MANAGEMENT REPORT FOR THE YEAR ENDING 31 DECEMBER 2010

1 NATURE OF THE BUSINESS

The ECB's activities in 2010 are described in detail in the relevant chapters of the Annual Report.

2 OBJECTIVES AND TASKS

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

3 KEY RESOURCES, RISKS AND PROCESSES

GOVERNANCE OF THE ECB

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

The ECB's governance framework includes a variety of controls and audit measures. For example, the European Court of Auditors reviews the operational efficiency of the management of the ECB, while an external auditor is appointed to audit the ECB's Annual Accounts. To reinforce the independence of the external auditor, the ECB appoints a different external audit firm every five years. In order to further strengthen the ECB's corporate governance, the Governing Council established the ECB Audit Committee in 2007.

The ECB has, over time, established a set of internal rules regarding the business practices and standards of professional conduct to be followed by all ECB staff. For example, the Business Practice Handbook, which entered into force in 2007 and is regularly updated, provides information on business objectives and practices in an accessible and user-friendly manner, helping employees to meet their professional obligations.

Within the internal control structure of the ECB, each organisational unit is responsible for managing its own risks and implementing its own controls, as well as for the effectiveness and efficiency of its operations. In addition, independent audit missions are performed by the Directorate Internal Audit under the direct responsibility of the Executive Board.

Further information relating to the governance of the ECB is provided in Chapter 10 of the Annual Report.

MEMBERS OF THE EXECUTIVE BOARD

The members of the Executive Board are appointed from among persons of recognised standing and professional experience in monetary or banking matters by the European Council, upon a recommendation from the EU Council after it has consulted the European Parliament and the Governing Council.

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

The emoluments of the members of the Executive Board are set out in note 32, "Staff costs", of the Annual Accounts.

EMPLOYEES

The ECB is fully cognisant of the importance of developing sound human resources management policies and of having a constructive dialogue with its staff. In 2010 developments related to the corporate culture of the ECB focused on diversity and professional ethics. A new comprehensive ethics framework for the staff of the ECB entered into force on 1 April 2010. The framework provides guidance and sets ethics conventions, standards and benchmarks. All staff are expected to maintain high standards of professional ethical behaviour in the performance of their duties, as well as in their relations with NCBs, public authorities, market participants, media representatives and the general public.

Mobility and staff development measures continued to be the main tools for professional development in 2010. Moreover, the ECB continued to support staff in the areas of childcare and the reconciliation of work and family commitments.

The average number of staff (full-time equivalents) holding contracts with the ECB[1] rose from 1,530 in 2009 to 1,565 in 2010. At the end of 2010 1,607 staff were employed. For further information, see note 32, "Staff costs", of the Annual Accounts and Section 2 of Chapter 10 of the Annual Report which also describes developments in the area of human resources management in more detail.

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. The main purpose of the ECB's foreign reserves is to ensure that, whenever needed, the Eurosystem has a sufficient amount of liquid resources for its foreign exchange policy operations.

The ECB's own funds portfolio reflects the investment of (a) its paid-up capital; (b) the counterpart of the provision for foreign exchange rate, interest rate, credit and gold price risks; (c) the general reserve fund; and (d) income accumulated on the portfolio in previous years. Its purpose is primarily to provide the ECB with income to contribute to covering its operating expenses.

The ECB is exposed to financial risks arising in respect of both of the above-mentioned portfolios. They include credit, market and liquidity risks. The ECB closely monitors and measures such risks and, where appropriate, mitigates them through the implementation of a risk management framework that includes, in particular, a system of exposure limits.

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

BUDGET PROCESS

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

4 FINANCIAL RESOURCES

CAPITAL

Pursuant to the Statute of the ESCB, as well as Council Regulation (EC) No 1009/2000 of 8 May 2000, the ECB decided in December 2010 to increase its subscribed capital by €5 billion, from €5.8 billion to €10.8 billion.

This decision resulted from an assessment of the adequacy of its statutory capital, which was launched in 2009. The capital increase was deemed appropriate in view of increased volatility in foreign exchange rates, interest rates and gold prices, as well as in view of the ECB's exposure to credit risk.

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

In order to smooth the transfer of capital to the ECB, the Governing Council decided that the euro area NCBs should pay their additional capital contributions of €3,489,575,000 in three equal annual instalments. On 29 December 2010 the NCBs of the euro area (in its composition as at that date) paid €1,163,191,667 as their first instalment. The remaining two instalments will be paid at the end of 2011 and 2012. Moreover, the minimal percentage of the subscribed capital, which the non-euro area NCBs are required to pay as a contribution to the operational costs of the ECB was reduced from 7.00% to 3.75%. Consequently, the capital paid up by the non-euro area NCBs was slightly adjusted and payments totalling €84,220 were made on 29 December 2010.

As a result of these payments, the ECB's paid-up capital amounted to €5,306 million on 31 December 2010, compared with €4,142 million on 31 December 2009. Detailed information on these changes is provided in note 17, "Capital and reserves", of the Annual Accounts.

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

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

In 2005, taking into account the ECB's large exposure to these risks and the size of its revaluation accounts, the Governing Council decided to establish a provision for foreign exchange rate, interest rate and gold price risks. In 2009, following the establishment of the programme for the purchase of covered bonds (see note 5, "Securities of euro area residents denominated in euro", of the Annual Accounts), the Governing Council decided to extend the scope of the risk provision to also cover credit risk.

As at 31 December 2009 this provision amounted to €4,020,445,722. In line with the Statute of the ESCB, 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. After taking the results of its risk assessment into account, the Governing Council decided to increase the size of the risk provision to €5,183,637,388, which, following the capital increase, represents the current maximum allowed ceiling.

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.

5 FINANCIAL RESULTS

FINANCIAL ACCOUNTS

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

FINANCIAL RESULT FOR 2010

In 2010 the net income of the ECB prior to the transfer to the risk provision was €1,334 million, compared with €2,218 million in 2009. The net profit, amounting to €171 million after this transfer, was distributed to the euro area NCBs in March 2011.

In 2010 net interest income amounted to €1,422 million, compared with €1,547 million in 2009. The decrease in net interest income was mainly due to (a) the realisation of a net interest expense from TARGET2 balances in 2010; (b) lower net interest income on foreign reserve assets that was due mainly to lower average interest rates on US dollar-denominated assets in 2010; and (c) a decrease in interest income on the ECB's share of euro banknotes in circulation, which reflected the fact that the average rate for the Eurosystem's main refinancing operations declined. These factors were partially offset by the following: (a) additional income generated on the securities purchased under the Securities Markets Programme and the covered bond purchase programme; (b) lower interest expenses as a result of decreased balances with the Swiss National Bank; and (c) a decrease in the interest expense arising from the euro area NCBs' claims in respect of the foreign reserve assets transferred by them to the ECB.

Net realised gains arising from financial operations decreased from €1,103 million in 2009 to €474 million in 2010, owing mainly to (a) the fact that no gold sales were conducted by the ECB in 2010, and (b) lower net realised gains from security sales in 2010.

Write-downs amounted to €195 million in 2010, compared with €38 million in 2009, mainly owing to unrealised price losses on security holdings which are shown on the Balance Sheet at their market value as at end-2010.

As at end-2009 unrealised foreign exchange gains, mainly arising on the US dollar portfolio and the Japanese yen portfolio, amounted to €2,070 million, and unrealised gold price gains amounted to €8,418 million. In 2010 the depreciation of the euro vis-à-vis the Japanese yen and the US dollar resulted in an increase in unrealised foreign exchange gains, which rose to €6,271 million, while the rise in the price of gold during 2010 led to unrealised gold price gains amounting to €13,079 million. In line with the Eurosystem's accounting policies, these gains were recorded in revaluation accounts.

Total administrative expenses of the ECB, including depreciation, amounted to €415 million in 2010, compared with €401 million in 2009.

BALANCE SHEET AS AT 31 DECEMBER 2010

ASSETS	NOTE NUMBER	2010 €	2009 €
Gold and gold receivables	1	**17,015,600,109**	**12,355,158,122**
Claims on non-euro area residents denominated in foreign currency	2		
Receivables from the IMF	2.1	414,722,811	346,455,675
Balances with banks and security investments, external loans and other external assets	2.2	39,298,995,950	35,109,527,121
		39,713,718,761	**35,455,982,796**
Claims on euro area residents denominated in foreign currency	2.2	**4,326,557,549**	**3,293,593,476**
Claims on non-euro area residents denominated in euro	3		
Balances with banks, security investments and loans	3.1	**1,800,000,000**	**0**
Other claims on euro area credit institutions denominated in euro	4	**33,368,000**	**5,000**
Securities of euro area residents denominated in euro	5		
Securities held for monetary policy purposes	5.1	**17,925,976,508**	**2,181,842,083**
Intra-Eurosystem claims	6		
Claims related to the allocation of euro banknotes within the Eurosystem	6.1	67,176,191,390	64,513,307,300
Other claims within the Eurosystem (net)	13.2	0	6,359,967,425
		67,176,191,390	**70,873,274,725**
Other assets	7		
Tangible and intangible fixed assets	7.1	281,925,625	221,886,920
Other financial assets	7.2	13,249,960,731	11,816,451,684
Off-balance-sheet instruments revaluation differences	7.3	147,260,366	20,951,426
Accruals and prepaid expenses	7.4	1,319,491,653	775,782,372
Sundry	7.5	532,963,278	1,003,035,232
		15,531,601,653	**13,838,107,634**
Total assets		**163,523,013,970**	**137,997,963,836**

LIABILITIES	NOTE NUMBER	2010 €	2009 €
Banknotes in circulation	8	**67,176,191,390**	**64,513,307,300**
Other liabilities to euro area credit institutions denominated in euro	9	**33,363,000**	**0**
Liabilities to other euro area residents denominated in euro	10		
Other liabilities	10.1	**1,072,000,000**	**1,056,000,000**
Liabilities to non-euro area residents denominated in euro	11	**1,201,602,021**	**9,515,160,271**
Liabilities to non-euro area residents denominated in foreign currency	12		
Deposits, balances and other liabilities	12.1	**478,028,926**	**18,752,058**
Intra-Eurosystem liabilities	13		
Liabilities equivalent to the transfer of foreign reserves	13.1	40,204,457,215	40,204,457,215
Other liabilities within the Eurosystem (net)	13.2	21,225,255,926	0
		61,429,713,141	**40,204,457,215**
Other liabilities	14		
Off-balance-sheet instruments revaluation differences	14.1	568,235,002	196,041,410
Accruals and income collected in advance	14.2	749,630,881	731,468,960
Sundry	14.3	494,466,366	409,204,389
		1,812,332,249	**1,336,714,759**
Provisions	15	**5,216,716,613**	**4,042,873,982**
Revaluation accounts	16	**19,626,699,159**	**10,915,251,958**
Capital and reserves	17		
Capital	17.1	**5,305,536,076**	**4,142,260,189**
Profit for the year		**170,831,395**	**2,253,186,104**
Total liabilities		**163,523,013,970**	**137,997,963,836**

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31 DECEMBER 2010

	NOTE NUMBER	2010 €	2009 €
Interest income on foreign reserve assets	26.1	366,179,478	700,216,277
Interest income arising from the allocation of euro banknotes within the Eurosystem	26.2	653,509,659	787,157,441
Other interest income	26.4	4,796,498,245	5,608,442,130
Interest income		*5,816,187,382*	*7,095,815,848*
Remuneration of NCBs' claims in respect of foreign reserves transferred	26.3	(346,484,251)	(443,045,045)
Other interest expense	26.4	(4,047,227,079)	(5,105,724,953)
Interest expense		*(4,393,711,330)*	*(5,548,769,998)*
Net interest income	26	**1,422,476,052**	**1,547,045,850**
Realised gains/losses arising from financial operations	27	474,313,327	1,102,597,118
Write-downs on financial assets and positions	28	(195,213,437)	(37,939,649)
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks		(1,163,191,667)	34,806,031
Net result of financial operations, write-downs and risk provisions		**(884,091,777)**	**1,099,463,500**
Net expense from fees and commissions	29	**(1,409,017)**	**(16,010)**
Income from equity shares and participating interests	30	**2,612,858**	**934,492**
Other income	31	**46,537,026**	**6,783,936**
Total net income		**586,125,142**	**2,654,211,768**
Staff costs	32	(196,470,934)	(187,314,707)
Administrative expenses	33	(196,636,534)	(186,447,503)
Depreciation of tangible and intangible fixed assets		(13,601,111)	(21,042,602)
Banknote production services	34	(8,585,168)	(6,220,852)
Profit for the year		**170,831,395**	**2,253,186,104**

Frankfurt am Main, 22 February 2011

EUROPEAN CENTRAL BANK

Jean-Claude Trichet
President

ACCOUNTING POLICIES[1]

FORM AND PRESENTATION OF THE FINANCIAL STATEMENTS

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

ACCOUNTING PRINCIPLES

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

RECOGNITION OF ASSETS AND LIABILITIES

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

BASIS OF ACCOUNTING

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

With the exception of 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 2010, was derived from the exchange rate of the euro against the US dollar on 31 December 2010.

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

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

2 These policies are consistent with the provisions of Article 26.4 of the Statute of the ESCB, which require a harmonised approach to the rules governing the accounting and financial reporting of Eurosystem operations.

SDR was calculated as a weighted sum of the exchange rates of four major currencies (the US dollar, euro, Japanese yen and pound sterling) against the euro as at 31 December 2010.

SECURITIES

Marketable securities (other than those classified as held-to-maturity) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. For the year ending 31 December 2010, mid-market prices on 30 December 2010 were used.

Marketable securities classified as held-to-maturity and illiquid equity shares are all valued at cost subject to impairment.

INCOME RECOGNITION

Income and expenses are recognised in the period in which they are earned or incurred. Realised gains and losses arising from the sale of foreign exchange, gold and securities are taken to the Profit and Loss Account. Such realised gains and losses are calculated by reference to the average cost of the respective asset.

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

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

Impairment losses are taken to the Profit and Loss Account and are not reversed in subsequent years unless the impairment decreases and the decrease can be related to an observable event that occurred after the impairment was first recorded.

Premiums or discounts arising on purchased securities, including those classified as held-to-maturity, are calculated and presented as part of interest income and are amortised over the remaining life of the securities.

REVERSE TRANSACTIONS

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

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

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

Reverse transactions (including security lending transactions) conducted under an automated security lending programme are recorded on the Balance Sheet only where collateral is provided in the form of cash placed on an account of the ECB. In 2010 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 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. Intra-ESCB transactions in euro are primarily processed via TARGET2 – the Trans-European Automated Real-time Gross settlement Express Transfer system (see Chapter 2 of the Annual Report) – and give rise to bilateral balances in 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. Intra-Eurosystem balances of euro area NCBs vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (e.g. interim profit distributions to NCBs), are presented on the Balance Sheet of the ECB as a single net asset or liability position and disclosed under "Other claims within the Eurosystem (net)" or "Other liabilities within the Eurosystem (net)". Intra-ESCB balances of non-euro area NCBs vis-à-vis the ECB, arising from their participation in TARGET2,[3] are disclosed under "Liabilities to non-euro area residents denominated in euro".

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

Intra-Eurosystem balances arising from the transfer of foreign reserve assets to the ECB by NCBs joining the Eurosystem are denominated in euro and reported under "Liabilities equivalent to the transfer of foreign reserves".

TREATMENT OF FIXED ASSETS

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

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

3 As at 31 December 2010 the non-euro area NCBs participating in TARGET2 were Българска народна банка (Bulgarian National Bank), Danmarks Nationalbank, Eesti Pank, Latvijas Banka, Lietuvos bankas and Narodowy Bank Polski.

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

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

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

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

On 1 June 2009 a new Pension Scheme for both existing staff and new entrants was introduced with a view to ensuring the plan's long-term financial sustainability. Under this new scheme, the compulsory contributions of the ECB and the staff were increased from 16.5% to 18% and from 4.5% to 6% of basic salary respectively. As was the case in the past, staff can continue to make additional contributions under the new scheme on a voluntary basis in a defined contribution pillar that can be used to provide additional benefits.[4] The previous Retirement Plan was frozen on 31 May 2009, and the related rights acquired by existing staff were preserved.

BALANCE SHEET

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

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is calculated by discounting the estimated future cash flows using a rate which is determined by reference to market yields at the balance sheet date on high quality euro-denominated corporate bonds that have similar terms of maturity to the term of the pension obligation.

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

PROFIT AND LOSS ACCOUNT

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

(a) the current service cost of the defined benefits accruing for the year;

(b) interest at the discount rate on the defined benefit obligation;

(c) the expected return on plan assets held against the defined benefit obligation;

(d) any actuarial gains and losses arising from post-employment benefits, using a "10% corridor" approach; and

(e) any actuarial gains and losses arising from other long-term benefits, in their entirety.

"10% CORRIDOR" APPROACH

Net cumulative unrecognised actuarial gains and losses on post-employment benefits which exceed the greater of (a) 10% of the

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

present value of the defined benefit obligation and (b) 10% of the fair value of plan assets held against the defined benefit obligation, are amortised over the expected average remaining working lives of the participating employees.

PENSIONS OF EXECUTIVE BOARD MEMBERS AND OTHER POST-EMPLOYMENT OBLIGATIONS

Unfunded arrangements are in place for the post-employment and other long-term benefits of members of the Executive Board of the ECB and for the disability benefit provisions for 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 manner outlined under "Profit and Loss Account" 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 in the item "Net interest income".

INTERIM PROFIT DISTRIBUTION

The ECB's income on euro banknotes in circulation and income arising from securities purchased under the Securities Markets Programme is due to the euro area NCBs in the financial year in which it accrues. The ECB distributes this income in January of the following year by means of an interim profit distribution.[8] It is distributed in full unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation and securities purchased under the Securities Markets Programme, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

OTHER ISSUES

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

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

5 Decision ECB/2010/29 of 13 December 2010 on the issue of euro banknotes (recast), OJ L 35, 9.2.2011, p. 26.
6 "Banknote allocation key" means the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share in that total.
7 Decision ECB/2010/23 of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast), OJ L 35, 9.2.2011, p. 17.
8 Decision ECB/2010/24 of 25 November 2010 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the Securities Markets Programme (recast), OJ L 6, 11.1.2011, p. 35.

NOTES ON THE BALANCE SHEET

1 GOLD AND GOLD RECEIVABLES

As at 31 December 2010 the ECB held 16,122,143 ounces[9] of fine gold (2009: 16,122,146 ounces). This slight reduction was due to weight differences arising under a substitution programme that the ECB initiated in 2010. The euro equivalent value of this holding increased due to a significant rise in the price of gold during 2010 (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

2.1 RECEIVABLES FROM THE IMF

This asset represents the ECB's holdings of special drawing rights (SDRs) as at 31 December 2010. It arises as the result of a two-way SDR buying and selling arrangement with the International Monetary Fund (IMF), whereby the IMF is authorised to arrange sales or purchases of SDRs against euro, on behalf of the ECB, within minimum and maximum holding levels. For accounting purposes, SDRs are treated as a foreign currency (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies).

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

These two items consist of balances with banks and loans denominated in foreign currency, and investments in securities denominated in US dollars and Japanese yen.

Claims on non-euro area residents	2010 €	2009 €	Change €
Current accounts	1,415,134,235	845,908,975	569,225,260
Money market deposits	881,467,443	636,977,905	244,489,538
Reverse repurchase agreements	54,632,540	0	54,632,540
Security investments	36,947,761,732	33,626,640,241	3,321,121,491
Total	39,298,995,950	35,109,527,121	4,189,468,829

Claims on euro area residents	2010 €	2009 €	Change €
Current accounts	3,522,840	677,846	2,844,994
Money market deposits	4,254,182,741	3,292,915,630	961,267,111
Reverse repurchase agreements	68,851,968	0	68,851,968
Total	4,326,557,549	3,293,593,476	1,032,964,073

The increase in the euro value of these positions in 2010 was mainly due to the appreciation of the US dollar and the Japanese yen against the euro. Income received in 2010, primarily on the US dollar portfolio, also contributed to the increase in the total value of these items.

The ECB's net foreign currency holdings of US dollars and Japanese yen,[10] as at 31 December 2010, were as follows:

	Currency in millions
US dollars	43,952
Japanese yen	1,101,816

9 This corresponds to 501.5 tonnes.

10 These holdings comprise assets minus liabilities denominated in the given foreign currency that are subject to foreign currency revaluation. They are included under the headings "Claims on non-euro area residents denominated in foreign currency", "Claims on euro area residents denominated in foreign currency", "Accruals and prepaid expenses", "Liabilities to non-euro area residents denominated in foreign currency", "Off-balance-sheet instruments revaluation differences" (liability side) and "Accruals and income collected in advance", also taking into account foreign exchange forward and swap transactions under off-balance-sheet items. Price gains on financial instruments denominated in foreign currency arising as a result of revaluations are not included.

3 CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO

3.1 BALANCES WITH BANKS, SECURITY INVESTMENTS AND LOANS

As at 31 December 2010 this item consisted of a claim on a non-euro area central bank in connection with an agreement on repurchase transactions established with the ECB. Under this agreement the non-euro area central bank can borrow euro against eligible collateral in order to support its domestic liquidity-providing operations.

4 OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

As at 31 December 2010 this item consisted mainly of an outstanding reverse repurchase transaction, conducted in the context of covered bond lending operations (see note 9, "Other liabilities to euro area credit institutions denominated in euro").

5 SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO

5.1 SECURITIES HELD FOR MONETARY POLICY PURPOSES

As at 31 December 2009 this item consisted of securities acquired by the ECB within the scope of the covered bond purchase programme. Under this programme, the ECB and the NCBs purchased euro-denominated covered bonds issued in the euro area. The purchases under this programme were fully implemented by the end of June 2010.

In May 2010 the Governing Council established the Securities Markets Programme. Under this programme, the ECB and the NCBs may purchase euro area public and private debt securities in order to address the malfunctioning of certain segments of the euro area debt securities markets and to restore the proper functioning of the monetary policy transmission mechanism.

The ECB's holdings of securities purchased under both programmes at the end of 2010 were as follows:

	2010 €	2009 €	Change €
Covered bond purchase programme	4,823,413,246	2,181,842,083	2,641,571,163
Securities Markets Programme	13,102,563,262	0	13,102,563,262
Total	17,925,976,508	2,181,842,083	15,744,134,425

The Governing Council decided to classify the securities purchased under both programmes as held-to-maturity securities (see "Securities" in the notes on accounting policies). As a result of the impairment tests conducted as at 31 December 2010, no impairments were recorded for these securities.

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).

7 OTHER ASSETS

7.1 TANGIBLE AND INTANGIBLE FIXED ASSETS

These assets comprised the following items on 31 December 2010:

	2010 €	2009 €	Change €
Cost			
Land and buildings	168,714,234	168,811,800	(97,566)
Computer hardware and software	188,781,597	182,723,860	6,057,737
Equipment, furniture, plant in building and motor vehicles	30,325,142	29,786,515	538,627
Assets under construction	174,386,237	107,411,277	66,974,960
Other fixed assets	1,525,084	1,415,991	109,093
Total cost	**563,732,294**	**490,149,443**	**73,582,851**
Accumulated depreciation			
Land and buildings	(74,965,599)	(70,731,976)	(4,233,623)
Computer hardware and software	(177,760,956)	(169,735,407)	(8,025,549)
Equipment, furniture, plant in building and motor vehicles	(28,878,352)	(27,593,378)	(1,284,974)
Other fixed assets	(201,762)	(201,762)	0
Total accumulated depreciation	**(281,806,669)**	**(268,262,523)**	**(13,544,146)**
Net book value	**281,925,625**	**221,886,920**	**60,038,705**

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

In 2009 assets with a cost of €2.3 million were included in the category "Other fixed assets". In 2010 they were reclassified under the heading "Assets under construction" to reflect their current status. The comparative balance for 2009 has been adjusted accordingly.

7.2 OTHER FINANCIAL ASSETS

This item consists of the investment of the ECB's own funds[11] 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 main components of this item are as follows:

	2010 €	2009 €	Change €
Current accounts in euro	4,377,086	8,748,115	(4,371,029)
Securities denominated in euro	11,534,194,166	11,295,095,956	239,098,210
Reverse repurchase agreements in euro	1,669,436,200	470,622,051	1,198,814,149
Other financial assets	41,953,279	41,985,562	(32,283)
Total	13,249,960,731	11,816,451,684	1,433,509,047

The net increase in this item was due mainly to the investment in the own funds portfolio of amounts received from the NCBs as a result of the increase in the ECB's capital (see note 17, "Capital and reserves") and income received in 2010.

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 2010 (see note 23, "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 21, "Interest rate swaps").

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

7.4 ACCRUALS AND PREPAID EXPENSES

In 2010 this position included accrued interest receivable on the TARGET2 balances due from euro area NCBs for the final month of 2010, amounting to €364.7 million (2009: €261.6 million), and accrued interest receivable on the ECB's claims related to the allocation of euro banknotes within the Eurosystem for the final quarter of the year (see "Banknotes in circulation" in the notes on accounting policies), amounting to €166.7 million (2009: €157.8 million).

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

7.5 SUNDRY

This item is composed mainly of positive balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2010 (see note 23, "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 Union, which applies to the ECB by virtue of Article 39 of the Statute of the ESCB.

8 BANKNOTES IN CIRCULATION

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

9 OTHER LIABILITIES TO EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

In 2010 the Governing Council decided that the euro area central banks would make available for lending bonds bought under the covered bond purchase programme. The ECB implemented these lending operations through matched repurchase transactions, whereby amounts received under repurchase agreements are fully and simultaneously reinvested with the same counterparty under a reverse repurchase agreement (see note 4, "Other claims on euro area credit institutions denominated in euro"). As at 31 December 2010 a repurchase agreement conducted in the context of the covered bond lending operations with a value of €33.4 million remained outstanding.

10 LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

10.1 OTHER LIABILITIES

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

11 LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

As at 31 December 2010 these liabilities consisted mainly of 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).

As at 31 December 2009 this item was composed mainly of a liability amounting to €4.5 billion arising from the temporary reciprocal currency arrangement with the Federal Reserve. Under this arrangement, US dollars were provided by the Federal Reserve to the ECB by means of a temporary swap line, with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with euro area NCBs, which used the resulting funds to conduct US dollar liquidity-providing operations with Eurosystem counterparties in the form of reverse and swap transactions. The back-to-back swap transactions resulted in intra-Eurosystem balances between the ECB and the NCBs. Given the improvements seen in the functioning of financial markets, the ECB confirmed in early 2010 the expiration of its temporary liquidity swap lines with the Federal Reserve on 1 February 2010. However, in response to the re-emergence of strains in US dollar short-term funding markets in Europe, the ECB and other central banks decided to re-establish the temporary US dollar liquidity swap facilities with the Federal Reserve on 10 May 2010. As a result of the reactivation of the US dollar liquidity-providing operations, a liability to the Federal Reserve, amounting to €57 million, was outstanding as at 31 December 2010.

As at 31 December 2009 this item also included a liability to the Swiss National Bank amounting to €1.8 billion. 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. Against the background of declining demand and improved conditions in the funding markets, the ECB decided, in agreement with the Swiss National Bank, to stop conducting Swiss franc liquidity-providing operations after 31 January 2010. Consequently, no related liability remained outstanding as at 31 December 2010.

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

12.1 DEPOSITS, BALANCES AND OTHER LIABILITIES

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

13 INTRA-EUROSYSTEM LIABILITIES

13.1 LIABILITIES EQUIVALENT TO THE TRANSFER OF FOREIGN RESERVES

These represent the liabilities to the euro area NCBs that arose from the transfer of foreign reserve assets to the ECB when they joined the Eurosystem. No changes occurred in 2010.

These balances 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 26.3, "Remuneration of NCBs' claims in respect of foreign reserves transferred").

	Since 1 January 2009 €
Nationale Bank van België/Banque Nationale de Belgique	1,397,303,847
Deutsche Bundesbank	10,909,120,274
Central Bank of Ireland	639,835,662
Bank of Greece	1,131,910,591
Banco de España	4,783,645,755
Banque de France	8,192,338,995
Banca d'Italia	7,198,856,881
Central Bank of Cyprus	78,863,331
Banque centrale du Luxembourg	100,638,597
Central Bank of Malta	36,407,323
De Nederlandsche Bank	2,297,463,391

	Since 1 January 2009 €
Oesterreichische Nationalbank	1,118,545,877
Banco de Portugal	1,008,344,597
Banka Slovenije	189,410,251
Národná banka Slovenska	399,443,638
Suomen Pankki - Finlands Bank	722,328,205
Total	**40,204,457,215**

13.2 OTHER CLAIMS/LIABILITIES WITHIN THE EUROSYSTEM (NET)

In 2010 this item consisted mainly of the TARGET2 balances of the euro area NCBs vis-à-vis the ECB (see "Intra-ESCB balances/ intra-Eurosystem balances" in the notes on accounting policies). The ECB had a net claim vis-à-vis the euro area NCBs at the end of 2009 but a net liability at the end of 2010. This liability was due mainly to purchases of securities under the covered bond purchase programme and the Securities Markets Programme in 2010 (see note 5, "Securities of euro area residents denominated in euro"), which were settled via TARGET2 accounts.

The reduction in the outstanding amount related to the back-to-back swap transactions conducted with NCBs in connection with US dollar liquidity-providing operations, as well as the discontinuation of Swiss franc liquidity-providing operations (see note 11, "Liabilities to non-euro area residents denominated in euro"), also contributed to the decrease in the net claim and the creation of the net liability in 2010.

In 2009 this item also included the amount due to euro area NCBs in respect of the interim distribution of the ECB's income derived from banknotes in circulation. With respect to 2010, the Governing Council decided to retain the full amount of this income, as well as income earned on securities purchased under the Securities Markets Programme, and no related amounts were due at the end of 2010 (see "Interim profit distribution" in the notes on accounting policies).

	2010 €	2009 €
Due from euro area NCBs in respect of TARGET2	(435,850,611,581)	(317,085,135,903)
Due to euro area NCBs in respect of TARGET2	457,075,867,507	309,938,011,037
Due to euro area NCBs in respect of the interim distribution of the ECB's income derived from banknotes in circulation	0	787,157,441
Other (claims)/liabilities within the Eurosystem (net)	21,225,255,926	(6,359,967,425)

14 OTHER LIABILITIES

14.1 OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

This item is composed mainly of valuation changes in swap and forward transactions in foreign currency that were outstanding on 31 December 2010 (see note 23, "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 21, "Interest rate swaps").

14.2 ACCRUALS AND INCOME COLLECTED IN ADVANCE

As at 31 December 2010 the two main items under this heading were accruals on balances due to NCBs in respect of TARGET2, amounting to €381.8 million (2009: €259.7 million), and interest payable to the NCBs in respect of their claims relating to foreign reserves transferred to the ECB (see note 13, "Intra-Eurosystem liabilities"), amounting to €346.5 million (2009: €443.0 million). Accruals on financial instruments and other accruals are also reported in this item.

Also included under this heading is a contribution to the ECB from the City of Frankfurt of €15.3 million for the preservation of the listed Grossmarkthalle building in connection with the construction of the ECB's new premises. This amount will be netted against the cost of the building once it comes into use (see note 7.1, "Tangible and intangible fixed assets").

14.3 SUNDRY

This item includes negative balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2010 (see note 23, "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 €235.4 million (2009: €146.6 million) conducted in connection with the management of the ECB's own funds (see note 7.2, "Other financial 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:

	2010 € millions	2009 € millions
Present value of obligations	555.5	443.9
Fair value of plan assets	(391.6)	(333.2)
Unrecognised actuarial gains/(losses)	(71.1)	(24.0)
Liability recognised in the Balance Sheet	92.8	86.7

The present value of the obligations includes unfunded obligations of €52.2 million (2009: €44.9 million) relating to the post-employment and other long-term benefits of Executive Board members and to the disability benefit provisions for staff.

The amounts recognised in the Profit and Loss Account in 2010 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:

	2010 € millions	2009 € millions
Current service cost	26.6	24.7
Interest on obligation	21.9	14.2
Expected return on plan assets	(18.4)	(9.9)
Net actuarial (gains)/losses recognised in the year	(1.3)	(0.3)
Total included in "Staff costs"	28.8	28.7

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 and losses arising from post-employment benefits exceeding the greater of (a) 10% of the present value of the defined benefit obligation and (b) 10% of the fair value of plan assets, are amortised over the expected average remaining working lives of the participating employees.

Up to 2009 actuarial gains and losses on other long-term benefits (i.e. disability and death benefits) were recorded in the Profit and Loss Account in line with the "10% corridor" approach. In 2010, owing to a change in methodology, these amounts were recognised in the Profit and Loss Account in their entirety. Outstanding amounts in 2009 were not material and no restatement was considered necessary.

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

	2010 € millions	2009 € millions
Opening obligation	443.9	317.0
Service cost	26.6	24.7
Interest cost	21.9	14.2
Contributions paid by plan participants 1)	17.5	22.1
Other net changes in liabilities representing plan participants' contributions	4.5	(26.9)
Benefits paid	(5.2)	(4.2)
Actuarial (gains)/losses	46.3	97.0
Closing obligation	555.5	443.9

1) This includes transfers to and from other pension schemes.

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

	2010 € millions	2009 € millions
Opening fair value of plan assets	333.2	226.7
Expected return	18.4	9.9
Actuarial gains/(losses)	0.6	65.7
Contributions paid by employer	22.4	39.7
Contributions paid by plan participants	17.3	21.9
Benefits paid	(4.8)	(3.8)
Other net changes in assets representing plan participants' contributions	4.5	(26.9)
Closing fair value of plan assets	391.6	333.2

The actuarial losses for 2009 on the defined benefit obligation amounted to €97.0 million. This amount includes the effects of (a) the decrease in the discount rate from 5.75% to 5.50% that resulted in an increase in the liability value; (b) greater than expected growth in the value of the guaranteed benefits; and (c) the explicit inclusion of the obligation arising in connection with dependents' benefits. Prior to 2009 the (net) liability for dependents' benefits was assumed to be immaterial and was thus not explicitly included. However, as this liability has grown, it was decided to formally include it in the calculation of the defined benefit obligation. Similarly, the explicit inclusion of the corresponding assets in the actuarial valuation resulted in actuarial gains on plan assets amounting to €42.1 million, out of the total actuarial gains of €65.7 million for 2009.

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

As a result of the application of the annual Capital Guarantee on 31 December 2008, and given the loss of capital in the plan participants' Core Benefit Accounts, the Governing Council, acting on actuarial advice and in line with the rules of the ECB's Retirement Plan, decided in 2009 to make a supplementary contribution of approximately €19.9 million out of the general assets of the ECB. This contribution resulted in an increase in the contributions paid by the ECB in 2009, compared with the respective figure for 2010.

In 2009 amounts paid out of, as well as transfers into and out of, funds arising from the voluntary contributions of plan participants were included under "Other net changes in assets representing plan participants' contributions". In 2010 these items were included for presentational reasons under "Benefits paid" and "Contributions paid by plan participants" respectively and the comparative figures for 2009 were adjusted accordingly.

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 benefits scheme liability are as follows:

	2010 %	2009 %
Discount rate	5.00	5.50
Expected return on plan assets	6.00	6.50
General future salary increases 1)	2.00	2.00
Future pension increases	1.65	2.00

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

15 PROVISIONS

This item consists of a provision for foreign exchange rate, interest rate, credit and gold price risks and other miscellaneous provisions. The latter include an appropriate provision for 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 for these risks. In 2009, following the establishment of the covered bond purchase programme (see note 5, "Securities of euro area residents denominated in euro"), the Governing Council decided to extend the scope of the risk provision to also cover credit risk. 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 of and continuing requirement for this provision is reviewed annually, based on the ECB's assessment of its exposure to the above risks. This assessment takes a range of factors into account, including in particular the level of holdings of risk-bearing assets, the extent of materialised risk exposures in the current financial year, projected results for the coming year, and a risk assessment involving calculations of Values at Risk (VaR) on risk-bearing assets, which is applied consistently over time.[12] 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 2009 the provision for the above risks amounted to €4,020,445,722. Taking the results of its assessment into account, the Governing Council decided to transfer, as at 31 December 2010, an amount of €1,163,191,667 to the provision out of income arising from securities purchased under the Securities Markets Programme (see note 26.4, "Other interest income; and Other interest expense"), income on euro banknotes in circulation (see note 26.2, "Interest income arising from the allocation of euro banknotes within the Eurosystem") and other net income earned in 2010. This transfer reduced the ECB's net profit for 2010 to €170,831,395 and increased the size of the provision to €5,183,637,388, which, following the increase in the ECB's capital (see note 17, "Capital and reserves"), equates to the value of the ECB's capital paid up by the euro area NCBs as at 31 December 2010.[13]

16 REVALUATION ACCOUNTS

These accounts represent revaluation balances arising from unrealised gains on assets and liabilities.

	2010 €	2009 €	Change €
Gold	13,078,746,071	8,418,303,639	4,660,442,432
Foreign currency	6,271,078,092	2,070,299,334	4,200,778,758
Securities and other instruments	276,874,996	426,648,985	(149,773,989)
Total	19,626,699,159	10,915,251,958	8,711,447,201

12 See also Chapter 2 of the Annual Report.

13 The size of the risk provision as at 31 December 2009 and 31 December 2010, as well as the transfer to the risk provision in 2010, are presented rounded to the nearest euro.

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

Exchange rates	2010	2009
US dollars per euro	1.3362	1.4406
Japanese yen per euro	108.65	133.16
Euro per SDR	1.1572	1.0886
Swiss francs per euro	Not used	1.4836
Euro per fine ounce of gold	1,055.418	766.347

17 CAPITAL AND RESERVES

17.1 CAPITAL

Pursuant to Article 28.1 of the Statute of the ESCB, as well as Council Regulation (EC) No 1009/2000 of 8 May 2000, the Governing Council decided to increase the subscribed capital of the ECB by €5 billion, from €5,760,652,403 to €10,760,652,403, with effect from 29 December 2010.[14]

Pursuant to Article 28.3 of the Statute of the ESCB, the Governing Council decided that the euro area NCBs would pay their additional capital contributions of €3,489,575,000 in three equal annual instalments.[15] Consequently, on 29 December 2010 the NCBs of the euro area (in its composition as at that date) paid an amount of €1,163,191,667 as their first instalment. The remaining two instalments shall be paid at the end of 2011 and 2012 respectively.

In addition, the Governing Council decided to reduce the percentage of the subscribed capital, which the non-euro area NCBs are required to pay as a contribution to the operational costs of the ECB, from 7.00% to 3.75%.[16] Consequently, on 29 December 2010 the non-euro area NCBs paid up an amount of €84,220, which represents the difference between their contribution of 3.75% on the increased capital and the amount paid up before the capital increase.

There was no change in the ECB's capital key as a result of the capital increase.

The combined effect of the above decisions was an increase in the paid-up capital of the ECB amounting to €1,163,275,887, as shown in the table below:[17]

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

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

16 Decision ECB/2010/28 of 13 December 2010 on the paying-up of the European Central Bank's capital by the non-euro area national central banks, OJ L 11, 15.1.2011, p. 56.

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

	Capital key since 1 January 2009 %	Subscribed capital since 29 December 2010 €	Paid-up capital since 29 December 2010 €	Subscribed capital on 31 December 2009 €	Paid-up capital on 31 December 2009 €
Nationale Bank van België/ Banque Nationale de Belgique	2.4256	261,010,385	180,157,051	139,730,385	139,730,385
Deutsche Bundesbank	18.9373	2,037,777,027	1,406,533,694	1,090,912,027	1,090,912,027
Central Bank of Ireland	1.1107	119,518,566	82,495,233	63,983,566	63,983,566
Bank of Greece	1.9649	211,436,059	145,939,392	113,191,059	113,191,059
Banco de España	8.3040	893,564,576	616,764,576	478,364,576	478,364,576
Banque de France	14.2212	1,530,293,899	1,056,253,899	819,233,899	819,233,899
Banca d'Italia	12.4966	1,344,715,688	928,162,355	719,885,688	719,885,688
Central Bank of Cyprus	0.1369	14,731,333	10,168,000	7,886,333	7,886,333
Banque centrale du Luxembourg	0.1747	18,798,860	12,975,526	10,063,860	10,063,860
Central Bank of Malta	0.0632	6,800,732	4,694,066	3,640,732	3,640,732
De Nederlandsche Bank	3.9882	429,156,339	296,216,339	229,746,339	229,746,339
Oesterreichische Nationalbank	1.9417	208,939,588	144,216,254	111,854,588	111,854,588
Banco de Portugal	1.7504	188,354,460	130,007,793	100,834,460	100,834,460

	Capital key since 1 January 2009 %	Subscribed capital since 29 December 2010 €	Paid-up capital since 29 December 2010 €	Subscribed capital on 31 December 2009 €	Paid-up capital on 31 December 2009 €
Banka Slovenije	0.3288	35,381,025	24,421,025	18,941,025	18,941,025
Národná banka Slovenska	0.6934	74,614,364	51,501,030	39,944,364	39,944,364
Suomen Pankki - Finlands Bank	1.2539	134,927,820	93,131,154	72,232,820	72,232,820
Subtotal for euro area NCBs	***69.7915***	***7,510,020,722***	***5,183,637,388***	***4,020,445,722***	***4,020,445,722***
Българска народна банка (Bulgarian National Bank)	0.8686	93,467,027	3,505,014	50,037,027	3,502,592
Česká národní banka	1.4472	155,728,162	5,839,806	83,368,162	5,835,771
Danmarks Nationalbank	1.4835	159,634,278	5,986,285	85,459,278	5,982,149
Eesti Pank	0.1790	19,261,568	722,309	10,311,568	721,810
Latvijas Banka	0.2837	30,527,971	1,144,799	16,342,971	1,144,008
Lietuvos bankas	0.4256	45,797,337	1,717,400	24,517,337	1,716,214
Magyar Nemzeti Bank	1.3856	149,099,600	5,591,235	79,819,600	5,587,372
Narodowy Bank Polski	4.8954	526,776,978	19,754,137	282,006,978	19,740,488
Banca Naţională a României	2.4645	265,196,278	9,944,860	141,971,278	9,937,989
Sveriges Riksbank	2.2582	242,997,053	9,112,389	130,087,053	9,106,094
Bank of England	14.5172	1,562,145,431	58,580,454	836,285,431	58,539,980
Subtotal for non-euro area NCBs	***30.2085***	***3,250,631,681***	***121,898,688***	***1,740,206,681***	***121,814,468***
Total	**100.0000**	**10,760,652,403**	**5,305,536,076**	**5,760,652,403**	**4,142,260,189**

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.

18 POST-BALANCE-SHEET EVENTS

18.1 ENTRY OF ESTONIA INTO THE EURO AREA

Pursuant to Council Decision 2010/416/EU of 13 July 2010, taken in accordance with Article 140(2) of the Treaty on the Functioning of the European Union, Estonia adopted the single currency on 1 January 2011. In accordance with Article 48.1 of the Statute of the ESCB and the legal acts adopted by the Governing Council on 13 and 31 December 2010,[18] Eesti Pank paid up an amount of €12,572,592 as at 1 January 2011 in respect of its capital subscription to the ECB. This amount takes account of the increase in the ECB's capital with effect from 29 December 2010, with due consideration of the extent to which the additional capital is paid-up (see note 17, "Capital and reserves").

In accordance with Article 48.1, in conjunction with Article 30.1, of the Statute of the ESCB, Eesti Pank transferred foreign reserve assets with a total value equivalent to €145,853,597 to the ECB with effect from 1 January 2011. These foreign reserve assets comprised amounts of Japanese yen in the form of cash, and gold, in proportions of 85 to 15 respectively.

Eesti Pank 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 13.1, "Liabilities equivalent to the transfer of foreign reserves").

18 Decision ECB/2010/26 of 13 December 2010 on the increase of the European Central Bank's capital, OJ L 11, 15.1.2011, p. 53; Decision ECB/2010/34 of 31 December 2010 on the paying-up of capital, transfer of foreign reserve assets and contributions by Eesti Pank to the European Central Bank's reserves and provisions, OJ L 11, 15.1.2011, p. 58; Agreement of 31 December 2010 between Eesti Pank and the European Central Bank regarding the claim credited to Eesti Pank 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 12, 15.1.2011, p. 6.

18.2 ADMINISTRATION OF THE EUROPEAN FINANCIAL STABILISATION MECHANISM AND THE EUROPEAN FINANCIAL STABILITY FACILITY

The ECB has an operational role in the administration of two European financial stability-related funding schemes established in 2010 by the EU Council and the EU Member States.

In accordance with Articles 122(2) and 132(1) of the Treaty on the Functioning of the European Union and Articles 17 and 21 of the Statute of the ESCB, as well as Article 8 of Council Regulation (EU) No 407/2010, the ECB is responsible for the administration of the borrowing and lending operations of the EU under the European Financial Stabilisation Mechanism. Under this scheme, loans to Ireland for a total amount of €5 billion were outstanding as at 22 February 2011.

In accordance with Articles 17 and 21 of the Statute of the ESCB (in conjunction with Article 3(5) of the Framework Agreement between the European Financial Stability Facility (EFSF) and the Member States whose currency is the euro), the ECB is responsible for the administration of EFSF loans to Member States whose currency is the euro. Under this scheme, loans to Ireland for a total amount of €4.2 billion were outstanding as at 22 February 2011.

OFF-BALANCE-SHEET INSTRUMENTS

19 AUTOMATED SECURITY LENDING PROGRAMMES

As part of the management of the ECB's own funds, the ECB has an automated security lending programme agreement in place, whereby an appointed agent enters into security lending transactions on behalf of the ECB with a number of counterparties, designated by the ECB as eligible counterparties. Under this agreement, reverse transactions with a value of €1.5 billion (2009: €2.1 billion) were outstanding as at 31 December 2010.

In 2010, as part of the management of the ECB's foreign reserves, an appointed agent entered into US dollar-denominated security lending transactions with eligible counterparties on behalf of the ECB. No transactions remained outstanding as at 31 December 2010.

20 INTEREST RATE FUTURES

Interest rate futures are used as part of the management of the ECB's foreign reserves and own funds. As at 31 December 2010 the following transactions were outstanding:

Foreign currency interest rate futures	2010 Contract value €	2009 Contract value €	Change €
Purchases	458,539,141	541,523,368	(82,984,227)
Sales	1,251,682,536	2,706,847,703	(1,455,165,167)

Euro interest rate futures	2010 Contract value €	2009 Contract value €	Change €
Purchases	0	25,000,000	(25,000,000)
Sales	0	379,000,000	(379,000,000)

21 INTEREST RATE SWAPS

Interest rate swap transactions with a contract value of €742.4 million (2009: €724.4 million) were outstanding as at 31 December 2010. These transactions were conducted in the context of the management of the ECB's foreign reserves.

22 FORWARD TRANSACTIONS IN SECURITIES

A forward purchase of a security in the amount of €92 million remained outstanding as at 31 December 2010. This transaction was conducted in the context of the management of the ECB's foreign reserves.

23 FOREIGN EXCHANGE SWAP AND FORWARD TRANSACTIONS

MANAGEMENT OF THE FOREIGN RESERVES

The following foreign exchange swap and forward transactions remained outstanding, in the context of the management of the ECB's foreign reserves, as at 31 December 2010:

Foreign exchange swap and forward transactions	2010 €	2009 €	Change €
Claims	1,697,483,530	1,017,926,290	679,557,240
Liabilities	1,740,464,038	1,008,562,032	731,902,006

LIQUIDITY-PROVIDING OPERATIONS

Forward claims on NCBs and liabilities to the Federal Reserve, which arose in connection with the provision of US dollar liquidity to Eurosystem counterparties (see note 11, "Liabilities to non-euro area residents denominated in euro"), were outstanding on 31 December 2010.

24 ADMINISTRATION OF BORROWING AND LENDING OPERATIONS

In accordance with Article 141(2) of the Treaty on the Functioning of the European Union and Articles 17, 21.2, 43.1 and 46.1 of the Statute of the ESCB, together with Article 9 of Council Regulation (EC) No 332/2002 of 18 February 2002, as last amended by Council Regulation (EC) No 431/2009 of 18 May 2009, the ECB continues to be responsible for the administration of the borrowing and lending operations of the EU under the medium-term financial assistance mechanism. Under this scheme, loans from the EU to Latvia, Hungary and Romania for a total amount of €12.1 billion were outstanding as at 31 December 2010.

In the context of the loan facility agreement between the Member States whose currency is the euro[19] and Kreditanstalt für Wiederaufbau,[20] as lenders, the Hellenic Republic, as the borrower, and the Bank of Greece, as the agent of the borrower, and pursuant to Articles 17 and 21.2 of the Statute of the ESCB, as well as Article 2 of Decision ECB/2010/4,[21] the ECB is responsible for processing all related payments on behalf of the lenders and the borrower. Under this scheme, pooled bilateral loans for the benefit of the Hellenic Republic amounting to €21 billion were outstanding as at 31 December 2010.

25 PENDING LAWSUITS

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

19 Other than the Hellenic Republic and the Federal Republic of Germany.
20 Acting in the public interest, subject to the instructions of and with the benefit of the guarantee of the Federal Republic of Germany.
21 Decision ECB/2010/4 of 10 May 2010 concerning the management of pooled bilateral loans for the benefit of the Hellenic Republic and amending Decision ECB/2007/7, OJ L 119, 13.5.2010, p. 24.
22 Following the entry into force of the Treaty of Lisbon on 1 December 2009, the name of the Court of First Instance was changed to the General Court.
23 DSSI's European Patent No 0455 750 B1.
24 Order of the Court of First Instance of 5 September 2007, Case T-295/05. Available at www.curia.europa.eu.

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

NOTES ON THE PROFIT AND LOSS ACCOUNT

26 NET INTEREST INCOME

26.1 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:

	2010 €	2009 €	Change €
Interest income on current accounts	1,328,753	1,333,874	(5,121)
Interest income on money market deposits	15,865,666	17,682,787	(1,817,121)
Interest income on reverse repurchase agreements	2,712,798	1,524,055	1,188,743
Interest income on securities	335,790,909	663,881,906	(328,090,997)
Net interest income on interest rate swaps	4,611,662	7,374,057	(2,762,395)
Net interest income on swap and forward transactions in foreign currency	6,523,343	9,519,685	(2,996,342)
Total interest income on foreign reserve assets	366,833,131	701,316,364	(334,483,233)
Interest expense on current accounts	(8,795)	(219,800)	211,005
Net interest expense on repurchase agreements	(644,858)	(880,287)	235,429
Interest income on foreign reserve assets (net)	366,179,478	700,216,277	(334,036,799)

The overall decrease in net interest income in 2010 was due mainly to lower net interest income generated on the US dollar portfolio.

26.2 INTEREST INCOME ARISING FROM THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSYSTEM

This item consists of the interest income relating to the ECB's share of the total euro banknote issue (see "Banknotes in circulation" in the notes on accounting policies). 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 decrease in income in 2010 mainly reflected the fact that the average main refinancing rate was lower than in 2009.

26.3 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 is disclosed under this heading.

26.4 OTHER INTEREST INCOME; AND OTHER INTEREST EXPENSE

These items include interest income of €3.8 billion (2009: €4.0 billion) and expenses of €3.9 billion (2009: €3.7 billion) on balances arising from TARGET2 (see note 13.2 "Other claims/liabilities within the Eurosystem (net)", and note 11 "Liabilities to non-euro area residents denominated in euro").

These items also include net income of €140.4 million and €438.0 million on the securities purchased by the ECB under the covered bond purchase programme and the Securities Markets Programme respectively. Interest income and expenses in respect of other assets and liabilities denominated in euro, as well as interest income and interest expense arising from the US dollar and Swiss franc liquidity-providing operations, are also shown under these headings.

27 REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

Net realised gains arising from financial operations in 2010 were as follows:

	2010 €	2009 €	Change €
Net realised price gains on securities, interest rate futures and interest rate swaps	460,588,711	563,594,643	(103,005,932)
Net realised exchange rate and gold price gains	13,724,616	539,002,475	(525,277,859)
Net realised gains arising from financial operations	474,313,327	1,102,597,118	(628,283,791)

In 2010 this item included net realised price gains on sales of securities and net exchange rate gains on foreign currency outflows.

In 2009 net realised exchange rate and gold price gains arose, mainly owing to the sale of 1,141,248 ounces of fine gold in accordance with the Central Bank Gold Agreement. In 2010 no such sales took place.

28 WRITE-DOWNS ON FINANCIAL ASSETS AND POSITIONS

	2010 €	2009 €	Change €
Unrealised price losses on securities	(184,247,603)	(34,163,743)	(150,083,860)
Unrealised price losses on interest rate swaps	(10,963,861)	(3,774,314)	(7,189,547)
Unrealised exchange rate losses	(1,973)	(1,592)	(381)
Total write-downs	(195,213,437)	(37,939,649)	(157,273,788)

In 2010 this expense was due mainly to the write-down of the acquisition cost of a number of securities shown on the Balance Sheet to their market value as at 30 December 2010.

29 NET EXPENSE FROM FEES AND COMMISSIONS

	2010 €	2009 €	Change €
Income from fees and commissions	110,661	679,416	(568,755)
Expenses relating to fees and commissions	(1,519,678)	(695,426)	(824,252)
Net expense from fees and commissions	(1,409,017)	(16,010)	(1,393,007)

In 2010 income under this heading consisted of penalties imposed on credit institutions for non-compliance with the minimum reserve requirements. Expenses relate to fees payable on current accounts and in connection with interest rate futures transactions (see note 20, “Interest rate futures”).

30 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.

31 OTHER INCOME

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

32 STAFF COSTS

Salaries, allowances, staff insurance and other miscellaneous costs of €167.7 million (2009: €158.6 million) are included under this heading. Also included in this item is an amount of €28.8 million (2009: €28.7 million) recognised in connection with the ECB’s retirement plan and other post-employment benefits (see note 14.3, “Sundry”). Staff costs of €1.3 million (2009: €1.2 million) incurred in connection with the construction of the ECB’s new premises have been capitalised and are excluded from this item.

Salaries and allowances, including the emoluments of holders of senior management positions, are modelled in essence on, and are comparable with, the remuneration scheme of the European Union.

Members of the Executive Board receive a basic salary and additional allowances for residence and representation. In the case of the President, an official residence owned by the ECB is provided in lieu of a residence allowance. Subject to the Conditions of Employment for Staff of the European Central Bank, members of the Executive Board are entitled to household, child and education allowances, depending on their individual circumstances. Basic salaries are subject to a tax for the benefit of the European Union as well as to deductions in respect of contributions to the pension, medical and accident insurance schemes. Allowances are non-taxable and non-pensionable.

Basic salaries paid to members of the Executive Board in 2010 were as follows:

	2010 €	2009 €
Jean-Claude Trichet (President)	367,863	360,612
Lucas D. Papademos (Vice-President until May 2010)	131,370	309,096
Vítor Constâncio (Vice-President since June 2010)	183,918	-
Gertrude Tumpel-Gugerell (Board Member)	262,728	257,568
José Manuel González-Páramo (Board Member)	262,728	257,568
Lorenzo Bini Smaghi (Board Member)	262,728	257,568
Jürgen Stark (Board Member)	262,728	257,568
Total	1,734,063	1,699,980

The total allowances paid to the members of the Executive Board and the ECB's contributions to the medical and accident insurance schemes on their behalf amounted to €660,731 (2009: €614,879), resulting in total emoluments of €2,394,794 (2009: €2,314,859).

Transitional payments are made to former members of the Executive Board for a limited period after the end of their terms of office. In 2010 these payments and the ECB's contributions to the medical and accident insurance schemes of former members amounted to €34,868, while no such payments or contributions were made in 2009. 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 €354,349 (2009: €348,410).

At the end of 2010 the actual full-time equivalent number of staff holding contracts with the ECB was 1,607,[25] including 156 with managerial positions. The change in the number of staff during 2010 was as follows:

	2010	2009
Total staff as at 1 January	1,563	1,536
Newcomers/change of contractual status	328	320
Resignations/end of contract	(302)	(283)
Net increase/(decrease) due to changes in part-time working patterns	18	(10)
Total staff as at 31 December	1,607	1,563
Average number of staff employed	1,565	1,530

33 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.

34 BANKNOTE PRODUCTION SERVICES

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

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

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23 February 2011

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 2010, the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes (the "Annual Accounts").

The responsibility of the European Central Bank's Executive Board for the Annual Accounts

The Executive Board is responsible for the preparation and fair presentation of these Annual Accounts in accordance with the principles established by the Governing Council, which are set out in Decision ECB/2010/21 on the annual accounts of the European Central Bank, and for such internal control as the Executive Board determines is necessary to enable the preparation of the Annual Accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the Annual Accounts give a true and fair view of the financial position of the European Central Bank as of 31 December 2010, and of the results of its operations for the year then ended in accordance with the principles established by the Governing Council, which are set out in Decision ECB/2010/21 on the annual accounts of the European Central Bank.

Frankfurt am Main, 23 February 2011

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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 2010.

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

In respect of 2009 the full income earned on the ECB's share of total euro banknotes in circulation, amounting to €787 million, was distributed to the euro area NCBs on 5 January 2010, in proportion to their paid-up shares in the subscribed capital of the ECB. In respect of 2010, following a decision by the Governing Council, the full income earned on the ECB's share of euro banknotes in circulation and securities purchased under the Securities Markets Programme, amounting to €654 million and €438 million respectively, was transferred to the provision for foreign exchange rate, interest rate, credit and gold price risks and therefore no interim profit distribution took place.

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 3 March 2011 to make no transfer to the general reserve fund and to distribute the profit for 2010, amounting to €171 million, to the euro area NCBs, in proportion to their paid-up shares.

Non-euro area NCBs are not entitled to receive any share of the ECB's profit, nor are they liable to fund any loss of the ECB.

	2010 €	2009 €
Profit for the year	170,831,395	2,253,186,104
Interim distribution of income on the ECB's share of the euro banknotes in circulation and on securities purchased under the Securities Markets Programme 1)	(0)	(787,157,441)
Profit for the year after distribution of income on the ECB's share of the euro banknotes in circulation and on securities purchased under the Securities Markets Programme	170,831,395	1,466,028,663
Distribution of profit to NCBs	(170,831,395)	(1,466,028,663)
Total	0	0

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

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