ANNUAL ACCOUNTS

MANAGEMENT REPORT FOR THE YEAR ENDING 31 DECEMBER 2013

1 NATURE OF THE BUSINESS

The ECB's activities in 2013 are described in detail in the relevant chapters of the Annual Report.

2 OBJECTIVES AND TASKS

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

3 KEY RESOURCES AND PROCESSES

GOVERNANCE OF THE ECB

The Executive Board, the Governing Council and the General Council are the decision-making bodies of the ECB. In addition, the corporate governance of the ECB encompasses a high-level Audit Committee and a number of layers of internal and external controls, as well as two codes of conduct and an Ethics Framework.

In order to further strengthen the corporate governance of the ECB and the Eurosystem, the Audit Committee provides assistance to the Governing Council as regards its responsibilities in respect of the integrity of financial information, the oversight of internal controls, compliance with applicable laws, regulations and codes of conduct, and the performance of the audit functions of the ECB and the Eurosystem.

The Statute of the ESCB provides for two layers of external controls, namely the external auditors appointed to audit the annual accounts of the ECB (Article 27.1) and the European Court of Auditors, which examines the operational efficiency of the management of the ECB (Article 27.2). In order to reinforce public assurance as to the independence of the ECB's external auditors, the principle of audit firm rotation every five years is applied. In 2013 Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was appointed as the external auditors of the ECB for the period to the end of the financial year 2017.

In the context of the internal control structure of the ECB, an operational risk management framework is in place, whereby each organisational unit is responsible for managing its own operational risks and implementing its own controls, as well as for the effectiveness and efficiency of its operations. The Operational Risk Committee (ORC) supports the Executive Board in their oversight role regarding the management of the ECB's operational risks.

The ECB's Directorate Risk Management is responsible for the risk management framework applicable to all of the ECB's financial market operations and for monitoring, assessing and proposing improvements to the Eurosystem's operational framework for monetary policy and foreign reserves policy from a risk management perspective.

Within the ECB's internal control structure, responsibility and accountability for budget matters lies primarily with the individual business areas. The Budget, Controlling and Organisation Division (BCO) of the Directorate General HR, Budget and Organisation develops the framework for and prepares and monitors strategic planning in respect of the ECB's resources, as well as the related operational budget, in cooperation with the business areas. BCO also provides planning and resource controlling, cost-benefit analysis and investment analysis for ECB and ESCB projects. Spending against agreed budgets is monitored regularly by the Executive Board, taking into account the advice of BCO, and by the Governing Council with the assistance of the Budget Committee (BUCOM), which is composed of ECB and euro area NCB experts. In accordance with Article 15 of the ECB's Rules of Procedure, BUCOM supports the Governing Council by providing a detailed evaluation of the ECB's annual budget proposals and of requests for supplementary budget funding by the Executive Board, prior to their submission to the Governing Council for approval.

In addition, independent audit missions are performed by the Directorate Internal Audit under the direct responsibility of the Executive Board.

A comprehensive Ethics Framework for the staff of the ECB provides guidance and sets ethics conventions, standards and benchmarks. All staff are expected to maintain high standards of professional ethical behaviour in the performance of their duties, as well as in their relations with NCBs, public authorities, market participants, media representatives and the general public. Two additional codes of conduct deal exclusively with the ethical regime applicable to the members of the ECB's decision-making bodies. The Ethics Officer appointed by the Executive Board ensures that the rules applicable to Executive Board members and staff are interpreted consistently. An Ethics Adviser has been appointed by the Governing Council to provide guidance to its members on aspects of professional conduct.

Further information relating to the governance of the ECB is provided in Section 1 of Chapter 8 of the Annual Report.

MEMBERS OF THE EXECUTIVE BOARD

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

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

Salaries, allowances and other benefits of the members of the Executive Board are set out in note 30, "Staff costs", of the Annual Accounts.

EMPLOYEES

In 2013 human resources management policies at the ECB focused on working culture, gender diversity, recruitment, professional development and employment conditions. Developments related to the working culture of the ECB continued to focus on professional ethics and performance management. With respect to the latter, the ECB implemented an "underperformance procedure" which supports staff members who are required to restore their performance to at least a satisfactory level. Furthermore, the bank decided in 2013 to introduce gender targets and has put in place a gender diversity action plan, aimed at significantly increasing the proportion of women in high-ranking positions over the medium term.

The ECB continued to promote the acquisition and development of relevant skills and the further enhancement of the required competencies of management and staff. In January 2013 the ECB launched a two-year career transition support programme for staff members who have served the bank in the same or similar positions for a prolonged period and are interested in pursuing careers outside the ECB. Throughout 2013 intensive organisational preparations for the Single Supervisory Mechanism were under way. In this context, ECB staff participated in study visits and training courses offered by several national competent authorities.

The average number of staff (full-time equivalents) holding contracts with the ECB[1] rose from 1,615 in 2012 to 1,683 in 2013. At the end of 2013 1,790 staff were employed. For further information, see note 30, "Staff costs", of the Annual Accounts and Section 2 of Chapter 8 of the Annual Report which also describes developments in the area of human resources management in more detail.

PORTFOLIO MANAGEMENT

The ECB holds two types of investment portfolio, namely the foreign reserves investment portfolio, denominated in US dollars and Japanese yen, and an own funds investment portfolio denominated in euro. In addition, the funds relating to the ECB's pension plans are invested in an externally managed portfolio. The ECB also holds its share of securities for monetary policy purposes, acquired in the context of the Securities Markets Programme and the two covered bond purchase programmes.

PRODUCTION OF THE ECB'S FINANCIAL ACCOUNTS

Pursuant to Article 26.2 of the Statute of the ESCB, the Annual Accounts of the ECB are drawn up by the Executive Board, in accordance with the principles established by the Governing Council.[2]

The Financial Reporting and Policy Division of the Directorate General Administration is responsible for producing the Annual Accounts in cooperation with other business areas and for ensuring that all related documentation is submitted in a timely manner to the auditors and thereafter to the decision-making bodies.

The Directorate Internal Audit provides independent and objective assurance and consulting services designed to improve the ECB's operations. In this context, financial reporting processes and the ECB's Annual Accounts may be subject to internal audits. Internal audit reports, which

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

2 See the notes on accounting policies.

may include audit recommendations addressed to the business areas concerned, are submitted to the Executive Board.

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

Furthermore, the Annual Accounts of the ECB are audited by independent external auditors recommended by the Governing Council and approved by the EU Council. The external auditors examine the books and accounts of the ECB and have full access to all information about its transactions. The responsibility of the external auditors is to express an opinion as to whether the Annual Accounts give a true and fair view of the financial position of the ECB and of the results of its operations, in accordance with the principles established by the Governing Council. In this regard, the external auditors evaluate the adequacy of internal controls applied to the preparation and presentation of the Annual Accounts and assess the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Executive Board.

After the Executive Board has authorised their issuance, the Annual Accounts, together with the external auditors' opinion and all relevant documentation, are submitted to the Audit Committee for review prior to their submission to the Governing Council for approval.

The Executive Board has decided that from 2013 the ECB's Annual Accounts will be approved at the second Governing Council meeting in February of each year and published immediately thereafter.

4 RISK MANAGEMENT

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

FINANCIAL RISKS

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

Financial risks can be quantified using a variety of risk measures. In order to estimate such risks, the ECB applies risk estimation techniques developed in-house, which rely on a joint market and credit risk simulation framework. The core modelling concepts, techniques and assumptions underlying the risk measures are inspired by and reflect market standards.[3] In order to obtain a comprehensive understanding of potential risk events that could occur at different frequencies with different degrees of severity, the ECB uses two types of statistical measure, Value at Risk (VaR) and Expected Shortfall,[4] which are calculated for a number of confidence levels. Furthermore, sensitivity and scenario analyses are used to better understand and complement the statistical risk estimates.

Measured as VaR at a 95% confidence level over a one-year horizon (VaR95%), as at 31 December 2013 the financial risks to which the ECB was exposed through its financial assets amounted to a total of €8.6 billion, representing a decrease in risks compared with the risk figures estimated as at 31 December 2012 (€10.5 billion).[5]

CREDIT RISK [6]

The ECB manages its credit risk, which comprises credit default and credit migration risks, mainly through systems of exposure limits and, in certain credit operations, also by means of collateralisation techniques. The risk controls and limits that the ECB uses to determine its credit risk exposure differ across types of operation, reflecting the policy or investment objectives of the different portfolios.

The ECB's foreign reserves holdings are subject to both credit default and credit migration risks. However, these risks are minimal, as the reserves are mainly held for the purposes of potential foreign exchange interventions and are therefore invested in assets with a high credit quality.

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

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

The ECB's exposures stemming from securities acquired within the scope of the two covered bond purchase programmes and the Securities Markets Programme are not likely to be affected by credit migration risk, as they are classified as held-to-maturity and are therefore not revalued at market prices. However, these exposures may be subject to credit default risk. In the case of the portfolios for the covered bond purchase programmes, credit default risk is kept at moderate levels through the

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

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

5 Risk estimates provided in this Management Report have been produced using a consistent set of methodologies, assumptions and input parameters for exposures measured as at 31 December 2012 and 31 December 2013. Numerical differences between the risk estimates reported in this report for 31 December 2012 and those reported in the 2012 Annual Report of the ECB are due to methodological refinements.

6 Credit default risk is defined as the risk of incurring financial losses owing to a "default event", which stems from the failure of an obligor (counterparty or issuer) to meet its financial obligations in a timely manner. In addition to credit default risk, a broad definition of credit risk encompasses credit migration risk, which is the risk of incurring financial losses owing to a repricing of financial assets following a significant deterioration in their credit quality and ratings.

asset allocations, exposure limits and eligibility frameworks, which result in a diversified portfolio of covered bonds with a high credit quality. In the case of the Securities Markets Programme, the credit risk profile is determined by the allocation of purchases across countries, which is driven by monetary policy considerations. The resulting level of credit risk is within the tolerance levels of the ECB.

MARKET RISK [7]

The main types of market risk to which the ECB is subject in managing its holdings are currency and commodity (gold price) risks.[8] The ECB is also exposed to interest rate risk.[9]

Currency and commodity risks

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

In view of the policy role of gold and foreign reserves, described in Section 1.3 of Chapter 2 of the Annual Report, the ECB does not seek to eliminate currency and commodity risks. These risks are largely mitigated by the diversification of the holdings across different currencies and gold, even though the asset allocation is primarily driven by the potential need for policy interventions.

The contributions of currency and commodity (gold price) risks dominate the ECB's total risk profile. The bulk of the risks stems from the volatility of gold prices and of the US dollar exchange rate. In line with the Eurosystem rules, the gold and US dollar revaluation accounts, which amounted to €10.1 billion (2012: €16.4 billion) and €1.7 billion (2012: €3.3 billion) respectively as at 31 December 2013, can be used to absorb the impact of any future unfavourable movements in the prices of the underlying assets, thereby preventing any impact on the ECB's Profit and Loss Account.

The value of the ECB's gold holdings depreciated sharply over the course of 2013, but the impact of this depreciation was entirely absorbed by the respective revaluation account. As a result of the depreciation, the market value of the ECB's gold holdings has been reduced, leading to a decrease in currency and commodity risks.

Interest rate risk

Securities acquired within the scope of the two covered bond purchase programmes and the Securities Markets Programme are classified as held-to-maturity and are therefore not revalued at market prices and are not exposed to interest rate risk.

Conversely, the bulk of the ECB's foreign reserves and euro-denominated investment portfolios is invested in fixed income securities which are revalued at market prices and are therefore exposed to interest rate risk. The interest rate risk arising from these portfolios is managed through asset allocation policies and market risk limits which ensure that the market risk remains contained at levels that reflect the ECB's risk-return preferences for the different portfolios. When expressed in terms of the modified duration [10] of the fixed income portfolios, the different risk-return preferences

7 Market risk is the risk of incurring financial losses owing to movements in market prices and interest rates that are not related to credit events.
8 Currency risk is the risk of incurring financial losses on positions denominated in foreign currency, owing to fluctuations in exchange rates. Commodity risk is the risk of incurring financial losses on holdings of commodities, owing to fluctuations in their market prices.
9 Interest rate risk is defined as the risk of incurring financial losses owing to a mark-to-market decline in the value of financial instruments as a result of adverse changes in applicable interest rates (yields).
10 Modified duration is a measure of the sensitivity of the value of the portfolios to parallel shifts in yield curves.

result in a longer modified duration for the euro-denominated investment portfolio than for the foreign reserves holdings.

The interest rate risk to which the ECB is exposed is limited and remained broadly stable at low levels over the course of 2013.

LIQUIDITY RISK [11]

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

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

The liquidity risk profile of the ECB's portfolios remained broadly stable in 2013.

OPERATIONAL RISK

In the case of the ECB, operational risk is defined as the risk of a negative financial, business or reputational impact resulting from people,[12] the inadequate implementation or failure of internal governance and business processes, the failure of systems on which processes rely, or external events (e.g. natural disasters or external attacks). The operational risk management (ORM) framework covers all the activities of the ECB and is an integral part of the bank's governance and management processes. The main objectives of ORM at the ECB are to provide reasonable assurance that the ECB will achieve its mission and objectives, as well as to protect its reputation and other assets against loss, misuse and damage.

All risks are initially identified by the individual business areas. Each business area is assisted by the Operational Risk and Business Continuity Management Function team in handling all operational risk-related issues. The ECB has outlined potential root causes of risk, as well as risk events and the impacts which might arise from these causes. The ECB applies a defined risk life cycle which comprises a process of continuously and systematically identifying, analysing, responding to, reporting on and monitoring operational risk. The ECB has also put in place a risk tolerance policy which defines the level of operational risk it is prepared to tolerate.

11 In the case of the ECB, liquidity risk can be described as the possibility of incurring losses owing to the market's inability to absorb large sell orders without a significant decline in the price.
12 The term "people" is used in a broad sense and covers any negative impact resulting from actions of the workforce, as well as from deficient personnel resourcing and personnel policies.

5 FINANCIAL RESOURCES

CAPITAL

Upon the accession of Croatia as a new EU Member State as at 1 July 2013 the NCBs' capital key shares were adjusted and the subscribed capital of the ECB was increased to €10,825 million.

In addition, Hrvatska narodna banka, in the same way as the other non-euro area NCBs, paid up 3.75% of its subscribed capital as a contribution to the operational costs of the ECB. Overall, as a result of the accession of Croatia as a new Member State, the ECB's paid-up capital increased from €7,650 million on 30 June 2013 to €7,653 million on 1 July 2013.

Details of these changes are provided in note 16, "Capital and reserves", of the Annual Accounts.

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

Since most of the ECB's assets and liabilities are periodically revalued at current market exchange rates and security prices, the ECB's profitability is strongly affected by exchange rate exposures and, to a lesser extent, interest rate exposures. These exposures stem mainly from its holdings of gold and foreign reserve assets denominated in US dollars and Japanese yen, which are predominantly invested in interest-bearing instruments. The ECB's investment portfolios and its holdings of securities purchased for monetary policy purposes entail a further exposure to credit risk.

In view of its large exposure to these risks and the size of its revaluation accounts, the ECB maintains a provision for foreign exchange rate, interest rate, credit and gold price risks. The size of and continuing requirement for this provision is reviewed annually, taking a range of factors into account, including in particular the level of holdings of risk-bearing assets, the extent of materialised risk exposures in the current financial year, projected results for the coming year and a risk assessment involving calculations of Values at Risk (VaR) on risk-bearing assets, which is applied consistently over time. The risk provision, together with any amounts held in the ECB's general reserve fund, may not exceed the value of the capital paid up by the euro area NCBs.

As at 31 December 2012 the provision for foreign exchange rate, interest rate, credit and gold price risks amounted to €7,529 million. After taking the results of its risk assessment into account, the Governing Council decided to increase the size of the risk provision to €7,530 million as at 31 December 2013. This amount equates to the value of the ECB's capital paid up by the euro area NCBs as at 31 December 2013.

6 FINANCIAL RESULT FOR 2013

In 2013 the ECB's net profit was €1,440 million (2012: €995 million)[13] after a transfer to the risk provision of €0.4 million (2012: €1,166 million). Following this transfer and the retention of an amount of €9.5 million owing to an adjustment of the profits earned in previous years (see "The ECB's pension plans, other post-employment benefits and other long-term benefits"

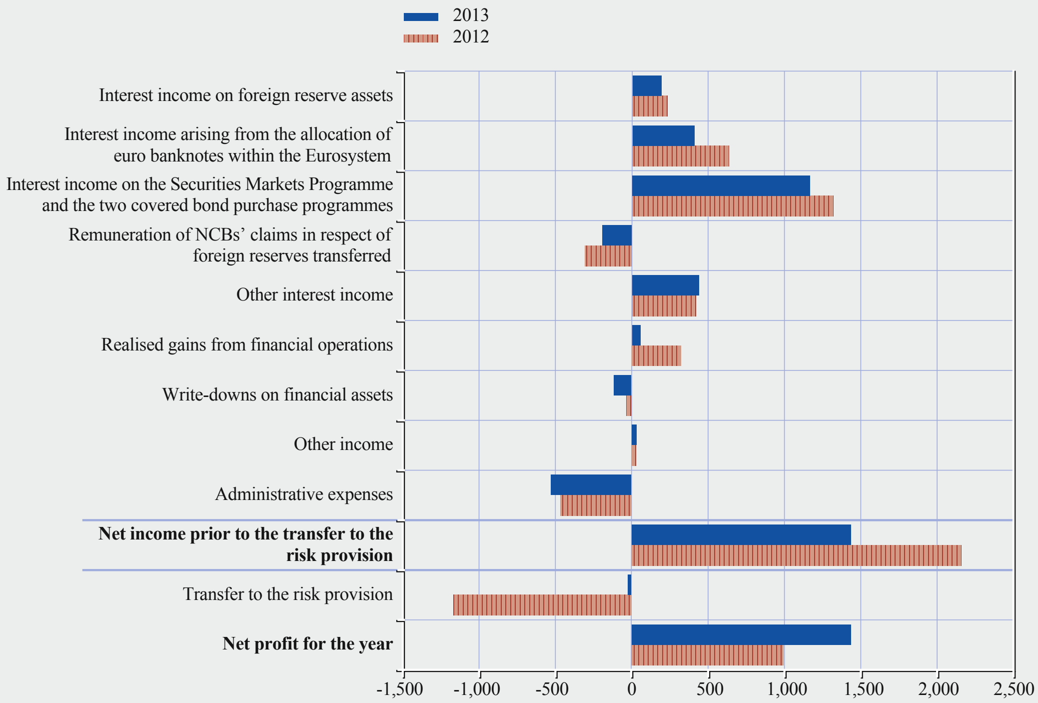
13 As restated owing to a change in the accounting policies (see "The ECB's pension plans, other post-employment benefits and other long-term benefits" in the notes on accounting policies).

in the notes on accounting policies) the remaining net profit, amounting to €1,430 million, was distributed to the euro area NCBs.

The chart presents the components of the ECB's Profit and Loss Account in 2013 and a comparison with 2012.

Breakdown of the ECB's Profit and Loss Account in 2013 and 2012

(EUR millions)



Source: ECB.

In 2013 net interest income amounted to €2,005 million, compared with €2,289 million in 2012. The decrease in net interest income was mainly due to (a) the lower interest income on the ECB's share of the total euro banknotes in circulation; and (b) the decrease in interest income generated on the securities purchased under the Securities Markets Programme and the two covered bond purchase programmes. The effects of these developments were in part offset by the lower interest expense arising from the euro area NCBs' claims in respect of the foreign reserve assets transferred by them to the ECB.

Net realised gains arising from financial operations decreased from €319 million in 2012 to €52 million in 2013, owing mainly to lower realised price gains generated on the US dollar portfolio.

In 2013 the overall decrease in the market value of securities held in the ECB's US dollar portfolio resulted in substantially higher write-downs in that year, amounting to €115 million (2012: €4 million).

As at the end of 2012 unrealised foreign exchange gains, mainly arising on the US dollar portfolio and the Japanese yen portfolio, amounted to €6,053 million and unrealised gold price gains amounted to €16,434 million. In 2013 the appreciation of the euro vis-à-vis the Japanese yen and the US dollar resulted in a decrease in unrealised foreign exchange gains, which fell to €2,540 million, and the fall in the price of gold during 2013 led to a decrease in unrealised gold price gains, which fell to €10,139 million. In line with the Eurosystem's accounting policies, these amounts were recorded in revaluation accounts.

The total administrative expenses of the ECB, including depreciation, amounted to €527 million in 2013, compared with €464 million in 2012. The vast majority of the costs incurred in connection with the construction of the ECB's new premises have been capitalised and are excluded from this item.

BALANCE SHEET AS AT 31 DECEMBER 2013

ASSETS	NOTE NUMBER	2013 €	2012 €
Gold and gold receivables	1	**14,063,991,807**	**20,359,049,520**
Claims on non-euro area residents denominated in foreign currency	2		
Receivables from the IMF	2.1	627,152,259	653,250,711
Balances with banks and security investments, external loans and other external assets	2.2	38,764,255,039	40,669,958,425
		39,391,407,298	**41,323,209,136**
Claims on euro area residents denominated in foreign currency	2.2	**1,270,792,764**	**2,838,176,026**
Claims on non-euro area residents denominated in euro	3		
Balances with banks, security investments and loans	3.1	**535,000,000**	**0**
Other claims on euro area credit institutions denominated in euro	4	**9,487**	**5,000**
Securities of euro area residents denominated in euro	5		
Securities held for monetary policy purposes	5.1	**18,159,937,704**	**22,055,516,689**
Intra-Eurosystem claims	6		
Claims related to the allocation of euro banknotes within the Eurosystem	6.1	76,495,146,585	73,007,429,075
Other claims within the Eurosystem (net)	12.2	0	24,673,515,571
		76,495,146,585	**97,680,944,646**
Other assets	7		
Tangible and intangible fixed assets	7.1	971,175,790	638,474,832
Other financial assets	7.2	20,466,245,900	19,099,638,796
Off-balance-sheet instruments revaluation differences	7.3	104,707,529	207,025,391
Accruals and prepaid expenses	7.4	977,552,068	1,660,056,235
Sundry	7.5	1,739,308,724	1,430,315,885
		24,258,990,011	**23,035,511,139**
Total assets		**174,175,275,656**	**207,292,412,156**

LIABILITIES	NOTE NUMBER	2013 €	2012 €
Banknotes in circulation	8	**76,495,146,585**	**73,007,429,075**
Liabilities to other euro area residents denominated in euro	9		
Other liabilities	9.1	**1,054,000,000**	**1,024,000,000**
Liabilities to non-euro area residents denominated in euro	10	**24,765,513,795**	**50,887,527,294**
Liabilities to non-euro area residents denominated in foreign currency	11		
Deposits, balances and other liabilities	11.1	**18,478,777**	**0**
Intra-Eurosystem liabilities	12		
Liabilities equivalent to the transfer of foreign reserves	12.1	40,309,644,425	40,307,572,893
Other liabilities within the Eurosystem (net)	12.2	119,857,494	0
		40,429,501,919	**40,307,572,893**
Other liabilities	13		
Off-balance-sheet instruments revaluation differences	13.1	185,010,549	585,953,062
Accruals and income collected in advance	13.2	370,542,207	975,648,659
Sundry	13.3	786,331,706	928,422,271
		1,341,884,462	**2,490,023,992**
Provisions	14	**7,619,546,534**	**7,595,452,415**
Revaluation accounts	15	**13,358,190,073**	**23,334,941,183**
Capital and reserves	16		
Capital	16.1	**7,653,244,411**	**7,650,458,669**
Profit for the year		**1,439,769,100**	**995,006,635**
Total liabilities		**174,175,275,656**	**207,292,412,156**

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31 DECEMBER 2013

	NOTE NUMBER	2013 €	2012 €
Interest income on foreign reserve assets	24.1	187,279,973	228,883,700
Interest income arising from the allocation of euro banknotes within the Eurosystem	24.2	406,310,130	633,084,427
Other interest income	24.4	6,477,297,658	10,917,006,128
Interest income		*7,070,887,761*	*11,778,974,255*
Remuneration of NCBs' claims in respect of foreign reserves transferred	24.3	(192,248,631)	(306,925,375)
Other interest expense	24.4	(4,873,777,652)	(9,182,641,280)
Interest expense		*(5,066,026,283)*	*(9,489,566,655)*
Net interest income	24	**2,004,861,478**	**2,289,407,600**
Realised gains/losses arising from financial operations	25	52,122,402	318,835,838
Write-downs on financial assets and positions	26	(114,607,365)	(4,180,784)
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks		(386,953)	(1,166,175,000)
Net result of financial operations, write-downs and risk provisions		**(62,871,916)**	**(851,519,946)**
Net expense from fees and commissions	27	**(2,126,773)**	**(2,127,108)**
Income from equity shares and participating interests	28	**1,168,907**	**1,188,176**
Other income	29	**26,107,807**	**21,938,157**
Total net income		**1,967,139,503**	**1,458,886,879**
Staff costs	30	(240,523,980)	(222,374,856)
Administrative expenses	31	(260,070,567)	(220,422,011)
Depreciation of tangible and intangible fixed assets		(18,581,856)	(12,918,830)
Banknote production services	32	(8,194,000)	(8,164,547)
Profit for the year		**1,439,769,100**	**995,006,635**

Frankfurt am Main, 11 February 2014

EUROPEAN CENTRAL BANK

Mario Draghi
President

ACCOUNTING POLICIES[1]

FORM AND PRESENTATION OF THE FINANCIAL STATEMENTS

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

ACCOUNTING PRINCIPLES

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

RECOGNITION OF ASSETS AND LIABILITIES

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

BASIS OF ACCOUNTING

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

With the exception of spot transactions in securities, transactions in financial instruments denominated in foreign currency are recorded in off-balance-sheet accounts on the trade date. At the settlement date the off-balance-sheet entries are reversed and transactions are booked on-balance-sheet. Purchases and sales of foreign currency affect the net foreign currency position on the trade date, and realised results arising from sales are also calculated on that date. Accrued interest, premiums and discounts related to financial instruments denominated in foreign 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.

1 The detailed accounting policies of the ECB are laid down in Decision ECB/2010/21 of 11 November 2010, OJ L 35, 9.2.2011, p. 1, as amended.

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

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

Gold is valued at the market price prevailing at the year-end. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold valuation is accounted for on the basis of the price in euro per fine ounce of gold, which, for the year ending 31 December 2013, was derived from the exchange rate of the euro against the US dollar on 31 December 2013.

The special drawing right (SDR) is defined in terms of a basket of currencies. To revalue the ECB's holdings of SDRs, the value of the SDR was calculated as the weighted sum of the exchange rates of four major currencies (the US dollar, euro, Japanese yen and pound sterling) converted into euro as at 31 December 2013.

SECURITIES

Marketable securities (other than those classified as held-to-maturity) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. For the year ending 31 December 2013, mid-market prices on 30 December 2013 were used.

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

INCOME RECOGNITION

Income and expenses are recognised in the period in which they are earned or incurred.[3] Realised gains and losses arising from the sale of foreign currency, gold and securities are taken to the Profit and Loss Account. Such realised gains and losses are calculated by reference to the average cost of the respective asset.

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

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

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

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

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

REVERSE TRANSACTIONS

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

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

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

Reverse transactions (including security lending transactions) conducted under an automated security lending programme are recorded on the Balance Sheet only where collateral is provided in the form of cash placed on an account of the ECB. In 2013 the ECB did not receive any collateral in the form of cash in connection with such transactions.

OFF-BALANCE-SHEET INSTRUMENTS

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

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

POST-BALANCE-SHEET EVENTS

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

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

INTRA-ESCB BALANCES/INTRA-EUROSYSTEM BALANCES

Intra-ESCB balances result primarily from cross-border payments in the EU that are settled in central bank money in euro. These transactions are for the most part initiated by private entities (i.e. credit institutions, corporations and individuals). They are settled in TARGET2 – the Trans-European Automated Real-time Gross settlement Express Transfer system – and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-à-vis the ECB only. This position in the books of the ECB represents the net claim or liability of each NCB against the rest of the ESCB. Intra-Eurosystem balances of euro area NCBs vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (e.g. interim profit distributions to NCBs), are presented on the Balance Sheet of the ECB as a single net asset or liability position and disclosed under "Other claims within the Eurosystem (net)" or "Other liabilities within the Eurosystem (net)". Intra-ESCB balances of non-euro area NCBs vis-à-vis the ECB, arising from their participation in TARGET2,[4] are disclosed under "Liabilities to non-euro area residents denominated in euro".

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

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

TREATMENT OF FIXED ASSETS

Fixed assets, including intangible assets, but with the exception of land and works of art, are valued at cost less depreciation. 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:

Computers, related hardware and software, and motor vehicles	4 years
Technical equipment	4 or 10 years
Furniture and plant in building	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. Land and works of art are valued at cost.

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. For the depreciation of the ECB's new premises, costs are assigned to the appropriate asset components which will be depreciated in accordance with their estimated useful lives.

THE ECB'S PENSION PLANS, OTHER POST-EMPLOYMENT BENEFITS AND OTHER LONG-TERM BENEFITS

The ECB operates defined benefit plans for its staff and Executive Board members.

4 As at 31 December 2013 the non-euro area NCBs participating in TARGET2 were Българска народна банка (Bulgarian National Bank), Danmarks Nationalbank, Latvijas Banka, Lietuvos bankas, Narodowy Bank Polski and Banca Naţională a României.

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 18% and 6% of basic salary respectively and are reflected in the defined benefit pillar of the plan. Staff can make additional contributions on a voluntary basis in a defined contribution pillar that can be used to provide additional benefits.[5] These additional benefits are determined by the amount of voluntary contributions together with the investment returns arising from these contributions.

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

Revised accounting policy

Prior to 2013 the ECB applied the so-called "10% corridor" approach for recognising actuarial gains and losses on post-employment benefits, as provided for under International Accounting Standard (IAS) 19 "Employee benefits". Under this approach, net cumulative unrecognised actuarial gains and losses on post-employment benefits which exceeded the greater of (a) 10% of the present value of the defined benefit obligation; and (b) 10% of the fair value of plan assets held against the defined benefit obligation, were amortised over the expected average remaining working lives of the participating employees. In addition, returns on plan assets held against the defined benefit obligation, which were recorded in the Profit and Loss Account, were calculated on the basis of the expected rate of return.

Following the revision of IAS 19, the option to apply the "10% corridor" approach is no longer available. Consequently, in 2013 the ECB decided that (a) remeasurements[6] of the net defined benefit liability in respect of post-employment benefits will be recognised in their entirety and shown in the Balance Sheet under "Revaluation accounts"; and (b) interest on plan assets will be calculated by applying the discount rate. Thus, previously unrecognised actuarial losses, amounting to €146,603,113 as at 31 December 2012, are now included in the Balance Sheet under "Revaluation accounts". These changes were applied retrospectively and the comparative amounts for 2012 have been restated as follows:

	Published in 2012 €	Adjustment €	Restated amount €
Assets			
Other assets – sundry	1,423,836,885	6,479,000	1,430,315,885
Total adjustment		**6,479,000**	
Liabilities			
Other liabilities – sundry	781,819,158	146,603,113	928,422,271
Revaluation accounts	23,472,041,296	(137,100,113)	23,334,941,183
Profit for the year	998,030,635	(3,024,000)	995,006,635
Total adjustment		**6,479,000**	

The Profit and Loss Account was adjusted retrospectively to reflect (a) the use of the discount rate for calculating the interest on plan assets held against the defined benefit obligation; and (b) the recognition under "Revaluation accounts" of those actuarial gains and losses that were previously

5 The funds accumulated by a staff member through voluntary contributions can be used at retirement to purchase an additional pension. This pension is included in the defined benefit obligation from that point on.
6 An explanation of the new terminology is provided below.

amortised. The downward adjustment of the Profit and Loss Account for financial years prior to 2012, amounting to €6,479,000, is shown under "Other assets", while the profit for the year ending 31 December 2012 has been adjusted downwards by €3,024,000.[7]

The cumulative adjustment of the Profit and Loss Account of €9,503,000, combined with the recognition of actuarial losses of €146,603,113, led to a net decrease of €137,100,113 in the revaluation accounts.

The Governing Council has decided to offset the cumulative adjustment of €9,503,000 by reducing the amount to be distributed to the NCBs out of the net profit reported in 2013.

The increase in "Other liabilities" and the decrease in "Revaluation accounts" reflect the previously unrecognised actuarial losses and the cumulative remeasurements of the net defined benefit liability as at 31 December 2012 respectively.

The following terminology, stemming from the revised IAS 19, is used under the new rules:

Net defined benefit liability

The liability recognised in the Balance Sheet under "Other liabilities" in respect of the defined benefit plans is the present value of the defined benefit obligation at the balance sheet date, *less* the fair value of plan assets used to fund the obligation.

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

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

Net defined benefit cost

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

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

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

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

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

7 This adjustment is reflected in the Profit and Loss Account under "Staff costs".

Remeasurements of the net defined benefit liability

These comprise the following items:

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

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

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

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

BANKNOTES IN CIRCULATION

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes.[8] 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.[9]

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,[10] are disclosed under the sub-item "Intra-Eurosystem claims: claims related to the allocation of euro banknotes within the Eurosystem" (see "Intra-ESCB balances/intra-Eurosystem balances" in the notes on accounting policies). Interest income on these claims is included in the Profit and Loss Account under the item "Interest income arising from the allocation of euro banknotes within the Eurosystem".

INTERIM PROFIT DISTRIBUTION

The ECB's income on euro banknotes in circulation and income arising from securities purchased under the Securities Markets Programme is due to the euro area NCBs in the financial year in which it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim profit distribution.[11] It is distributed in full unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation and securities purchased under the Securities Markets Programme, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

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

9 "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.

10 Decision ECB/2010/23 of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast), OJ L 35, 9.2.2011, p. 17, as amended.

11 Decision ECB/2010/24 of 25 November 2010 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the Securities Markets Programme (recast), OJ L 6, 11.1.2011, p. 35, as amended.

OTHER ISSUES

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

In accordance with Article 27 of the Statute of the ESCB, and on the basis of a recommendation of the Governing Council, the EU Council has approved the appointment of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as the external auditors of the ECB for a five-year period up to the end of the financial year 2017.

NOTES ON THE BALANCE SHEET

1 GOLD AND GOLD RECEIVABLES

As at 31 December 2013 the ECB held 16,142,871 ounces[12] of fine gold (2012: 16,142,871 ounces). No transactions in gold took place in 2013. The decrease in the euro equivalent value of the ECB's holdings of fine gold was due to the decline in the price of gold during 2013 (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies and note 15, "Revaluation accounts").

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

2.1 RECEIVABLES FROM THE IMF

This asset represents the ECB's holdings of SDRs as at 31 December 2013. It arises as the result of a two-way SDR buying and selling arrangement with the International Monetary Fund (IMF), whereby the IMF is authorised to arrange sales or purchases of SDRs against euro, on behalf of the ECB, within minimum and maximum holding levels. For accounting purposes, SDRs are treated as a foreign currency (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies).

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

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

Claims on non-euro area residents	2013 €	2012 €	Change €
Current accounts	939,722,501	1,503,909,190	(564,186,689)
Money market deposits	1,001,428,468	345,932,462	655,496,006
Reverse repurchase agreements	87,738,380	56,844,020	30,894,360
Security investments	36,735,365,690	38,763,272,753	(2,027,907,063)
Total	38,764,255,039	40,669,958,425	(1,905,703,386)

Claims on euro area residents	2013 €	2012 €	Change €
Current accounts	4,242,115	1,189,425	3,052,690
Money market deposits	1,266,550,649	2,836,986,601	(1,570,435,952)
Total	1,270,792,764	2,838,176,026	(1,567,383,262)

The decrease in these items in 2013 was mainly due to the depreciation of both the Japanese yen and the US dollar against the euro.

12 This corresponds to 502.1 tonnes.

The ECB's net foreign currency holdings of US dollars and Japanese yen,[13] as at 31 December 2013, were as follows:

	2013 Currency in millions	2012 Currency in millions
US dollars	45,351	45,235
Japanese yen	1,051,062	1,046,552

3 CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO

3.1 BALANCES WITH BANKS, SECURITY INVESTMENTS AND LOANS

As at 31 December 2013 this item consisted of a claim on a non-euro area central bank in connection with an agreement on repurchase transactions established with the ECB. Under this agreement the non-euro area central bank can borrow euro against eligible collateral in order to support its domestic liquidity-providing operations.

4 OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

As at 31 December 2013 this item consisted of current accounts with euro area residents.

5 SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO

5.1 SECURITIES HELD FOR MONETARY POLICY PURPOSES

As at 31 December 2013 this item consisted of securities acquired by the ECB within the scope of the two covered bond purchase programmes and the Securities Markets Programme.

	2013 €	2012 €	Change €
First covered bond purchase programme	3,710,724,329	4,426,521,354	(715,797,025)
Second covered bond purchase programme	1,459,074,444	1,504,280,207	(45,205,763)
Securities Markets Programme	12,990,138,931	16,124,715,128	(3,134,576,197)
Total	18,159,937,704	22,055,516,689	(3,895,578,985)

Purchases under the first covered bond purchase programme were completed by the end of June 2010, while the second covered bond purchase programme ended on 31 October 2012. The Securities Markets Programme was terminated on 6 September 2012. The decrease in these items in 2013 was due to redemptions.

Securities purchased under the Securities Markets Programme and the covered bond purchase programmes are classified as held-to-maturity securities and are valued on an amortised cost basis

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

subject to impairment (see "Securities" in the notes on accounting policies). Annual impairment tests are conducted on the basis of the information available and estimated recoverable amounts as at the year-end. The Governing Council considered that the identified impairment indicators had not affected the estimated future cash flows expected to be received by the ECB. Therefore, no losses were recorded for these securities in 2013.

The Governing Council assesses on a regular basis the financial risks associated with the securities held under the Securities Markets Programme and the two covered bond purchase programmes.

6 INTRA-EUROSYSTEM CLAIMS

6.1 CLAIMS RELATED TO THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSYSTEM

This item consists of the claims of the ECB vis-à-vis the euro area NCBs relating to the allocation of euro banknotes within the Eurosystem (see "Banknotes in circulation" in the notes on accounting policies). The remuneration of these claims is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations (see note 24.2, "Interest income arising from the allocation of euro banknotes within the Eurosystem").

7 OTHER ASSETS

7.1 TANGIBLE AND INTANGIBLE FIXED ASSETS

These assets comprised the following items on 31 December 2013:

	2013 €	2012 €	Change €
Cost			
Land and buildings	170,824,151	170,824,151	0
Computer hardware and software	76,353,659	64,633,290	11,720,369
Equipment, furniture, plant in building and motor vehicles	13,818,952	13,926,711	(107,759)
Assets under construction	847,217,209	529,636,881	317,580,328
Other fixed assets	7,751,953	7,508,349	243,604
Total cost	**1,115,965,924**	**786,529,382**	**329,436,542**
Accumulated depreciation			
Land and buildings	(86,542,592)	(82,957,070)	(3,585,522)
Computer hardware and software	(45,004,046)	(51,687,755)	6,683,709
Equipment, furniture, plant in building and motor vehicles	(12,869,788)	(13,274,149)	404,361
Other fixed assets	(373,708)	(135,576)	(238,132)
Total accumulated depreciation	**(144,790,134)**	**(148,054,550)**	**3,264,416**
Net book value	**971,175,790**	**638,474,832**	**332,700,958**

The increase in the category "Assets under construction" was almost entirely due to activities related to the ECB's new premises in 2013.

The net increase in the cost of items in the category "Computer hardware and software" reflected acquisitions in 2013. These costs were only partially offset by the derecognition of obsolete items that were no longer in use at the end of December 2013. The derecognition of these items resulted in a net decrease in the accumulated depreciation in respect of this category.

7.2 OTHER FINANCIAL ASSETS

This item consists of the investment of the ECB's own funds[14] held as a direct counterpart to the capital and reserves of the ECB, as well as other financial assets which include 3,211 shares in the Bank for International Settlements (BIS) at the acquisition cost of €41.8 million.

The components of this item are as follows:

	2013 €	2012 €	Change €
Current accounts in euro	4,620,701	5,193,816	(573,115)
Securities denominated in euro	18,068,315,142	16,349,560,714	1,718,754,428
Reverse repurchase agreements in euro	2,351,403,533	2,702,963,941	(351,560,408)
Other financial assets	41,906,524	41,920,325	(13,801)
Total	20,466,245,900	19,099,638,796	1,366,607,104

The net increase in this item was due mainly to the investment in the own funds portfolio of (a) the counterpart of the amount transferred to the ECB's provision for foreign exchange rate, interest rate, credit and gold price risks in 2012; and (b) income generated on this portfolio in 2013.

7.3 OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

This item is composed mainly of valuation changes in swap and forward transactions in foreign currency that were outstanding on 31 December 2013 (see note 21, "Foreign exchange swap and forward transactions"). These valuation changes are the result of the conversion of such transactions into their euro equivalents at the exchange rates prevailing on the balance sheet date, compared with the euro values resulting from the conversion of the transactions at the average cost of the respective foreign currency on that date (see "Off-balance-sheet instruments" and "Gold and foreign currency assets and liabilities" in the notes on accounting policies).

Valuation gains on outstanding interest rate swap transactions are also included in this item (see note 20, "Interest rate swaps").

7.4 ACCRUALS AND PREPAID EXPENSES

In 2013 this item included accrued coupon interest on securities, including outstanding interest paid at acquisition, amounting to €708.3 million (2012: €792.7 million) (see note 2.2, "Balances with banks and security investments, external loans and other external assets; and Claims on euro area residents denominated in foreign currency", note 5, "Securities of euro area residents denominated in euro", and note 7.2, "Other financial assets").

It also included accrued interest receivable on the TARGET2 balances due from euro area NCBs for the final month of 2013, amounting to €155.1 million (2012: €650.4 million), and accrued interest receivable on the ECB's claims related to the allocation of euro banknotes within the Eurosystem for the final quarter of the year (see "Banknotes in circulation" in the notes on accounting policies), amounting to €69.2 million (2012: €136.7 million).

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

Other accrued income, including accrued interest income on other financial assets, and miscellaneous prepayments are also reported under this item.

7.5 SUNDRY

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

It also included:

(a) balances related to swap and forward transactions in foreign currency outstanding on 31 December 2013 that arose from the conversion of such transactions into their euro equivalents at the respective currency's average cost on the balance sheet date, compared with the euro values at which the transactions were initially recorded (see "Off-balance-sheet instruments" in the notes on accounting policies).

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

(c) the cumulative adjustment of the Profit and Loss Account for the financial years prior to 2013, owing to the change in the accounting policy for post-employment benefits (see "The ECB's pension plans, other post-employment benefits and other long-term benefits" in the notes on accounting policies).

8 BANKNOTES IN CIRCULATION

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

9 LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

9.1 OTHER LIABILITIES

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

10 LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

As at 31 December 2013 this item included an amount of €24.6 billion (2012: €44.0 billion), consisting of balances held with the ECB by non-euro area NCBs and other central banks that arise from, or are the counterpart of, transactions processed via the TARGET2 system.

The remainder of this item comprised an amount of €0.2 billion (2012: €6.8 billion) arising from the temporary reciprocal currency arrangement with the Federal Reserve.[15] Under this arrangement, US dollars are provided by the Federal Reserve to the ECB by means of swap transactions, with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously enters into back-to-back swap transactions with euro area NCBs, which use the resulting funds to conduct US dollar liquidity-providing operations with Eurosystem counterparties in the form of reverse transactions. The back-to-back swap transactions result in intra-Eurosystem balances between the ECB and the NCBs. The swap transactions conducted with the Federal Reserve and the euro area NCBs also result in forward claims and liabilities that are recorded in off-balance-sheet accounts (see note 21, "Foreign exchange swap and forward transactions").

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

11.1 DEPOSITS, BALANCES AND OTHER LIABILITIES

In 2013 this item consisted of a liability that arose under a repurchase agreement conducted with a non-euro area resident in connection with the management of the foreign currency reserves of the ECB.

12 INTRA-EUROSYSTEM LIABILITIES

12.1 LIABILITIES EQUIVALENT TO THE TRANSFER OF FOREIGN RESERVES

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

	Since 1 July 2013 €	As at 31 December 2012 €
Nationale Bank van België/Banque Nationale de Belgique	1,401,024,415	1,397,303,847
Deutsche Bundesbank	10,871,789,515	10,909,120,274
Eesti Pank	103,152,857	103,115,678
Central Bank of Ireland	643,894,039	639,835,662
Bank of Greece	1,129,060,170	1,131,910,591
Banco de España	4,782,873,430	4,783,645,755
Banque de France	8,190,916,316	8,192,338,995
Banca d'Italia	7,218,961,424	7,198,856,881
Central Bank of Cyprus	77,248,740	78,863,331
Banque centrale du Luxembourg	100,776,864	100,638,597
Central Bank of Malta	36,798,912	36,407,323
De Nederlandsche Bank	2,298,512,218	2,297,463,391
Oesterreichische Nationalbank	1,122,511,702	1,118,545,877
Banco de Portugal	1,022,024,594	1,008,344,597
Banka Slovenije	189,499,911	189,410,251
Národná banka Slovenska	398,761,127	399,443,638
Suomen Pankki – Finlands Bank	721,838,191	722,328,205
Total	40,309,644,425	40,307,572,893

15 In January 2014 the Governing Council decided, in view of the considerable improvement in US dollar funding conditions and the low demand for US dollar liquidity-providing operations, to gradually reduce its offering of such operations (see the press release of 24 January 2014).

The enlargement of the EU through the accession of Croatia, and the concomitant adjustment of the total limit of NCBs' claims and weightings in the ECB's capital key (see note 16, "Capital and reserves"), led to an increase of €2,071,532 in these liabilities.

The remuneration of these liabilities is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations, adjusted to reflect a zero return on the gold component (see note 24.3, "Remuneration of NCBs' claims in respect of foreign reserves transferred").

12.2 OTHER CLAIMS/LIABILITIES WITHIN THE EUROSYSTEM (NET)

In 2013 this item consisted mainly of the TARGET2 balances of the euro area NCBs vis-à-vis the ECB (see "Intra-ESCB balances/intra-Eurosystem balances" in the notes on accounting policies). The ECB had a net claim vis-à-vis the euro area NCBs at the end of 2012. This net claim turned into a net liability at the end of 2013 mainly owing to the settlement in TARGET2 of payments from non-euro area residents to euro area residents (see note 10, "Liabilities to non-euro area residents denominated in euro"). The reduction in the outstanding amounts related to back-to-back swap transactions conducted with NCBs in connection with US dollar liquidity-providing operations also contributed to the elimination of the net claim and the creation of the net liability in 2013. The impact of these two factors was partially offset by redemptions of securities purchased under the Securities Markets Programme that were settled via TARGET2 accounts.

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

This item also included the amount due to euro area NCBs in respect of the ECB's interim profit distribution (see "Interim profit distribution" in the notes on accounting policies).

	2013 €	2012 €
Due from euro area NCBs in respect of TARGET2	(687,997,098,717)	(981,081,428,771)
Due to euro area NCBs in respect of TARGET2	686,747,265,644	955,833,285,908
Due to euro area NCBs in respect of the ECB's interim profit distribution	1,369,690,567	574,627,292
Other (claims)/liabilities within the Eurosystem (net)	119,857,494	(24,673,515,571)

13 OTHER LIABILITIES

13.1 OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

This item is composed mainly of valuation changes in swap and forward transactions in foreign currency that were outstanding on 31 December 2013 (see note 21, "Foreign exchange swap and forward transactions"). These valuation changes are the result of the conversion of such transactions into their euro equivalents at the exchange rates prevailing on the balance sheet date, compared with the euro values resulting from the conversion of the transactions at the average cost of the respective foreign currency on that date (see "Off-balance-sheet instruments" and "Gold and foreign currency assets and liabilities" in the notes on accounting policies).

Valuation losses on outstanding interest rate swaps are also included in this item (see note 20, “Interest rate swaps”).

13.2 ACCRUALS AND INCOME COLLECTED IN ADVANCE

As at 31 December 2013 the two main items under this heading were, first, accrued interest payable to the NCBs for the whole of 2013 in respect of their claims relating to foreign reserves transferred to the ECB (see note 12.1, “Liabilities equivalent to the transfer of foreign reserves”), amounting to €192.2 million (2012: €306.9 million), and, second, accrued interest payable on TARGET2 balances due to NCBs for the final month of 2013, amounting to €155.8 million (2012: €641.1 million). These amounts were settled in January 2014. Accruals on financial instruments and other accruals are also reported in this item.

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

13.3 SUNDRY

In 2013 this item included outstanding repurchase transactions of €480.4 million (2012: €360.1 million) conducted in connection with the management of the ECB’s own funds (see note 7.2, “Other financial assets”).

It also included balances related to swap and forward transactions in foreign currency outstanding on 31 December 2013 that arose from the conversion of such transactions into their euro equivalents at the respective currency’s average cost on the balance sheet date, compared with the euro values at which the transactions were initially recorded (see “Off-balance-sheet instruments” in the notes on accounting policies).

THE ECB’S PENSION PLANS, OTHER POST-EMPLOYMENT BENEFITS AND OTHER LONG-TERM BENEFITS

In addition, this item included the ECB’s net liability in respect of the post-employment and other long-term benefits of its staff and the members of the Executive Board, amounting to €131.9 million. Amounts for 2012 have been restated owing to the change in the applicable accounting policy (see “The ECB’s pension plans, other post-employment benefits and other long-term benefits” in the notes on accounting policies).

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

	2013 Staff € millions	2013 Executive Board € millions	2013 Total € millions	2012 Staff € millions	2012 Executive Board € millions	2012 Total € millions
Present value of obligation	650.6	17.8	668.4	677.8	17.8	695.6
Fair value of plan assets	(536.5)	-	(536.5)	(439.3)	-	(439.3)
Net defined benefit liability recognised in the Balance Sheet	114.1	17.8	131.9	238.5	17.8	256.3

Prior to 2013 the fair value of plan assets included the assets that were accumulated as a result of voluntary contributions made by staff in a defined contribution pillar. In 2013 the value of these assets amounted to €96.5 million (2012: €83.5 million). These assets give rise to a corresponding obligation of an equal value which is included in the present value of the obligation. For presentational reasons, the tables in 2013 only show the amounts relating to the defined benefit pillar and the comparative figures for 2012 have been adjusted accordingly. Consequently, the reported values for the closing obligation and the closing fair value of plan assets in 2012 decreased to €695.6 million and €439.3 million respectively.

In 2013 the present value of the obligation vis-à-vis staff of €650.6 million (2012: €677.8 million) included unfunded benefits amounting to €109.4 million (2012: €109.1 million) relating to post-employment benefits other than pensions and to other long-term benefits. Unfunded arrangements are also in place for the post-employment and other long-term benefits of members of the Executive Board.

The amounts recognised in the Profit and Loss Account in 2013 were as follows:

	2013 Staff € millions	2013 Executive Board € millions	2013 Total € millions	2012 Staff € millions	2012 Executive Board € millions	2012 Total € millions
Current service cost	45.9	1.4	47.3	29.0	1.3	30.3
Net interest on the net defined benefit liability	8.6	0.6	9.2	6.5	0.9	7.4
Cost on the obligation	*24.4*	*0.6*	*25.0*	*24.5*	*0.9*	*25.4*
Income on plan assets	*(15.8)*	*-*	*(15.8)*	*(18.0)*	*-*	*(18.0)*
Remeasurement (gains)/losses on other long-term benefits	(3.2)	0	(3.2)	0.1	0	0.1
Total included in "Staff costs"	51.3	2.0	53.3	35.6	2.2	37.8 [1)]

1) As restated owing to the change in accounting policies (see "The ECB's pension plans, other post-employment benefits and other long-term benefits" in the notes on accounting policies).

The current service cost increased in 2013 to €47.3 million (2012: €30.3 million), primarily owing to the reduction in the discount rate from 5.00% in 2011 to 3.50% in 2012.[16]

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

	2013 Staff € millions	2013 Executive Board € millions	2013 Total € millions	2012 Staff € millions	2012 Executive Board € millions	2012 Total € millions
Opening defined benefit obligation	677.8	17.8	695.6	478.2	17.9	496.1
Current service cost	45.9	1.4	47.3	29.0	1.3	30.3
Interest cost on the obligation	24.4	0.6	25.0	24.5	0.9	25.4
Contributions paid by plan participants	12.3	0.1	12.4	11.5	0.1	11.6
Benefits paid	(5.5)	(1.1)	(6.6)	(5.0)	(4.0)	(9.0)
Remeasurement (gains)/losses	(104.3)	(1.0)	(105.3)	139.6	1.6	141.2
Closing defined benefit obligation	650.6	17.8	668.4	677.8	17.8	695.6

The remeasurement gains of €104.3 million for 2013 on the defined benefit obligation vis-à-vis staff arose primarily owing to the lower conversion factors applied for the calculation of future pension payments, as well as the increase in the discount rate from 3.50% in 2012 to 3.75% in 2013.

16 The current service cost is estimated using the previous year's discount rate.

The remeasurement losses of €139.6 million for 2012 on the defined benefit obligation vis-à-vis staff arose primarily owing to the decrease in the discount rate from 5.00% in 2011 to 3.50% in 2012. The resulting increase in the closing obligation was only partially offset by the impact of a reduction in the expected future increase in the guaranteed benefits, which is based on unit price developments, as well as the impact of a reduction in the assumed future increase in pensions from 1.65% to 1.40%.

Benefits paid in 2012 included the settlement of pension rights of some members of the Executive Board who left the ECB.

Changes in 2013 in the fair value of plan assets in the defined benefit pillar relating to staff were as follows:[17]

	2013 € millions	2012 € millions
Opening fair value of plan assets	439.3	347.5
Interest income on plan assets	15.8	18.0
Remeasurement gains	39.8	33.7
Contributions paid by employer	33.2	31.9
Contributions paid by plan participants	12.3	11.5
Benefits paid	(3.9)	(3.3)
Closing fair value of plan assets	536.5	439.3

Remeasurement gains on plan assets in both 2013 and 2012 reflected the fact that actual returns on the fund units were higher than the estimated interest income on plan assets.

In line with the Conditions of Employment for Staff of the European Central Bank, a long-term valuation of the ECB's staff pension plan was carried out by the ECB's actuaries as at 31 December 2011. Following this valuation, and acting on actuarial advice, the Governing Council approved on 2 August 2012 an annual supplementary contribution of €10.3 million, to be paid for a period of twelve years starting in 2012. This decision will be reviewed in 2014.

In preparing the valuations referred to in this note, the actuaries have used assumptions which the Executive Board has accepted for the purposes of accounting and disclosure. The principal assumptions used for the purposes of calculating the benefits scheme liability are as follows:

	2013 %	2012 %
Discount rate	3.75	3.50
Expected return on plan assets [1)]	4.75	4.50
General future salary increases [2)]	2.00	2.00
Future pension increases [3)]	1.40	1.40

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

17 In previous years amounts paid by the ECB for post-employment benefits other than pensions and for other long-term benefits were included under the items "Contributions paid by employer" and "Benefits paid". These amounts are not included in these items in the figures for 2013, as unfunded arrangements are in place for these benefits. The comparative figures for 2012 have been adjusted accordingly.

14 PROVISIONS

This item consists of a provision for foreign exchange rate, interest rate, credit and gold price risks as well as other miscellaneous provisions.

The provision for foreign exchange rate, interest rate, credit and gold price risks will be used to the extent deemed necessary by the Governing Council to offset future realised and unrealised losses, in particular valuation losses not covered by the revaluation accounts. The size of and continuing requirement for this provision is reviewed annually, based on the ECB's assessment of its exposure to these risks. This assessment takes a range of factors into account, including in particular the level of holdings of risk-bearing assets, the extent of materialised risk exposures in the current financial year, projected results for the coming year, and a risk assessment involving calculations of Values at Risk (VaR) on risk-bearing assets, which is applied consistently over time. The provision, together with any amount held in the general reserve fund, may not exceed the value of the ECB's capital paid up by the euro area NCBs.

As at 31 December 2012 the provision for foreign exchange rate, interest rate, credit and gold price risks amounted to €7,529,282,289. Taking the results of its assessment into account, the Governing Council decided to transfer, as at 31 December 2013, an amount of €386,953 to the provision. This transfer reduced the ECB's net profit for 2013 to €1,439,769,100 and increased the size of the provision to €7,529,669,242. Following the increase in the ECB's paid-up capital in 2013 (see note 16, "Capital and reserves"), this amount corresponds to the value of the ECB's capital paid up by the euro area NCBs as at 31 December 2013.

15 REVALUATION ACCOUNTS

This item consists mainly of revaluation balances arising from unrealised gains on assets, liabilities and off-balance-sheet instruments (see "Income recognition", "Gold and foreign currency assets and liabilities", "Securities" and "Off-balance-sheet instruments" in the notes on accounting policies). It also includes the remeasurements of the ECB's net defined benefit liability in respect of post-employment benefits (see "The ECB's pension plans, other post-employment benefits and other long-term benefits" in the notes on accounting policies and note 13.3 "Sundry").

	2013 €	2012 €	Change €
Gold	10,138,805,097	16,433,862,811	(6,295,057,714)
Foreign currency	2,540,202,558	6,053,396,675	(3,513,194,117)
Securities and other instruments	674,356,531	984,781,810	(310,425,279)
Net defined benefit liability in respect of post-employment benefits	4,825,887	(137,100,113)	141,926,000
Total	13,358,190,073	23,334,941,183	(9,976,751,110)

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

Exchange rates	2013	2012
US dollars per euro	1.3791	1.3194
Japanese yen per euro	144.72	113.61
Euro per SDR	1.1183	1.1657
Euro per fine ounce of gold	871.220	1,261.179

16 CAPITAL AND RESERVES

16.1 CAPITAL

(A) CHANGE TO THE ECB'S CAPITAL KEY

Pursuant to Article 29 of the Statute of the ESCB, the shares of the NCBs in the ECB's capital key are weighted according to the shares of the respective Member States in the EU's total population and GDP in equal measure, as notified to the ECB by the European Commission. These weights are adjusted every five years and whenever new Member States join the EU.

Based on Council Decision 2003/517/EC of 15 July 2003 on the statistical data to be used for the adjustment of the key for subscription to the capital of the European Central Bank,[18] the NCBs' capital key shares were adjusted on 1 July 2013, upon the accession of Croatia as a new Member State, as follows:

	Capital key since 1 July 2013 %	Capital key as at 31 December 2012 %
Nationale Bank van België/Banque Nationale de Belgique	2.4176	2.4256
Deutsche Bundesbank	18.7603	18.9373
Eesti Pank	0.1780	0.1790
Central Bank of Ireland	1.1111	1.1107
Bank of Greece	1.9483	1.9649
Banco de España	8.2533	8.3040
Banque de France	14.1342	14.2212
Banca d'Italia	12.4570	12.4966
Central Bank of Cyprus	0.1333	0.1369
Banque centrale du Luxembourg	0.1739	0.1747
Central Bank of Malta	0.0635	0.0632
De Nederlandsche Bank	3.9663	3.9882
Oesterreichische Nationalbank	1.9370	1.9417
Banco de Portugal	1.7636	1.7504
Banka Slovenije	0.3270	0.3288
Národná banka Slovenska	0.6881	0.6934
Suomen Pankki – Finlands Bank	1.2456	1.2539
Subtotal for euro area NCBs	***69.5581***	***69.9705***
Българска народна банка (Bulgarian National Bank)	0.8644	0.8686
Česká národní banka	1.4539	1.4472
Danmarks Nationalbank	1.4754	1.4835
Hrvatska narodna banka	0.5945	-
Latvijas Banka	0.2742	0.2837
Lietuvos bankas	0.4093	0.4256
Magyar Nemzeti Bank	1.3740	1.3856
Narodowy Bank Polski	4.8581	4.8954
Banca Naţională a României	2.4449	2.4645
Sveriges Riksbank	2.2612	2.2582
Bank of England	14.4320	14.5172
Subtotal for non-euro area NCBs	***30.4419***	***30.0295***
Total	**100.0000**	**100.0000**

18 OJ L 181, 19.7.2003, p. 43.

(B) CAPITAL OF THE ECB

In accordance with Article 48.3 of the Statute of the ESCB, the ECB's subscribed capital is automatically increased when a new Member State joins the EU and its NCB joins the ESCB. The increase is determined by multiplying the prevailing amount of the subscribed capital (i.e. €10,761 million as at 30 June 2013) by the ratio, within the expanded capital key, between the weighting of the entering NCB(s) and the weighting of those NCBs that are already members of the ESCB. Therefore, on 1 July 2013 the subscribed capital of the ECB was increased to €10,825 million.

The non-euro area NCBs are required to pay up 3.75% of their share in the ECB's subscribed capital as a contribution to the operational costs of the ECB. Therefore, as at 1 July 2013 Hrvatska narodna banka paid an amount of €2,413,300. Including this amount, the total contribution of non-euro area NCBs amounted to €123,575,169 as at that date. The non-euro area NCBs are not entitled to receive any share of the distributable profits of the ECB, nor are they liable to fund any loss of the ECB.

Overall, the accession of Croatia as a new Member State led to an increase of €2,785,742 in the ECB's paid-up capital, which rose to €7,653,244,411.[19]

	Subscribed capital since 1 July 2013 €	Paid-up capital since 1 July 2013 €	Subscribed capital as at 31 December 2012 €	Paid-up capital as at 31 December 2012 €
Nationale Bank van België/ Banque Nationale de Belgique	261,705,371	261,705,371	261,010,385	261,010,385
Deutsche Bundesbank	2,030,803,801	2,030,803,801	2,037,777,027	2,037,777,027
Eesti Pank	19,268,513	19,268,513	19,261,568	19,261,568
Central Bank of Ireland	120,276,654	120,276,654	119,518,566	119,518,566
Bank of Greece	210,903,613	210,903,613	211,436,059	211,436,059
Banco de España	893,420,308	893,420,308	893,564,576	893,564,576
Banque de France	1,530,028,149	1,530,028,149	1,530,293,899	1,530,293,899
Banca d'Italia	1,348,471,131	1,348,471,131	1,344,715,688	1,344,715,688
Central Bank of Cyprus	14,429,734	14,429,734	14,731,333	14,731,333
Banque centrale du Luxembourg	18,824,687	18,824,687	18,798,860	18,798,860
Central Bank of Malta	6,873,879	6,873,879	6,800,732	6,800,732
De Nederlandsche Bank	429,352,255	429,352,255	429,156,339	429,156,339
Oesterreichische Nationalbank	209,680,387	209,680,387	208,939,588	208,939,588
Banco de Portugal	190,909,825	190,909,825	188,354,460	188,354,460
Banka Slovenije	35,397,773	35,397,773	35,381,025	35,381,025
Národná banka Slovenska	74,486,874	74,486,874	74,614,364	74,614,364
Suomen Pankki – Finlands Bank	134,836,288	134,836,288	134,927,820	134,927,820
Subtotal for euro area NCBs	***7,529,669,242***	***7,529,669,242***	***7,529,282,289***	***7,529,282,289***
Българска народна банка (Bulgarian National Bank)	93,571,361	3,508,926	93,467,027	3,505,014
Česká národní banka	157,384,778	5,901,929	155,728,162	5,839,806
Danmarks Nationalbank	159,712,154	5,989,206	159,634,278	5,986,285
Hrvatska narodna banka	64,354,667	2,413,300	-	-
Latvijas Banka	29,682,169	1,113,081	30,527,971	1,144,799
Lietuvos bankas	44,306,754	1,661,503	45,797,337	1,717,400
Magyar Nemzeti Bank	148,735,597	5,577,585	149,099,600	5,591,235
Narodowy Bank Polski	525,889,668	19,720,863	526,776,978	19,754,137
Banca Naţională a României	264,660,598	9,924,772	265,196,278	9,944,860
Sveriges Riksbank	244,775,060	9,179,065	242,997,053	9,112,389
Bank of England	1,562,265,020	58,584,938	1,562,145,431	58,580,454
Subtotal for non-euro area NCBs	***3,295,337,827***	***123,575,169***	***3,231,370,113***	***121,176,379***
Total	**10,825,007,070**	**7,653,244,411**	**10,760,652,403**	**7,650,458,669**

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

17 POST-BALANCE-SHEET EVENTS

CHANGES TO THE ECB'S CAPITAL KEY

Pursuant to Article 29 of the Statute of the ESCB, the weightings assigned to NCBs in the key for subscription to the ECB's capital are adjusted every five years.[20] The third such adjustment following the establishment of the ECB was made on 1 January 2014, as follows:

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

ENTRY OF LATVIA INTO THE EURO AREA

Pursuant to Council Decision 2013/387/EU of 9 July 2013, taken in accordance with Article 140(2) of the Treaty on the Functioning of the European Union, Latvia adopted the single currency on 1 January 2014. In accordance with Article 48.1 of the Statute of the ESCB and the legal acts

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

adopted by the Governing Council on 31 December 2013,[21] Latvijas Banka paid up an amount of €29,424,264 as at 1 January 2014, representing the remainder of its capital subscription to the ECB. In accordance with Article 48.1, in conjunction with Article 30.1, of the Statute of the ESCB, Latvijas Banka transferred foreign reserve assets with a total value equivalent to €205,272,581 to the ECB with effect from 1 January 2014. These foreign reserve assets comprised amounts of Japanese yen in the form of cash, and gold, in proportions of 85 to 15 respectively.

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

EFFECT ON THE ECB'S CAPITAL

The adjustment of the NCB's capital key shares in conjunction with Latvia joining the euro area resulted in an increase of €43,780,929 in the ECB's paid-up capital.

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

The net effect of the change in NCBs' weightings in the ECB's capital key and of the transfer by Latvijas Banka of foreign reserve assets on the NCBs' claims equivalent to the foreign reserve assets transferred to the ECB was an increase of €243,510,283.

OFF-BALANCE-SHEET INSTRUMENTS

18 AUTOMATED SECURITY LENDING PROGRAMME

As part of the management of the ECB's own funds, the ECB has an automated security lending programme agreement in place, whereby an appointed agent enters into security lending transactions on behalf of the ECB with a number of counterparties, designated by the ECB as eligible counterparties. Under this agreement, reverse transactions with a value of €3.8 billion (2012: €1.3 billion) were outstanding as at 31 December 2013.

19 INTEREST RATE FUTURES

As at 31 December 2013 the following foreign currency transactions, presented at year-end market rates, were outstanding:

Foreign currency interest rate futures	2013 Contract value €	2012 Contract value €	Change €
Purchases	495,975,636	2,460,891,314	(1,964,915,678)
Sales	1,727,870,268	6,245,269,283	(4,517,399,015)

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

21 Decision ECB/2013/53 of 31 December 2013 on the paying-up of capital, transfer of foreign reserve assets and contributions by Latvijas Banka to the European Central Bank's reserves and provisions, OJ L 16, 21.1.2014, p. 65; Agreement of 31 December 2013 between Latvijas Banka and the European Central Bank regarding the claim credited to Latvijas Banka by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank, OJ C 17, 21.1.2014, p. 5.

20 INTEREST RATE SWAPS

Interest rate swap transactions with a contract value of €252.0 million (2012: €355.1 million), presented at year-end market rates, were outstanding as at 31 December 2013. These transactions were conducted in the context of the management of the ECB's foreign reserves.

21 FOREIGN EXCHANGE SWAP AND FORWARD TRANSACTIONS

MANAGEMENT OF THE FOREIGN RESERVES

Foreign exchange swap and forward transactions were conducted in 2013 in the context of the management of the ECB's foreign reserves. The following forward claims and liabilities resulting from these transactions, presented at year-end market rates, remained outstanding as at 31 December 2013:

Foreign exchange swap and forward transactions	2013 €	2012 €	Change €
Claims	1,845,947,763	2,110,145,191	(264,197,428)
Liabilities	1,730,929,184	1,947,015,270	(216,086,086)

LIQUIDITY-PROVIDING OPERATIONS

US dollar-denominated claims and liabilities with a settlement date in 2014, which 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"), were outstanding on 31 December 2013.

22 ADMINISTRATION OF BORROWING AND LENDING OPERATIONS

The ECB is responsible for the administration of the borrowing and lending operations of the EU under the medium-term financial assistance mechanism. In 2013 the ECB processed payments related to loans granted by the EU to Latvia, Hungary and Romania under this scheme.

In the context of the loan facility agreement between the Member States whose currency is the euro[22] and Kreditanstalt für Wiederaufbau,[23] as lenders, the Hellenic Republic, as the borrower, and the Bank of Greece, as the agent of the borrower, the ECB is responsible for processing all related payments on behalf of the lenders and the borrower.

Furthermore, the ECB has an operational role in the administration of loans under the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF). In 2013 the ECB processed payments in relation to loans granted to Ireland and Portugal under the EFSM scheme and loans granted to Ireland, Greece and Portugal under the EFSF scheme.

Moreover, the ECB administers payments in relation to the authorised capital stock and stability support operations of the newly established European Stability Mechanism (ESM).[24] In 2013 the ECB processed payments from the Member States whose currency is the euro, in respect of the

22 Other than the Hellenic Republic and the Federal Republic of Germany.
23 Acting in the public interest, subject to the instructions of and with the benefit of the guarantee of the Federal Republic of Germany.
24 The Treaty establishing the European Stability Mechanism entered into force on 27 September 2012.

ESM's authorised capital stock, as well as payments from the ESM related to a loan granted to the Republic of Cyprus.

23 PENDING LAWSUITS

An action for damages was brought against the ECB before the Court of First Instance of the European Communities (CFI)[25] by Document Security Systems Inc. (DSSI), alleging that the ECB had infringed a DSSI patent[26] in the production of euro banknotes.

The CFI dismissed DSSI's action for damages against the ECB.[27] Moreover, the ECB succeeded in revoking the patent in all relevant national jurisdictions and consequently there is no likelihood of payments to DSSI.

25 Following the entry into force of the Treaty of Lisbon on 1 December 2009, the name of the Court of First Instance was changed to the General Court.

26 DSSI's European Patent No 0455 750 B1.

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

NOTES ON THE PROFIT AND LOSS ACCOUNT

24 NET INTEREST INCOME

24.1 INTEREST INCOME ON FOREIGN RESERVE ASSETS

This item includes interest income, net of interest expense, in respect of the ECB's net foreign reserve assets, as follows:

	2013 €	2012 €	Change €
Interest income on current accounts	601,611	726,972	(125,361)
Interest income on money market deposits	6,868,776	16,294,022	(9,425,246)
Interest income on reverse repurchase agreements	742,788	1,881,260	(1,138,472)
Net interest income on securities	172,250,735	197,474,767	(25,224,032)
Net interest income on interest rate swaps	1,833,740	2,096,989	(263,249)
Net interest income on foreign exchange swap and forward transactions	5,237,310	10,581,922	(5,344,612)
Total interest income on foreign reserve assets	**187,534,960**	**229,055,932**	**(41,520,972)**
Interest expense on current accounts	(42,758)	(24,240)	(18,518)
Net interest expense on repurchase agreements	(212,229)	(147,992)	(64,237)
Interest income on foreign reserve assets (net)	**187,279,973**	**228,883,700**	**(41,603,727)**

The overall decrease in net interest income in 2013 was due mainly to lower interest income generated on the US dollar portfolio.

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

This item consists of the interest income relating to the ECB's share of the total euro banknote issue (see "Banknotes in circulation" in the notes on accounting policies and note 6.1, "Claims related to the allocation of euro banknotes within the Eurosystem"). The decrease in income in 2013 mainly reflected the fact that the average main refinancing rate was lower than in 2012.

24.3 REMUNERATION OF NCBs' CLAIMS IN RESPECT OF FOREIGN RESERVES TRANSFERRED

Remuneration paid to euro area NCBs on their claims on the ECB in respect of the foreign reserve assets transferred under Article 30.1 of the Statute of the ESCB (see note 12.1, "Liabilities equivalent to the transfer of foreign reserves") is disclosed under this heading. The decrease in this remuneration in 2013 predominantly reflected the fact that the average main refinancing rate was lower than in 2012.

24.4 OTHER INTEREST INCOME; AND OTHER INTEREST EXPENSE

In 2013 these items included interest income of €4.7 billion (2012: €8.8 billion) and expenses of €4.7 billion (2012: €8.9 billion) arising from TARGET2 balances (see note 12.2, "Other claims/liabilities within the Eurosystem (net)", and note 10, "Liabilities to non-euro area residents denominated in euro").

They also included net interest income of €961.9 million (2012: €1,107.7 million) on the securities purchased by the ECB under the Securities Markets Programme and €204.2 million (2012: €209.4 million) on those purchased under the covered bond purchase programmes. Interest income and interest expense in respect of other assets and liabilities denominated in euro, as well as interest income and interest expense arising from US dollar liquidity-providing operations, are also shown under these headings.

25 REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

Net realised gains arising from financial operations in 2013 were as follows:

	2013 €	2012 €	Change €
Net realised price gains	41,335,392	317,311,647	(275,976,255)
Net realised exchange rate and gold price gains	10,787,010	1,524,191	9,262,819
Net realised gains arising from financial operations	52,122,402	318,835,838	(266,713,436)

Net realised price gains included realised gains on securities, interest rate futures and interest rate swaps. The overall decrease in net realised price gains in 2013 was due mainly to lower realised price gains generated on the US dollar portfolio.

26 WRITE-DOWNS ON FINANCIAL ASSETS AND POSITIONS

Write-downs on financial assets and positions in 2013 were as follows:

	2013 €	2012 €	Change €
Unrealised price losses on securities	(114,606,755)	(1,737,805)	(112,868,950)
Unrealised price losses on interest rate swaps	(610)	(2,442,218)	2,441,608
Unrealised exchange rate losses	0	(761)	761
Total write-downs	(114,607,365)	(4,180,784)	(110,426,581)

In 2013 the overall decrease in the market value of the securities held in the ECB's US dollar portfolio resulted in substantially higher write-downs compared with 2012.

27 NET EXPENSE FROM FEES AND COMMISSIONS

	2013 €	2012 €	Change €
Income from fees and commissions	25,917	90,314	(64,397)
Expenses relating to fees and commissions	(2,152,690)	(2,217,422)	64,732
Net expense from fees and commissions	(2,126,773)	(2,127,108)	335

In 2013 income under this heading consisted of penalties imposed on credit institutions for non-compliance with the minimum reserve requirements. Expenses consisted of fees relating to current accounts and to interest rate futures transactions (see note 19, "Interest rate futures").

28 INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

Dividends received on shares which the ECB holds in the BIS (see note 7.2, "Other financial assets") are shown under this heading.

29 OTHER INCOME

Other miscellaneous income during 2013 arose mainly from the accrued contributions of the euro area NCBs to the costs incurred by the ECB in connection with a major market infrastructure project.

30 STAFF COSTS

Salaries, allowances, staff insurance and other miscellaneous costs of €187.3 million (2012: €184.6 million) are included under this heading. Also included in this item is an amount of €53.3 million (2012: €37.8 million) recognised in connection with the ECB's pension plans, other post-employment benefits and other long-term benefits (see note 13.3, "Sundry"). Staff costs of €1.3 million (2012: €1.3 million) incurred in connection with the construction of the ECB's new premises have been capitalised and are excluded from this item.

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

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

Basic salaries paid to members of the Executive Board in 2013 were as follows:[1]

	2013 €	2012 €
Mario Draghi (President)	378,240	374,124
Vítor Constâncio (Vice-President)	324,216	320,688
José Manuel González-Páramo (Board Member until May 2012)	-	*111,345*
Peter Praet (Board Member)	270,168	267,228
Jörg Asmussen (Board Member since January 2012)	270,168	267,228
Benoît Cœuré (Board Member since January 2012)	270,168	267,228
Yves Mersch (Board Member since December 2012)	281,833	-
Total	1,794,793	1,607,841

The total allowances paid to the members of the Executive Board and the ECB's contributions to the medical and accident insurance schemes on their behalf amounted to €526,615 (2012: €509,842).

In addition, the benefits on appointment or termination of service paid to Executive Board members joining or leaving the ECB amounted to €44,538 (2012: €133,437). They are reported under "Administrative expenses" in the Profit and Loss Account.

Transitional payments are made to former members of the Executive Board for a limited period after the end of their terms of office. In 2013 these payments, related family allowances and the

1 Mr Yves Mersch took office on 15 December 2012. The remuneration that accrued to him up to the end of 2012 was paid in January 2013 and was recorded in the staff costs for the financial year 2013.

ECB's contributions to the medical and accident insurance schemes of former members amounted to €618,189 (2012: €1,183,285). Pension payments, including related allowances, to former members of the Executive Board or their dependents and contributions to the medical and accident insurance schemes amounted to €472,891 (2012: €324,830).

At the end of 2013 the actual full-time equivalent number of staff holding contracts with the ECB was 1,790,[2] including 169 with managerial positions. The change in the number of staff during 2013 was as follows:

	2013	2012
Total staff as at 1 January	1,638	1,609
Newcomers/change of contractual status	496	370
Resignations/end of contract	(347)	(341)
Net increase/(decrease) due to changes in part-time working patterns	3	0
Total staff as at 31 December	1,790	1,638
Average number of staff employed	1,683	1,615

31 ADMINISTRATIVE EXPENSES

These cover all other current expenses relating to the renting and maintenance of premises, goods and equipment of a non-capital nature, professional fees, and other services and supplies, together with staff-related expenses including recruitment, relocation, installation, training and resettlement expenses.

32 BANKNOTE PRODUCTION SERVICES

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

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

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

11 February 2014

Independent auditor's report

We have audited the accompanying annual accounts of the European Central Bank, which comprise the balance sheet as at 31 December 2013, the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes (the "Annual Accounts").

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

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

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

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

Opinion
In our opinion, the Annual Accounts give a true and fair view of the financial position of the European Central Bank as at 31 December 2013, and of the results of its operations for the year then ended in accordance with the principles established by the Governing Council, which are set out in Decision ECB/2010/21 on the annual accounts of the European Central Bank, as amended.

Yours sincerely,

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Victor Veger
Certified Public Accountant

Claus-Peter Wagner
Wirtschaftsprüfer

NOTE ON PROFIT DISTRIBUTION/ ALLOCATION OF LOSSES

This note is not part of the financial statements of the ECB for the year 2013.

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

(a) an amount to be determined by the Governing Council, which may not exceed 20% of the net profit, shall be transferred to the general reserve fund, subject to a limit equal to 100% of the capital; and

(b) the remaining net profit shall be distributed to the shareholders of the ECB in proportion to their paid-up shares.

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

After the transfer to the risk provision, the ECB's net profit for 2013 was €1,439.8 million. Following a decision by the Governing Council, there was no transfer to the general reserve fund and an interim profit distribution, amounting to €1,369.7 million, was paid out to the euro area NCBs on 31 January 2014. Furthermore, the Governing Council decided to retain an amount of €9.5 million, owing to adjustments to profits earned in previous years (see "The ECB's pension plans, other post-employment benefits and other long-term benefits" in the notes on accounting policies), and to distribute the remaining profit of €60.6 million to the euro area NCBs.

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

	2013 €	2012[1)] €
Profit for the year	1,439,769,100	995,006,635
Interim profit distribution	(1,369,690,567)	(574,627,292)
Retention owing to adjustments to profits earned in previous years	(9,503,000)	0
Profit for the year after the interim profit distribution and retention	60,575,533	420,379,343
Distribution of the remaining profit	(60,575,533)	(423,403,343)
Total	0	(3,024,000)

1) As restated owing to a change in the accounting policies (see "The ECB's pension plans, other post-employment benefits and other long-term benefits" in the notes on accounting policies).

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