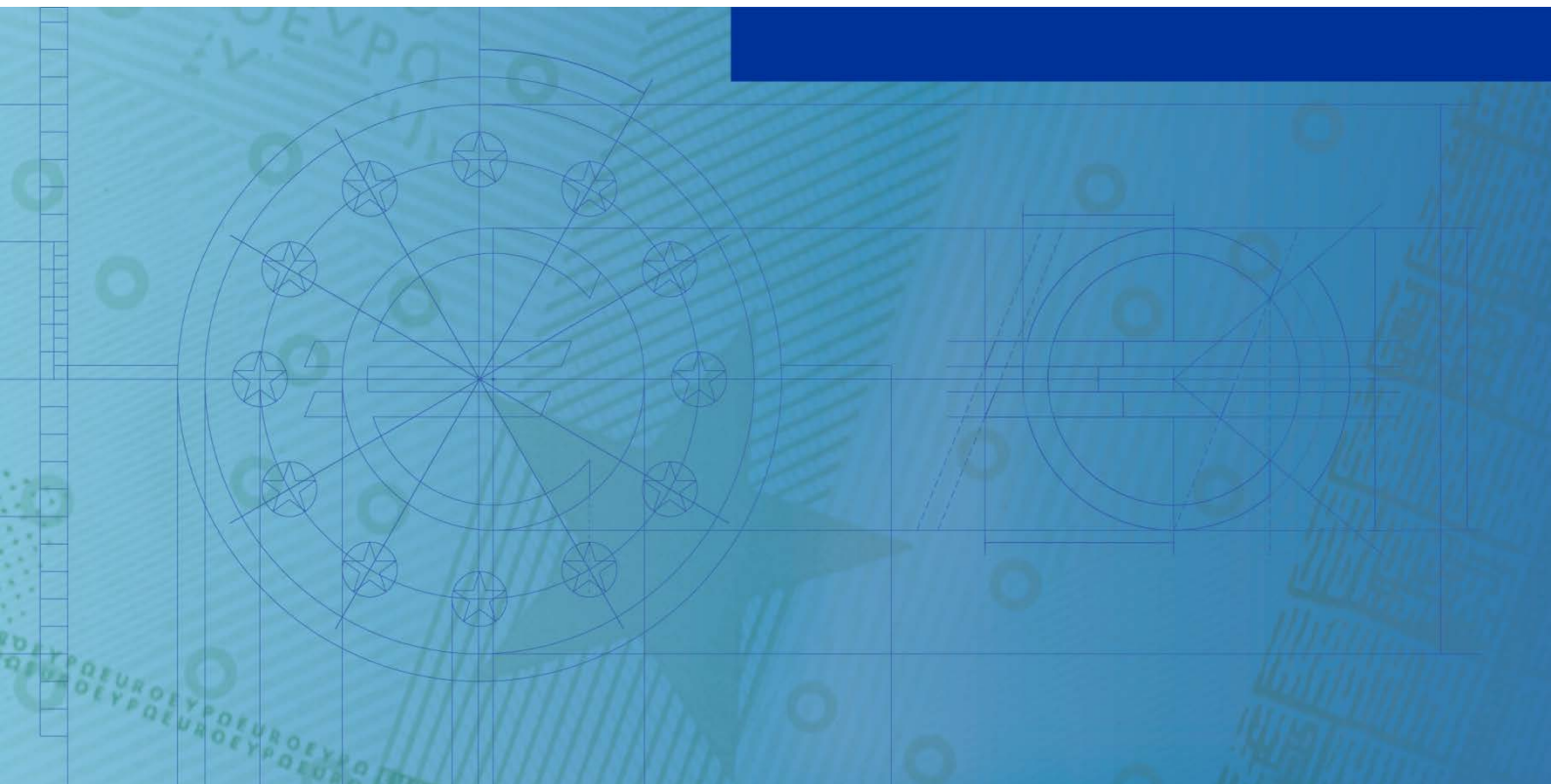




EUROPEAN CENTRAL BANK
EUROSYSTEM

Annual Accounts of the ECB

2019



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1 Management report

1.1 Purpose of the ECB's management report

The management report¹ is an integral part of the ECB's Annual Accounts and is designed to provide readers with contextual information related to the financial statements.² Given that the ECB's activities and operations are undertaken in support of its policy objectives, the ECB's financial position and result should be viewed in conjunction with its policy actions.

To this end, the management report presents the ECB's key activities and operations, as well as their impact on its financial statements. Furthermore, it analyses the main developments in the Balance Sheet and the Profit and Loss Account during the year and includes information on the ECB's financial resources. Finally, it describes the risk environment in which the ECB operates, providing information on the financial and operational risks to which the ECB is exposed, and the risk management policies used to mitigate risks.

1.2 Activities

The ECB is part of the Eurosystem, which has the primary objective of maintaining price stability. The ECB's main tasks, as described in the Statute of the ESCB,³ comprise the implementation of the monetary policy of the euro area, the conduct of foreign exchange operations, the management of the official foreign reserves of the euro area countries and the promotion of the smooth operation of payment systems.

The ECB is also responsible for the effective and consistent functioning of the Single Supervisory Mechanism (SSM), with a view to carrying out intrusive and effective banking supervision, contributing to the safety and soundness of the banking system and the stability of the financial system.

The Eurosystem's monetary policy operations are recorded in the financial statements of the ECB and of the euro area national central banks (NCBs), reflecting the principle of decentralised implementation of monetary policy in the Eurosystem. Table 1 below provides an overview of the main operations and functions of the ECB in pursuit of its mandate, and their impact on the ECB's financial statements.

¹ Throughout this document, the numbers presented may not add up precisely to the totals and percentages may not precisely reflect the absolute figures owing to rounding.

² The "financial statements" comprise the Balance Sheet, the Profit and Loss Account and the related notes. The "Annual Accounts" comprise the financial statements, the management report, the auditor's report and the note on profit distribution/allocation of losses.

³ Protocol on the Statute of the European System of Central Banks and of the European Central Bank.

Table 1**The ECB's key activities and their impact on its financial statements**

Implementation of monetary policy	
Standard monetary policy operations in euro	Liquidity-providing operations in foreign currency
<p>Monetary policy operations conducted with the standard set of instruments (i.e. open market operations, standing facilities and minimum reserve requirements for credit institutions) are implemented in a decentralised manner by the NCBs of the Eurosystem. Accordingly, these operations are not reflected in the ECB's financial statements.</p>	<p>The ECB acts as an intermediary between non-euro area central banks and the Eurosystem NCBs by means of swap transactions aimed at offering short-term foreign currency funding to Eurosystem counterparties.</p> <p>These operations are recorded in the balance sheet items "Liabilities to non-euro area residents denominated in euro" and "Other claims within the Eurosystem" or "Other liabilities within the Eurosystem" and have no impact on the ECB's Profit and Loss Account.</p>
Securities held for monetary policy purposes	Securities lending
<p>Purchases of these securities are conducted by the ECB and the NCBs of the Eurosystem and are recorded under the balance sheet item "Securities held for monetary policy purposes". The securities currently held are accounted for at amortised cost, subject to impairment.</p> <p>Coupon accruals and amortised premiums and discounts are included in the Profit and Loss Account on a net basis under either "Other interest income" or "Other interest expense", depending on whether the net amount is positive or negative.</p>	<p>Securities held for monetary policy purposes are available for lending by the Eurosystem.¹ For the ECB, these operations are conducted via specialised institutions. These operations are recorded in the balance sheet items "Other liabilities to euro area credit institutions denominated in euro" and "Liabilities to non-euro area residents denominated in euro" if collateral is provided in the form of cash and this cash is still uninvested. Otherwise, the related securities lending operations are recorded in off-balance-sheet accounts.</p>
Conduct of foreign exchange operations and management of the official foreign reserves of the euro area countries	
Foreign exchange operations and management of foreign reserves	
<p>The ECB's foreign reserves are presented on the Balance Sheet, mainly under "Gold and gold receivables", "Claims on non-euro area residents denominated in foreign currency", "Claims on euro area residents denominated in foreign currency", "Liabilities to euro area residents denominated in foreign currency" and "Liabilities to non-euro area residents denominated in foreign currency". Foreign exchange transactions are reflected in off-balance-sheet accounts until the settlement date.</p> <p>Net interest income, including coupon accruals and amortised premiums and discounts, is included in the Profit and Loss Account under the item "Interest income on foreign reserve assets".</p> <p>Unrealised price and exchange rate losses exceeding previously recorded unrealised gains on the same items, and realised gains and losses arising from the sale of foreign reserves, are also included in the Profit and Loss Account under the items "Write-downs on financial assets and positions" and "Realised gains/losses arising from financial operations" respectively. Unrealised gains are recorded on the Balance Sheet under the item "Revaluation accounts".</p>	
Promotion of the smooth operation of payment systems	
Payment systems (TARGET2)	
<p>Intra-Eurosystem balances of euro area NCBs vis-à-vis the ECB arising from TARGET2² are presented together on the Balance Sheet of the ECB as a single net asset or liability position. These balances are remunerated at the latest available rate on the main refinancing operations and the related interest is included in the Profit and Loss Account under the items "Other interest income" and "Other interest expense".</p>	
Contributing to the safety and soundness of the banking system and the stability of the financial system	
Banking supervision – the Single Supervisory Mechanism	
<p>The annual expenses of the ECB in relation to its supervisory tasks are recovered via annual supervisory fees levied on the supervised entities. The supervisory fees are included in the Profit and Loss Account under the heading "Net income from fees and commissions". Furthermore, the ECB is entitled to impose administrative penalties on supervised entities for failure to comply with obligations under EU banking prudential regulation (including ECB supervisory decisions). The related income is recorded in the Profit and Loss Account under the heading "Net income from fees and commissions".</p>	
Other	
Banknotes in circulation	Own funds portfolio
<p>The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation. This share is backed by claims on the NCBs, which bear interest at the rate on the main refinancing operations. This interest is included in the Profit and Loss Account under the item "Interest income arising from the allocation of euro banknotes within the Eurosystem".</p> <p>Expenses arising from the cross-border transportation of euro banknotes between banknote printing works and NCBs, for the delivery of new banknotes, and between NCBs, for the compensation of shortages with surplus stocks, are borne centrally by the ECB. These expenses are presented in the Profit and Loss Account under the heading "Banknote production services".</p>	<p>The own funds portfolio of the ECB is presented on the Balance Sheet, mainly under the item "Other financial assets".</p> <p>Net interest income, including coupon accruals and amortised premiums and discounts, is included in the Profit and Loss Account under "Other interest income" and "Other interest expense".</p> <p>Unrealised price losses exceeding previously recorded unrealised price gains on the same items, and realised gains and losses arising from the sale of securities, are also included in the Profit and Loss Account under the items "Write-downs on financial assets and positions" and "Realised gains/losses arising from financial operations" respectively. Unrealised price gains are recorded on the Balance Sheet under the item "Revaluation accounts".</p>

1) Further details on securities lending can be found on the [ECB's website](#).

2) Further details on TARGET2 can be found on the [ECB's website](#).

1.3 Financial developments

1.3.1 Balance Sheet

The ECB's Balance Sheet expanded significantly in the period 2015-2018 due the acquisition of securities under the asset purchase programme (APP)⁴.



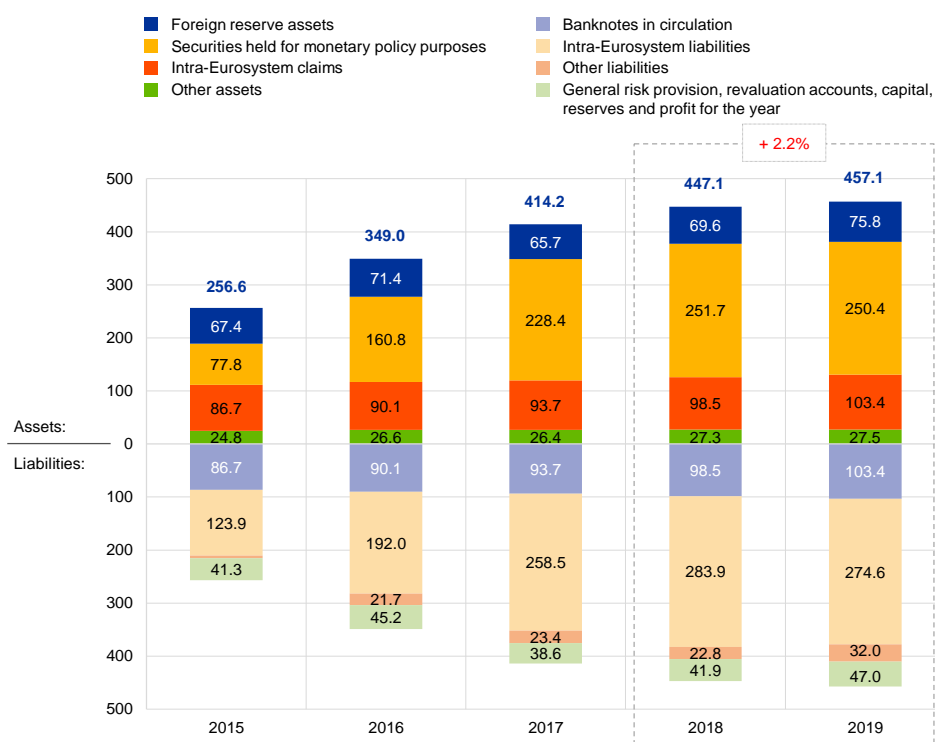
€10.0 billion
Increase in total assets
in 2019

In 2019 the **ECB's total assets** increased by €10.0 billion to €457.1 billion. This increase was mainly due to (i) the rise in the market value of the ECB's foreign reserve assets, owing to the increase in the price of gold and the appreciation of the US dollar and the Japanese yen vis-à-vis the euro during the year, and (ii) the rise in the value of euro banknotes in circulation.⁵

Chart 1

Main components of the ECB's Balance Sheet

(EUR billions)



Source: ECB.

⁴ The APP consists of the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP), the public sector purchase programme (PSPP) and the corporate sector purchase programme (CSPP). The ECB does not acquire securities under the CSPP. Further details on the APP can be found on the [ECB's website](#).

⁵ In 2019 the total value of euro banknotes in circulation in the Eurosystem grew by 5% to €1,293 billion. The ECB holds 8% of the total value of euro banknotes in circulation. This share is recorded under the items "Banknotes in circulation" and "Intra-Eurosystem claims".



55%
of total assets are securities held for monetary policy purposes

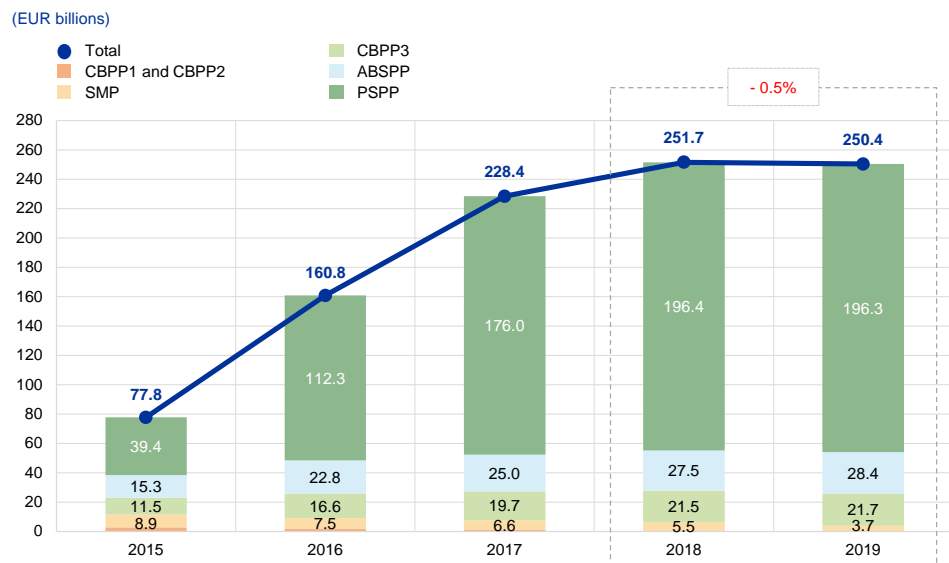


€1.3 billion
Decrease in securities held for monetary policy purposes

Euro-denominated securities held for monetary policy purposes constituted 55% of the ECB's total assets as at the end of 2019. Under this balance sheet position, the ECB holds securities acquired in the context of the Securities Markets Programme (SMP), the three covered bond purchase programmes (CBPP1, CBPP2 and CBPP3), the ABSPP and the PSPP. During 2019 the ECB fully reinvested the principal payments from maturing securities held in its APP portfolios. In addition, from 1 November 2019 the ECB restarted net purchases of securities under the APP on the basis of the Governing Council's decision of 12 September 2019 on overall monthly Eurosystem purchases⁶ and subject to predetermined eligibility criteria.

As at the end of 2019 the portfolio of securities held by the ECB for monetary policy purposes decreased by €1.3 billion to €250.4 billion (see Chart 2), mainly owing to redemptions of securities held under the SMP, CBPP1 and CBPP2. The total decrease in these holdings amounted to €2.2 billion. The €0.1 billion decrease in the PSPP portfolio was mainly due to the net impact of the amortisation of premiums and discounts⁷ on securities held in the portfolio, which more than offset the net purchases conducted in the last two months of 2019.

Chart 2
Securities held for monetary policy purposes



Source: ECB.



The value of the ECB's foreign reserve assets increased owing to the depreciation of the euro

In 2019 the total euro equivalent value of the **ECB's foreign reserve assets**, which consist of gold, special drawing rights, US dollars, Japanese yen and Chinese renminbi, increased by €6.2 billion to €75.8 billion.

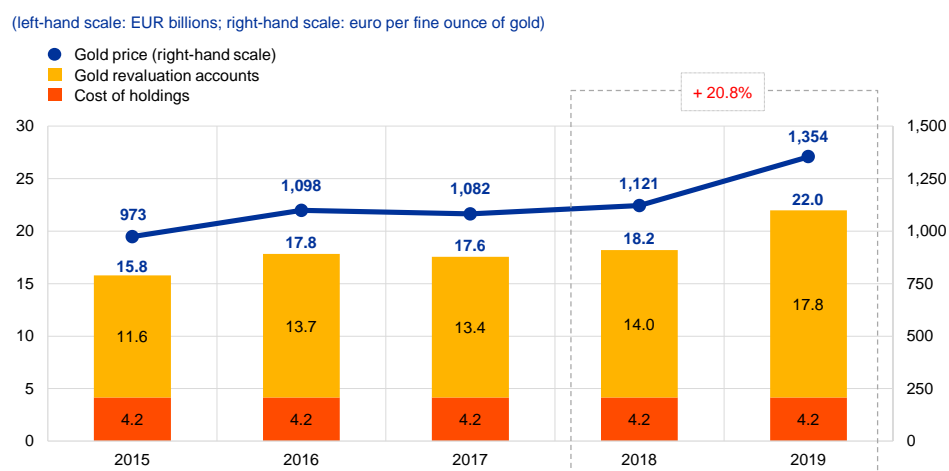
The euro equivalent value of the ECB's holdings of gold and gold receivables increased by €3.8 billion to €22.0 billion in 2019 (see Chart 3), owing to an increase in

⁶ See the [press release](#) of 12 September 2019 on the Governing Council's decisions.

⁷ The amortisation emerges from the accounting principle that requires securities to be revalued upwards or downwards over time towards their maturity date depending on whether they have been purchased at prices below or above their face value. The APP holdings were bought, on average, at a premium, and, consequently, all other things being equal, the book value of the holdings is decreasing over time.

the market price of gold in euro terms, while the size of these holdings in fine ounces remained unchanged. This increase also led to a rise in the ECB's revaluation accounts, which increased by the same amount (see Section 1.3.2 "Financial resources").

Chart 3
Gold holdings and gold prices



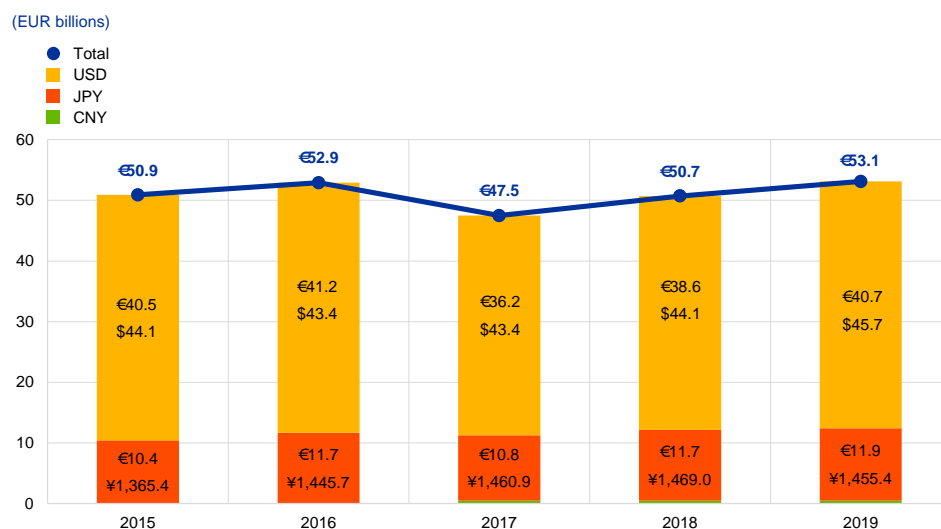
Source: ECB.

Note: "Gold revaluation accounts" does not include the contributions of the central banks of the Member States that joined the euro area after 1 January 1999 to the accumulated gold revaluation accounts of the ECB as at the day prior to their entry into the Eurosystem.

The ECB's net foreign currency holdings⁸ of US dollars, Japanese yen and Chinese renminbi increased in euro terms by €2.4 billion to €53.1 billion (see Chart 4), owing to the reinvestment of the income received during the year from these holdings and the depreciation of the euro against the US dollar and Japanese yen. The depreciation of the euro is also reflected in the higher balances in the ECB's revaluation accounts (see Section 1.3.2 "Financial resources").

⁸ These holdings comprise assets included under the balance sheet positions "Claims on non-euro area residents denominated in foreign currency – Balances with banks and security investments, external loans and other external assets" and "Claims on euro area residents denominated in foreign currency".

Chart 4
Foreign currency holdings



Source: ECB.

The US dollar continued to be the main component of the ECB's foreign currency holdings, accounting for approximately 77% of the total at the end of 2019.

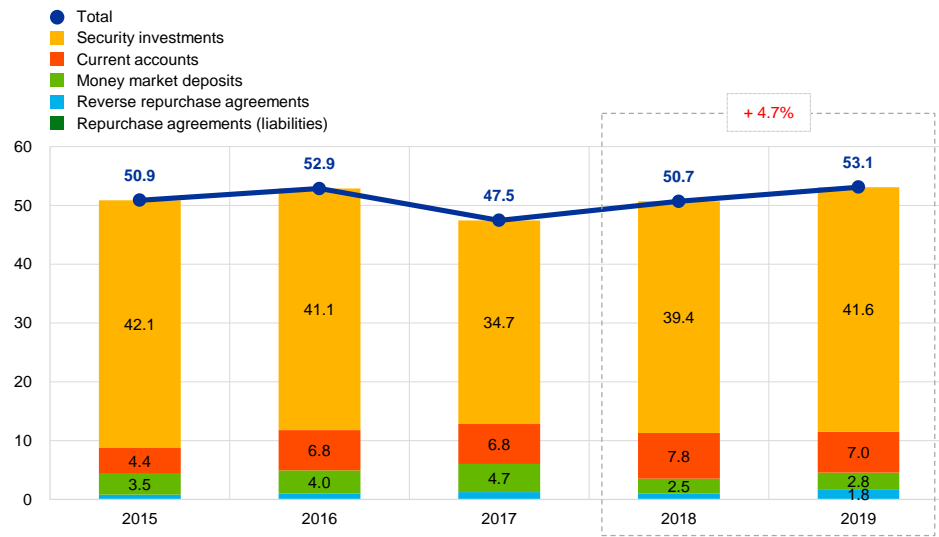
The ECB manages the investment of its foreign currency reserves using a three-step process. First, a strategic benchmark portfolio is designed by the ECB's risk managers and approved by the Governing Council. Second, the ECB's portfolio managers design the tactical benchmark portfolio, which is approved by the Executive Board. Third, day-to-day investment operations are conducted in a decentralised manner by the NCBs.

The ECB's foreign currency reserves are mainly invested in securities and money market deposits or are held in current accounts (see Chart 5). Securities in this portfolio are valued at year-end market prices.

Chart 5

Composition of foreign currency investments

(EUR billions)



Source: ECB.



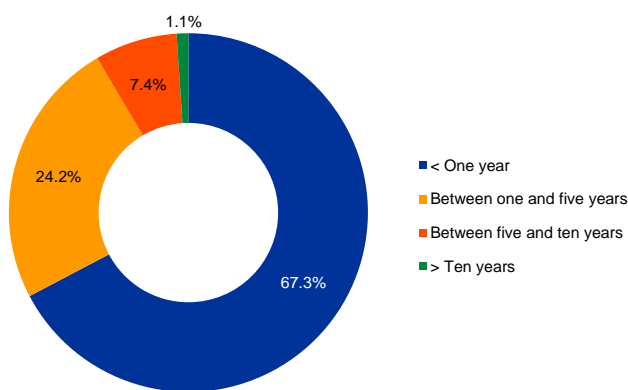
67%

Foreign currency-denominated securities with a maturity of less than one year

The purpose of the ECB's foreign currency reserves is to finance potential interventions in the foreign exchange market. For this reason, the ECB's foreign currency reserves are managed in accordance with three objectives: (in order of priority) liquidity, safety and return. Therefore, this portfolio mainly comprises securities with short maturities (see Chart 6).

Chart 6

Maturity profile of foreign currency-denominated securities

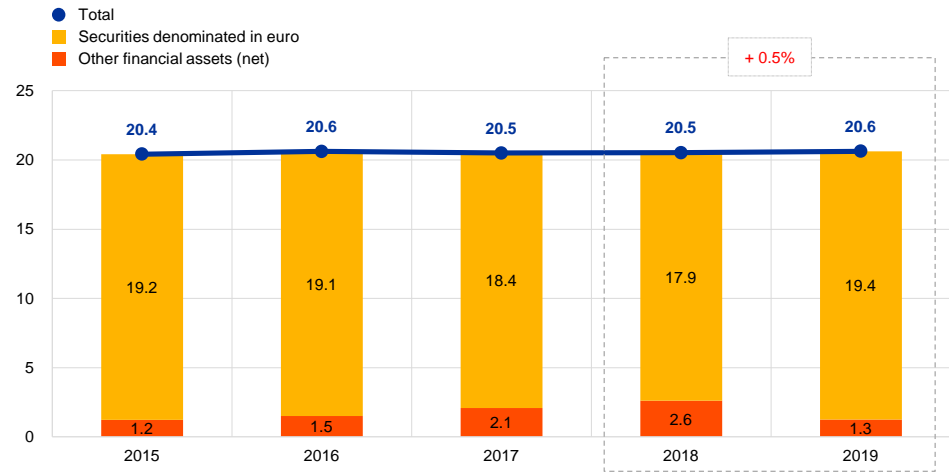


Source: ECB.

In 2019 the value of the **own funds portfolio** remained virtually unchanged (see Chart 7). This portfolio mainly consists of euro-denominated securities which are valued at year-end market prices.

Chart 7 The ECB's own funds portfolio

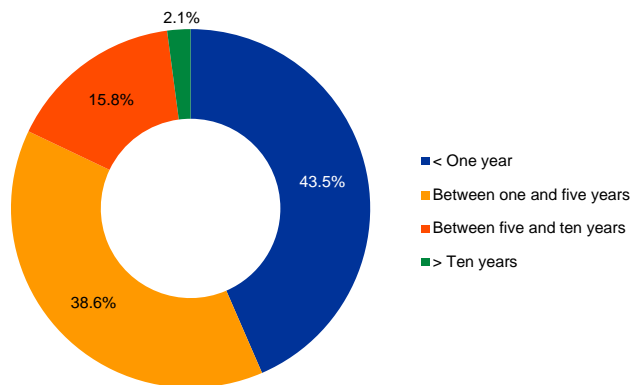
(EUR billions)



Source: ECB.

The ECB's own funds portfolio is held as a counterpart to its paid-up capital, the provision for financial risks and the general reserve fund. The purpose of this portfolio is to provide income to help fund the ECB's operating expenses which are not related to the performance of its supervisory tasks.⁹ In this context, the objective of the management of the own funds portfolio is to maximise returns, subject to a number of risk limits. This results in a more diversified maturity structure (see Chart 8) than in the foreign currency reserves portfolio.

Chart 8 Maturity profile of the ECB's own funds securities



Source: ECB.

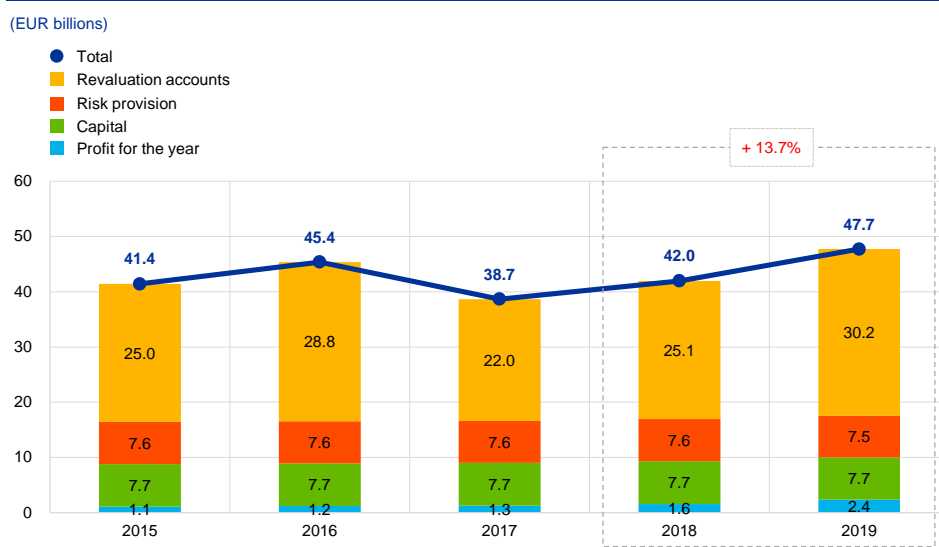
⁹ The expenses incurred by the ECB in the performance of its supervisory tasks are recovered via annual fees levied on supervised entities.

1.3.2 Financial resources

€47.7 billion
The ECB's financial resources

The ECB's financial resources consist of its capital, the general risk provision, the revaluation accounts and the profit for the year. These financial resources are (i) invested in assets that generate income and/or (ii) used to directly offset losses materialising from financial risks. As at 31 December 2019, the **ECB's financial resources** totalled €47.7 billion (see Chart 9). This was €5.7 billion higher than in 2018, mainly owing to an increase in the revaluation accounts following the depreciation of the euro.

Chart 9
The ECB's financial resources



Source: ECB.
Note: "Revaluation accounts" includes total revaluation gains on gold, foreign currency and securities holdings, but excludes the revaluation account for post-employment benefits.

2%
Depreciation of the euro against the US dollar in 2019

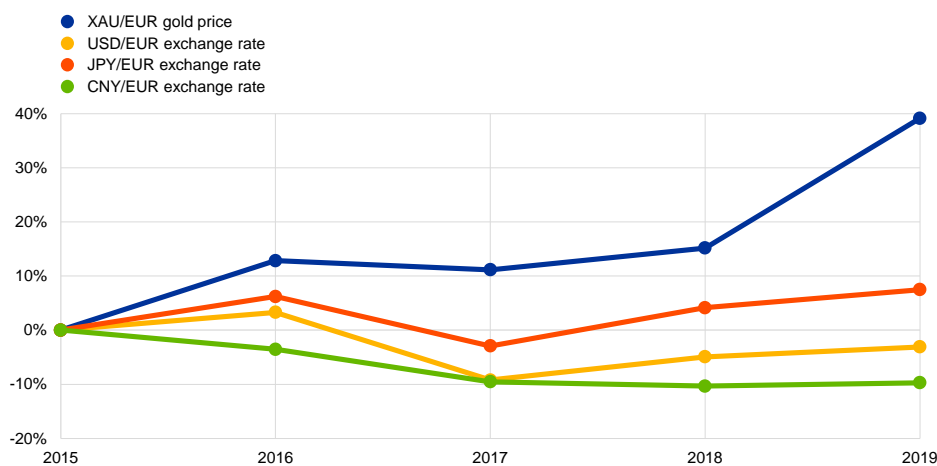
Unrealised gains on gold, foreign currencies and securities that are subject to price revaluation are not recognised as income in the Profit and Loss Account but are recorded directly in **revaluation accounts** shown on the liability side of the ECB's Balance Sheet. The balances in these accounts can be used to absorb the impact of any future unfavourable movement in the respective prices and/or exchange rates, and thus strengthen the ECB's resilience to the underlying risks. In 2019 the revaluation accounts for gold, foreign currencies and securities¹⁰ increased by €5.1 billion to €30.2 billion, mainly owing to the increase in the price of gold and the depreciation of the euro against the US dollar and Japanese yen (see Chart 10).

¹⁰ The balance sheet item "Revaluation accounts" also includes remeasurements in respect of post-employment benefits.

Chart 10

The main foreign exchange rates and gold price over the period 2015-19

(percentage changes vis-à-vis 2015; year-end data)



Source: ECB.

The profit resulting from the ECB's assets and liabilities in a given financial year can be used to absorb potential losses incurred in the same year. In 2019 the **ECB's profit** was €2.4 billion, €0.8 billion higher than in 2018.



The general risk provision stands at its maximum permitted level

In view of its exposure to financial risks (see Section 1.4.1 "Financial risks"), the ECB maintains a **provision for financial risks**. The size of this provision is reviewed annually, taking a range of factors into account, including the level of holdings of risk-bearing assets, the projected results for the coming year and a risk assessment. The risk provision, together with any amount held in the ECB's general reserve fund, may not exceed the value of the capital paid up by the euro area NCBs. Following the five-yearly adjustment of the key for subscription to the ECB's capital as at 1 January 2019 and the resulting reduction in the weightings of the euro area NCBs in the subscribed capital of the ECB, and taking into account the results of the assessment of the ECB's exposures to financial risks, the Governing Council decided to release €84 million from the ECB's provision for financial risks in order to comply with its maximum permitted level of €7.5 billion, which is equal to the value of the capital paid up by the euro area NCBs.

The **ECB's capital** paid up by euro area and non-euro area NCBs stood at €7.7 billion on 31 December 2019, €81 million lower than at the end of 2018. This reduction was a result of the five-yearly adjustment of the ECB's capital key that entered into force on 1 January 2019 and resulted in a decrease in the weighting of the euro area NCBs (with fully paid-up subscriptions).

In 2020 the shares of the NCBs in the capital of the ECB will change owing to the departure of the United Kingdom from the European Union and the consequent withdrawal of the Bank of England from the European System of Central Banks (ESCB). The ECB's subscribed capital will remain unchanged, as the share of the Bank of England in the ECB's subscribed capital will be reallocated among euro area and non-euro area NCBs. The ECB's paid-up capital will also remain unchanged in

2020, as the remaining NCBs will cover the Bank of England's withdrawn share of the paid-up capital.

1.3.3 Profit and Loss Account

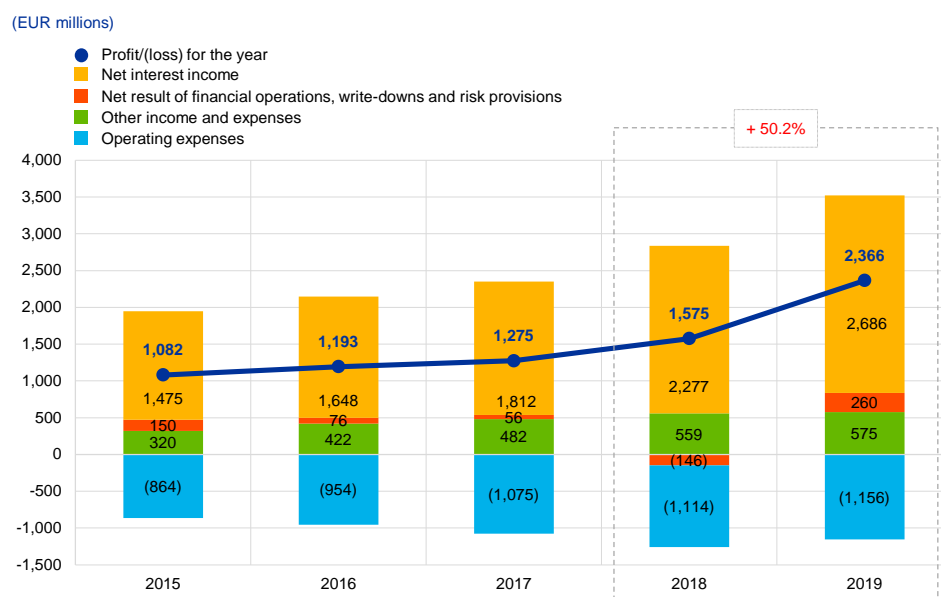
Over the period 2015-19 the annual profit of the ECB has gradually increased from around €1.1 billion to around €2.4 billion (see Chart 11), mainly due to higher interest income generated on foreign reserve assets and on securities held for monetary policy purposes, which more than offset a decline in interest income on banknotes in circulation¹¹ and on the own funds portfolio.



€2,366 million
The ECB's profit in 2019

In 2019 the **ECB's profit** was €2,366 million (2018: €1,575 million). The increase of €790 million compared with 2018 was due to both an increase in net interest income and better results from financial operations.

Chart 11
Main components of the ECB's Profit and Loss Account



Source: ECB.
Note: "Other income and expenses" consists of "Net income/expense from fees and commissions", "Income from equity shares and participating interests", "Other income" and "Other expenses".



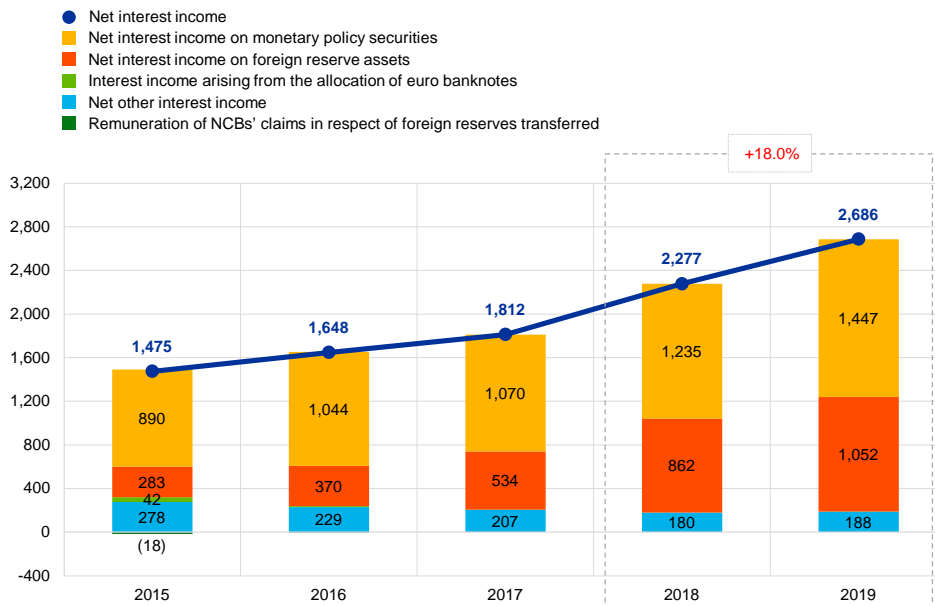
Increase in foreign reserve income and monetary policy income

The **net interest income** of the ECB increased by €410 million to €2,686 million (see Chart 12), mainly owing to higher interest income earned on both foreign reserve assets and securities held for monetary policy purposes.

¹¹ The ECB's income on euro banknotes in circulation comprises the interest income accruing to the ECB on the remuneration of its intra-Eurosystem claims on NCBs related to its 8% share of total euro banknotes in circulation.

Chart 12
Net interest income

(EUR millions)



Source: ECB.



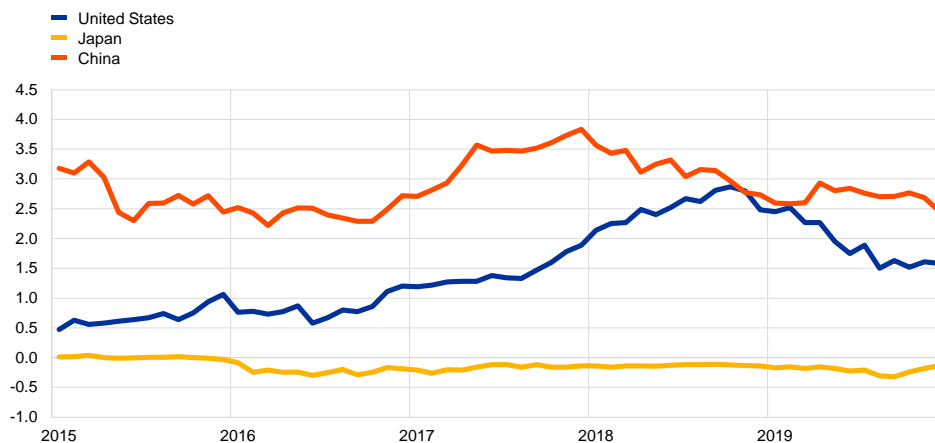
Increase in interest income on the US dollar portfolio, owing to the increase in US dollar yields observed throughout most of 2018

Net interest income on foreign reserve assets increased by €190 million to €1,052 million, mainly as a result of the higher interest income earned on securities denominated in US dollars.

Due to the increasing trend in US dollar securities yields throughout most of 2018 (see Chart 13), in particular for short maturities, the ECB acquired securities with higher yields, thereby increasing the average yield of its US dollar portfolio compared to the previous year. This had a positive impact on the interest income earned on this portfolio during 2019.

Chart 13
Two-year sovereign bond yields in the United States, Japan and China

(percentages per annum; month-end data)



Source: ECB.



Higher APP income more than offset the reduction in income from ceased programmes

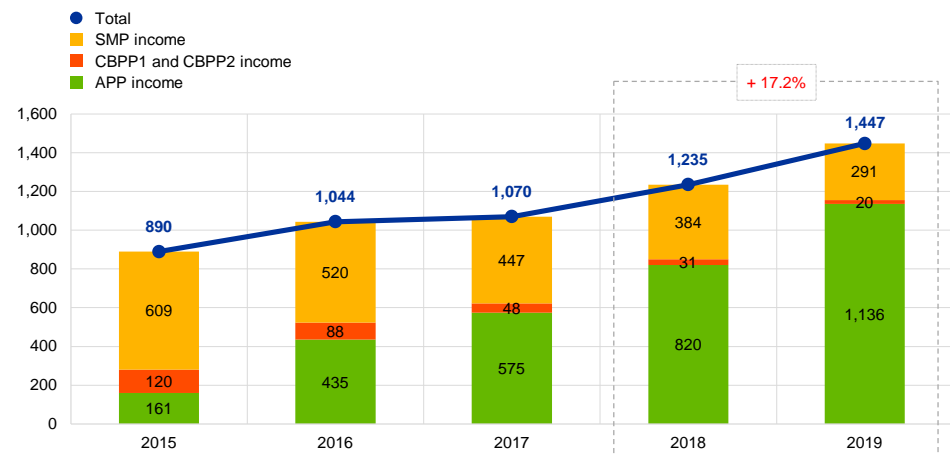
Net interest income generated on securities held for monetary policy purposes

in 2019 was €1,447 million, which was €212 million higher than in 2018 (see Chart 14). Net interest income arising from APP securities increased by €316 million to €1,136 million. This increase stemmed mainly from the PSPP portfolio owing to the higher average holdings and average yield of the portfolio during the year compared to 2018. In particular, the average yield of the portfolio has increased in the last two years as a result of (i) the higher-yield securities acquired throughout 2018 compared to the historical average yield of the portfolio and (ii) the reinvestment of the principal payments in 2019 at a higher yield than that of the redeemed securities. At the same time, yields on euro area sovereign bonds remained low on average in 2019 (see Chart 15). The increased net interest income from APP securities more than offset the reduction in net interest income on the SMP, CBPP1 and CBPP2 portfolios, which fell by €104 million to €31 million, owing to the decline in the size of these portfolios as a result of the maturing of securities. In 2019 securities held for monetary policy purposes generated around 54% of the ECB's net interest income.

Chart 14

Net interest income on securities held for monetary policy purposes

(EUR millions)

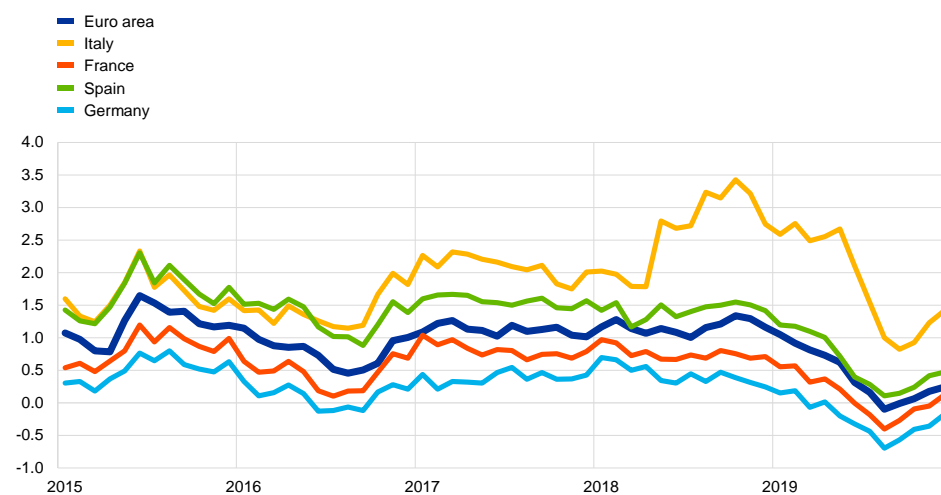


Source: ECB.

Chart 15

Ten-year sovereign bond yields in the euro area

(percentages per annum; month-end data)



Source: ECB.



0.0%
MRO rate in 2019

Both the **interest income on the ECB's share of total euro banknotes in circulation** and the **interest expense related to the remuneration of NCBs' claims in respect of foreign reserves transferred** were zero as a result of the 0% interest rate used by the Eurosystem in its main refinancing operations (MROs).

Net other interest income decreased, mainly owing to lower interest income earned on the own funds portfolio as a result of the low-yield environment in the euro area.



Net result of financial operations and write-downs was driven mainly by the change in US dollar bond yields

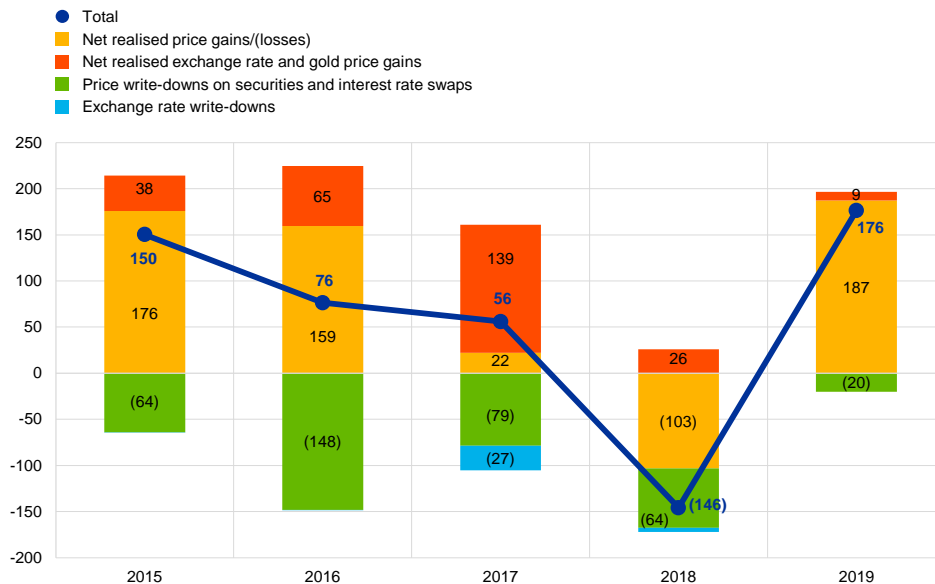
The **net result of financial operations and write-downs** on financial assets amounted to a gain of €176 million (see Chart 16). This result was €322 million higher than in 2018, mainly owing to better net realised price results.

In 2019 there was a net realised price gain on sales of securities, mainly owing to price gains on US dollar-denominated securities, as their market value was positively affected by the decrease in US dollar bond yields during the year.

Chart 16

Realised results and write-downs

(EUR millions)



Source: ECB.

In addition, an amount of €84 million was released from the ECB's general risk provision to the Profit and Loss Account as at 31 December 2019 in order to comply with the general risk provision upper limit as defined by the paid-up capital of the euro area NCBs (see Section 1.3.2 "Financial resources").



€37 million
Supervisory fee income
in 2019

The **total operating expenses** of the ECB, including depreciation and banknote production services, increased by €42 million to €1,156 million (see Chart 17). The increase compared to 2018 is mainly due to higher staff costs as a result of (i) the higher average number of staff in 2019, predominately in banking supervision, and (ii) the higher expense in relation to other long-term benefits, mainly owing to the lower discount rate used for the actuarial valuation at the end of 2019. Owing to the implementation of the new policy for leases in 2019, rental expenses related to leases, which were previously recognised under administrative expenses, are now recorded as depreciation. As a result, the administrative expenses were lower, while the depreciation cost was higher than the previous year. Administrative expenses also decreased due to lower costs related to agency staff and external consultancy support.

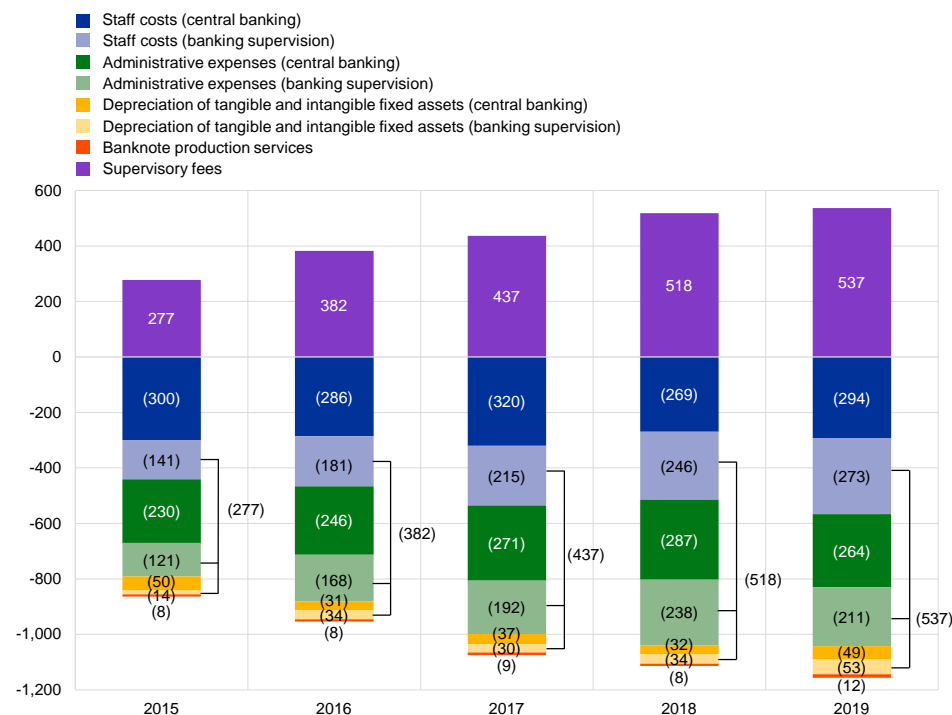
Banking supervision-related expenses are fully covered by fees levied on the supervised entities.¹²

¹² Supervisory fees are included under "Other income and expenses" (see Chart 11).

Chart 17

Operating expenses and supervisory fees

(EUR millions)



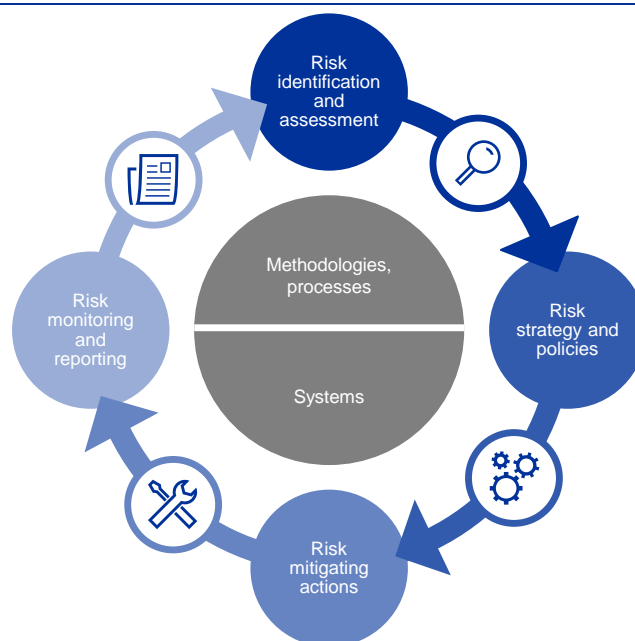
Source: ECB.

Notes: Operating expenses are split between central banking and banking supervision. The costs of shared services provided by the ECB's support business areas have been allocated among these two categories. These shared services are provided by the existing support business areas of the ECB, including premises, human resources management, administrative services, budgeting and controlling, accounting, legal, communication and translation services, internal audit, statistical and information technology services.

1.4 Risk management

Risk management is a critical part of the ECB's activities and is conducted through a continuous process of (i) risk identification and assessment, (ii) review of the risk strategy and policies, (iii) implementation of risk mitigating actions, and (iv) risk monitoring and reporting, all of which are supported by effective methodologies, processes and systems.

Figure 1
Risk management cycle



The ECB is exposed to both financial and operational risks. The following sections focus on these risks, their sources and the applicable risk control frameworks.

1.4.1 Financial risks

The Executive Board proposes policies and procedures that ensure an appropriate level of protection against the financial risks to which the ECB is exposed. The Risk Management Committee (RMC), which comprises experts from Eurosystem central banks, contributes, inter alia, to the monitoring and measuring of and reporting on financial risks related to the balance sheet of the Eurosystem, and it defines and reviews the associated methodologies and frameworks. In this way, the RMC helps the decision-making bodies to ensure an appropriate level of protection for the Eurosystem.

Financial risks arise from the ECB's core activities and associated exposures.

The risk control frameworks and limits that the ECB uses to manage its risk profile differ across types of operation, reflecting the policy or investment objectives of the different portfolios and the risk characteristics of the underlying assets.

To monitor and assess the risks, the ECB relies on a number of risk estimation techniques developed in-house. These techniques are based on a joint market and credit risk simulation framework. The core modelling concepts, techniques and assumptions underlying the risk measures draw on industry standards and available

market data. The risks are typically quantified by the expected shortfall (ES),¹³ estimated at the 99% confidence level over a one-year horizon. Two approaches are used to calculate risks: (i) the accounting approach, under which the ECB's revaluation accounts are considered as a buffer in the calculation of risk estimates in line with all applicable accounting rules; and (ii) the financial approach, under which the revaluation accounts are not considered as a buffer in the risk calculation. The ECB also calculates other risk measures at different confidence levels, performs sensitivity and stress scenario analyses, and assesses longer-term projections of exposures and income to maintain a comprehensive picture of the risks.¹⁴



€8.1 billion
Total risk in 2019
(ES 99% accounting
approach)

The total risks of the ECB decreased during the year. At the end of 2019 the total financial risks for all the ECB's portfolios combined, as measured by the ES at the 99% confidence level over a one-year horizon following the accounting approach, stood at €8.1 billion, which was €1.1 billion lower than the risks estimated as at the end of 2018. The decrease reflects lower currency and interest rate risk in the ECB's investment portfolios, improvements in the credit quality of securities held in the ECB's portfolios and redemptions of securities held under the SMP, CBPP1 and CBPP2.



Credit risk

Credit risk arises from the ECB's monetary policy portfolios, its euro-denominated own funds portfolio and its foreign reserve holdings. While securities held for monetary policy purposes are valued at amortised cost subject to impairment and are therefore, in the absence of sales, not subject to price changes associated with credit migrations, they are still subject to credit default risk. Euro-denominated own funds and foreign reserves are valued at market prices and, as such, are subject to credit migration and default risk. Credit risk decreased compared with the previous year owing to improvements in the credit quality of several European sovereigns and redemptions in the SMP holdings.

Credit risk is mitigated mainly through the application of eligibility criteria, due diligence procedures and limits that differ across portfolios.



Currency and commodity
risks

Currency and commodity risks arise from the ECB's foreign currency and gold holdings. The currency risk decreased compared to the previous year owing to higher revaluation accounts, which act as buffers against adverse exchange rate and gold price movements.

In view of the policy role of these assets, the ECB does not hedge the related currency and commodity risks. Instead, these risks are mitigated through the existence of revaluation accounts and the diversification of the holdings across different currencies and gold.



Interest rate risk

The ECB's foreign reserves and euro-denominated own funds are mainly invested in fixed income securities and are subject to mark-to-market interest rate risk, given that they are valued at market prices. The ECB's foreign reserves holdings are mainly invested in assets with relatively short maturities (see Chart 6 in Section 1.3.1 "Balance Sheet"), while the assets in the own funds portfolio generally

¹³ The ES is defined as a probability-weighted average loss that occurs in the worst (1-p)% of scenarios, where p denotes the confidence level.

¹⁴ Further details on the risk modelling approach can be found in "[The financial risk management of the Eurosystem's monetary policy operations](#)", ECB, July 2015.

have longer maturities (see Chart 8 in Section 1.3.1 “Balance Sheet”). This risk component, as measured under the accounting approach, decreased compared to 2018, reflecting developments in market conditions.

The mark-to-market interest rate risk of the ECB is mitigated through asset allocation policies and the revaluation accounts.

The ECB is also subject to interest rate risk arising from mismatches between the interest rate earned on its assets and the interest rate paid on its liabilities, which has an impact on its net interest income. This risk is not directly linked to any particular portfolio but rather to the structure of the ECB’s Balance Sheet as a whole and, in particular, the existence of maturity and yield mismatches between assets and liabilities. It is monitored by means of projections of the ECB’s profitability, which indicate that the ECB is expected to continue to earn net interest income in the coming years.

This type of risk is managed through asset allocation policies and is further mitigated by the existence of unremunerated liabilities on the ECB’s Balance Sheet.

1.4.2 Operational risk

The ECB’s operational risk¹⁵ management (ORM) covers all **non-financial risks**.

The Executive Board is responsible for and approves the ECB’s ORM policy and framework. The Operational Risk Committee (ORC) supports the Executive Board in the performance of its role in overseeing the management of operational risks. **ORM is an integral part of the ECB’s governance structure¹⁶ and management processes.**

The main objective of the ECB’s ORM framework is to **contribute to ensuring that the ECB achieves its mission and objectives, while protecting its reputation and assets against loss, misuse and damage.** Under the ORM framework, each business area is responsible for identifying, assessing, responding to, reporting on and monitoring its operational risks, incidents and controls. In this context, the ECB’s risk tolerance policy provides guidance with regard to risk response strategies and risk acceptance procedures. It is linked to a five-by-five risk matrix based on impact and likelihood grading scales using quantitative and qualitative criteria.

The environment in which the ECB operates is exposed to increasingly complex threats and there are a wide range of operational risks associated with the ECB’s day-to-day activities. The main areas of concern for the ECB include a wide spectrum of non-financial risks resulting from people, information, systems, processes and external third-party providers. Consequently, the ECB has put in place processes to facilitate ongoing and effective management of its operational risks and to integrate

¹⁵ Operational risk is defined as the risk of a negative financial, business or reputational impact resulting from people, the inadequate implementation or failure of internal governance and business processes, the failure of systems on which processes rely, or external events (e.g. natural disasters or external attacks).

¹⁶ Further information about the ECB’s governance structure can be found on the [ECB’s website](#).

risk information into the decision-making process. Moreover, the ECB focuses on enhancing its resilience. As such, response structures and contingency plans have been established to ensure the continuity of critical business functions in the event of any disruption.

2 Financial statements of the ECB

2.1 Balance Sheet as at 31 December 2019

ASSETS	Note number	2019 €millions	2018 €millions
Gold and gold receivables	1	21,976	18,193
Claims on non-euro area residents denominated in foreign currency	2		
Receivables from the IMF	2.1	710	692
Balances with banks and security investments, external loans and other external assets	2.2	50,478	49,723
		51,188	50,415
Claims on euro area residents denominated in foreign currency	2.2	2,637	997
Other claims on euro area credit institutions denominated in euro	3	109	300
Securities of euro area residents denominated in euro	4		
Securities held for monetary policy purposes	4.1	250,377	251,656
Intra-Eurosystem claims	5		
Claims related to the allocation of euro banknotes within the Eurosystem	5.1	103,420	98,490
Other assets	6		
Tangible and intangible fixed assets	6.1	1,330	1,148
Other financial assets	6.2	20,633	20,529
Off-balance-sheet instruments revaluation differences	6.3	619	579
Accruals and prepaid expenses	6.4	2,572	2,738
Sundry	6.5	2,221	2,039
		27,375	27,033
Total assets		457,082	447,083

Notes: Totals in the financial statements and in the tables included in the notes may not add up due to rounding. The figures 0 and (0) indicate positive or negative amounts rounded to zero, while a dash (-) indicates zero.

LIABILITIES	Note number	2019 €millions	2018 €millions
Banknotes in circulation	7	103,420	98,490
Other liabilities to euro area credit institutions denominated in euro	8	1,325	1,399
Liabilities to other euro area residents denominated in euro	9		
Other liabilities	9.1	20,466	9,152
Liabilities to non-euro area residents denominated in euro	10	7,245	10,361
Intra-Eurosystem liabilities	11		
Liabilities equivalent to the transfer of foreign reserves	11.1	40,344	40,793
Other liabilities within the Eurosystem (net)	11.2	234,288	243,115
		274,632	283,907
Other liabilities	12		
Off-balance-sheet instruments revaluation differences	12.1	709	641
Accruals and income collected in advance	12.2	66	54
Sundry	12.3	2,188	1,178
		2,962	1,873
Provisions	13	7,586	7,663
Revaluation accounts	14	29,420	24,922
Capital and reserves	15		
Capital	15.1	7,659	7,740
Profit for the year		2,366	1,575
Total liabilities		457,082	447,083

2.2 Profit and Loss Account for the year ending 31 December 2019

	Note number	2019 €millions	2018 €millions
Interest income on foreign reserve assets	22.1	1,052	862
Interest income arising from the allocation of euro banknotes within the Eurosystem	22.2	-	-
Other interest income	22.4	1,828	1,642
Interest income		2,879	2,503
Remuneration of NCBs' claims in respect of foreign reserves transferred	22.3	-	-
Other interest expense	22.4	(193)	(226)
Interest expense		(193)	(226)
Net interest income	22	2,686	2,277
Realised gains/losses arising from financial operations	23	197	(77)
Write-downs on financial assets and positions	24	(20)	(69)
Transfer to/from provisions for financial risks		84	-
Net result of financial operations, write-downs and risk provisions		260	(146)
Net income/expense from fees and commissions	25	531	511
Income from equity shares and participating interests	26	1	1
Other income	27	43	47
Total net income		3,522	2,690
Staff costs	28	(566)	(515)
Administrative expenses	29	(476)	(525)
Depreciation of tangible and intangible fixed assets		(102)	(66)
Banknote production services	30	(12)	(8)
Profit for the year		2,366	1,575

Frankfurt am Main, 11 February 2020
European Central Bank

Christine Lagarde
President

2.3 Accounting policies

Form and presentation of the financial statements

The financial statements of the ECB have been drawn up in accordance with the following accounting policies,¹⁷ which the Governing Council of the ECB considers to achieve a fair presentation of the financial statements, reflecting at the same time the nature of central bank activities.

Accounting principles

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

Recognition of assets and liabilities

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

Basis of accounting

The accounts have been prepared on a historical cost basis, modified to include the market valuation of marketable securities (other than securities currently held for monetary policy purposes), gold and all other on-balance-sheet and off-balance-sheet assets and liabilities denominated in foreign currency.

Transactions in financial assets and liabilities are reflected in the accounts on the basis of the date on which they were settled.

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

¹⁷ The detailed accounting policies of the ECB are laid down in [Decision \(EU\) 2016/2247 of the ECB of 3 November 2016 on the annual accounts of the ECB \(ECB/2016/35\) \(OJ L 347, 20.12.2016, p. 1\), as amended](#). In order to ensure the harmonised accounting and financial reporting of Eurosystem operations, the Decision is based on [Guideline \(EU\) 2016/2249 of the ECB of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks \(ECB/2016/34\) \(OJ L 347, 20.12.2016, p. 37\), as amended](#). These policies, which are reviewed and updated regularly as deemed appropriate, 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.

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 balance sheet date. 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 2019, was derived from the exchange rate of the euro against the US dollar on 31 December 2019.

The special drawing right (SDR) is defined in terms of a basket of currencies and its value is determined by the weighted sum of the exchange rates of five major currencies (the US dollar, euro, Chinese renminbi, Japanese yen and pound sterling). The ECB's holdings of SDRs were converted into euro using the exchange rate of euro per SDR as at 31 December 2019.

Securities

Securities held for monetary policy purposes

Securities currently held for monetary policy purposes are accounted for at amortised cost subject to impairment.

Other securities

Marketable securities (other than securities currently held for monetary policy purposes) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. Options embedded in securities are not separated for valuation purposes. For the year ending 31 December 2019, mid-market prices on 30 December 2019 were used. Illiquid equity shares and any other equity instruments held as permanent investments are valued at cost subject to impairment.

Income recognition

Income and expenses are recognised in the period in which they are earned or incurred.¹⁸ Realised gains and losses arising from the sale of foreign currency, gold and securities are taken to the Profit and Loss Account. Such realised gains and losses are calculated by reference to the average cost of the respective asset.

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

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

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

Premiums or discounts arising on securities are amortised over the securities' remaining contractual life.

Reverse transactions

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

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

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

Reverse transactions (including securities lending transactions) conducted under a programme offered by a specialised institution are recorded on the Balance Sheet only where collateral has been provided in the form of cash and this cash remains uninvested.

¹⁸ A minimum threshold of €100,000 applies for administrative accruals and provisions.

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, as well as interest rate swaps that are cleared via a central counterparty, are recorded in the Profit and Loss Account. The valuation of forward transactions in securities and of interest rate swaps that are not cleared via a central counterparty is carried out by the ECB based on generally accepted valuation methods using observable market prices and rates, as well as discount factors from the settlement dates to the valuation date.

Post-balance sheet events

The values of assets and liabilities are adjusted for events that occur between the annual balance sheet date and the date on which the Executive Board authorises the submission of the ECB's Annual Accounts to the Governing Council for approval, if such events materially affect the condition of assets and liabilities at the balance sheet date.

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

Intra-ESCB balances/intra-Eurosystem balances

Intra-ESCB balances result primarily from cross-border payments in the European Union (EU) that are settled in central bank money in euro. These transactions are for the most part initiated by private entities (i.e. credit institutions, corporations and individuals). They are settled in TARGET2 – the Trans-European Automated Real-time Gross settlement Express Transfer system – and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted and then assigned to the ECB on a daily basis, leaving each national central bank (NCB) with a single net bilateral position vis-à-vis the ECB only. Payments conducted by the ECB and settled in TARGET2 also affect the single net bilateral positions. These positions in the books of the ECB represent the net claim or liability of each NCB against the rest of the European System of Central Banks (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. the ECB's interim profit distribution to NCBs), are presented on the Balance Sheet of the ECB as a single net asset or liability position under either "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

TARGET2,¹⁹ 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” below).

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”.

Fixed assets

Fixed assets, including intangible assets, but with the exception of land and works of art, are valued at cost less depreciation. Land and works of art are valued at cost. The ECB’s main building is valued at cost less depreciation subject to impairment. For the depreciation of the ECB’s main building, costs are assigned to the appropriate asset components, which are depreciated in accordance with their estimated useful lives. Depreciation is calculated on a straight-line basis over the expected useful life of the asset, beginning in the quarter after the asset is available for use. The useful lives applied for the main asset classes are as follows:

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

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

The ECB performs an annual impairment test of its main building and right-of-use assets relating to office buildings (see “Leases” below) based on International Accounting Standard (IAS) 36 “Impairment of assets”. If an impairment indicator is identified, signalling that the asset may be impaired, the recoverable amount is estimated. An impairment loss is recorded in the Profit and Loss Account if the recoverable amount is less than the net book value.

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

Fixed assets that comply with the capitalisation criteria, but are still under construction or development, are recorded under the heading “Assets under construction”. The related costs are transferred to the relevant fixed asset headings once the assets are available for use.

¹⁹ As at 31 December 2019 the non-euro area NCBs participating in TARGET2 were Българска народна банка (Bulgarian National Bank), Danmarks Nationalbank, Hrvatska narodna banka, Narodowy Bank Polski and Banca Națională a României.

Leases

For all leases involving a tangible asset, the related right-of-use asset and lease liability are recognised on the Balance Sheet at the lease commencement date and included under “Tangible and intangible fixed assets” and “Sundry” (liabilities), respectively.

Right-of-use assets are valued at cost less depreciation. In addition, right-of-use assets relating to office buildings are subject to impairment (regarding annual impairment test, see “Fixed assets” above). Depreciation is calculated on a straight-line basis from the commencement date to either the end of the useful life of the right-of-use asset or the end of the lease term, whichever is earlier.

The lease liability is initially measured at the present value of the future lease payments (comprising only lease components), discounted using the ECB's incremental borrowing rate. Subsequently, the lease liability is measured at amortised cost using the effective interest method. The related interest expense is recorded in the Profit and Loss Account under “Other interest expense”. When there is a change in future lease payments arising from a change in an index or other reassessment of the existing contract, the lease liability is remeasured. Any such remeasurement results in a corresponding adjustment to the carrying amount of the right-of-use asset.

Short-term leases with duration of 12 months or less and leases of low-value assets below €10,000 (consistent with the threshold used for the recognition of fixed assets) are recorded as an expense in the Profit and Loss Account.

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

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

The staff pension plan is funded by assets held in a long-term employee benefit fund. The compulsory contributions made by the ECB and the staff are reflected in the defined benefit pillar of the plan. Staff can make additional contributions on a voluntary basis in a defined contribution pillar that can be used to provide additional benefits.²⁰ These additional benefits are determined by the amount of voluntary contributions together with the investment returns arising from those contributions.

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

²⁰ 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.

Net defined benefit liability

The liability recognised in the Balance Sheet under “Sundry” (liabilities) in respect of the defined benefit plans, including other long-term benefits and termination benefits, 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 related obligation.

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

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

Net defined benefit cost

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

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

1. the current service cost of the defined benefits accruing for the year;
2. the past service cost of the defined benefits resulting from a plan amendment;
3. net interest at the discount rate on the net defined benefit liability;
4. remeasurements in respect of other long-term benefits and termination benefits of a long-term nature, if any, in their entirety.

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

1. actuarial gains and losses on the defined benefit obligation;
2. the actual return on plan assets, excluding amounts included in the net interest on the net defined benefit liability;
3. any change in the effect of the asset ceiling, excluding amounts included in the net interest on the net defined benefit liability.

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

Banknotes in circulation

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes.²¹ 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.²²

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, which is disclosed in the Balance Sheet under the liability item “Banknotes in circulation”. The ECB’s share of the total euro banknote issue is backed by claims on the NCBs. These claims, which bear interest,²³ 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” above). Interest income on these claims is included in the Profit and Loss Account under the item “Interest income arising from the allocation of euro banknotes within the Eurosystem”.

Interim profit distribution

An amount that is equal to the sum of the ECB’s income on euro banknotes in circulation and income arising from the securities held for monetary policy purposes purchased under (a) the Securities Markets Programme; (b) the third covered bond purchase programme; (c) the asset-backed securities purchase programme; and (d) the public sector purchase programme is distributed in January of the following year by means of an interim profit distribution, unless otherwise decided by the Governing Council.²⁴ It is distributed in full unless it is higher than the ECB’s net profit for the year and subject to any decisions by the Governing Council to make transfers to the provision for financial risks. The Governing Council may also decide to reduce the amount of the income on euro banknotes in circulation to be distributed in January by the amount of the costs incurred by the ECB in connection with the issue and handling of euro banknotes.

Changes to accounting policies

Until the end of 2018 the ECB recorded costs related to rental contracts under “Administrative expenses” in the Profit and Loss Account over the contract duration. Following the issue of the International Financial Reporting Standard (IFRS) 16 “Leases”, the ECB has modified its accounting policy as from 1 January 2019. On the initial application, the ECB reassessed all rental contracts involving fixed assets to

²¹ [Decision of the ECB of 13 December 2010 on the issue of euro banknotes \(recast\) \(ECB/2010/29\) \(2011/67/EU\) \(OJ L 35, 9.2.2011, p. 26\), as amended.](#)

²² “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.

²³ [Decision \(EU\) 2016/2248 of the ECB of 3 November 2016 on the allocation of monetary income of the national central banks of Member States whose currency is the euro \(ECB/2016/36\) \(OJ L 347, 20.12.2016, p. 26\).](#)

²⁴ [Decision \(EU\) 2015/298 of the ECB of 15 December 2014 on the interim distribution of the income of the ECB \(recast\) \(ECB/2014/57\) \(OJ L 53, 25.2.2015, p. 24\), as amended.](#)

determine whether they meet the definition of a lease according to the new accounting policy. The identified leases were recognised using the modified retrospective approach, according to which a right-of-use asset is equal to the related lease liability. As a result, the comparative information has not been restated.

The resulting right-of-use assets and lease liabilities recognised on the Balance Sheet as at 1 January 2019 under “Tangible and intangible fixed assets” and “Sundry” (liabilities) are as follows:

	Balance as at 31 December 2018 € millions	Adjustment due to policy change on 1 January 2019 € millions	Balance as at 1 January 2019 € millions
Tangible and intangible fixed assets	1,148	271	1,419
Sundry (liabilities)	1,178	271	1,450

The related expenses will be recorded in the Profit and Loss Account under “Other interest expense” and “Depreciation of tangible and intangible fixed assets”.

Other issues

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 Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf (Federal Republic of Germany) as the external auditors of the ECB for a five-year period up to the end of the financial year 2022. This five-year period can be extended for up to two additional financial years.

2.4 Notes on the Balance Sheet

Note 1 - Gold and gold receivables

As at 31 December 2019 the ECB held 16,229,522 ounces²⁵ of fine gold, the market value of which amounted to €21,976 million (2018: €18,193 million). No gold operations took place in 2019 and the ECB's holdings therefore remained unchanged compared with their level as at 31 December 2018. The increase in the euro equivalent value of these holdings was due to the rise in the market price of gold in euro terms (see "Gold and foreign currency assets and liabilities" in Section 2.3 "Accounting policies" and note 14 "Revaluation accounts").

Note 2 - Claims on non-euro area and euro area residents denominated in foreign currency

Note 2.1 - Receivables from the IMF

This asset represents the ECB's holdings of SDRs and amounted to €710 million as at 31 December 2019 (2018: €692 million). 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 Section 2.3 "Accounting policies"). The increase in the value of the ECB's holdings of SDRs was due to the appreciation of the SDR against the euro during 2019 and the interest income received during the year.

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

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

²⁵ This corresponds to 504.8 tonnes.

Claims on non-euro area residents	2019 €millions	2018 €millions	Change €millions
Current accounts	6,947	7,755	(808)
Money market deposits	1,650	1,942	(292)
Reverse repurchase agreements	296	611	(316)
Security investments	41,585	39,415	2,170
Total	50,478	49,723	755

Claims on euro area residents	2019 €millions	2018 €millions	Change €millions
Current accounts	19	1	18
Money market deposits	1,128	602	526
Reverse repurchase agreements	1,490	393	1,097
Total	2,637	997	1,640

The total value of these items increased in 2019, owing to the reinvestment of income received during the year, primarily on the US dollar portfolio, and the appreciation of both the US dollar and the Japanese yen against the euro.

The ECB's net foreign currency holdings²⁶ as at 31 December 2019 were as follows:

	2019 Currency in millions	2018 Currency in millions
US dollars	48,879	47,551
Japanese yen	1,093,739	1,093,460
Chinese renminbi	4,043	3,886

Note 3 - Other claims on euro area credit institutions denominated in euro

As at 31 December 2019 this item consisted of current account balances with euro area residents amounting to €109 million (2018: €300 million).

Note 4 - Securities of euro area residents denominated in euro

Note 4.1 - Securities held for monetary policy purposes

As at 31 December 2019 this item consisted of securities acquired by the ECB within the scope of the three covered bond purchase programmes (CBPPs), the Securities

²⁶ 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", "Off-balance-sheet instruments revaluation differences" (liabilities side) and "Accruals and income collected in advance" and take into account foreign exchange forward and swap transactions included in off-balance-sheet items. Price gains on financial instruments denominated in foreign currency arising as a result of revaluations are not included.

Markets Programme (SMP), the asset-backed securities purchase programme (ABSPP) and the public sector purchase programme (PSPP).²⁷

Purchases under the first CBPP were completed on 30 June 2010, while the second CBPP ended on 31 October 2012. The Governing Council decided to cease SMP purchases on 6 September 2012.

On 1 November 2019 the Eurosystem restarted its net purchases of securities under the asset purchase programme (APP)²⁸ at a monthly pace of €20 billion on average. This followed a period of ten months since the end of 2018 during which the Eurosystem only reinvested, in full, the principal payments from maturing securities purchased under the APP. The Governing Council expects net purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council also intends to continue the reinvestments for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The securities purchased under all of these programmes are valued on an amortised cost basis subject to impairment (see “Securities” in Section 2.3 “Accounting policies”).

The amortised cost of the securities held by the ECB and their market value²⁹ (which is not recorded on the Balance Sheet or in the Profit and Loss Account and is provided for comparison purposes only) are as follows:

	2019 €millions		2018 €millions		Change €millions	
	Amortised cost	Market value	Amortised cost	Market value	Amortised cost	Market value
First covered bond purchase programme (CBPP1)	79	83	348	363	(269)	(280)
Second covered bond purchase programme (CBPP2)	218	235	341	365	(122)	(130)
Third covered bond purchase programme (CBPP3)	21,678	22,347	21,545	21,706	133	640
Securities Markets Programme (SMP)	3,692	4,121	5,484	6,051	(1,792)	(1,930)
Asset-backed securities purchase programme (ABSPP)	28,403	28,362	27,511	27,262	891	1,100
Public sector purchase programme (PSPP)	196,308	205,782	196,428	198,401	(120)	7,381
Total	250,377	260,929	251,656	254,148	(1,280)	6,781

The decrease in the amortised cost value of the portfolios held under the first and second CBPPs and the SMP was due to redemptions. The decrease in the amortised cost value of securities held under the PSPP was due to the net result of the

²⁷ The ECB does not acquire securities under the corporate sector purchase programme (CSPP).

²⁸ The APP consists of the third covered bond purchase programme (CBPP3), the ABSPP, the PSPP and the CSPP. Further details on the APP can be found on the [ECB's website](#).

²⁹ Market values are indicative and are derived on the basis of market quotes. When market quotes are not available, market prices are estimated using internal Eurosystem models.

amortisation of premiums and discounts, which more than offset the net purchases conducted in the last two months of 2019.

The Governing Council assesses on a regular basis the financial risks associated with the securities held under all these programmes.

Impairment tests are conducted on an annual basis, using data as at the year-end, and are approved by the Governing Council. In these tests, impairment indicators are assessed separately for each programme. In cases where impairment indicators were observed, further analysis has been performed to confirm that the cash flows of the underlying securities have not been affected by an impairment event. Based on the results of this year's impairment tests, no losses have been recorded by the ECB for the securities held in its monetary policy portfolios in 2019.

Note 5 - Intra-Eurosystem claims

Note 5.1 - 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 Section 2.3 "Accounting policies") and as at 31 December 2019 amounted to €103,420 million (2018: €98,490 million). The remuneration of these claims is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations³⁰ (see note 22.2 "Interest income arising from the allocation of euro banknotes within the Eurosystem").

Note 6 - Other assets

Note 6.1 - Tangible and intangible fixed assets

These assets comprised the following items on 31 December 2019:

³⁰ Since 16 March 2016 the interest rate used by the Eurosystem in its tenders for main refinancing operations has been 0.00%.

	2019 € millions	2018 € millions	Change € millions
Cost			
Land and buildings	1,009	1,012	(2)
Right-of-use buildings	268	-	268
Plant in building	221	221	0
Computer hardware and software	133	124	9
Equipment, furniture and motor vehicles	98	93	4
Right-of-use equipment	3	-	3
Assets under construction	0	1	(1)
Other fixed assets	11	11	0
Total cost	1,744	1,463	281
Accumulated depreciation			
Land and buildings	(141)	(118)	(23)
Right-of-use buildings	(39)	-	(39)
Plant in building	(80)	(64)	(16)
Computer hardware and software	(103)	(89)	(14)
Equipment, furniture and motor vehicles	(50)	(43)	(7)
Right-of-use equipment	(1)	-	(1)
Other fixed assets	(2)	(2)	(0)
Total accumulated depreciation	(414)	(315)	(100)
Net book value	1,330	1,148	182

As at 1 January 2019 the ECB recognised under right-of-use buildings mainly leased office buildings and under right-of-use equipment the related building operating facilities, as well as office and other equipment.

In respect of the ECB's main building and right-of-use office buildings, an impairment test was conducted at the end of the year and no impairment loss has been recorded.

Note 6.2 - Other financial assets

This item consists mainly of the investment of the ECB's own funds held as a counterpart to the capital and reserves and the provision for financial risks. It also includes 3,211 shares in the Bank for International Settlements (BIS) at the acquisition cost of €42 million.

The components of this item are as follows:

	2019 € millions	2018 € millions	Change € millions
Current accounts in euro	0	0	(0)
Securities denominated in euro	19,372	17,913	1,459
Reverse repurchase agreements in euro	1,219	2,575	(1,356)
Other financial assets	42	42	(0)
Total	20,633	20,529	103

The net increase in this item in 2019 was mainly due to the reinvestment of interest income generated on the ECB's own funds portfolio and the increase in the market value of the securities held in this portfolio.

Note 6.3 - Off-balance-sheet instruments revaluation differences

This item is composed of valuation changes in swap and forward transactions in foreign currency that were outstanding on 31 December 2019 (see note 19 "Foreign exchange swap and forward transactions"). These valuation changes amounted to €619 million (2018: €578 million) and 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 Section 2.3 "Accounting policies").

Note 6.4 - Accruals and prepaid expenses

On 31 December 2019 this item stood at €2,572 million (2018: €2,738 million). It comprised mainly accrued coupon interest on securities, including outstanding interest paid at acquisition, amounting to €2,431 million (2018: €2,589 million) (see note 2.2 "Balances with banks and security investments, external loans and other external assets; and claims on euro area residents denominated in foreign currency", note 4 "Securities of euro area residents denominated in euro" and note 6.2 "Other financial assets").

Moreover, this item includes (a) accrued income from common Eurosystem projects (see note 27 "Other income"); (b) miscellaneous prepayments; and (c) accrued interest income on other financial assets and liabilities.

Note 6.5 - Sundry

On 31 December 2019 this item amounted to €2,221 million (2018: €2,039 million) and mainly included the accrued amount of the ECB's interim profit distribution of €1,431 million (2018: €1,191 million) (see "Interim profit distribution" in Section 2.3 "Accounting policies" and note 11.2 "Other liabilities within the Eurosystem (net)").

It also included balances with a value of €757 million (2018: €567 million) related to swap and forward transactions in foreign currency outstanding on 31 December 2019 that arose from the conversion of such transactions into their euro equivalents at the respective currency's average cost on the balance sheet date, compared with the euro values at which the transactions were initially recorded (see "Off-balance-sheet instruments" in Section 2.3 "Accounting policies").

As at 31 December 2018 this item also included an amount of €244 million which corresponded to the annual supervisory fees receivable from the supervised entities, as the ECB invoiced these fees to the supervised entities in December 2018 with a payment date in January 2019. The supervisory fees for the current year were invoiced in October 2019 with a due date in December 2019, and as a result the majority was collected within the same financial year.

Note 7 - Banknotes in circulation

This item consists of the ECB's share (8%) of total euro banknotes in circulation (see "Banknotes in circulation" in Section 2.3 "Accounting policies") and as at 31 December 2019 amounted to €103,420 million (2018: €98,490 million).

Note 8 - Other liabilities to euro area credit institutions denominated in euro

The Eurosystem central banks have the possibility of accepting cash as collateral in their PSPP securities lending facilities without having to reinvest it. In the case of the ECB, these operations are conducted via a specialised institution.

As at 31 December 2019 the outstanding value of such PSPP securities lending transactions conducted with euro area credit institutions was €1,325 million (2018: €1,399 million). Cash received as collateral was transferred to TARGET2 accounts. As the cash remained uninvested at the year-end, these transactions were recorded on the Balance Sheet (see "Reverse transactions" in Section 2.3 "Accounting policies").³¹

Note 9 - Liabilities to other euro area residents denominated in euro

Note 9.1 - Other liabilities

As at 31 December 2019 this position amounted to €20,466 million (2018: €9,152 million). This item includes deposits of the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM). In accordance with Article 21 of

³¹ Securities lending transactions that do not result in uninvested cash collateral at the year-end are recorded in off-balance-sheet accounts (see note 16 "Securities lending programmes").

the Statute of the ESCB, the ECB may act as fiscal agent for Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States.

This item also includes deposits or payments of funds accepted by the ECB and made by or on behalf of the participants in EURO1 and RT1³² which are used as a guarantee fund for EURO1 or to support settlement in RT1.

Note 10 - Liabilities to non-euro area residents denominated in euro

As at 31 December 2019 this position amounted to €7,245 million (2018: €10,361 million). The largest component was an amount of €3,350 million (2018: €3,682 million) arising from the standing reciprocal currency arrangement with the Federal Reserve Bank of New York. Under this arrangement, US dollars are provided by the Federal Reserve System to the ECB by means of swap transactions, with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously enters into back-to-back swap transactions with euro area NCBs, which use the resulting funds to conduct US dollar liquidity-providing operations with Eurosystem counterparties in the form of reverse transactions. The back-to-back swap transactions result in intra-Eurosystem balances between the ECB and the NCBs (see note 11.2 “Other liabilities within the Eurosystem (net)”). Furthermore, the swap transactions conducted with the Federal Reserve System and the euro area NCBs result in forward claims and liabilities that are recorded in off-balance-sheet accounts (see note 19 “Foreign exchange swap and forward transactions”).

This item also includes an amount of €3,271 million (2018: €4,619 million) consisting of balances held with the ECB by non-euro area central banks that arise from, or are the counterpart of, transactions processed via the TARGET2 system. The decrease in these balances in 2019 was due to payments from non-euro area residents to euro area residents.

The remainder of this item consists of an amount of €625 million (2018: €2,059 million) arising from outstanding PSPP securities lending transactions conducted with non-euro area residents in which cash was received as collateral and transferred to TARGET2 accounts (see note 8 “Other liabilities to euro area credit institutions denominated in euro”).

³² EURO1 and RT1 are payment systems operated by ABE CLEARING S.A.S à capital variable (EBA Clearing).

Note 11 - Intra-Eurosystem liabilities

Note 11.1 - Liabilities equivalent to the transfer of foreign reserves

These represent the liabilities to euro area NCBs that arose from the transfer of foreign reserve assets to the ECB when they joined the Eurosystem. Pursuant to Article 30.2 of the Statute of the ESCB, these contributions are fixed in proportion to NCBs' share in the subscribed capital of the ECB. Following the five-yearly adjustment of the NCBs' weightings in the key for subscription to the ECB's capital on 1 January 2019, the weighting of the euro area NCBs in the ECB's subscribed capital decreased (see note 15 "Capital and reserves"). This resulted in a reduction in these liabilities by €448 million to €40,344 million, as shown in the table below.

	Since 1 January 2019 €millions	As at 31 December 2018 €millions
Nationale Bank van België/Banque Nationale de Belgique	1,465	1,436
Deutsche Bundesbank	10,644	10,430
Eesti Pank	114	112
Central Bank of Ireland	681	673
Bank of Greece	1,002	1,178
Banco de España	4,833	5,123
Banque de France	8,233	8,217
Banca d'Italia	6,840	7,134
Central Bank of Cyprus	87	88
Latvijas Banka	158	163
Lietuvos bankas	235	239
Banque centrale du Luxembourg	132	118
Central Bank of Malta	42	38
De Nederlandsche Bank	2,357	2,320
Oesterreichische Nationalbank	1,178	1,138
Banco de Portugal	948	1,010
Banka Slovenije	195	200
Národná banka Slovenska	464	448
Suomen Pankki – Finlands Bank	736	728
Total	40,344	40,793

The remuneration of these liabilities is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations, adjusted to reflect a zero return on the gold component (see note 22.3 "Remuneration of NCBs' claims in respect of foreign reserves transferred").

Note 11.2 - Other liabilities within the Eurosystem (net)

In 2019 this item consisted of the TARGET2 balances of euro area NCBs vis-à-vis the ECB and the amount due to euro area NCBs in respect of the ECB's interim profit distribution (see "Intra-ESCB balances/intra-Eurosystem balances" and "Interim profit distribution", respectively, in Section 2.3 "Accounting policies").

	2019 €millions	2018 €millions
Net TARGET2 liability	232,857	241,923
<i>Due to euro area NCBs in respect of TARGET2</i>	<i>1,282,370</i>	<i>1,349,908</i>
<i>Due from euro area NCBs in respect of TARGET2</i>	<i>(1,049,513)</i>	<i>(1,107,984)</i>
Due to euro area NCBs in respect of the ECB's interim profit distribution	1,431	1,191
Other liabilities within the Eurosystem (net)	234,288	243,115

The decrease in the net TARGET2 liability resulted mainly from (a) the increase in the deposits accepted by the ECB in its role as fiscal agent (see note 9 "Liabilities to other euro area residents denominated in euro"); (b) the interest income received from securities held for monetary policy purposes; and (c) redemptions of securities purchased under the SMP and the first two covered bonds purchase programmes, which were settled via TARGET2 accounts. The impact of these factors was partially offset by (a) the APP net purchases, which were also settled via TARGET2 accounts; (b) the payment of the ECB's profit distribution for 2018; (c) the decrease in cash received as collateral against the lending of PSPP securities (see note 8 "Other liabilities to euro area credit institutions denominated in euro" and note 10 "Liabilities to non-euro area residents denominated in euro"); and (d) the settlement in TARGET2 of payments from euro area residents to non-euro area residents (see note 10 "Liabilities to non-euro area residents denominated in euro").

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

Note 12 - Other liabilities

Note 12.1 - Off-balance-sheet instruments revaluation differences

This item is composed of valuation changes in swap and forward transactions in foreign currency that were outstanding on 31 December 2019 (see note 19 "Foreign exchange swap and forward transactions"). These valuation changes amounted to €709 million (2018: €641 million) and 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 Section 2.3 "Accounting policies").

Note 12.2 - Accruals and income collected in advance

This item comprised the following components on 31 December 2019:

	2019 € millions	2018 € millions	Change € millions
Administrative accruals	41	48	(7)
Financial instruments	2	5	(2)
Income collected in advance	22	1	21
Total	66	54	12

Note 12.3 - Sundry

On 31 December 2019 this item stood at €2,188 million (2018: €1,178 million). It included balances amounting to €662 million (2018: €580 million) related to swap and forward transactions in foreign currency that were outstanding on 31 December 2019 (see note 19 “Foreign exchange swap and forward transactions”). These balances arose from the conversion of such transactions into their euro equivalents at the respective currency’s average cost on the balance sheet date, compared with the euro values at which the transactions were initially recorded (see “Off-balance-sheet instruments” in Section 2.3 “Accounting policies”).

The item also included a lease liability of €232 million, resulting from the implementation of the new accounting policy for leases from 1 January 2019 (see “Leases” and “Changes to accounting policies” in Section 2.3 “Accounting policies”).

In addition, this item includes the ECB’s net defined benefit liability in respect of the post-employment and other long-term benefits of its staff and the members of the Executive Board, as well as the members of the Supervisory Board employed by the ECB. The termination benefits of ECB staff are also included.

The ECB’s post-employment benefits, other long-term benefits and termination benefits

Balance Sheet

The amounts recognised in the Balance Sheet under the item “Sundry” (liabilities) in respect of post-employment, other long-term and staff termination benefits were as follows:

	2019 € millions			2018 € millions		
	Staff	Boards	Total	Staff	Boards	Total
Defined benefit obligation	2,497	39	2,537	1,608	29	1,637
Fair value of plan assets	(1,307)	-	(1,307)	(1,080)	-	(1,080)
Net defined benefit liability included under “Sundry” (liabilities)	1,191	39	1,230	528	29	558

Note: The columns labelled “Boards” report amounts in respect of both the Executive Board and the Supervisory Board.

In 2019 the present value of the defined benefit obligation vis-à-vis staff of €2,497 million (2018: €1,608 million) included unfunded benefits amounting to €323 million (2018: €226 million) relating to post-employment benefits other than pensions, to other long-term benefits and to staff termination benefits. The present value of the defined benefit obligation vis-à-vis the members of the Executive Board and the members of the Supervisory Board of €39 million (2018: €29 million) relates solely to unfunded arrangements in place for post-employment and other long-term benefits.

Remeasurements of the ECB's net defined benefit liability in respect of post-employment benefits are recognised in the Balance Sheet under liability item "Revaluation accounts". In 2019, remeasurement losses under that liability item amounted to €749 million (2018: €129 million) (see note 14 "Revaluation accounts").

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

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

	2019 € millions			2018 € millions		
	Staff	Boards	Total	Staff	Boards	Total
Opening defined benefit obligation	1,608	29	1,637	1,510	29	1,539
Current service cost	90	2	92	96	2	98
Interest cost on the obligation	37	1	38	32	1	33
Contributions paid by plan participants ¹	31	(1)	30	33	0	33
Benefits paid	(22)	(2)	(24)	(43)	(3)	(46)
Remeasurement (gains)/losses	754	9	763	(19)	1	(19)
Closing defined benefit obligation	2,497	39	2,537	1,608	29	1,637

Note: The columns labelled "Boards" report amounts in respect of both the Executive Board and the Supervisory Board.

1) Net figure including compulsory contributions and transfers into/out of the plans. The compulsory contributions paid by staff are 7.4%, whilst those paid by the ECB are 20.7% of the basic salary.

The total remeasurement losses of €763 million on the defined benefit obligation in 2019 arose primarily as a result of the decrease in the discount rate from 2.3% in 2018 to 1.2% in 2019. Additional sources of remeasurement losses included the application of new mortality tables and, to a much lesser extent, experience adjustments reflecting the difference between the actuarial assumptions made in the previous year's report and actual experience.

Benefits paid decreased to €24 million in 2019 (2018: €46 million), mainly owing to lower one-off termination payments to staff members accepted for the temporary Career Transition Support (CTS) scheme. This scheme was introduced in 2017 for long-serving staff members to facilitate their voluntary transition to a career outside the ECB under specified conditions.

Changes in 2019 in the fair value of plan assets in the defined benefit pillar relating to staff were as follows:

	2019 € millions	2018 € millions
Opening fair value of plan assets	1,080	1,017
Interest income on plan assets	26	22
Remeasurement gains/(losses)	125	(34)
Contributions paid by employer	59	56
Contributions paid by plan participants	31	33
Benefits paid	(14)	(13)
Closing fair value of plan assets	1,307	1,080

The remeasurement gain on plan assets in 2019 reflected the fact that the actual return on the fund units was materially higher than the assumed interest income on plan assets.

Changes in 2019 in the remeasurement results were as follows:

	2019 € millions	2018 € millions
Opening remeasurement losses	(129)	(103)
Gains/(losses) on plan assets	125	(34)
Gains/(losses) on obligation	(763)	19
(Gains)/losses recognised in the Profit and Loss Account	18	(11)
Closing remeasurement losses included under "Revaluation accounts"	(749)	(129)

Profit and Loss Account

The amounts recognised in the Profit and Loss Account in 2019 were as follows:

	2019 € millions			2018 € millions		
	Staff	Boards	Total	Staff	Boards	Total
Current service cost	90	2	92	96	2	98
Net interest on the net defined benefit liability	12	1	13	10	1	11
<i>Interest cost on the obligation</i>	37	1	38	32	1	33
<i>Interest income on plan assets</i>	(26)	-	(26)	(22)	-	(22)
Remeasurement (gains)/losses on other long-term and termination benefits	18	0	18	(11)	(0)	(11)
Total included in "Staff costs"	119	3	123	96	3	98

Note: The columns labelled "Boards" report amounts in respect of both the Executive Board and the Supervisory Board.

The total remeasurement losses on other long-term and termination benefits recognised directly in the Profit and Loss Account amounted to €18 million in 2019. The majority of this amount related to other long-term benefits and arose primarily as a result of the decrease in the discount rate from 2.3% in 2018 to 1.2% in 2019.

The current service cost declined in 2019 to €92 million (2018: €98 million), mainly owing to an increase in the discount rate from 2.1% in 2017 to 2.3% in 2018.³³

Key assumptions

In preparing the valuations referred to in this note, the independent 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 liability for post-employment benefits and other long-term benefits are as follows:

	2019 %	2018 %
Discount rate	1.20	2.30
Expected return on plan assets ¹	2.20	3.30
General future salary increases ²	2.00	2.00
Future pension increases ³	1.00	1.30

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

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

3) In accordance with the ECB's pension plan rules, pensions will be increased annually. If general salary adjustments for ECB employees are below price inflation, any increase in pensions will be in line with the general salary adjustments. If the general salary adjustments exceed price inflation, they will be applied to determine the increase in pensions, provided that the financial position of the ECB's pension plans permits such an increase.

Furthermore, voluntary contributions made by staff in a defined contribution pillar in 2019 amounted to €171 million (2018: €140 million). These contributions are invested in the plan assets and give rise to a corresponding obligation of equal value.

Note 13 - Provisions

This item consists mainly of a provision for financial risks. In 2019 its scope was extended to cover all financial risks (i.e. market, liquidity and credit risks). It previously covered foreign exchange rate, interest rate, credit and gold price risks only.

The provision for financial risks will be used to the extent deemed necessary by the Governing Council to offset future realised and unrealised losses. The size of and continuing requirement for this provision is reviewed annually, based on the ECB's assessment of its exposure to these risks and taking a range of factors into account. Its size, 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.

Taking into account (i) the reduction in the weighting of the euro area NCBs in the subscribed capital of the ECB as a result of the five-yearly adjustment of the key for subscription to the ECB's capital as at 1 January 2019 (see note 15 "Capital and reserves") and (ii) the results of the assessment of the ECB's exposures to financial risks, the Governing Council decided to release €84 million from the ECB's provision for financial risks on 31 December 2019 in order to comply with the maximum allowed ceiling. Thus the provision for financial risks as at 31 December 2019 amounted to

³³ The current service cost is estimated using the discount rate that applied in the previous year.

€7,536 million, which corresponds to the value of the ECB's capital paid up by the euro area NCBs as at that date.

Note 14 - Revaluation accounts

This item consists mainly of revaluation balances arising from unrealised gains on assets, liabilities and off-balance-sheet instruments (see "Income recognition", "Gold and foreign currency assets and liabilities", "Securities" and "Off-balance-sheet instruments" in Section 2.3 "Accounting policies"). It also includes remeasurements of the ECB's net defined benefit liability in respect of post-employment benefits (see "The ECB's post-employment benefits, other long-term benefits and termination benefits" in Section 2.3 "Accounting policies" and note 12.3 "Sundry").

	2019 € millions	2018 € millions	Change € millions
Gold	18,082	14,298	3,784
Foreign currency	11,377	10,300	1,077
Securities and other instruments	710	453	257
Net defined benefit liability in respect of post-employment benefits	(749)	(129)	(620)
Total	29,420	24,922	4,498

The increase in the size of the revaluation accounts is predominately due to the rise in the price of gold and the depreciation of the euro against the US dollar and Japanese yen in 2019.

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

Exchange rates	2019	2018
US dollars per euro	1.1234	1.1450
Japanese yen per euro	121.94	125.85
Chinese renminbi per euro	7.8205	7.8751
Euro per SDR	1.2339	1.2154
Euro per fine ounce of gold	1,354.104	1,120.961

Note 15 - Capital and reserves

Note 15.1 - Capital

Change to the ECB's capital key

Pursuant to Article 29 of the Statute of the ESCB, the weightings assigned to the NCBs in the key for subscription to the ECB's capital are adjusted every five years³⁴ according to the shares of the respective Member States in the total population and

³⁴ These weights are also adjusted whenever there is a change in the composition of the NCBs that contribute to the ECB's capital. These are the NCBs of EU Member States.

gross domestic product of the EU, in equal measure.³⁵ The fourth such adjustment following the establishment of the ECB was made on 1 January 2019, and the NCBs' capital key shares were adjusted as follows:

	Capital key since 1 January 2019 %	Capital key as at 31 December 2018 %
Nationale Bank van België/Banque Nationale de Belgique	2.5280	2.4778
Deutsche Bundesbank	18.3670	17.9973
Eesti Pank	0.1968	0.1928
Central Bank of Ireland	1.1754	1.1607
Bank of Greece	1.7292	2.0332
Banco de España	8.3391	8.8409
Banque de France	14.2061	14.1792
Banca d'Italia	11.8023	12.3108
Central Bank of Cyprus	0.1503	0.1513
Latvijas Banka	0.2731	0.2821
Lietuvos bankas	0.4059	0.4132
Banque centrale du Luxembourg	0.2270	0.2030
Central Bank of Malta	0.0732	0.0648
De Nederlandsche Bank	4.0677	4.0035
Oesterreichische Nationalbank	2.0325	1.9631
Banco de Portugal	1.6367	1.7434
Banka Slovenije	0.3361	0.3455
Národná banka Slovenska	0.8004	0.7725
Suomen Pankki – Finlands Bank	1.2708	1.2564
Subtotal for euro area NCBs	69.6176	70.3915
Българска народна банка (Bulgarian National Bank)	0.8511	0.8590
Česká národní banka	1.6172	1.6075
Danmarks Nationalbank	1.4986	1.4873
Hrvatska narodna banka	0.5673	0.6023
Magyar Nemzeti Bank	1.3348	1.3798
Narodowy Bank Polski	5.2068	5.1230
Banca Națională a României	2.4470	2.6024
Sveriges Riksbank	2.5222	2.2729
Bank of England	14.3374	13.6743
Subtotal for non-euro area NCBs	30.3824	29.6085
Total	100.0000	100.0000

Paid-up capital of the ECB

The subscribed capital of the ECB is €10,825 million. Following the five-yearly adjustment of the ECB's capital key, the weighting of the euro area NCBs (with fully paid-up subscriptions) in the ECB's subscribed capital was reduced by 0.7739 percentage points, while that of the non-euro area NCBs (which only pay up 3.75% of their subscriptions) increased by the same amount. As a result, the ECB's paid-up

³⁵ The statistical data used for this adjustment were notified to the ECB by the European Commission in accordance with the rules laid down in [Council Decision 2003/517/EC of 15 July 2003 on the statistical data to be used for the adjustment of the key for subscription to the capital of the ECB \(OJ L 181, 19.7.2003, p. 43\)](#).

capital decreased by €81 million to €7,659 million on 1 January 2019, as shown in the table below:

	Since 1 January 2019 €millions		As at 31 December 2018 €millions	
	Subscribed capital	Paid-up capital	Subscribed capital	Paid-up capital
Nationale Bank van België/ Banque Nationale de Belgique	274	274	268	268
Deutsche Bundesbank	1,988	1,988	1,948	1,948
Eesti Pank	21	21	21	21
Central Bank of Ireland	127	127	126	126
Bank of Greece	187	187	220	220
Banco de España	903	903	957	957
Banque de France	1,538	1,538	1,535	1,535
Banca d'Italia	1,278	1,278	1,333	1,333
Central Bank of Cyprus	16	16	16	16
Latvijas Banka	30	30	31	31
Lietuvos bankas	44	44	45	45
Banque centrale du Luxembourg	25	25	22	22
Central Bank of Malta	8	8	7	7
De Nederlandsche Bank	440	440	433	433
Oesterreichische Nationalbank	220	220	213	213
Banco de Portugal	177	177	189	189
Banka Slovenije	36	36	37	37
Národná banka Slovenska	87	87	84	84
Suomen Pankki – Finlands Bank	138	138	136	136
Subtotal for euro area NCBs	7,536	7,536	7,620	7,620
Българска народна банка (Bulgarian National Bank)	92	3	93	3
Česká národní banka	175	7	174	7
Danmarks Nationalbank	162	6	161	6
Hrvatska narodna banka	61	2	65	2
Magyar Nemzeti Bank	144	5	149	6
Narodowy Bank Polski	564	21	555	21
Banca Națională a României	265	10	282	11
Sveriges Riksbank	273	10	246	9
Bank of England	1,552	58	1,480	56
Subtotal for non-euro area NCBs	3,289	123	3,205	120
Total	10,825	7,659	10,825	7,740

2.5 Off-balance-sheet instruments

Note 16 - Securities lending programmes

As part of the management of the ECB's own funds, the ECB has a securities lending programme agreement in place under which a specialised institution enters into securities lending transactions on behalf of the ECB.

In addition, in accordance with the Governing Council's decisions, the ECB has made available for lending its holdings of securities purchased under the first, second and third CBPPs, as well as its holdings of securities purchased under the PSPP and those purchased under the SMP that are also eligible for purchase under the PSPP.³⁶

Unless these securities lending operations are conducted against cash collateral that remains uninvested at the end of the year, they are recorded in off-balance-sheet accounts.³⁷ Such securities lending operations with a value of €10,076 million (2018: €9,646 million) were outstanding as at 31 December 2019. Of this amount, €5,502 million (2018: €4,440 million) related to the lending of securities held for monetary policy purposes.

Note 17 - Interest rate futures

As at 31 December 2019 the following foreign currency transactions, presented at year-end market rates, were outstanding:

Foreign currency interest rate futures	2019 Contract value € millions	2018 Contract value € millions	Change € millions
Purchases	6,103	13,780	(7,678)
Sales	20	22,731	(22,711)

These transactions were conducted in the context of the management of the ECB's foreign reserves.

Note 18 - Interest rate swaps

Interest rate swap transactions with a notional value of €703 million (2018: €519 million), presented at year-end market rates, were outstanding as at 31 December 2019. These transactions were conducted in the context of the management of the ECB's foreign reserves.

³⁶ The ECB does not purchase securities under the CSPP and consequently has no related holdings available for lending.

³⁷ If cash collateral remains uninvested at the year-end, these transactions are recorded in on-balance-sheet accounts (see note 8 "Other liabilities to euro area credit institutions denominated in euro" and note 10 "Liabilities to non-euro area residents denominated in euro").

Note 19 - Foreign exchange swap and forward transactions

Management of foreign reserves

Foreign exchange swap and forward transactions were conducted in 2019 in the context of the management of the ECB's foreign reserves. Claims and liabilities resulting from these transactions that were outstanding as at 31 December 2019 are presented at year-end market rates as follows:

Foreign exchange swap and forward transactions	2019 €millions	2018 €millions	Change €millions
Claims	2,972	2,905	67
Liabilities	2,967	2,981	(14)

Liquidity-providing operations

US dollar-denominated claims and liabilities with a settlement date in 2019 arose in connection with the provision of US dollar liquidity to Eurosystem counterparties (see note 10 "Liabilities to non-euro area residents denominated in euro").

Note 20 - Administration of borrowing and lending operations

In 2019 the ECB continued to be responsible for the administration of the borrowing and lending operations of the EU under the medium-term financial assistance facility and the European Financial Stabilisation Mechanism, for the loan facility agreement for Greece, and for the administration of payments relating to two EFSF loans. In 2019 the ECB processed payments related to these operations, as well as payments linked to member subscriptions to the ESM's authorised capital stock.

Note 21 - Contingent liabilities from pending lawsuits

Several lawsuits have been filed against the ECB and other EU institutions by a number of depositors, shareholders and bondholders of Cypriot credit institutions. The applicants allege that they have suffered financial losses as a result of acts that they deem to have led to the restructuring of these credit institutions in the context of the financial assistance programme for Cyprus. Two of these cases were dismissed on substance by the General Court of the EU in 2018, and an appeal against these judgments is currently pending before the Court of Justice of the EU. This follows orders of the General Court in 2014 which found twelve similar cases inadmissible in their entirety and, following appeals, judgments of the Court of Justice in 2016 which either confirmed the inadmissibility or ruled in favour of the ECB. The ECB's involvement in the process leading up to the conclusion of the financial assistance programme was limited to the provision of technical advice, pursuant to the ESM Treaty, acting in liaison with the European Commission, as well as the issuance of a non-binding opinion on the Cypriot draft resolution law. It is therefore considered that no losses will be incurred by the ECB as a result of these cases.

2.6 Notes on the Profit and Loss Account

Note 22 - Net interest income

Note 22.1 - 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:

	2019 €millions	2018 €millions	Change €millions
Interest income on current accounts	22	8	13
Interest income on money market deposits	69	74	(5)
Interest expense on repurchase agreements	(1)	(6)	5
Interest income on reverse repurchase agreements	71	44	28
Interest income on securities	812	673	140
Interest income on interest rate swaps	1	0	1
Interest income on forward and swap transactions in foreign currencies	77	68	9
Interest income on foreign reserve assets (net)	1,052	862	190

The overall increase in net interest income in 2019 was mainly due to higher interest income generated on the US dollar portfolio. The appreciation of the US dollar against the euro also contributed to this increase.

Note 22.2 - Interest income arising from the allocation of euro banknotes within the Eurosystem

This item consists of the interest income relating to the ECB's 8% share of the total euro banknote issue (see "Banknotes in circulation" in Section 2.3 "Accounting policies" and note 5.1 "Claims related to the allocation of euro banknotes within the Eurosystem"). For 2019 this interest income was zero, owing to the fact that the rate on the main refinancing operations remained at 0% during the entire year.

Note 22.3 - Remuneration of NCBs' claims in respect of foreign reserves transferred

Remuneration paid to euro area NCBs on their claims in respect of the foreign reserve assets transferred to the ECB (see note 11.1 "Liabilities equivalent to the transfer of foreign reserves") is disclosed under this heading. The remuneration in 2019 was zero, reflecting the fact that the rate on the main refinancing operations was 0% during the entire year.

Note 22.4 - Other interest income; and other interest expense

Other interest income and other interest expense in 2019 were as follows:

	2019 € millions	2018 € millions	Change € millions
Net interest income on monetary policy securities	1,447	1,235	212
<i>CBPP1 and CBPP2</i>	20	31	(11)
<i>SMP¹</i>	291	384	(93)
<i>APP</i>	1,136	820	316
Net interest income on monetary policy security lending	16	33	(17)
Net interest income on own funds	95	109	(14)
Net interest income on other assets/liabilities	76	39	38
Net other interest income	1,635	1,415	220

1) The ECB's net interest income on SMP holdings of Greek government bonds amounted to €94 million (2018: €127 million).

Note 23 - Realised gains/losses arising from financial operations

Net realised gains/losses arising from financial operations in 2019 were as follows:

	2019 € millions	2018 € millions	Change € millions
Net realised price gains/(losses)	187	(103)	290
Net realised exchange rate and gold price gains	9	26	(17)
Net realised gains/(losses) arising from financial operations	197	(77)	274

Net realised price gains/losses include realised gains and losses on securities, interest rate futures and interest rate swaps. The net realised price gains in 2019 were mainly due to realised price gains generated in the US dollar portfolio as a result of the lower US dollar securities yields compared to 2018.

Note 24 - Write-downs on financial assets and positions

Write-downs on financial assets and positions in 2019 were as follows:

	2019 € millions	2018 € millions	Change € millions
Unrealised price losses on securities	(20)	(64)	44
Unrealised exchange rate losses	-	(4)	4
Total write-downs	(20)	(69)	49

The market value of a number of securities held in the own funds and US dollar portfolios declined, alongside an increase in the corresponding yields towards the end of 2019. This resulted in unrealised price losses at the year-end.

Note 25 - Net income/expense from fees and commissions

	2019 € millions	2018 € millions	Change € millions
Income from fees and commissions	544	524	20
Expenses relating to fees and commissions	(13)	(13)	(0)
Net income from fees and commissions	531	511	20

In 2019 income under this heading consisted mainly of supervisory fees and administrative penalties imposed on supervised entities for non-compliance with the EU banking regulations on prudential requirements (including ECB supervisory decisions). Expenses consisted mainly of custody fees.

Income and expenses related to supervisory tasks

The ECB levies annual fees on supervised entities in order to recover expenditure incurred in the performance of its supervisory tasks. The ECB announced in April 2019 that the annual supervisory fees in 2019 would amount to €576 million. This figure was based on estimated annual expenses for supervisory tasks of €559 million in 2019, adjusted for (i) the deficit of €15 million carried forward from the 2018 fee period and (ii) amounts reimbursed to individual banks for previous fee periods³⁸ (€2 million).

Based on the actual expenses incurred by the ECB in the performance of its banking supervisory tasks, the supervisory fee income for 2019 stood at €537 million. The resulting surplus of €22 million arising from the difference between the estimated expenses (€559 million) and the actual expenses (€537 million) for 2019 is shown under the heading “Accruals and income collected in advance” (see note 12.2 “Accruals and income collected in advance”). It will reduce the total amount to be levied for the fee period 2020, which, following the implementation of ex post invoicing under the revised fee framework,³⁹ will take place in 2021.

The ECB is also entitled to impose administrative penalties on supervised entities for failure to comply with the EU banking regulations on prudential requirements (including ECB supervisory decisions). The related income is not considered in the calculation of the annual supervisory fees. Instead, it is recorded as income in the ECB's Profit and Loss Account and is distributed to euro area NCBs as part of the ECB's profit distribution regime. In 2019 the income arising from penalties on supervised entities amounted to €7 million.

³⁸ See Article 5(3) of [Regulation \(EU\) No 1163/2014 of the European Central Bank of 22 October 2014 on supervisory fees \(ECB/2014/41\) \(OJ L 311, 31.10.2014, p. 23\)](#).

³⁹ As of the fee period 2020, the ECB's supervisory fees will be calculated after the closure of the fee period in accordance with [Regulation \(EU\) 2019/2155 of the ECB of 5 December 2019 amending Regulation \(EU\) No 1163/2014 on supervisory fees \(ECB/2019/37\) \(OJ L 327, 17.12.2019, p. 70\)](#).

Thus, the related income of the ECB for supervisory tasks in 2019 was as follows:

	2019 €millions	2018 €millions	Change €millions
Supervisory fees	537	518	19
<i>Fees relating to significant entities or significant groups</i>	485	473	12
<i>Fees relating to less significant entities or less significant groups</i>	52	45	8
Imposed administrative penalties	7	6	1
Total income related to banking supervision tasks	544	524	20

Banking supervision-related expenses result from the direct supervision of significant entities, the oversight of the supervision of less significant entities and the performance of horizontal tasks and specialised services. They also include expenses arising from support areas needed to fulfil the ECB's supervisory responsibilities, including premises, human resources management, administrative services, budgeting and controlling, accounting, legal, communication and translation services, internal audit, and statistical and information technology services.

For 2019 the total actual expenses related to the ECB's supervisory tasks, which are recovered via the annual supervisory fees, were as follows:

	2019 €millions	2018 €millions	Change €millions
Salaries and benefits	273	246	27
Rent and building maintenance	61	59	2
Other operating expenditure	204	213	(9)
Total expenses related to banking supervision tasks	537	518	19

The increase in the average number of staff working for ECB Banking Supervision led to a corresponding increase in salaries and benefits. The higher staff numbers also drove the increase in premises-related costs, while the decrease in other operating expenditure was mainly due to lower consultancy expenses in relation to supervisory tasks, most notably the Targeted Review of Internal Models (TRIM), which will conclude in 2020.

Note 26 - Income from equity shares and participating interests

Dividends received on shares which the ECB holds in the BIS (see note 6.2 "Other financial assets") are shown under this heading.

Note 27 - Other income

Other miscellaneous income during 2019 arose mainly from contributions of euro area NCBs to costs incurred by the ECB in connection with joint Eurosystem projects.

Note 28 - Staff costs

Staff costs in 2019 were as follows:

	2019 € millions	2018 € millions	Change € millions
Salaries and allowances ¹	423	398	26
Staff insurance	20	19	1
Post-employment, other long-term and termination benefits	123	98	24
Other staff costs	0	1	(0)
Total	566	515	51

1) Salaries and allowances are, in essence, modelled on, and comparable with, the remuneration scheme of the European Union.

The average number of employees, expressed in full-time equivalents (FTEs)⁴⁰, amounted to 3,770 (2018: 3,546), of which 349 were managerial staff (2018: 337).

Staff costs increased in 2019 mainly owing to the higher average number of staff employed by the ECB and higher costs in relation to other long-term benefits, mainly as a result of the use of a lower discount rate for the actuarial valuation at the end of 2019 (see note 12.3 “Sundry”).

Remuneration of the Executive and Supervisory Boards

Members of the Executive Board and the members of the Supervisory Board employed by the ECB receive a basic salary and allowances for residence and representation. In the case of the President, a residence is provided in lieu of a residence allowance. Subject to the Conditions of Employment for Staff of the European Central Bank, members of both boards may be entitled to household, child and education allowances, depending on their individual circumstances. Salaries are subject to a tax for the benefit of the EU, as well as to deductions in respect of contributions to the pension, medical, long-term care and accident insurance schemes. Allowances are non-taxable and non-pensionable.

In 2019 the basic salaries of the members of the Executive Board and members of the Supervisory Board employed by the ECB (i.e. excluding representatives of national supervisors) were as follows:⁴¹

⁴⁰ A full-time equivalent (FTE) is a unit equivalent to one employee working full-time for one year. Staff with permanent, fixed or short-term contracts and participants in the ECB's Graduate Programme are included in proportion to their hours worked. Staff on maternity or on long-term leave are also included, while staff on unpaid leave are excluded.

⁴¹ Amounts are presented gross, i.e. before any tax deductions for the benefit of the EU.

	2019 €	2018 €
Mario Draghi (President until October 2019)	339,950	401,400
Christine Lagarde (President since November 2019)	67,990	-
Vítor Constâncio (Vice-President until May 2018)	-	143,360
Luis de Guindos Jurado (Vice-President since June 2018)	349,680	200,704
Peter Praet (Board Member until May 2019)	121,410	286,704
Philip R. Lane (Board Member since June 2019)	169,974	-
Benoît Cœuré (Board Member)	291,384	286,704
Yves Mersch (Board Member)	291,384	286,704
Sabine Lautenschläger (Board Member until October 2019)	242,820	286,704
Total Executive Board	1,874,592	1,892,280
Total Supervisory Board (members employed by the ECB)¹	769,189	793,064
<i>of which:</i>		
<i>Danièle Nouy (Chair of the Supervisory Board until December 2018)</i>	-	286,704
<i>Andrea Enria (Chair of the Supervisory Board since January 2019)</i>	291,384	-
Total	2,643,781	2,685,344

1) This total excludes the salary of the Vice-Chair of the Supervisory Board (Sabine Lautenschläger until February 2019 and Yves Mersch since October 2019), which is reported with those of the other members of the Executive Board.

Total allowances paid to members of both boards and the ECB's contributions to medical, long-term care and accident insurance schemes on their behalf amounted to €1,182,767 (2018: €835,371). Transitional payments may be made to former members of both boards for a limited period after the end of their terms of office. In 2019 these payments, the related family allowances and the ECB's contributions to the medical, long-term care and accident insurance schemes of former members of both boards amounted to €864,287 (2018: €169,346). The increase in total allowances and transitional payments is mainly due to a higher number of board members leaving/joining the ECB in 2019 than in the previous year.

Pension payments, including post-employment allowances, and contributions to the medical, long-term care and accident insurance schemes for former board members and their dependants amounted to €1,848,157 (2018: €3,047,064).⁴² In 2019 this amount included a transfer out to another pension scheme on the retirement of a former board member. In 2018 it included a lump sum payment on retirement to a former board member in lieu of future pension payments.

Note 29 - Administrative expenses

This item, amounting to €476 million (2018: €525 million), covers all other current expenses relating to consultancy, information technology, maintenance of premises, goods and equipment of a non-capital nature, and other services and supplies together with staff-related expenses, including training, recruitment, relocation and accommodation expenses.

⁴² For the net amount charged to the Profit and Loss Account in relation to the pension arrangements for current members of the Executive Board and current members of the Supervisory Board employed by the ECB, see note 12.3 "Sundry".

The decrease in 2019 was mainly due to lower expenses in relation to rent of space, agency staff and external consultancy support. Lower rental expenses resulted from the on-balance-sheet recognition of the right-of-use buildings (see “Changes to accounting policies” in Section 2.3 “Accounting policies” and note 6.1 “Tangible and intangible fixed assets”) and the recording of the related expenses as depreciation.

Note 30 - Banknote production services

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

2.7 Post-balance sheet events

Note 31 - Adjustment of the ECB's capital key following the departure of the United Kingdom from the EU

As a result of the departure of the United Kingdom from the EU and the consequent withdrawal of the Bank of England from the ESCB, the weightings assigned to the remaining NCBs in the key for subscription to the ECB's capital were adjusted with effect from 1 February 2020 as follows:

	Capital key since 1 February 2020 %	Capital key as at 31 January 2020 %
Nationale Bank van België/Banque Nationale de Belgique	2.9630	2.5280
Deutsche Bundesbank	21.4394	18.3670
Eesti Pank	0.2291	0.1968
Central Bank of Ireland	1.3772	1.1754
Bank of Greece	2.0117	1.7292
Banco de España	9.6981	8.3391
Banque de France	16.6108	14.2061
Banca d'Italia	13.8165	11.8023
Central Bank of Cyprus	0.1750	0.1503
Latvijas Banka	0.3169	0.2731
Lietuvos bankas	0.4707	0.4059
Banque centrale du Luxembourg	0.2679	0.2270
Central Bank of Malta	0.0853	0.0732
De Nederlandsche Bank	4.7662	4.0677
Oesterreichische Nationalbank	2.3804	2.0325
Banco de Portugal	1.9035	1.6367
Banka Slovenije	0.3916	0.3361
Národná banka Slovenska	0.9314	0.8004
Suomen Pankki – Finlands Bank	1.4939	1.2708
Subtotal for euro area NCBs	81.3286	69.6176
Българска народна банка (Bulgarian National Bank)	0.9832	0.8511
Česká národní banka	1.8794	1.6172
Danmarks Nationalbank	1.7591	1.4986
Hrvatska narodna banka	0.6595	0.5673
Magyar Nemzeti Bank	1.5488	1.3348
Narodowy Bank Polski	6.0335	5.2068
Banca Națională a României	2.8289	2.4470
Sveriges Riksbank	2.9790	2.5222
Bank of England	0.0000	14.3374
Subtotal for non-euro area NCBs	18.6714	30.3824
Total	100.0000	100.0000

Impact on the ECB's capital

The ECB kept its subscribed capital unchanged at €10,825 million after the Bank of England's withdrawal from the ESCB. The share of the Bank of England in the ECB's subscribed capital, which stood at 14.3%, was reallocated among both euro area and remaining non-euro area NCBs.

The ECB's paid-up capital will remain unchanged at €7,659 million in 2020, as the remaining NCBs covered the Bank of England's former paid-up capital of €58 million. Over the next two years euro area NCBs will pay up, in two annual instalments, the remainder of their increased subscriptions to the ECB's capital following the Bank of England's withdrawal from the ESCB. This will lead to an increase in the ECB's paid-up capital from €7,659 million in 2020 to €8,270 million in 2021 and €8,880 million in 2022.

Impact on NCBs' claims equivalent to the foreign reserve assets transferred to the ECB

Pursuant to Article 30.2 of the Statute of the ESCB, the contributions of the NCBs to the transfer of foreign reserve assets to the ECB are fixed in proportion to their share in the ECB's subscribed capital. Following (a) the increase in the weighting of the euro area NCBs (which have transferred foreign reserve assets to the ECB) in the ECB's subscribed capital resulting from Bank of England's withdrawal from the ESCB and (b) the decision of the Governing Council to reduce the proportion of the euro area NCBs' contributions, so that the total amount of foreign reserve assets transferred by the euro area NCBs remains at the same level as before the Bank of England's withdrawal from the ESCB, the NCBs' total claim equivalent to these transfers remains virtually unchanged.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the ECB's Financial Statements 2019

Opinion

We have audited the Financial Statements of the European Central Bank (ECB) for the year ended 31 December 2019 – included in the ECB's Annual Accounts – which comprise the balance sheet, the profit and loss account, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of the ECB as at 31 December 2019, and of the results of its financial operations for the year then ended in accordance with the principles established by the Governing Council, which are laid down in Decision (EU) 2016/2247 of the ECB of 3 November 2016 on the annual accounts of the ECB (ECB/2016/35), as amended, which is based on Guideline (EU) 2016/2249 of the ECB of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34), as amended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the ECB in accordance with the German ethical requirements that are relevant to our audit of the Financial Statements, which are consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The ECB's Executive Board ("Executive Board") is responsible for the other information included in the ECB's Annual Accounts. The other information comprises all the information included in the ECB's Annual Accounts except the Financial Statements of the ECB and our auditor's report.

Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of the Executive Board and those charged with Governance for the Financial Statements

The Executive Board is responsible for the preparation and fair presentation of the Financial Statements in accordance with the principles established by the Governing Council, which are laid down in Decision (EU) 2016/2247 of the ECB of 3 November 2016 on the annual accounts of the ECB (ECB/2016/35), as amended, which is based on Guideline (EU) 2016/2249 of the ECB of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34), as amended, and for such internal control as the Executive Board determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Executive Board is responsible for assessing the ECB's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing the ECB's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 ECB's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ECB's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Frankfurt am Main, 12 February 2020

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)



Ralph Hüsemann
Wirtschaftsprüfer



Dr. Stefan Wolfgang Fischer
Wirtschaftsprüfer

4 Note on profit distribution/allocation of losses

This note is not part of the financial statements of the ECB for the year 2019.

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

1. 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
2. the remaining net profit shall be distributed to the shareholders of the ECB in proportion to their paid-up shares.⁴³

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.⁴⁴

The ECB's net profit for 2019 was €2,366 million. Following a decision by the Governing Council, an interim profit distribution, amounting to €1,431 million, was paid out to the euro area NCBs on 31 January 2020. Furthermore, the Governing Council decided to distribute the remaining profit of €935 million to the euro area NCBs.

	2019 €millions	2018 €millions
Profit for the year	2,366	1,575
Interim profit distribution	(1,431)	(1,191)
Profit after the interim profit distribution	935	384
Distribution of the remaining profit	(935)	(384)
Total	0	0

⁴³ Non-euro area NCBs are not entitled to receive any share of the ECB's distributable profits, nor are they liable to cover any loss of the ECB.

⁴⁴ 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.

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For specific terminology please refer to the [ECB glossary](#) (available in English only).

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