAN CENTRAL BANK

Jean-Claude Trichet
President

ACCOUNTING POLICIES¹

FORM AND PRESENTATION OF THE FINANCIAL STATEMENTS

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

ACCOUNTING PRINCIPLES

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

RECOGNITION OF ASSETS AND LIABILITIES

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

BASIS OF ACCOUNTING

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

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

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

GOLD AND FOREIGN CURRENCY ASSETS AND LIABILITIES

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

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

Gold is valued at the market price prevailing at the year-end. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold valuation is accounted for on the basis of the price in euro per fine ounce of gold, which, for the year ending 31 December 2008, was derived from the exchange rate of the euro against the US dollar on 31 December 2008.

SECURITIES

All marketable securities and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing at the Balance Sheet date, on a security-by-security basis. For the year ending 31 December 2008,

- 1 The detailed accounting policies of the ECB are laid down in Decision ECB/2006/17, OJ L 348, 11.12.2006, p. 38, as amended.
- 2 These policies are consistent with the provisions of Article 26.4 of the Statute of the ESCB, which require a harmonised approach to the rules governing the accounting and financial reporting of Eurosystem operations.

mid-market prices on 30 December 2008 were used. Non-marketable securities are valued at cost, while 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. Realised gains and losses arising from the sale of foreign exchange, gold and securities are taken to the Profit and Loss Account. Such realised gains and losses are calculated by reference to the average cost of the respective asset.

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

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

Premiums or discounts arising on purchased securities are calculated and presented as part of interest income and are amortised over the remaining life of the assets.

REVERSE TRANSACTIONS

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

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

Profit and Loss Account. Securities sold under such an agreement remain on the Balance Sheet of the ECB.

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

Reverse transactions (including security lending transactions) conducted under an automated security lending programme are recorded on the Balance Sheet only where collateral is provided in the form of cash placed on an account of the ECB. In 2008 the ECB did not receive any collateral in the form of cash in connection with such transactions.

OFF-BALANCE-SHEET INSTRUMENTS

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

Interest rate instruments are revalued on an item-by-item basis. Daily changes in the variation margin of open interest rate futures contracts are recorded in the Profit and Loss Account. The valuation of forward transactions in securities and of interest rate swaps is based on generally accepted valuation methods using observable market prices and rates and the discount factors from the settlement dates to the valuation date.

POST-BALANCE-SHEET EVENTS

Assets and liabilities are adjusted for events that occur between the annual Balance Sheet date and the date on which the Governing Council approves the financial statements, if such events

materially affect the condition of assets and liabilities at the Balance Sheet date.

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

INTRA-ESCB BALANCES/INTRA-EUROSYSTEM BALANCES

Intra-ESCB transactions are cross-border transactions that occur between two EU central banks. These transactions are processed primarily via TARGET2³ – the Trans-European Automated Real-time Gross settlement Express Transfer system (see Chapter 2) – and give rise to bilateral balances in accounts held between those EU central banks connected to TARGET2. These bilateral balances are then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-à-vis the ECB only. This position in the books of the ECB represents the net claim or liability of each NCB against the rest of the ESCB.

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

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a single net asset under “Claims related to the allocation of euro banknotes within the Eurosystem” (see “Banknotes in circulation” in the notes on accounting policies).

Intra-ESCB balances of non-euro area NCBs with the ECB, arising from their participation in TARGET2,⁴ are disclosed under “Liabilities to non-euro area residents denominated in euro”.

TREATMENT OF FIXED ASSETS

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

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

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

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

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

BALANCE SHEET

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

³ The technically decentralised first-generation system was progressively replaced by a second-generation system (TARGET2) system, which is based on a single technical infrastructure, the Single Shared Platform (SSP). The migration to TARGET2 started in November 2007 and was completed in May 2008.

⁴ As at 31 December 2008, the non-euro area NCBs participating in TARGET2 were: Danmarks Nationalbank, Latvijas Banka, Lietuvos bankas, Narodowy Bank Polski and Eesti Pank.

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

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

PROFIT AND LOSS ACCOUNT

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

- (a) the current service cost of the benefits accruing for the year;
- (b) interest at the discount rate on the defined benefit obligation;
- (c) the expected return on the plan assets; and
- (d) any actuarial gains and losses recognised in the Profit and Loss Account, using a “10% corridor” approach.

“10% CORRIDOR” APPROACH

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

PENSIONS OF EXECUTIVE BOARD MEMBERS AND OTHER POST-RETIREMENT OBLIGATIONS

Unfunded arrangements are in place for the pensions of members of the Executive Board of the ECB and disability benefit provisions for

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

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

BANKNOTES IN CIRCULATION

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

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, which is disclosed under the Balance Sheet liability item “Banknotes in circulation”. The ECB’s share of the total euro banknote issue is backed by claims on the NCBs. These claims, which bear interest,⁷ are disclosed under the sub-item “Intra-Eurosystem claims: claims related to the allocation of euro banknotes within the Eurosystem” (see “Intra-ESCB balances/intra-Eurosystem balances” in the notes on accounting policies). Interest income on these claims is included within the item “Net interest income”. This income is due to the NCBs in the financial year in which it accrues, but is distributed on the second working day of the following year.⁸ It is distributed in full unless

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

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

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

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

the ECB's net profit for the year is less than its income earned on euro banknotes in circulation, and subject to any decisions by the Governing Council to make transfers to a provision for foreign exchange rate, interest rate and gold price risks and/or to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against this income.

RECLASSIFICATIONS

A number of items were reclassified in 2008 for presentational reasons and the comparable balances as at 31 December 2007 have been adjusted accordingly. These reclassifications are described in the Notes on the Balance Sheet.⁹

OTHER ISSUES

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

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

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

NOTES ON THE BALANCE SHEET

1 GOLD AND GOLD RECEIVABLES

As at 31 December 2008 the ECB held 17,156,546 ounces of fine gold (2007: 18,091,733 ounces). The reduction was due to (a) sales of 963,987 ounces of fine gold in accordance with the Central Bank Gold Agreement, which came into effect on 27 September 2004 and of which the ECB is a signatory, and (b) the transfer by the Central Bank of Cyprus and the Central Bank of Malta to the ECB of 19,151 and 9,649 ounces of fine gold¹⁰ respectively upon the adoption of the single currency by Cyprus and Malta, in accordance with Article 30.1 of the Statute of the ESCB. The decrease in the euro equivalent value of this holding, resulting from these transactions, was more than offset by a significant rise in the price of gold during 2008 (see “Gold and foreign currency assets and liabilities” in the notes on accounting policies).

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

RECEIVABLES FROM THE IMF

This asset represents the ECB’s holdings of special drawing rights (SDRs) as at 31 December 2008. It arises as the result of a two-way SDR buying and selling arrangement with the International Monetary Fund (IMF), whereby the IMF is authorised to arrange sales or purchases of SDRs against euro, on behalf of the ECB, within minimum and maximum holding levels. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of the exchange rates of four major currencies (euro, Japanese yen, pound sterling and US dollar). For accounting purposes, SDRs are treated as a foreign currency (see “Gold and foreign currency assets and liabilities” in the notes on accounting policies).

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

These two items consist of balances with banks and loans denominated in foreign currency, and investments in securities denominated in US dollars and Japanese yen. The amortisation of discounts and premiums on securities denominated in foreign currency was previously included under the headings “Accruals and prepaid expenses” and “Accruals and income collected in advance” respectively. The ECB has decided, for presentational reasons, to reclassify these items under the heading “Balances with banks and security investments, external loans and other external assets”. The comparable balances as at 31 December 2007 have been adjusted accordingly.

<i>Claims on non-euro area residents</i>	2008 €	2007 €	Change €
Current accounts	5,808,582,148	761,073,851	5,047,508,297
Money market deposits	573,557,686	688,783,688	(115,226,002)
Reverse repurchase agreements	379,961,453	543,247,188	(163,285,735)
Security investments	34,501,999,345	26,728,314,185	7,773,685,160
Total	41,264,100,632	28,721,418,912	12,542,681,720

<i>Claims on euro area residents</i>	2008 €	2007 €	Change €
Current accounts	619,534	574,945	44,589
Money market deposits	22,225,263,177	3,867,588,514	18,357,674,663
Total	22,225,882,711	3,868,163,459	18,357,719,252

The increase in current accounts held with non-euro area residents is due mainly to (a) the settlement of the Danish krone leg of swap transactions with Danmarks Nationalbank that were outstanding on 31 December 2008 amounting

¹⁰ The transfers, with an aggregate value equivalent to €16.5 million, were made with effect from 1 January 2008.

to €3.9 billion (see note 20, “Foreign exchange swap and forward transactions”), and (b) balances in Swiss francs with a value of €1.2 billion which arose in connection with the swap arrangement established with the Swiss National Bank¹¹ (see note 9, “Liabilities to non-euro area residents denominated in euro”). The appreciation of the Japanese yen and the US dollar against the euro, unrealised gains on securities (see note 14, “Revaluation accounts”), the investment of the proceeds of gold sales (see note 1, “Gold and gold receivables”), and the income received primarily on the US dollar portfolio have also contributed to the increase in the total value of these items.

Deposits related to operations conducted by Eurosystem central banks in order to provide US dollar liquidity to credit institutions in the euro area are included under the component money market deposits with euro area residents.

Additionally, upon the adoption of the single currency by Cyprus and Malta with effect from 1 January 2008, the Central Bank of Cyprus and the Central Bank of Malta transferred US dollars with an aggregate value of €93.5 million to the ECB, in accordance with Article 30.1 of the Statute of the ESCB.

The ECB’s net foreign currency holdings¹² of US dollars and Japanese yen, as at 31 December 2008, were as follows:

	million currency units
US dollars	40,062
Japanese yen	1,084,548

3 CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO

In 2007 money market deposits and current accounts held with non-euro area residents as a direct counterpart to the capital and reserves of the ECB were included under this heading. The ECB has decided to reclassify these holdings as a dedicated portfolio, which is now included under the heading “Other financial assets”. The comparable balance as at 31 December 2007 has been adjusted accordingly.

As at 31 December 2008 this item consisted mainly of a claim of €460.0 million on the Magyar Nemzeti Bank in connection with an agreement established with the ECB on repurchase transactions. This agreement provides the Magyar Nemzeti Bank with a facility to borrow up to €5 billion in order to support its domestic operations for the provision of euro liquidity.

4 OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

In 2007 money market deposits and current accounts held with euro area residents as a direct counterpart to the capital and reserves of the ECB were included under this heading. The ECB has decided to reclassify these holdings as a dedicated portfolio, which is now included under the heading “Other financial assets”. The comparable balance as at 31 December 2007 has been adjusted accordingly.

As at 31 December 2008 this claim consisted of a current account with a euro area resident.

5 INTRA-EUROSYSTEM CLAIMS

CLAIMS RELATED TO THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSYSTEM

This item consists of the claims of the ECB vis-à-vis the euro area NCBs relating to the allocation of euro banknotes within the

¹¹ The balances in Swiss francs reflect the risk control measures applied by the ECB in its EUR/CHF foreign exchange swap tender operations, which take the form of initial margins of 5% for one-week operations and 15% for 84-day operations.

¹² Assets minus liabilities denominated in the respective foreign currency that are subject to foreign currency revaluation. These are included under the headings “Claims on non-euro area residents denominated in foreign currency”, “Claims on euro area residents denominated in foreign currency”, “Accruals and prepaid expenses”, “Liabilities to euro area residents denominated in foreign currency”, “Liabilities to non-euro area residents denominated in foreign currency”, “Off-balance-sheet instruments revaluation differences” (Liabilities side) and “Accruals and income collected in advance”, also taking into account foreign exchange forward and swap transactions under off-balance-sheet items. The effects of the price revaluation gains on financial instruments denominated in foreign currency are not included.

Eurosystem (see “Banknotes in circulation” in the notes on accounting policies).

OTHER CLAIMS WITHIN THE EUROSISTEM (NET)

In 2008 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 increase in this position was due mainly to back-to-back swap transactions conducted with NCBs in connection with US dollar liquidity-providing operations (see note 9, “Liabilities to non-euro area residents denominated in euro”).

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

	2008 €	2007 €
Due from euro area NCBs in respect of TARGET2	420,833,781,929	145,320,642,526
Due to euro area NCBs in respect of TARGET2	(185,532,591,178)	(128,079,459,304)
Due to euro area NCBs in respect of the interim distribution of the ECB’s income derived from banknotes	(1,205,675,418)	0
Other claims within the Eurosystem (net)	234,095,515,333	17,241,183,222

6 OTHER ASSETS

TANGIBLE FIXED ASSETS

These assets comprised the following items on 31 December 2008:

	2008 €	2007 €	Change €
Cost			
Land and buildings	159,972,149	156,964,236	3,007,913
Computer hardware and software	174,191,055	168,730,634	5,460,421

	2008 €	2007 €	Change €
Equipment, furniture, plant in building and motor vehicles	28,862,720	27,105,564	1,757,156
Assets under construction	83,407,619	59,791,855	23,615,764
Other fixed assets	3,577,485	1,195,290	2,382,195
Total cost	450,011,028	413,787,579	36,223,449
Accumulated depreciation			
Land and buildings	(59,885,983)	(49,672,589)	(10,213,394)
Computer hardware and software	(160,665,542)	(150,195,777)	(10,469,765)
Equipment, furniture, plant in building and motor vehicles	(26,618,732)	(25,562,068)	(1,056,664)
Other fixed assets	(150,427)	(147,182)	(3,245)
Total accumulated depreciation	(247,320,684)	(225,577,616)	(21,743,068)
Net book value	202,690,344	188,209,963	14,480,381

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

OTHER FINANCIAL ASSETS

The amortisation of discounts and premiums on securities denominated in euro was previously included under the headings “Accruals and prepaid expenses” and “Accruals and income collected in advance”, respectively. The ECB has decided, for presentational reasons, to reclassify these items under this heading. In addition, money market deposits and current accounts in euro held as a direct counterpart to the capital and reserves of the ECB are now included under this heading (see note 3, “Claims on non-euro area residents denominated in euro”, and note 4, “Other claims on euro area credit institutions denominated in euro”). The comparable balances as at 31 December 2007 have been adjusted accordingly.

The main components of this item are as follows:

	2008 €	2007 €	Change €
Current accounts in euro	4,936,630	5,153,295	(216,665)
Money market deposits in euro	150,000,000	120,000,000	30,000,000
Securities denominated in euro	9,675,505,128	8,843,080,586	832,424,542
Reverse repurchase agreements in euro	479,293,075	668,392,837	(189,099,762)
Other financial assets	42,124,863	42,190,576	(65,713)
Total	10,351,859,696	9,678,817,294	673,042,402

(a) Current accounts, money market deposits, securities and reverse repurchase agreements in euro constitute the investment of the ECB's own funds (see note 12, "Other liabilities"). The net increase in the value of the ECB's own fund assets was due mainly to the investment in the own funds portfolio of the counterpart of the amount transferred to the ECB's provision against foreign exchange rate, interest rate and gold price risks in 2007, unrealised gains on securities (see note 14, "Revaluation accounts") and income received on the own funds portfolio.

(b) The ECB holds 3,211 shares in the Bank for International Settlements (BIS), which are included at the acquisition cost of €41.8 million.

OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

In 2008 this item was composed mainly of valuation gains in outstanding interest rate swap transactions (see note 19, "Interest rate swaps").

ACCRUALS AND PREPAID EXPENSES

In 2008 this position included accrued interest receivable on the ECB's claims related to

the allocation of euro banknotes within the Eurosystem for the final quarter (see "Banknotes in circulation" in the notes on accounting policies), amounting to €500.4 million, and accrued interest receivable on the TARGET2 balances due from euro area NCBs for the final month of 2008, amounting to €648.9 million.

Also included under this item is accrued interest on securities (see also note 2, "Claims on non-euro area and euro area residents denominated in foreign currency", and note 6, "Other assets") and other financial assets.

SUNDRY

This item consists mainly of the accrued interim distribution of the ECB's income derived from banknotes (see "Banknotes in circulation" in the notes on accounting policies and note 5, "Intra-Eurosystem claims").

This item also includes positive balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2008 (see note 20, "Foreign exchange swap and forward transactions"). These balances arise from the conversion of such transactions into their euro equivalents at the respective currency's average cost on the Balance Sheet date, compared with the euro values at which the transactions were initially recorded (see "Off-balance-sheet instruments" in the notes on accounting policies).

A claim against the German Federal Ministry of Finance in respect of recoverable value added tax and other indirect taxes paid is also included under this heading. Such taxes are refundable under the terms of Article 3 of the Protocol on the privileges and immunities of the European Communities, which applies to the ECB by virtue of Article 40 of the Statute of the ESCB.

7 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).

8 LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

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

9 LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

This item consists mainly of a liability to the Federal Reserve amounting to €219.7 billion in connection with the US dollar Term Auction Facility. Under this programme, US dollars were provided by the Federal Reserve to the ECB by means of a temporary reciprocal currency arrangement (swap line), with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with euro area NCBs, which used the resulting funds to conduct US dollar liquidity-providing operations with Eurosystem counterparties in the form of reverse and swap transactions. The back-to-back swap transactions between the ECB and the NCBs resulted in intra-Eurosystem balances between the ECB and the NCBs reported under “Other claims within the Eurosystem (net)”.

A liability to the Swiss National Bank amounting to €18.4 billion is also included under this heading. Swiss francs were provided by the Swiss National Bank by means of a swap arrangement with the aim of offering short-term Swiss franc funding to Eurosystem counterparties. The ECB simultaneously entered into swap transactions with euro area NCBs, which used the resulting funds to conduct Swiss franc liquidity-providing operations with

Eurosystem counterparties against euro cash in the form of swap transactions. The swap transactions between the ECB and the NCBs resulted in intra-Eurosystem balances reported under “Other claims within the Eurosystem (net)”. In addition, this item includes a liability to the Swiss National Bank amounting to €15.4 billion. This liability arose from the placement with the ECB of euro funds received by the Swiss National Bank from operations with other counterparties.

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

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

This position consists mainly of repurchase agreements conducted with euro area and non-euro area residents in connection with the management of the foreign currency reserves of the ECB.

11 INTRA-EUROSYSTEM LIABILITIES

These represent the liabilities to the euro area NCBs that arose from the transfer of foreign reserve assets to the ECB when they joined the Eurosystem. They are remunerated at the latest available marginal rate for the Eurosystem’s main refinancing operations, adjusted to reflect a zero return on the gold component (see note 23, “Net interest income”).

The transfer of foreign reserve assets by the Central Bank of Cyprus and the Central Bank of Malta upon the adoption of the single currency by Cyprus and Malta led to an increase in these liabilities of €107,781,807.

	To 31 December 2007 €	From 1 January 2008 ¹ €
Nationale Bank van België/Banque Nationale de Belgique	1,423,341,996	1,423,341,996
Deutsche Bundesbank	11,821,492,402	11,821,492,402
Central Bank and Financial Services Authority of Ireland	511,833,966	511,833,966
Bank of Greece	1,046,595,329	1,046,595,329
Banco de España	4,349,177,351	4,349,177,351
Banque de France	8,288,138,644	8,288,138,644
Banca d'Italia	7,217,924,641	7,217,924,641
Central Bank of Cyprus	-	71,950,549
Banque centrale du Luxembourg	90,730,275	90,730,275
Central Bank of Malta	-	35,831,258
De Nederlandsche Bank	2,243,025,226	2,243,025,226
Oesterreichische Nationalbank	1,161,289,918	1,161,289,918
Banco de Portugal	987,203,002	987,203,002
Banka Slovenije	183,995,238	183,995,238
Suomen Pankki – Finlands Bank	717,086,011	717,086,011
Total	40,041,833,998	40,149,615,805

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

The claims of the Central Bank of Cyprus and the Central Bank of Malta were set at €71,950,549 and €35,831,258 respectively in order to ensure that the ratio between these claims and the aggregate claim credited to the other NCBs that have adopted the euro will be equal to the ratio between the weightings of the Central Bank of Cyprus and the Central Bank of Malta in the ECB's capital key and the other participating NCBs' aggregate weighting in this key. The difference between the claim and the value of the assets transferred (see note 1, "Gold and gold receivables", and note 2, "Claims on non-euro area and euro area residents denominated in foreign currency") was treated as part of the contributions of the Central Bank of Cyprus and the Central Bank of Malta, due under Article 49.2 of the Statute of the ESCB, to the reserves and provisions equivalent to reserves of the ECB existing as at 31 December 2007 (see note 13, "Provisions", and note 14, "Revaluation accounts").

12 OTHER LIABILITIES

OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

This item is composed mainly of valuation changes in swap and forward transactions in foreign currency that were outstanding on 31 December 2008 (see note 20, "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 (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies and also note 6, "Other assets").

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

ACCRUALS AND INCOME COLLECTED IN ADVANCE

This item consists mainly of interest payable to the NCBs in respect of their claims relating to the foreign reserves transferred (see note 11, "Intra-Eurosystem liabilities"), amounting to €1.4 billion. It also includes accruals on balances due to NCBs in respect of TARGET2, accruals on financial instruments (see also note 2, "Claims on non-euro area and euro area residents denominated in foreign currency", and note 6, "Other assets") and other accruals.

SUNDRY

This item consists mainly of negative balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2008 (see note 20, "Foreign exchange swap and forward transactions"). These balances arise from the conversion of such transactions into their euro equivalents at the respective currency's average cost on the Balance Sheet date, compared with the euro

values at which the transactions were initially recorded (see “Off-balance-sheet instruments” in the notes on accounting policies).

This item also includes outstanding repurchase transactions of €337.6 million conducted in connection with the management of the ECB’s own funds (see note 6, “Other assets”) and the net liability in respect of the ECB’s pension obligations as described below.

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

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

	2008 € millions	2007 € millions
Present value of obligations	317.0	285.8
Fair value of plan assets	(226.7)	(229.8)
Unrecognised actuarial gains/(losses)	7.6	35.4
Liability recognised in the Balance Sheet	97.9	91.4

The present value of the obligations includes unfunded obligations of €42.3 million (2007: €36.8 million) relating to the pensions of Executive Board members and to staff disability provisions.

The amounts recognised in the Profit and Loss Account in 2008 and 2007 in respect of “Current service cost”, “Interest on obligation”, “Expected return on plan assets” and “Net actuarial (gains)/losses recognised in the year” are as follows:

	2008 € millions	2007 € millions
Current service cost	24.7	26.5
Interest on obligation	10.7	8.6
Expected return on plan assets	(10.0)	(7.9)
Net actuarial (gains)/losses recognised in the year	(1.1)	0
Total included in “Staff costs”	24.3	27.2

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

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

	2008 € millions	2007 € millions
Opening defined benefit obligation	285.8	258.5
Service cost	24.7	26.5
Interest cost	10.7	8.6
Contributions paid by plan participants	17.9	14.2
Other net changes in liabilities representing plan participants’ contributions	(12.3)	2.5
Benefits paid	(3.8)	(2.5)
Actuarial (gains)/losses	(6.0)	(22.0)
Closing defined benefit obligation	317.0	285.8

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

	2008 € millions	2007 € millions
Opening fair value of plan assets	229.8	195.3
Expected return	10.0	7.9
Actuarial gains/(losses)	(32.7)	(4.0)
Contributions paid by employer	17.5	16.2
Contributions paid by plan participants	17.8	14.1
Benefits paid	(3.4)	(2.2)
Other net changes in assets representing plan participants’ contributions	(12.3)	2.5
Closing fair value of plan assets	226.7	229.8

In preparing the valuations referred to in this note, the actuaries have used assumptions which the Executive Board has accepted for the purposes of accounting and disclosure.

The principal assumptions used for the purposes of calculating the staff scheme liability are as shown in the following table. The expected rate of return on plan assets is used by the actuaries for the purpose of calculating the annual charge to the Profit and Loss Account.

	2008 %	2007 %
Discount rate	5.75	5.30
Expected return on plan assets	6.50	6.50
Future salary increases	2.00	2.00
Future pension increases	2.00	2.00

13 PROVISIONS

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

The Governing Council, taking into account the ECB's large exposure to foreign exchange rate, interest rate and gold price risks, and the size of its revaluation accounts, deemed it appropriate to establish a provision as at 31 December 2005 against these risks. This provision will be used to the extent deemed necessary by the Governing Council to offset future realised and unrealised losses, in particular valuation losses not covered by the revaluation accounts. The size and continuing requirement for this provision is reviewed annually, based on the ECB's assessment of its exposure to the above risks. This assessment takes a range of factors into account, including in particular the level of holdings of risk-bearing assets, the extent of materialised risk exposures in the current financial year, projected results for the coming year, and a risk assessment involving calculations of Values at Risk (VaR) on risk-bearing assets, which is applied consistently over time.¹³ 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 2007 the provision against foreign exchange rate, interest rate and gold price risks amounted to €2,668,758,313. In accordance with Article 49.2 of the Statute of the ESCB, the Central Bank of Cyprus and the Central Bank of Malta contributed the amounts of €4,795,450 and €2,388,127 respectively to the provision with effect from 1 January 2008. Taking the results of its assessment into account, the Governing Council decided to transfer, as at 31 December 2008, an additional amount of €1,339,019,690¹⁴ to the provision. This increased the size of the provision to €4,014,961,580, which is the value of the ECB's capital paid up by the euro area NCBs as at 31 December 2008, and reduced net profit to €1,322,253,536.

14 REVALUATION ACCOUNTS

These accounts represent revaluation balances arising from unrealised gains on assets and liabilities. In accordance with Article 49.2 of the Statute of the ESCB, the Central Bank of Cyprus and the Central Bank of Malta contributed the amounts of €11.1 million and €5.5 million respectively to these balances with effect from 1 January 2008.

	2008 €	2007 €	Change €
Gold	6,449,713,267	5,830,485,388	619,227,879
Foreign currency	3,616,514,710	0	3,616,514,710
Securities and other instruments	1,286,373,348	338,524,183	947,849,165
Total	11,352,601,325	6,169,009,571	5,183,591,754

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

Exchange rates	2008	2007
US dollars per euro	1.3917	1.4721
Japanese yen per euro	126.14	164.93
Euro per SDR	1.1048	1.0740
Swiss francs per euro	1.4850	Not applicable
Danish kroner per euro	7.4506	Not applicable
Euro per fine ounce of gold	621.542	568.236

¹³ See also Chapter 2 of the ECB's Annual Report.

¹⁴ This transfer was funded from realised gains on gold sales of €0.3 billion and the ECB's income on euro banknotes in circulation amounting to €1.0 billion.

15 CAPITAL AND RESERVES

CAPITAL

Pursuant to Council Decisions 2007/503/EC and 2007/504/EC of 10 July 2007, taken in accordance with Article 122(2) of the Treaty, Cyprus and Malta adopted the single currency on 1 January 2008. In accordance with Article 49.1 of the Statute of the ESCB and the legal acts adopted by the Governing Council on 31 December 2007,¹⁵ the Central Bank of Cyprus and the Central Bank of Malta paid up amounts of €6,691,401 and €3,332,307 respectively as at 1 January 2008, representing the remainder of their capital subscriptions to the ECB. As a consequence, the ECB's paid-up capital increased

from €4,127,136,230 on 31 December 2007 to €4,137,159,938 on 1 January 2008, as shown in the table below:¹⁶

- ¹⁵ Decision ECB/2007/22 of 31 December 2007 on the paying-up of capital, transfer of foreign reserve assets and contributions by the Central Bank of Cyprus and the Central Bank of Malta to the European Central Bank's reserves and provisions, OJ L 28, 1.2.2008, p. 36; Agreement of 31 December 2007 between the European Central Bank and the Central Bank of Cyprus regarding the claim credited to the Central Bank of Cyprus by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank, OJ C 29, 1.2.2008, p. 4; Agreement of 31 December 2007 between the European Central Bank and the Central Bank of Malta regarding the claim credited to the Central Bank of Malta by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank, OJ C 29, 1.2.2008, p. 6.
- ¹⁶ Individual amounts are shown rounded to the nearest euro. Subtotals in the tables of this section may not add up to the total due to rounding.

	Capital key until 31 December 2007 %	Paid-up capital until 31 December 2007 €	Capital key from 1 January 2008 %	Paid-up capital from 1 January 2008 €
Nationale Bank van België/Banque Nationale de Belgique	2.4708	142,334,200	2.4708	142,334,200
Deutsche Bundesbank	20.5211	1,182,149,240	20.5211	1,182,149,240
Central Bank and Financial Services Authority of Ireland	0.8885	51,183,397	0.8885	51,183,397
Bank of Greece	1.8168	104,659,533	1.8168	104,659,533
Banco de España	7.5498	434,917,735	7.5498	434,917,735
Banque de France	14.3875	828,813,864	14.3875	828,813,864
Banca d'Italia	12.5297	721,792,464	12.5297	721,792,464
Central Bank of Cyprus	-	-	0.1249	7,195,055
Banque centrale du Luxembourg	0.1575	9,073,028	0.1575	9,073,028
Central Bank of Malta	-	-	0.0622	3,583,126
De Nederlandsche Bank	3.8937	224,302,523	3.8937	224,302,523
Oesterreichische Nationalbank	2.0159	116,128,992	2.0159	116,128,992
Banco de Portugal	1.7137	98,720,300	1.7137	98,720,300
Banka Slovenije	0.3194	18,399,524	0.3194	18,399,524
Suomen Pankki – Finlands Bank	1.2448	71,708,601	1.2448	71,708,601
Subtotal for euro area NCBS	69.5092	4,004,183,400	69.6963	4,014,961,580
Българска народна банка (Bulgarian National Bank)	0.8833	3,561,869	0.8833	3,561,869
Česká národní banka	1.3880	5,597,050	1.3880	5,597,050
Danmarks Nationalbank	1.5138	6,104,333	1.5138	6,104,333
Eesti Pank	0.1703	686,727	0.1703	686,727
Central Bank of Cyprus	0.1249	503,654	-	-
Latvijas Banka	0.2813	1,134,330	0.2813	1,134,330
Lietuvos bankas	0.4178	1,684,760	0.4178	1,684,760
Magyar Nemzeti Bank	1.3141	5,299,051	1.3141	5,299,051
Central Bank of Malta	0.0622	250,819	-	-
Narodowy Bank Polski	4.8748	19,657,420	4.8748	19,657,420
Banca Națională a României	2.5188	10,156,952	2.5188	10,156,952
Národná banka Slovenska	0.6765	2,727,957	0.6765	2,727,957
Sveriges Riksbank	2.3313	9,400,866	2.3313	9,400,866
Bank of England	13.9337	56,187,042	13.9337	56,187,042
Subtotal for non-euro area NCBS	30.4908	122,952,830	30.3037	122,198,358
Total	100.0000	4,127,136,230	100.0000	4,137,159,938

The non-euro area NCBs are required to pay up 7% of their subscribed capital as a contribution to the operational costs of the ECB. This contribution amounted to a total of €122,198,358 at end-2008. 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.

16 POST-BALANCE-SHEET EVENTS

CHANGES TO THE ECB'S CAPITAL KEY

Pursuant to Article 29 of the Statute of the ESCB, the shares of the NCBs in the ECB's capital key are weighted according to the shares of the respective Member States in the EU's total population and GDP in equal measure, as notified to the ECB by the European Commission. These weights are adjusted every five years.¹⁷ The second such adjustment following the establishment of the ECB was made on 1 January 2009. Based on Council Decision 2003/517/EC of 15 July 2003 on the statistical data to be used for the adjustment of the key for subscription to the capital of the European Central Bank,¹⁸ the NCBs' capital key shares were adjusted on 1 January 2009 as follows:

	Capital key from 1 January 2008 to 31 December 2008 %	Capital key from 1 January 2009 %
Nationale Bank van België/ Banque Nationale de Belgique	2.4708	2.4256
Deutsche Bundesbank	20.5211	18.9373
Central Bank and Financial Services Authority of Ireland	0.8885	1.1107
Bank of Greece	1.8168	1.9649
Banco de España	7.5498	8.3040
Banque de France	14.3875	14.2212
Banca d'Italia	12.5297	12.4966
Central Bank of Cyprus	0.1249	0.1369
Banque centrale du Luxembourg	0.1575	0.1747
Central Bank of Malta	0.0622	0.0632

	Capital key from 1 January 2008 to 31 December 2008 %	Capital key from 1 January 2009 %
De Nederlandsche Bank	3.8937	3.9882
Oesterreichische Nationalbank	2.0159	1.9417
Banco de Portugal	1.7137	1.7504
Banka Slovenije	0.3194	0.3288
Národná banka Slovenska	-	0.6934
Suomen Pankki – Finlands Bank	1.2448	1.2539
Subtotal for euro area NCBs	69.6963	69.7915
Българска народна банка (Bulgarian National Bank)	0.8833	0.8686
Česká národní banka	1.3880	1.4472
Danmarks Nationalbank	1.5138	1.4835
Eesti Pank	0.1703	0.1790
Latvijas Banka	0.2813	0.2837
Lietuvos bankas	0.4178	0.4256
Magyar Nemzeti Bank	1.3141	1.3856
Narodowy Bank Polski	4.8748	4.8954
Banca Națională a României	2.5188	2.4645
Národná banka Slovenska	0.6765	-
Sveriges Riksbank	2.3313	2.2582
Bank of England	13.9337	14.5172
Subtotal for non-euro area NCBs	30.3037	30.2085
Total	100.0000	100.0000

ENTRY OF SLOVAKIA INTO THE EURO AREA

Pursuant to Council Decision 2008/608/EC of 8 July 2008, taken in accordance with Article 122(2) of the Treaty, Slovakia adopted the single currency on 1 January 2009. In accordance with Article 49.1 of the Statute of the ESCB and the legal acts adopted by the Governing Council on 31 December 2008,¹⁹ Národná banka Slovenska paid up an amount of €37,216,407 as at 1 January 2009,

¹⁷ These weights are also adjusted whenever new Member States join the EU.

¹⁸ OJ L 181, 19.7.2003, p. 43.

¹⁹ Decision ECB/2008/33 of 31 December 2008 on the paying-up of capital, transfer of foreign reserve assets and contributions by Národná banka Slovenska to the European Central Bank's reserves and provisions, OJ L 21, 24.1.2009, p. 83; Agreement of 31 December 2008 between Národná banka Slovenska and the European Central Bank regarding the claim credited to Národná banka Slovenska by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank, OJ C 18, 24.1.2009, p. 3.

representing the remainder of its capital subscription to the ECB. In accordance with Article 30.1 of the Statute of the ESCB, Národná banka Slovenska transferred foreign reserve assets with a total value equivalent to €443,086,156 to the ECB with effect from 1 January 2009. The total amount transferred was determined by multiplying the euro value, at the exchange rates prevailing on 31 December 2008, of the foreign reserve assets already transferred to the ECB by the ratio between the number of shares subscribed by Národná banka Slovenska and the number of shares already paid up by the other NCBs without a derogation. These foreign reserve assets comprised amounts of US dollars in the form of securities and cash, and gold, in proportions of 85 to 15 respectively.

Národná banka Slovenska 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 participating NCBs (see note 11, “Intra-Eurosystem liabilities”).

EFFECT ON THE ECB'S CAPITAL

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

EFFECT ON THE NCBs' CLAIMS EQUIVALENT TO THE FOREIGN RESERVE ASSETS TRANSFERRED TO THE ECB

The net effect of the change in NCBs' weightings in the ECB's capital key and of the transfer by Národná banka Slovenska of foreign reserve assets on the NCBs' claims equivalent to the foreign reserve assets transferred to the ECB was an increase of €54,841,411.

OFF-BALANCE-SHEET INSTRUMENTS

17 AUTOMATIC SECURITY LENDING PROGRAMME

As part of the management of the ECB's own funds, the ECB has concluded an automatic security lending programme agreement, whereby an appointed agent enters into security lending transactions on behalf of the ECB with a number of counterparties, designated by the ECB as eligible counterparties. Under this agreement, reverse transactions with a value of €1.2 billion (2007: €3.0 billion) were outstanding as at 31 December 2008 (see “Reverse transactions” in the notes on accounting policies).

18 INTEREST RATE FUTURES

In 2008 interest rate futures were used as part of the management of the ECB's foreign reserves and own funds. As at 31 December 2008 the following transactions were outstanding:

Foreign currency interest rate futures	Contract value €
Purchases	2,041,082,857
Sales	1,209,470,518

Euro interest rate futures	Contract value €
Purchases	50,000,000
Sales	33,000,000

19 INTEREST RATE SWAPS

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

20 FOREIGN EXCHANGE SWAP AND FORWARD TRANSACTIONS

MANAGEMENT OF THE FOREIGN RESERVES

In the context of the management of the ECB's foreign reserves, foreign exchange swap and forward transaction claims of €358.1 million and liabilities of €404.3 million remained outstanding as at 31 December 2008.

LIQUIDITY-PROVIDING OPERATIONS

Forward liabilities to Danmarks Nationalbank amounting to €3.9 billion remained outstanding as at 31 December 2008. These liabilities arose in connection with the reciprocal currency arrangement (swap line) established with the ECB. Under this arrangement, the ECB provides euro funds to Danmarks Nationalbank against Danish kroner for the duration of the transactions. The resulting funds are used in support of measures to improve liquidity in euro short-term markets.

In addition, forward claims on NCBs and liabilities to the Federal Reserve, which arose in connection with the provision of US dollar liquidity to Eurosystem counterparties (see note 9, "Liabilities to non-euro area residents denominated in euro"), were outstanding on 31 December 2008.

Forward claims on NCBs and liabilities to the Swiss National Bank, which arose in connection with the provision of Swiss franc liquidity to Eurosystem counterparties (see note 9, "Liabilities to non-euro area residents denominated in euro"), were also outstanding on 31 December 2008.

21 ADMINISTRATION OF BORROWING AND LENDING OPERATIONS

In accordance with Article 123(2) of the Treaty and Article 9 of Council Regulation (EC) No 332/2002 of 18 February 2002, the ECB is responsible for the administration of

the borrowing and lending operations of the European Community under the medium-term financial assistance mechanism. Under this scheme, a loan from the European Community to Hungary for an amount of €2.0 billion was outstanding as at 31 December 2008.

22 PENDING LAWSUITS

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

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

²⁰ DSSI's European Patent No 0455 750 B1.

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

NOTES ON THE PROFIT AND LOSS ACCOUNT

23 NET INTEREST INCOME

INTEREST INCOME ON FOREIGN RESERVE ASSETS

This item includes interest income, net of interest expense, in respect of assets and liabilities denominated in foreign currency, as follows:

	2008 €	2007 €	Change €
Interest income on current accounts	11,202,181	24,052,321	(12,850,140)
Interest income on money market deposits	218,184,237	196,784,561	21,399,676
Interest income on reverse repurchase agreements	42,404,485	138,079,630	(95,675,145)
Interest income on securities	885,725,044	1,036,836,752	(151,111,708)
Net interest income on interest rate swaps	2,299,631	0	2,299,631
Net interest income on forward and swap transactions in foreign currencies	0	19,766,033	(19,766,033)
Total interest income on foreign reserve assets	1,159,815,578	1,415,519,297	(255,703,719)
Interest expense on current accounts	(45,896)	(154,041)	108,145
Interest expense on deposits taken	(1,574,337)	0	(1,574,337)
Net interest expense on repurchase agreements	(29,492,415)	(60,476,997)	30,984,582
Net interest expense on interest rate swaps	0	(891)	891
Net interest expense on forward and swap transactions in foreign currencies	(131,627,488)	0	(131,627,488)
Interest income on foreign reserve assets (net)	997,075,442	1,354,887,368	(357,811,926)

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

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

of its share of banknotes is earned at the latest available marginal rate for the Eurosystem's main refinancing operations. The increase in income in 2008 mainly reflected the general increase in euro banknotes in circulation.

This income is distributed to the NCBs as described in "Banknotes in circulation" in the notes on accounting policies. Based on the ECB's estimated financial result for 2008, and the decision to fund the transfer to the provision against foreign exchange rate, interest rate and gold price risks out of the ECB's income on euro banknotes in circulation (see note 13, "Provisions"), the Governing Council decided to distribute the remaining €1.2 billion of this income to the euro area NCBs, in accordance with their respective shares in the ECB's capital.

REMUNERATION OF NCBs' CLAIMS IN RESPECT OF FOREIGN RESERVES TRANSFERRED

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

OTHER INTEREST INCOME AND OTHER INTEREST EXPENSE

These items include interest income of €8.0 billion (2007: €3.9 billion) and expenses of €7.6 billion (2007: €3.8 billion) on balances arising from TARGET2 (see "Intra-ESCB balances/intra-Eurosystem balances" in the notes on accounting policies). Interest income and expenses in respect of other assets and liabilities denominated in euro are also shown here.

24 REALISED GAINS/(LOSSES) ARISING FROM FINANCIAL OPERATIONS

Net realised gains/(losses) arising from financial operations in 2008 were as follows:

	2008 €	2007 €	Change €
Net realised price gains/(losses) on securities and interest rate futures	349,179,481	69,252,941	279,926,540
Net realised exchange rate and gold price gains	313,162,603	709,294,272	(396,131,669)
Realised gains arising from financial operations	662,342,084	778,547,213	(116,205,129)

The overall reduction in net realised exchange rate and gold price gains in 2008 was due mainly to the lower volume of gold sold in that year (see note 1, “Gold and gold receivables”).

25 WRITE-DOWNS ON FINANCIAL ASSETS AND POSITIONS

	2008 €	2007 €	Change €
Unrealised price losses on securities	(2,164,000)	(15,864,181)	13,700,181
Unrealised price losses on interest rate swaps	(476,831)	(18,899)	(457,932)
Unrealised exchange rate losses	(21,271)	(2,518,369,734)	2,518,348,463
Total write-downs	(2,662,102)	(2,534,252,814)	2,531,590,712

In 2008 this expense was due mainly to the write-down of the acquisition cost of individual securities shown on the Balance Sheet to their market value as at 30 December 2008.

26 NET EXPENSE FROM FEES AND COMMISSIONS

	2008 €	2007 €	Change €
Income from fees and commissions	588,052	263,440	324,612
Expenses relating to fees and commissions	(737,059)	(885,131)	148,072
Net expense from fees and commissions	(149,007)	(621,691)	472,684

Income under this heading includes penalties imposed on credit institutions for

non-compliance with the minimum reserve requirements. Expenses relate to fees payable on current accounts and in connection with the execution of foreign currency interest rate futures (see note 18, “Interest rate futures”).

27 INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

Dividends received on shares in the BIS (see note 6, “Other assets”) are shown under this heading.

28 OTHER INCOME

Other miscellaneous income during the year arose principally from the contributions of other central banks to the cost of a service contract held centrally by the ECB with an external provider of an IT network, and the transfers of unused administrative provisions to the Profit and Loss Account.

29 STAFF COSTS

Salaries, allowances, staff insurance and other miscellaneous costs of €149.9 million (2007: €141.7 million) are included under this heading. Staff costs of €1.1 million (2007: €1.1 million) incurred in connection with the construction of the new ECB 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 Communities.

Members of the Executive Board receive a basic salary and additional allowances for residence and representation. In the case of the President, an official residence owned by the ECB is provided in lieu of a residence allowance. Subject to the Conditions of Employment for Staff of the European Central Bank, members of the Executive Board are entitled to household, child and education allowances, depending on their

individual circumstances. Basic salaries are subject to a tax for the benefit of the European Communities as well as to deductions in respect of contributions to the pension, medical and accident insurance schemes. Allowances are non-taxable and non-pensionable.

Basic salaries paid to members of the Executive Board in 2008 and 2007 were as follows:

	2008 €	2007 €
Jean-Claude Trichet (President)	351,816	345,252
Lucas D. Papademos (Vice-President)	301,548	295,920
Gertrude Tumpel-Gugerell (Board Member)	251,280	246,588
José Manuel González-Páramo (Board Member)	251,280	246,588
Lorenzo Bini Smaghi (Board Member)	251,280	246,588
Jürgen Stark (Board Member)	251,280	246,588
Total	1,658,484	1,627,524

The total allowances paid to the members of the Executive Board and their benefits from the ECB's contributions to the medical and accident insurance schemes amounted to €600,523 (2007: €579,842), resulting in total emoluments of €2,259,007 (2007: €2,207,366).

Transitional payments are made to former members of the Executive Board for a period after the end of their terms of office. In 2008 these payments and the ECB's contributions to the medical and accident insurance schemes of former members amounted to €30,748 (2007: €52,020). Pension payments, including related allowances, to former members of the Executive Board or their dependents and contributions to the medical and accident insurance schemes amounted to €306,798 (2007: €249,902).

Also included under this item is an amount of €24.3 million (2007: €27.2 million) recognised in connection with the ECB's retirement plan and other post-employment benefits (see note 12, "Other liabilities").

At the end of 2008 the actual full-time equivalent number of staff holding contracts with the ECB was 1,536,²² including 144 with managerial

positions. The change in the number of staff during 2008 was as follows:²³

	2008	2007
As at 1 January	1,478	1,416
New staff	307	310
Resignations/end of contract	238	235
Net decrease due to changes in part-time working patterns	11	13
As at 31 December	1,536	1,478
Average number of staff employed	1,499	1,448

30 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.

31 BANKNOTE PRODUCTION SERVICES

This expense relates to costs arising from the cross-border transportation of euro banknotes between NCBs to meet unexpected fluctuations in demand for banknotes. These costs are borne centrally by the ECB.

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

23 In 2007, staff numbers in this table included staff on unpaid/parental leave, while staff with short-term contracts, as well as staff from other central banks of the ESCB with temporary assignments with the ECB and the participants in the ECB's Graduate Programme, were excluded. The change in the presentation of the figures for 2008 was considered to make them more useful for the users of the financial statements. The 2007 figures have been adjusted accordingly.

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25 February 2009

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 2008, the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

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

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of the European Central Bank as of 31 December 2008, and of the results of its operations for the year then ended in accordance with the principles established by the Governing Council, which are set out in Decision ECB/2006/17 on the annual accounts of the European Central Bank, as amended.

Frankfurt am Main, 25 February 2009

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NOTE ON PROFIT DISTRIBUTION/ ALLOCATION OF LOSSES

This note is not part of the financial statements of the ECB for the year 2008.

€117 million to the euro area NCBs in proportion to their paid-up capital.

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

In 2007, following a decision by the Governing Council, the full income of €2,004 million earned on the ECB's share of total banknotes in circulation was retained to ensure that the ECB's total profit distribution for the year did not exceed its net profit for the year. In respect of 2008, an amount of €1,206 million, comprising part of the income earned on the ECB's share of total euro banknotes in circulation, was distributed to the NCBs on 5 January 2009, in 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 profit.

	2008	2007
	€	€
Profit for the year	1,322,253,536	0
Income on the ECB's banknote issue distributed to NCBs	(1,205,675,418)	0
Profit for the year after distribution of income on the ECB's banknote issue	116,578,118	0
Distribution of profit to NCBs	(116,578,118)	0
Total	0	0

PROFIT DISTRIBUTION/COVERAGE OF LOSSES

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

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

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

The Governing Council decided on 5 March 2009 to make no transfer to the general reserve fund and to distribute the remaining balance of

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.