



Annual Accounts

2015

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Management report for the year ending 31 December 2015

1 Purpose of the ECB's management report

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

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

2 Key objectives and tasks

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

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

3 Key processes

The ECB's Annual Accounts process is associated with a number of key activities.

3.1 Controls within organisational units

Within the ECB's internal control structure, each business area is responsible for managing its own operational risks and implementing controls in order to ensure the effectiveness and efficiency of its operations and the accuracy of the information to be included in the financial statements of the ECB. Budget matters also fall primarily under the responsibility and accountability of the individual business areas.

3.2 Budgetary processes

The Budget, Controlling and Organisation Division (BCO) of the Directorate General Human Resources, Budget and Organisation¹ develops the framework for and prepares and monitors strategic planning in respect of the ECB's resources, as well as the related operating budget. These tasks are carried out in cooperation with the business areas, while applying the separation principle,² and the outcome is reflected in the annual work programmes of the divisions. BCO also provides planning and resource controlling, cost-benefit analysis and investment analysis for the ECB and for ESCB projects. Expenditure against agreed budgets is monitored at regular intervals by the Executive Board,³ taking into account the advice of BCO, and by the Governing Council with the assistance of the Budget Committee (BUCOM). In accordance with Article 15 of the ECB's Rules of Procedure, BUCOM supports the Governing Council by evaluating the ECB's annual budget proposals and the Executive Board's requests for supplementary budget funding, prior to their submission to the Governing Council for approval.

3.3 Financial risk oversight functions

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

3.4 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

¹ In 2016 BCO will become part of the newly created Directorate General Budget and Finance.

² The separation principle refers to the requirement laid down in the SSM Regulation for the ECB to carry out its supervisory tasks without prejudice to and separately from its tasks relating to monetary policy and any other tasks.

³ From 2016 the newly appointed Chief Services Officer will also play an active role in the monitoring of budgets.

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

3.5 Production of the ECB's financial accounts

The Annual Accounts of the ECB are drawn up by the Executive Board, in accordance with the accounting policies established by the Governing Council.⁴

The Financial Reporting and Policy Division of the Directorate General Administration⁵ is responsible for producing the Annual Accounts in cooperation with other business areas and for ensuring that all related documentation is made available in a timely manner to the external auditors and to the decision-making bodies. The financial reporting processes and the ECB's Annual Accounts may be subject to internal audits. The ECB's internal audit activities conform to the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. All reports by the Directorate Internal Audit, which may include audit recommendations addressed to the business areas concerned, are submitted to the Executive Board.

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.⁶ The responsibility of the external auditors is to express an opinion as to whether the Annual Accounts give a true and fair view of the financial position of the ECB and of the results of its operations, in accordance with the accounting policies established by the Governing Council. In this regard, the external auditors evaluate the adequacy of internal controls applied to the preparation and presentation of the Annual Accounts and assess the appropriateness of the accounting policies used.

The ECB's Assets and Liabilities Committee, which is composed of representatives from the ECB's market operations, accounting, financial reporting, risk management and budget functions, systematically monitors and assesses all factors that may have an impact 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.

⁴ See the notes on accounting policies.

⁵ From 2016 the Financial Reporting and Policy Division will become part of the newly created Directorate General Budget and Finance.

⁶ 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.

After the Executive Board has authorised their issuance, the Annual Accounts, together with the external auditor's opinion and all relevant documentation, are submitted to the Audit Committee for review prior to their approval by the Governing Council. The Audit Committee provides assistance to the Governing Council regarding its responsibilities concerning, inter alia, the integrity of financial information and the oversight of internal controls. In this context, the Audit Committee assesses the ECB's Annual Accounts and considers whether they provide a true and fair view and were drawn up in accordance with approved accounting rules. It also reviews any significant accounting or financial reporting issues that could have an impact on the ECB's financial statements.

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

4 Risk management

Risk management is a critical component of the ECB's activities and is conducted through a continuous process of risk identification, assessment, mitigation and monitoring. The table below presents the main risks to which the ECB is exposed, as well as their sources and the risk management strategies applied by the ECB.

Risks to which the ECB is exposed

Risk	Component	Type of risk	Source of risk	Risk control framework
Financial risks	Credit risk	Credit default risk <i>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</i>	<ul style="list-style-type: none"> foreign reserves holdings euro-denominated investment portfolio monetary policy securities holdings 	<ul style="list-style-type: none"> ✓ eligibility criteria ✓ due diligence assessment ✓ exposure limits ✓ collateralisation ✓ diversification ✓ financial risk monitoring
		Credit migration risk <i>Risk of incurring financial losses owing to a re-pricing of financial assets following a deterioration in their credit quality and ratings</i>	<ul style="list-style-type: none"> foreign reserves holdings euro-denominated investment portfolio 	
	Market risk	Currency and commodity risks <i>Risks of incurring financial losses on (a) positions denominated in foreign currency, owing to fluctuations in exchange rates, and (b) on holdings of commodities, owing to fluctuations in their market prices</i>	<ul style="list-style-type: none"> foreign reserves holdings gold holdings 	<ul style="list-style-type: none"> ✓ diversification of holdings across currencies and gold ✓ gold and foreign currency revaluation accounts ✓ financial risk monitoring
		Interest rate risk <i>Risk of incurring financial losses as a result of adverse changes in interest rates giving rise to either (a) a mark-to-market decline in the value of financial instruments or (b) a negative impact on net interest income</i>	<ul style="list-style-type: none"> foreign reserves holdings euro-denominated investment portfolio monetary policy securities holdings 	<ul style="list-style-type: none"> ✓ asset allocation policies ✓ price revaluation accounts ✓ market risk limits ✓ financial risk monitoring
		Liquidity risk	Liquidity risk <i>Risk of incurring financial losses owing to the inability to liquidate an asset at its prevailing market value within an appropriate time frame</i>	<ul style="list-style-type: none"> foreign reserves holdings
	Operational risk	Operational risk <i>Risk of a negative financial, business or reputational impact resulting from people's actions or omissions, deficient personnel resourcing or policies, 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)</i>	<ul style="list-style-type: none"> workforce, personnel resourcing, personnel policies internal governance and business processes systems external events 	<ul style="list-style-type: none"> ✓ identifying, assessing, responding, reporting and monitoring operational risks ✓ risk tolerance policy guidance ✓ risk matrix ✓ business continuity management framework

4.1 Financial risks

Financial risks arise from the ECB's core activities and associated exposures. The ECB decides its asset allocation and implements appropriate risk management and due diligence frameworks, taking into account the objectives and purposes of the various portfolios and the financial exposures, as well as the risk preferences of its decision-making bodies.

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

Measured as VaR at a 95% confidence level over a one-year horizon (VaR95%), as at 31 December 2015 the financial risks to which the ECB was exposed through its financial assets amounted to a total of €10 billion, which was €1.4 billion higher than the aggregate risks estimated as at 31 December 2014. This increase is mainly associated with the rise in the market value of the ECB's foreign reserve assets and thus of the ECB's exposure to currency risk, following the appreciation of the US dollar and Japanese yen against the euro in 2015.

4.1.1 Credit risk

The risk controls and limits that the ECB uses to determine its credit risk exposure differ across types of operation, reflecting the policy or investment objectives of the different portfolios and the risk characteristics of the underlying assets.

The credit risk arising from the ECB's foreign reserves holdings is minimal, as the reserves are invested in assets with a high credit quality.

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

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

The credit risk associated with securities held for monetary policy purposes is within the risk tolerance levels of the ECB as a result of the risk management techniques that are applied. The credit migration risk associated with the securities acquired for

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

monetary policy purposes does not directly affect the financial accounts of the ECB, as these securities are valued at amortised cost subject to impairment and are therefore not revalued at market prices. However, they may be subject to credit default risk, and a deterioration in their credit quality can affect the financial accounts of the ECB through the regular process of analysis and recognition of impairments.

4.1.2 Market risk

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

Currency and commodity risks

Currency and commodity risks dominate the ECB's financial risk profile. This is due to the size of its foreign reserves (mainly comprising US dollars) and gold holdings, as well as the high degree of volatility in exchange rates and gold prices.

In view of the policy role of gold and foreign reserves, the ECB does not seek to eliminate currency and commodity risks. These risks are in effect mitigated by the diversification of the holdings across different currencies and gold.

In line with the Eurosystem rules, the gold and US dollar revaluation accounts, which amounted to €11.9 billion (2014: €12.1 billion) and €10.6 billion (2014: €6.2 billion) respectively as at 31 December 2015, can be used to absorb the impact of future unfavourable movements in the gold price and the US dollar foreign exchange rate, thereby mitigating or even preventing any impact on the ECB's Profit and Loss Account.

Interest rate risk

The ECB's foreign reserves and euro-denominated investment portfolios are mainly invested in fixed income securities which are revalued at market prices and are therefore exposed to market risk arising from interest rate movements. This mark-to-market interest rate risk 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 duration⁸ of the fixed income portfolios, the different risk-return preferences result in a longer modified duration for the euro-denominated investment portfolio than for the foreign reserves holdings.

⁸ Modified duration is a measure of the sensitivity of the value of the portfolios to parallel shifts in yield curves.

The mark-to-market interest rate risk to which the ECB is exposed remained limited over the course of 2015.

Securities acquired within the scope of the asset purchase programmes (the three CBPPs, the SMP, the ABSPP and the PSPP) are valued at amortised cost subject to impairment and are therefore not revalued at market prices. Thus, holdings of these securities are not exposed to mark-to-market interest rate risk. However, the mismatch between the interest rate sensitivity of the income generated by these securities and that of the expenses associated with the corresponding liabilities gives rise to interest rate risk that could have a negative impact on the net interest income of the ECB. Asset allocation policies, including policies and procedures that ensure that purchases are conducted at appropriate prices, are used to manage this type of risk, which is further mitigated by the existence of unremunerated liabilities and the overall asset and liability structure of the ECB's Balance Sheet. The interest rate risk associated with securities acquired for monetary policy purposes grew in the course of 2015, mainly owing to purchases under the PSPP. However, it is expected that the ECB will earn an overall positive net interest income in the coming years, even in the unlikely event that extremely adverse interest rate risk scenarios materialise.

4.1.3 Liquidity risk

In view of the role of the euro as a major reserve currency, the ECB's role as a central bank and its asset and liability structure, the 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. To manage this risk, the asset allocation and limits ensure that a sufficiently large share of the ECB's holdings is 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 2015.

4.2 Operational risk

The main objectives of the ECB's operational risk management (ORM) framework are (a) to contribute to ensuring that the ECB achieves its mission and objectives; and (b) to protect its reputation and other assets against loss, misuse and damage.

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

The ORM/BCM function is responsible for maintaining the ORM and business continuity management (BCM) frameworks and providing methodological assistance

in respect of ORM and BCM activities to risk and control owners. Moreover, it provides annual and ad-hoc reports on operational risks to the Operational Risk Committee and the Executive Board and it supports the decision-making bodies in their oversight role regarding the management of the ECB's operational risks and controls. It coordinates and implements the BCM programme, conducts regular business continuity tests and reviews of business continuity arrangements for the ECB's time-critical operations and supports the Crisis Management Team, including its support structures, as well as business areas, in the event of severe business disruption.

5 Financial resources

Capital

As a consequence of Lithuania's adoption of the single currency on 1 January 2015, Lietuvos bankas paid an amount of €43 million as at that date. As a result of this payment, the ECB's paid-up capital amounted to €7,740 million on 31 December 2015. Detailed information on the capital of the ECB is provided in note 15.1, "Capital", of the Annual Accounts.

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

In view of the ECB's considerable exposure to financial risks as described in Section 4, the ECB maintains a provision for foreign exchange rate, interest rate, credit and gold price risks. The size of and continuing requirement for this provision is reviewed annually, taking a range of factors into account, including in particular the level of holdings of risk-bearing assets, the extent of materialised risk exposures in the current financial year, projected results for the coming year and a risk assessment involving calculations of Values at Risk (VaR) on risk-bearing assets, which is applied consistently over time. The risk provision, together with any amounts held in the ECB's general reserve fund, may not exceed the value of the capital paid up by the euro area NCBs.

As at 31 December 2014 the provision for foreign exchange rate, interest rate, credit and gold price risks amounted to €7,575 million. Lietuvos bankas contributed an amount of €45 million with effect from 1 January 2015, increasing the size of the risk provision to €7,620 million. This amount equates to the value of the ECB's capital paid up by the euro area NCBs as at 31 December 2015.

Revaluation accounts

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

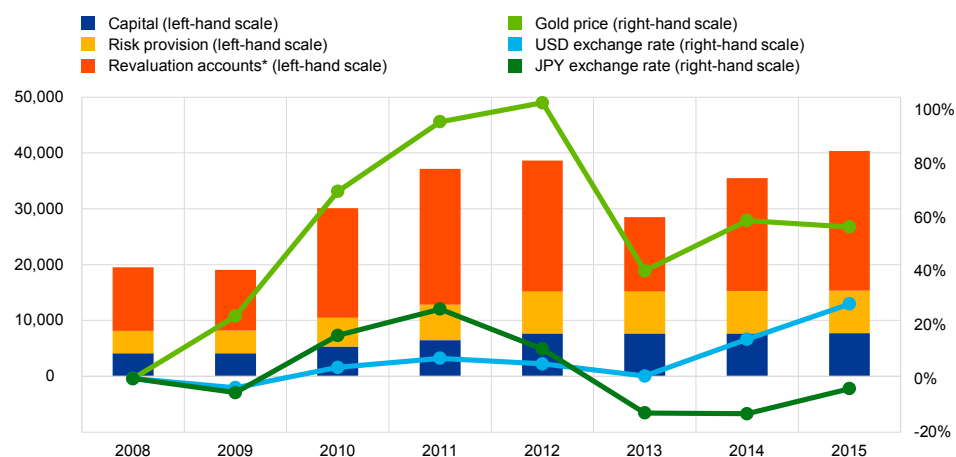
The total amount of revaluation accounts for gold, foreign currencies and securities as at the end of December 2015 stood at €25.0 billion⁹ (2014: €20.2 billion). For further information, see the notes on accounting policies and note 14, "Revaluation accounts", in the notes on the Balance Sheet.

Chart 1 presents the evolution of the above-mentioned financial resources of the ECB and of the main foreign exchange rates and the gold price for the period 2008-15¹⁰. During this period (a) the paid-up capital of the ECB almost doubled, mainly as a result of the decision taken by the Governing Council in 2010 to increase the subscribed capital; (b) the risk provision rose to an amount equal to the paid-up capital of the euro area NCBs; and (c) the revaluation accounts exhibited a notable degree of volatility, which was mainly due to movements in foreign exchange rates and the gold price.

Chart 1

The ECB's financial resources, the main foreign exchange rates and the gold price over the period 2008-15

(EUR millions; percentage changes compared with 2008)



* This includes total revaluation gains on gold, foreign currency and securities.
Source: ECB.

⁹ In addition, the balance sheet item "Revaluation accounts" includes remeasurements in respect of post-employment benefits.

¹⁰ Developments in the main foreign exchange rates and the gold price are presented as the percentage change compared with the exchange rates and gold price prevailing at the end of 2008.

6 The impact of key activities on the financial statements

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

Operation/Function	Impact on the ECB's Annual Accounts
Monetary policy operations	Standard monetary policy operations are implemented in a decentralised manner by the NCBs of the Eurosystem. Consequently, these operations do not have a direct impact on the ECB's Annual Accounts.
Securities held for monetary policy purposes (under the CBPPs, SMP, ABSPP and PSPP)	Securities purchased by the ECB are recorded under the item "Securities held for monetary policy purposes". Holdings in these portfolios are accounted for at amortised cost and an impairment test is conducted at least annually. Coupon accruals and amortisation of discounts and premiums are included in the Profit and Loss Account. ¹¹
Investment activities (management of foreign reserves and own funds)	The foreign reserves of the ECB are presented on-balance sheet ¹² or are reflected in off-balance-sheet accounts until the settlement date. The own funds portfolio of the ECB is presented on-balance sheet, mainly under the item "Other financial assets". Net interest income, including coupon accruals and the amortisation of discounts and premiums, is included in the Profit and Loss Account. ¹³ Unrealised price and exchange rate losses exceeding previously recorded unrealised gains, as well as realised gains and losses arising from the sale of securities, are also included in the Profit and Loss Account, ¹⁴ while unrealised gains are recorded on-balance sheet under the item "Revaluation accounts".
Payment systems (TARGET2)	Intra-Eurosystem balances of euro area NCBs vis-à-vis the ECB arising from TARGET2 are presented on the Balance Sheet of the ECB as a single net asset or liability position. The remuneration of those balances is included in the Profit and Loss Account under the items "Other interest income" and "Other interest expense".
Banknotes in circulation	The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation. This share is backed by claims on the NCBs, which bear interest at the rate on the main refinancing operations. This interest is included in the Profit and Loss Account under the item "Interest income arising from the allocation of euro banknotes within the Eurosystem". Expenses arising from the cross-border transportation of euro banknotes between banknote printing works and NCBs, for the delivery of new banknotes, and between NCBs, for the compensation of shortages with surplus stocks, are borne centrally by the ECB. These expenses are presented in the Profit and Loss Account under the heading "Banknote production services".
Banking supervision	The annual costs of the ECB in relation to its supervisory tasks are recovered via the annual supervisory fees levied on the supervised entities. The supervisory fees are included in the Profit and Loss Account under the heading "Net income from fees and commissions".

¹¹ Recorded under the items "Other interest Income" and "Other interest Expense".

¹² Mainly recorded under "Gold and gold receivables", "Claims on non-euro area residents denominated in foreign currency", "Claims on euro area residents denominated in foreign currency" and "Liabilities to non-euro area residents denominated in foreign currency".

¹³ Income related to the ECB's foreign reserves is disclosed under the item "Interest income on foreign reserve assets", while the interest income and expenses on its own funds are reflected in "Other interest income" and "Other interest expense".

¹⁴ Recorded under the items "Write-downs on financial assets and positions" and "Realised gains/losses arising from financial operations" respectively.

7 Financial result for 2015

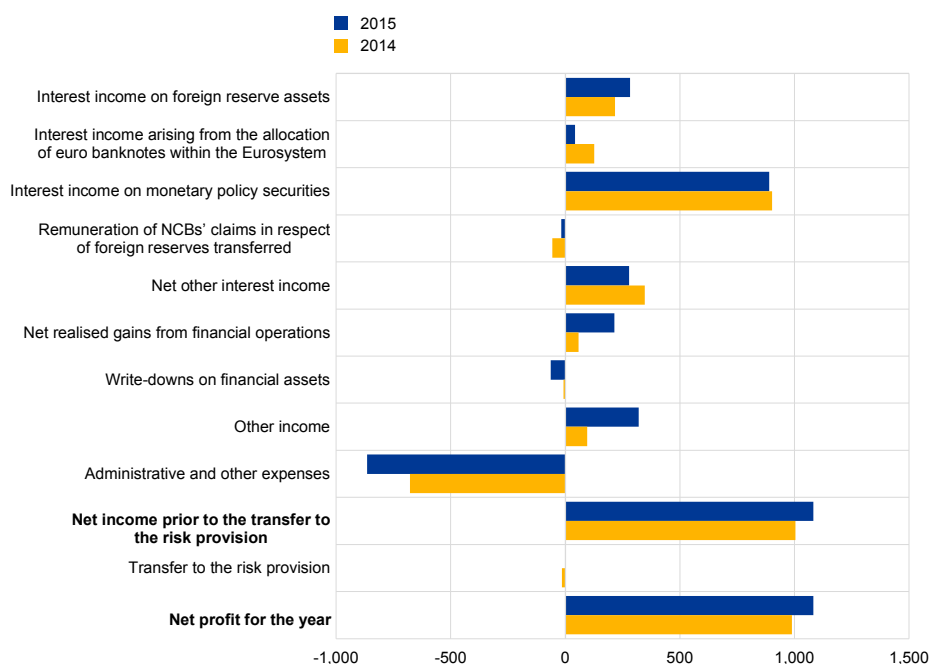
In 2015 the ECB's net profit was €1,082 million (2014: €989 million).

Chart 2 presents the components of the ECB's Profit and Loss Account in 2015 and a comparison with 2014.

Chart 2

Breakdown of the ECB's Profit and Loss Account in 2015 and 2014

(EUR millions)



Source: ECB.

Key highlights

- In 2015 net interest income decreased to €1,475 million, compared with €1,536 million in 2014. Lower interest income on the ECB's share of the total euro banknotes in circulation as a result of the lower average rate on the main refinancing operations in 2015, as well as lower interest income on the own funds portfolio, contributed to this decrease. The effects of these factors were only partially offset by (a) the higher interest income earned on foreign reserve assets as a result of both the appreciation of the US dollar against the euro and the higher interest income received from the portfolio of securities denominated in US dollars; and (b) the lower interest expense arising from the euro area NCBs' claims in respect of the foreign reserve assets transferred by them to the ECB.
- Interest income generated on the securities purchased for monetary policy purposes decreased marginally from €903 million in 2014 to €890 million in 2015. The reduction of interest income as a result of the maturing of securities

purchased under the SMP and the first and second covered bond purchase programmes was almost fully offset by interest income arising from the expanded asset purchase programme.¹⁵

- Write-downs on financial assets increased by €56 million to €64 million in 2015, mainly owing to the overall decrease in the market price of securities held in the US dollar portfolio.
- The total administrative expenses of the ECB, including depreciation, amounted to €864 million in 2015, compared with €677 million in 2014. This increase was mainly due to the commencement of the depreciation of the ECB's main building and higher costs incurred in connection with the Single Supervisory Mechanism (SSM). However, while for 2014 the ECB recovered its SSM-related costs via fees charged to the supervised entities only for November and December, the full costs for 2015 were recovered via such fees. As a result, other income increased in 2015 to €320 million (2014: €96 million).

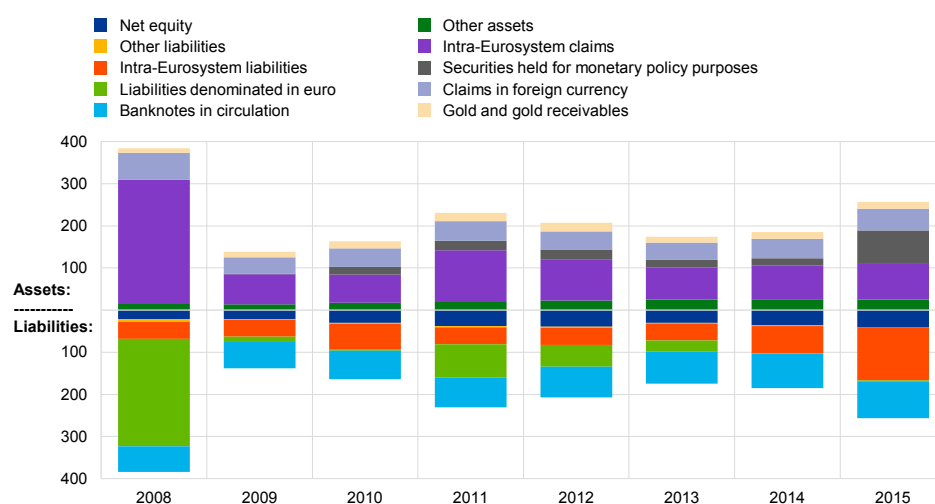
8 Long-term developments in the ECB's financial statements

Charts 3 and 4 present the evolution of the Balance Sheet and Profit and Loss Account of the ECB, as well as their components, over the period 2008-15.

Chart 3

Evolution of the ECB's Balance Sheet in the period 2008-15¹⁶

(EUR billions)



Source: ECB.

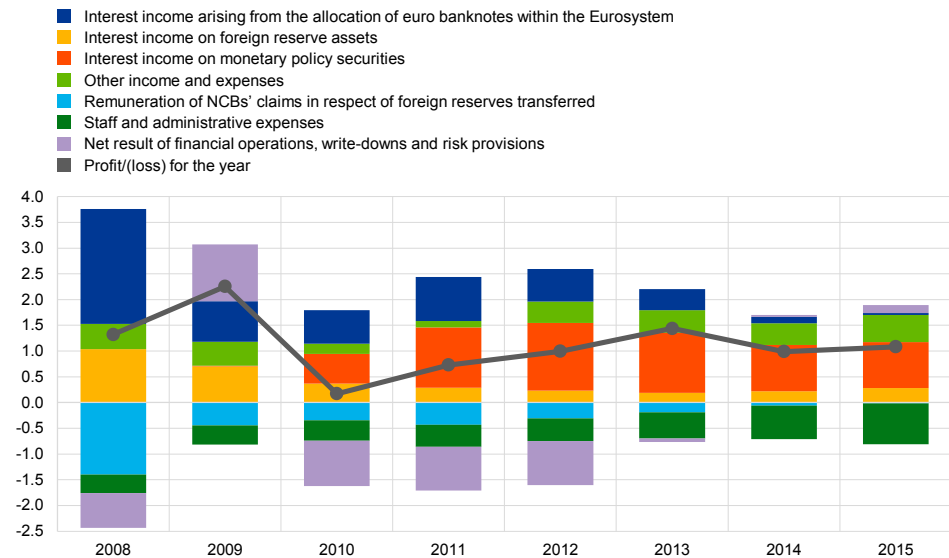
¹⁵ The expanded asset purchase programme (APP) consists of the CBPP3, ABSPP and PSPP. Further details on the APP can be found [on the ECB's website](#).

¹⁶ The chart is based on year-end values.

Chart 4

Evolution of the ECB's Profit and Loss Account in the period 2008-15

(EUR billions)



Source: ECB.

The contraction of the ECB's Balance Sheet compared with 2008 has mainly been due to the improvement in the US dollar funding conditions for Eurosystem counterparties and the resulting gradual reduction in US dollar liquidity-providing operations offered by the Eurosystem. This was reflected in the reduction in the intra-Eurosystem claims of the ECB and in its liabilities denominated in euro. However, in the fourth quarter of 2014 the ECB's Balance Sheet started to expand with the acquisition of covered bonds and asset-backed securities under the third covered bond purchase programme (CBPP3) and the ABSPP. This balance sheet expansion continued in 2015, with the acquisition of securities issued by euro area central governments following the introduction of the PSPP. The purchases of securities under all of these programmes were settled via TARGET2 accounts and therefore resulted in a corresponding increase in the intra-Eurosystem liabilities of the ECB.

The ECB's net profit over the same period was influenced by the following factors.

- The rate on the main refinancing operations decreased, significantly reducing the seigniorage income of the ECB. The average rate for 2015 was 0.05%, compared with 4% for 2008, and, as a result, interest income on banknotes in circulation fell from €2.2 billion in 2008 to €0.04 billion in 2015.
- Transfers were made to the general risk provision for foreign exchange rate, interest rate, credit and gold price risks, particularly in the period 2010-12. In this period a cumulative amount of €3.5 billion was transferred to the risk provision, reducing the reported profits by an equal amount.
- Interest income earned on foreign reserve assets declined gradually from €1.0 billion in 2008 to €0.2 billion in 2013, mainly owing to the reduction in US

dollar yields and the resulting decrease in interest income generated on the US dollar portfolio. However, this trend has been reversed over the past two years and in 2015 this income amounted to €0.3 billion.

- Security holdings acquired under the asset purchase programmes have generated, on average, 54% of the ECB's overall net interest income over the last six years.
- The establishment and functioning of the SSM in the past two years has contributed to a significant increase in staff and administrative expenses. However, the SSM-related costs have been recovered since November 2014 via the fees charged to the supervised entities.

Financial statements of the ECB

Balance Sheet as at 31 December 2015

ASSETS	Note number	2015 €	2014 €
Gold and gold receivables	1	15,794,976,324	15,980,317,601
Claims on non-euro area residents denominated in foreign currency	2		
Receivables from the IMF	2.1	714,825,534	669,336,060
Balances with banks and security investments, external loans and other external assets	2.2	49,030,207,257	43,730,904,005
		49,745,032,791	44,400,240,065
Claims on euro area residents denominated in foreign currency	2.2	1,862,714,832	1,783,727,949
Other claims on euro area credit institutions denominated in euro	3	52,711,983	2,120,620
Securities of euro area residents denominated in euro	4		
Securities held for monetary policy purposes	4.1	77,808,651,858	17,787,948,367
Intra-Eurosystem claims	5		
Claims related to the allocation of euro banknotes within the Eurosystem	5.1	86,674,472,505	81,322,848,550
Other assets	6		
Tangible and intangible fixed assets	6.1	1,263,646,830	1,249,596,659
Other financial assets	6.2	20,423,917,583	20,626,359,858
Off-balance-sheet instruments revaluation differences	6.3	518,960,866	319,624,726
Accruals and prepaid expenses	6.4	1,320,068,350	725,224,031
Sundry	6.5	1,180,224,603	1,092,627,246
		24,706,818,232	24,013,432,520
Total assets		256,645,378,525	185,290,635,672

LIABILITIES	Note number	2015 €	2014 €
Banknotes in circulation	7	86,674,472,505	81,322,848,550
Liabilities to other euro area residents denominated in euro	8		
Other liabilities	8.1	1,026,000,000	1,020,000,000
Liabilities to non-euro area residents denominated in euro	9	2,330,804,192	900,216,447
Liabilities to non-euro area residents denominated in foreign currency	10		
Deposits, balances and other liabilities	10.1	0	458,168,063
Intra-Eurosystem liabilities	11		
Liabilities equivalent to the transfer of foreign reserves	11.1	40,792,608,418	40,553,154,708
Other liabilities within the Eurosystem (net)	11.2	83,083,520,309	23,579,372,965
		123,876,128,727	64,132,527,673
Other liabilities	12		
Off-balance-sheet instruments revaluation differences	12.1	392,788,148	178,633,615
Accruals and income collected in advance	12.2	95,543,989	96,191,651
Sundry	12.3	891,555,907	869,549,503
		1,379,888,044	1,144,374,769
Provisions	13	7,703,394,185	7,688,997,634
Revaluation accounts	14	24,832,823,174	19,937,644,696
Capital and reserves	15		
Capital	15.1	7,740,076,935	7,697,025,340
Profit for the year		1,081,790,763	988,832,500
Total liabilities		256,645,378,525	185,290,635,672

Profit and Loss Account for the year ending 31 December 2015

	Note number	2015 €	2014 €
Interest income on foreign reserve assets	22.1	283,205,941	217,003,159
Interest income arising from the allocation of euro banknotes within the Eurosystem	22.2	41,991,105	125,806,228
Other interest income	22.4	2,168,804,955	2,512,243,088
<i>Interest income</i>		<i>2,494,002,001</i>	<i>2,855,052,475</i>
Remuneration of NCBs' claims in respect of foreign reserves transferred	22.3	(17,576,514)	(57,015,146)
Other interest expense	22.4	(1,001,272,846)	(1,262,336,836)
<i>Interest expense</i>		<i>(1,018,849,360)</i>	<i>(1,319,351,982)</i>
Net interest income	22	1,475,152,641	1,535,700,493
Realised gains/losses arising from financial operations	23	214,433,730	57,260,415
Write-downs on financial assets and positions	24	(64,053,217)	(7,863,293)
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks		0	(15,009,843)
Net result of financial operations, write-downs and risk provisions		150,380,513	34,387,279
Net income/expense from fees and commissions	25, 26	268,332,261	28,158,654
Income from equity shares and participating interests	27	908,109	780,935
Other income	28	51,023,378	67,253,502
Total net income		1,945,796,902	1,666,280,863
Staff costs	29	(440,844,142)	(301,142,390)
Administrative expenses	30	(351,014,617)	(353,579,537)
Depreciation of tangible and intangible fixed assets		(64,017,361)	(15,312,728)
Banknote production services	31	(8,130,019)	(7,413,708)
Profit for the year		1,081,790,763	988,832,500

Frankfurt am Main, 9 February 2016

European Central Bank

Mario Draghi
President

Accounting policies¹⁷

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,¹⁸ which the Governing Council of the ECB considers to be appropriate to the nature of central bank activity.

Accounting principles

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

Recognition of assets and liabilities

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

Basis of accounting

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

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

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

¹⁷ The detailed accounting policies of the ECB are laid down in Decision ECB/2010/21 of 11 November 2010, OJ L 35, 9.2.2011, p. 1. This Decision was last amended by Decision ECB/2015/26 of 2 July 2015, OJ L 193, 21.7.2015, p. 134.

¹⁸ 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.

premiums and discounts related to financial instruments denominated in foreign currency are calculated and recorded daily, and the foreign currency position is also affected daily by these accruals.

Gold and foreign currency assets and liabilities

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

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

Gold is valued at the market price prevailing at the year-end. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold valuation is accounted for on the basis of the price in euro per fine ounce of gold, which, for the year ending 31 December 2015, was derived from the exchange rate of the euro against the US dollar on 31 December 2015.

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 2015.

Securities

Securities held for monetary policy purposes

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

Other securities

Marketable securities (other than securities held for monetary policy purposes) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. Options embedded in securities are not separated for valuation purposes. For the year ending 31 December 2015, mid-market prices on 30 December 2015 were used. Illiquid equity shares are valued at cost subject to impairment.

Income recognition

Income and expenses are recognised in the period in which they are earned or incurred.¹⁹ 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 securities are calculated and presented as part of interest income and are amortised over the remaining contractual life of the securities.

Reverse transactions

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

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

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

Reverse transactions (including security lending transactions) conducted under an automated security lending programme are recorded on the Balance Sheet only

¹⁹ A minimum threshold of €100,000 applies for administrative accruals and provisions.

where collateral is provided in the form of cash placed on an account of the ECB. In 2015 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, as well as interest rate swaps that are cleared via a central counterparty, are recorded in the Profit and Loss Account. The valuation of forward transactions in securities and of interest rate swaps that are not cleared via a central counterparty is carried out by the ECB based on generally accepted valuation methods using observable market prices and rates, as well as discount factors from the settlement dates to the valuation date.

Post-balance-sheet events

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

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

Intra-ESCB balances/intra-Eurosystem balances

Intra-ESCB balances result primarily from cross-border payments in the 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 TARGET2,²⁰ are disclosed under “Liabilities to non-euro area residents denominated in euro”.

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

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

Treatment of fixed assets

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

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

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

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

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

²⁰ As at 31 December 2015 the non-euro area NCBs participating in TARGET2 were Българска народна банка (Bulgarian National Bank), Danmarks Nationalbank, Narodowy Bank Polski and Banca Națională a României.

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

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

The staff pension plan is funded by assets held in a long-term employee benefit fund. The compulsory contributions made by the ECB and the staff are 19.5% and 6.7% of basic salary respectively and are reflected in the defined benefit pillar of the plan. Staff can make additional contributions on a voluntary basis in a defined contribution pillar that can be used to provide additional benefits.²¹ These additional benefits are determined by the amount of voluntary contributions together with the investment returns arising from these contributions.

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

Net defined benefit liability

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

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

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

Net defined benefit cost

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

²¹ The funds accumulated by a staff member through voluntary contributions can be used at retirement to purchase an additional pension. This pension is included in the defined benefit obligation from that point on.

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

- (a) the current service cost of the defined benefits accruing for the year;
- (b) net interest at the discount rate on the net defined benefit liability;
- (c) remeasurements in respect of other long-term benefits, in their entirety.

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

- (a) actuarial gains and losses on the defined benefit obligation;
- (b) the actual return on plan assets, excluding amounts included in the net interest on the net defined benefit liability;
- (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.²² 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.²³

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,²⁴ 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”.

²² 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.

²³ “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.

²⁴ Decision ECB/2010/23 of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast), OJ L 35, 9.2.2011, p. 17, as amended.

Interim profit distribution

An amount that is equal to the sum of the ECB's income on euro banknotes in circulation and income arising from the securities held for monetary policy purposes purchased under (a) the Securities Markets Programme; (b) the third covered bond purchase programme; (c) the asset-backed securities purchase programme; and (d) the public sector asset purchase programme is due to the euro area NCBs in the financial year in which it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this amount in January of the following year by means of an interim profit distribution.²⁵ It is distributed in full unless it is higher than the ECB's net profit for the year, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

Other issues

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

In accordance with Article 27 of the Statute of the ESCB, and on the basis of a recommendation of the Governing Council, the EU Council has approved the appointment of 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.

²⁵ Decision (EU) 2015/298 of the ECB of 15 December 2014 on the interim distribution of the income of the ECB (recast) (ECB/2014/57), OJ L 53, 25.2.2015, p. 24, as amended.

Notes on the Balance Sheet

1 Gold and gold receivables

As at 31 December 2015 the ECB held 16,229,522 ounces²⁶ of fine gold (2014: 16,178,193 ounces). The increase was due to the transfer by Lietuvos bankas to the ECB of 51,329 ounces of fine gold²⁷ upon the adoption of the single currency by Lithuania. Despite this increase in the ECB's holdings of fine gold, the euro equivalent value of these holdings decreased owing to the fall in the price of gold in 2015 (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies and note 14, "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 2015. It arises as the result of a two-way SDR buying and selling arrangement with the International Monetary Fund (IMF), whereby the IMF is authorised to arrange sales or purchases of SDRs against euro, on behalf of the ECB, within minimum and maximum holding levels. For accounting purposes, SDRs are treated as a foreign currency (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies). The increase in the euro equivalent value of the ECB's holdings of SDRs was mainly due to the appreciation of the SDR against the euro in 2015.

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	2015 €	2014 €	Change €
Current accounts	4,398,616,340	2,618,332,591	1,780,283,749
Money market deposits	1,666,345,182	1,035,952,558	630,392,624
Reverse repurchase agreements	831,266,648	986,131,163	(154,864,515)
Security investments	42,133,979,087	39,090,487,693	3,043,491,394
Total	49,030,207,257	43,730,904,005	5,299,303,252

²⁶ This corresponds to 504.8 tonnes.

²⁷ The transfer, with a value equivalent to €50.7 million, was made with effect from 1 January 2015.

Claims on euro area residents	2015 €	2014 €	Change €
Current accounts	953,098	4,035,172	(3,082,074)
Money market deposits	1,861,761,734	1,599,827,033	261,934,701
Reverse repurchase agreements	0	179,865,744	(179,865,744)
Total	1,862,714,832	1,783,727,949	78,986,883

The increase in these items in 2015 was mainly due to the appreciation of both the US dollar and the Japanese yen against the euro.

Additionally, upon the adoption of the single currency by Lithuania with effect from 1 January 2015, Lietuvos bankas transferred foreign reserve assets denominated in US dollars with a value of €287.9 million to the ECB.

The ECB's net foreign currency holdings of US dollars and Japanese yen,²⁸ as at 31 December 2015, were as follows:

	2015 Currency in millions	2014 Currency in millions
US dollars	46,382	45,649
Japanese yen	1,085,596	1,080,094

3 Other claims on euro area credit institutions denominated in euro

As at 31 December 2015 this item consisted of current accounts with euro area residents.

4 Securities of euro area residents denominated in euro

4.1 Securities held for monetary policy purposes

As at 31 December 2015 this item consisted of securities acquired by the ECB within the scope of the three covered bond purchase programmes, the Securities Markets Programme (SMP), the asset-backed securities purchase programme (ABSPP) and the public sector asset purchase programme (PSPP).

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

²⁸ 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.

In 2015 the asset purchases under the third covered bond purchase programme (CBPP3) and the ABSPP were expanded to include the PSPP.²⁹ The CBPP3, ABSPP and PSPP together constitute the expanded asset purchase programme (APP).³⁰ Combined monthly APP purchases by the NCBs and the ECB amount to €60 billion on average and are intended to be carried out until the end of March 2017 and, in any case, until the Governing Council sees a sustained adjustment in the path of inflation that is consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term.

Securities purchased under all six programmes are valued on an amortised cost basis subject to impairment (see “Securities” in the notes on accounting policies). Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year-end and are approved by the Governing Council. Based on the outcome of this year’s impairment tests, only one impairment indicator, relating to the SMP portfolio, was triggered. However, this indicator did not affect the future cash flows expected to be received by the ECB and consequently no losses were recorded in 2015.

The amortised cost of the securities held by the ECB, as well as their market value³¹ (which is not recorded on the Balance Sheet or in the Profit and Loss Account but is provided for comparison purposes only), are as follows:

	2015 €		2014 €		Change €	
	Amortised cost	Market value	Amortised cost	Market value	Amortised cost	Market value
First covered bond purchase programme	1,786,194,503	1,898,990,705	2,395,178,568	2,576,479,183	(608,984,065)	(677,488,478)
Second covered bond purchase programme	933,230,549	1,013,540,352	1,249,397,951	1,367,880,767	(316,167,402)	(354,340,415)
Third covered bond purchase programme	11,457,444,451	11,396,084,370	2,298,798,185	2,314,787,199	9,158,646,266	9,081,297,171
Securities Markets Programme	8,872,443,668	10,045,312,608	10,100,343,269	11,247,795,991	(1,227,899,601)	(1,202,483,383)
Asset-backed securities purchase programme	15,321,905,622	15,220,939,054	1,744,230,394	1,742,441,349	13,577,675,228	13,478,497,705
Public sector asset purchase programme	39,437,433,065	39,372,318,024	-	-	39,437,433,065	39,372,318,024
Total	77,808,651,858	78,947,185,113	17,787,948,367	19,249,384,489	60,020,703,491	59,697,800,624

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

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

²⁹ Under this programme, the ECB and the NCBs may purchase, in the secondary market, euro-denominated securities issued by euro area central, regional or local governments, recognised agencies located in the euro area and international organisations and multilateral development banks located in the euro area.

³⁰ Further details for the APP can be found [on the ECB's website](#).

³¹ Market values are indicative and are derived on the basis of market quotes. When market quotes are not available, market prices are estimated using internal Eurosystem models.

5 Intra-Eurosystem claims

5.1 Claims related to the allocation of euro banknotes within the Eurosystem

This item consists of the claims of the ECB vis-à-vis the euro area NCBs relating to the allocation of euro banknotes within the Eurosystem (see “Banknotes in circulation” in 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 22.2, “Interest income arising from the allocation of euro banknotes within the Eurosystem”).

6 Other assets

6.1 Tangible and intangible fixed assets

These assets comprised the following items on 31 December 2015:

	2015 €	2014 €	Change €
Cost			
Land and buildings	1,027,242,937	997,154,850	30,088,087
Plant in building	219,897,386	212,838,181	7,059,205
Computer hardware and software	77,350,193	71,812,322	5,537,871
Equipment, furniture and motor vehicles	92,000,437	82,854,876	9,145,561
Assets under construction	244,590	16,163,065	(15,918,475)
Other fixed assets	9,453,181	8,241,408	1,211,773
Total cost	1,426,188,724	1,389,064,702	37,124,022
Accumulated depreciation			
Land and buildings	(79,468,891)	(88,477,513)	9,008,622
Plant in building	(15,827,521)	(72,342)	(15,755,179)
Computer hardware and software	(45,530,493)	(38,380,961)	(7,149,532)
Equipment, furniture and motor vehicles	(20,831,615)	(11,908,686)	(8,922,929)
Other fixed assets	(883,374)	(628,541)	(254,833)
Total accumulated depreciation	(162,541,894)	(139,468,043)	(23,073,851)
Net book value	1,263,646,830	1,249,596,659	14,050,171

In November 2014 the ECB’s new premises became available for use. Therefore, in line with the ECB’s accounting policy (see “Treatment of fixed assets” in the notes on accounting policies), the depreciation of the new premises commenced in January 2015.

The decrease in “Assets under construction” was due mainly to the completion of assets related to the ECB’s new premises, which were still under development as at 31 December 2014, and the consequent transfers of the related costs to the relevant fixed asset headings in 2015. These transfers, as well as further activities related to the ECB’s new premises, resulted in an increase in the “Land and buildings” cost category in 2015.

The decrease in the accumulated depreciation of land and buildings in 2015 was due to the write-off of capitalised refurbishment expenditure relating to items that were no longer in use.

6.2 Other financial assets

This item consists of the investment of the ECB's own funds³² 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:

	2015 €	2014 €	Change €
Current accounts in euro	30,000	4,684,410	(4,654,410)
Securities denominated in euro	19,192,975,459	19,091,635,302	101,340,157
Reverse repurchase agreements in euro	1,188,997,789	1,488,138,078	(299,140,289)
Other financial assets	41,914,335	41,902,068	12,267
Total	20,423,917,583	20,626,359,858	(202,442,275)

The settlement in 2015 of the repurchase transactions that were outstanding on 31 December 2014 (see note 12.3, "Sundry") contributed to the overall decrease in this item.

6.3 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 2015 (see note 19, "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 18, "Interest rate swaps").

6.4 Accruals and prepaid expenses

In 2015 this item included accrued coupon interest on securities, including outstanding interest paid at acquisition, amounting to €1,186.6 million

³² Repurchase agreements conducted in the context of the management of the own funds portfolio are reported under "Sundry" on the liabilities side (see note 12.3, "Sundry").

(2014: €603.9 million) (see note 2.2, “Balances with banks and security investments, external loans and other external assets; and Claims on euro area residents denominated in foreign currency”, note 4, “Securities of euro area residents denominated in euro”, and note 6.2, “Other financial assets”).

It also included accrued interest receivable on TARGET2 balances for December 2015, amounting to €33.2 million (2014: €25.5 million), and accrued interest receivable on the ECB’s claims related to the allocation of euro banknotes within the Eurosystem for the final quarter of the year (see “Banknotes in circulation” in the notes on accounting policies), amounting to €10.8 million (2014: €10.0 million).

Moreover, this item includes (a) accrued income from common Eurosystem projects (see note 28, “Other income”); (b) accrued interest income on other financial assets; and (c) miscellaneous prepayments.

6.5 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 11.2, “Other liabilities within the Eurosystem (net)”).

It also included balances related to swap and forward transactions in foreign currency outstanding on 31 December 2015 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).

7 Banknotes in circulation

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

8 Liabilities to other euro area residents denominated in euro

8.1 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.

9 Liabilities to non-euro area residents denominated in euro

As at 31 December 2015 this item comprised an amount of €1.5 billion (2014: €0.9 billion), consisting of balances held with the ECB by non-euro area central banks that arise from, or are the counterpart of, transactions processed via the TARGET2 system. The increase in these balances in 2015 was due to payments from euro area residents to non-euro area residents (see note 11.2, “Other liabilities within the Eurosystem (net)”).

The remainder of this item consisted of an amount of €0.8 billion (2014: €0) arising from the standing reciprocal currency arrangement with the Federal Reserve. Under this arrangement, US dollars are provided by the Federal Reserve to the ECB by means of swap transactions, with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously enters into back-to-back swap transactions with euro area NCBs, which use the resulting funds to conduct US dollar liquidity-providing operations with Eurosystem counterparties in the form of reverse transactions. The back-to-back swap transactions result in intra-Eurosystem balances between the ECB and the NCBs (see note 11.2, “Other liabilities within the Eurosystem (net)”).

Furthermore, the swap transactions conducted with the Federal Reserve and the euro area NCBs result in forward claims and liabilities that are recorded in off-balance-sheet accounts (see note 19, “Foreign exchange swap and forward transactions”).

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

10.1 Deposits, balances and other liabilities

As at 31 December 2014 this item consisted of liabilities that arose under repurchase agreements conducted with non-euro area residents in connection with the management of the foreign currency reserves of the ECB.

No related liabilities remained outstanding as at 31 December 2015.

11 Intra-Eurosystem liabilities

11.1 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 January 2015 €	As at 31 December 2014 €
Nationale Bank van België/Banque Nationale de Belgique	1,435,910,943	1,435,910,943
Deutsche Bundesbank	10,429,623,058	10,429,623,058
Eesti Pank	111,729,611	111,729,611
Central Bank of Ireland	672,637,756	672,637,756
Bank of Greece	1,178,260,606	1,178,260,606
Banco de España	5,123,393,758	5,123,393,758
Banque de France	8,216,994,286	8,216,994,286
Banca d'Italia	7,134,236,999	7,134,236,999
Central Bank of Cyprus	87,679,928	87,679,928
Latvijas Banka	163,479,892	163,479,892
Lietuvos bankas	239,453,710	-
Banque centrale du Luxembourg	117,640,617	117,640,617
Central Bank of Malta	37,552,276	37,552,276
De Nederlandsche Bank	2,320,070,006	2,320,070,006
Oesterreichische Nationalbank	1,137,636,925	1,137,636,925
Banco de Portugal	1,010,318,483	1,010,318,483
Banka Slovenije	200,220,853	200,220,853
Národná banka Slovenska	447,671,807	447,671,807
Suomen Pankki – Finlands Bank	728,096,904	728,096,904
Total	40,792,608,418	40,553,154,708

Lietuvos bankas' claim was set at €239,453,710 in order to ensure that the ratio between this claim and the aggregate claim credited to the other NCBs of Member States whose currency is the euro will be equal to the ratio between Lietuvos bankas' weighting in the ECB's capital key and the other euro area NCBs' aggregate weighting in this key. The difference between the claim and the value of the assets transferred (see note 1, "Gold and gold receivables", and note 2.2, "Balances with banks and security investments, external loans and other external assets; and Claims on euro area residents denominated in foreign currency") was treated as part of the contributions of Lietuvos bankas, due under Article 48.2 of the Statute of the ESCB, to the reserves and provisions equivalent to reserves of the ECB existing as at 31 December 2014 (see note 13, "Provisions", and note 14, "Revaluation accounts").

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

11.2 Other liabilities within the Eurosystem (net)

In 2015 this item consisted mainly of the TARGET2 balances of the euro area NCBs vis-à-vis the ECB (see "Intra-ESCB balances/intra-Eurosystem balances" in the notes on accounting policies). The net increase in this position resulted mainly from purchases of securities under the expanded APP (see note 4, "Securities of euro area residents denominated in euro"), which were settled via TARGET2 accounts. The impact of the purchases was partially offset by (a) redemptions of securities

purchased under the SMP and the first two covered bond purchase programmes, which were also settled via TARGET2 accounts, (b) the increase in the amounts related to the back-to-back swap transactions conducted with NCBs in connection with US dollar liquidity-providing operations, and (c) the settlement in TARGET2 of payments from euro area residents to non-euro area residents (see note 9, “Liabilities to non-euro area residents denominated in euro”).

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

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).

	2015 €	2014 €
Due to euro area NCBs in respect of TARGET2	812,734,808,529	612,892,597,646
Due from euro area NCBs in respect of TARGET2	(730,463,422,714)	(590,153,944,468)
Due to euro area NCBs in respect of the ECB’s interim profit distribution	812,134,494	840,719,787
Other liabilities within the Eurosystem (net)	83,083,520,309	23,579,372,965

12 Other liabilities

12.1 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 2015 (see note 19, “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 18, “Interest rate swaps”).

12.2 Accruals and income collected in advance

As at 31 December 2015 this item included accrued interest payable to the NCBs for the whole of 2015 in respect of their claims relating to foreign reserves transferred to the ECB (see note 11.1, “Liabilities equivalent to the transfer of foreign reserves”) and accrued interest payable on TARGET2 balances due to NCBs for the final month of 2015. These amounts were settled in January 2016.

This item also included (a) income collected in advance in connection with the Single Supervisory Mechanism (see note 26, “Income and expenses related to supervisory tasks”); (b) administrative accruals; and (c) accruals on financial instruments.

	2015 €	2014 €	Change €
Foreign reserves transferred to the ECB	17,576,514	57,015,146	(39,438,632)
TARGET2	36,393,921	26,309,091	10,084,830
Other accruals	41,573,554	12,867,414	28,706,140
Total	95,543,989	96,191,651	(647,662)

12.3 Sundry

In 2015 this item included balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2015 (see note 19, “Foreign exchange swap and forward transactions”). These balances arose from the conversion of such transactions into their euro equivalents at the respective currency’s average cost on the balance sheet date, compared with the euro values at which the transactions were initially recorded (see “Off-balance-sheet instruments” in the notes on accounting policies).

As at 31 December 2014 this item included outstanding repurchase transactions of €150.1 million conducted in connection with the management of the ECB’s own funds. No related transactions remained outstanding as at 31 December 2015.

*The ECB’s pension plans, other post-employment benefits and other long-term benefits*³³

In addition, this item included the ECB’s net defined benefit liability in respect of the post-employment and other long-term benefits of its staff and the members of the Executive Board, as well as the members of the Supervisory Board employed by the ECB, amounting to €385.5 million (2014: €459.7 million).

³³ In all the tables of this note, the columns labelled “Boards” report the amounts in respect of both the Executive Board and the Supervisory Board.

Balance Sheet

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

	2015 Staff	2015 Boards	2015 Total	2014 Staff	2014 Boards	2014 Total
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Present value of obligation	1,116.7	24.1	1,140.8	1,087.1	24.5	1,111.6
Fair value of plan assets	(755.3)	-	(755.3)	(651.9)	-	(651.9)
Net defined benefit liability recognised in the Balance Sheet	361.4	24.1	385.5	435.2	24.5	459.7

In 2015 the present value of the obligation vis-à-vis staff of €1,116.7 million (2014: €1,087.1 million) included unfunded benefits amounting to €155.9 million (2014: €170.3 million) relating to post-employment benefits other than pensions and to other long-term benefits. Unfunded arrangements are also in place for the post-employment and other long-term benefits of members of the Executive Board and members of the Supervisory Board.

Profit and Loss Account

The amounts recognised in the Profit and Loss Account in 2015 were as follows:

	2015 Staff	2015 Boards	2015 Total	2014 Staff	2014 Boards	2014 Total
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Current service cost	120.0	1.9	121.9	41.7	1.2	42.9
Net interest on the net defined benefit liability	9.5	0.5	10.0	4.5	0.7	5.2
<i>of which:</i>						
<i>Cost on the obligation</i>	22.9	0.5	23.4	25.1	0.7	25.8
<i>Income on plan assets</i>	(13.4)	-	(13.4)	(20.6)	-	(20.6)
Remeasurement (gains)/losses on other long-term benefits	2.6	(0.1)	2.5	7.8	0.3	8.1
Total included in "Staff costs"	132.1	2.3	134.4	54.0	2.2	56.2

The current service cost increased in 2015 to €121.9 million (2014: €42.9 million), owing to (a) the reduction in the discount rate from 3.75% in 2013 to 2% in 2014,³⁴ and (b) the higher average number of plan members in 2015.

³⁴ The current service cost is estimated using the discount rate that applied in the previous year.

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

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

	2015 Staff	2015 Boards	2015 Total	2014 Staff	2014 Boards	2014 Total
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Opening defined benefit obligation	1,087.1	24.5	1,111.6	650.6	17.8	668.4
Current service cost	120.0	1.9	121.9	41.7	1.2	42.9
Interest cost on the obligation	22.9	0.5	23.4	25.1	0.7	25.8
Contributions paid by plan participants	21.7	0.2	21.9	14.0	0.1	14.1
Benefits paid	(7.5)	(0.8)	(8.3)	(7.1)	(0.8)	(7.9)
Remeasurement (gains)/losses	(127.5)	(2.2)	(129.7)	362.8	5.5	368.3
Closing defined benefit obligation	1,116.7	24.1	1,140.8	1,087.1	24.5	1,111.6

The total remeasurement gains of €129.7 million for 2015 on the defined benefit obligation arose primarily owing to the increase in the discount rate from 2.0% in 2014 to 2.5% in 2015. This compares with remeasurement losses of €368.3 million for 2014 which arose primarily owing to the decrease in the discount rate from 3.75% in 2013 to 2.0% in 2014.

Changes in 2015 in the fair value of plan assets in the defined benefit pillar relating to staff were as follows:

	2015 € millions	2014 € millions
Opening fair value of plan assets	651.9	536.5
Interest income on plan assets	13.4	20.6
Remeasurement gains	26.8	49.7
Contributions paid by employer	46.9	36.4
Contributions paid by plan participants	21.7	14.0
Benefits paid	(5.4)	(5.3)
Closing fair value of plan assets	755.3	651.9

Remeasurement gains on plan assets in both 2015 and 2014 reflected the fact that actual returns on the fund units were higher than the estimated interest income on plan assets.

The increase in the contributions made both by the ECB and by plan participants in 2015 was due mainly to the increase in the number of plan participants in that year (see note 29, "Staff costs").

Changes in 2015 in the remeasurement results (see note 14, "Revaluation accounts") were as follows:

	2015 € millions	2014 € millions
Opening remeasurement gains/(losses)	(305.6)	4.8
Contributions by NCBs joining the Eurosystem ³⁵	(1.8)	0.0
Gains on plan assets	26.8	49.7
Gains/(losses) on obligation	129.7	(368.3)
Losses/(gains) recognised in the Profit and Loss Account	2.5	8.1
Closing remeasurement losses included under "Revaluation accounts"³⁶	(148.4)	(305.6)

Key assumptions

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

	2015 %	2014 %
Discount rate	2.50	2.00
Expected return on plan assets ³⁷	3.50	3.00
General future salary increases ³⁸	2.00	2.00
Future pension increases ³⁹	1.40	1.40

Furthermore, voluntary contributions made by staff in a defined contribution pillar in 2015 amounted to €123.3 million (2014: €110.6 million). These contributions are invested in the plan assets but also give rise to a corresponding obligation of equal value.

13 Provisions

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

³⁵ Upon the adoption of the single currency by Lithuania, Lietuvos bankas contributed to the balances of all the revaluation accounts of the ECB. The outstanding remeasurement losses that were included in the revaluation accounts as at 31 December 2014 resulted in a reduction in the contributions by Lietuvos bankas.

³⁶ Totals may not add up due to rounding.

³⁷ 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.

³⁸ 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.

³⁹ In accordance with the ECB's pension plan rules, pensions will be increased annually. If general salary adjustments for ECB employees are below price inflation, any increase in pensions will be in line with the general salary adjustments. If the general salary adjustments exceed price inflation, they will be applied to determine the increase in pensions, provided that the financial position of the ECB's pension plans permits such an increase.

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 and taking a range of factors into account. Its size, together with any amount held in the general reserve fund, may not exceed the value of the ECB's capital paid up by the euro area NCBs.

Upon Lithuania's adoption of the single currency, Lietuvos bankas contributed an amount of €44,728,929 to the provision for foreign exchange rate, interest rate, credit and gold price risks with effect from 1 January 2015,⁴⁰ increasing the size of the provision to €7,619,884,851. Following the increase in the ECB's paid-up capital in 2015 (see note 15, "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 2015.

14 Revaluation accounts

This item consists mainly of revaluation balances arising from unrealised gains on assets, liabilities and off-balance-sheet instruments (see "Income recognition", "Gold and foreign currency assets and liabilities", "Securities" and "Off-balance-sheet instruments" in 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 12.3, "Sundry").

Upon the adoption of the single currency by Lithuania, Lietuvos bankas contributed an amount of €117.7 million to these balances with effect from 1 January 2015.

	2015 €	2014 €	Change €
Gold	11,900,595,095	12,065,394,836	(164,799,741)
Foreign currency	12,272,562,352	7,046,435,041	5,226,127,311
Securities and other instruments	808,078,836	1,131,424,399	(323,345,563)
Net defined benefit liability in respect of post-employment benefits	(148,413,109)	(305,609,580)	157,196,471
Total	24,832,823,174	19,937,644,696	4,895,178,478

The increase in the size of the revaluation accounts is predominately due to the depreciation of the euro against the US dollar and Japanese yen in 2015.

⁴⁰ This contribution was paid in accordance with Article 48.2 of the Statute of the ESCB.

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

Exchange rates	2015	2014
US dollars per euro	1.0887	1.2141
Japanese yen per euro	131.07	145.23
Euro per SDR	1.2728	1.1924
Euro per fine ounce of gold	973.225	987.769

15 Capital and reserves

15.1 Capital

Lithuania adopted the single currency on 1 January 2015. In accordance with Article 48.1 of the Statute of the ESCB, Lietuvos bankas paid up an amount of €43,051,594 as at 1 January 2015,⁴¹ representing the remainder of its capital subscription to the ECB. As a consequence, the ECB's paid-up capital increased from €7,697,025,340 on 31 December 2014 to €7,740,076,935 on 1 January 2015, as shown in the table.⁴²

⁴¹ Decision (EU) 2015/287 of the ECB of 31 December 2014 on the paying-up of capital, transfer of foreign reserve assets and contributions by Lietuvos bankas to the ECB's reserves and provisions (ECB/2014/61), OJ L 50, 21.2.2015, p. 44.

⁴² Individual amounts are shown rounded to the nearest euro. Consequently, totals and subtotals in the table may not add up due to rounding.

	Capital key since 1 January 2015 %	Paid-up capital since 1 January 2015 €	Capital key as at 31 December 2014 %	Paid-up capital as at 31 December 2014 €
Nationale Bank van België/ Banque Nationale de Belgique	2.4778	268,222,025	2.4778	268,222,025
Deutsche Bundesbank	17.9973	1,948,208,997	17.9973	1,948,208,997
Eesti Pank	0.1928	20,870,614	0.1928	20,870,614
Central Bank of Ireland	1.1607	125,645,857	1.1607	125,645,857
Bank of Greece	2.0332	220,094,044	2.0332	220,094,044
Banco de España	8.8409	957,028,050	8.8409	957,028,050
Banque de France	14.1792	1,534,899,402	14.1792	1,534,899,402
Banca d'Italia	12.3108	1,332,644,970	12.3108	1,332,644,970
Central Bank of Cyprus	0.1513	16,378,236	0.1513	16,378,236
Latvijas Banka	0.2821	30,537,345	0.2821	30,537,345
Lietuvos bankas	0.4132	44,728,929	-	-
Banque centrale du Luxembourg	0.2030	21,974,764	0.2030	21,974,764
Central Bank of Malta	0.0648	7,014,605	0.0648	7,014,605
De Nederlandsche Bank	4.0035	433,379,158	4.0035	433,379,158
Oesterreichische Nationalbank	1.9631	212,505,714	1.9631	212,505,714
Banco de Portugal	1.7434	188,723,173	1.7434	188,723,173
Banka Slovenije	0.3455	37,400,399	0.3455	37,400,399
Národná banka Slovenska	0.7725	83,623,180	0.7725	83,623,180
Suomen Pankki – Finlands Bank	1.2564	136,005,389	1.2564	136,005,389
Subtotal for euro area NCBs	70.3915	7,619,884,851	69.9783	7,575,155,922
Българска народна банка (Bulgarian National Bank)	0.8590	3,487,005	0.8590	3,487,005
Česká národní banka	1.6075	6,525,450	1.6075	6,525,450
Danmarks Nationalbank	1.4873	6,037,512	1.4873	6,037,512
Hrvatska narodna banka	0.6023	2,444,963	0.6023	2,444,963
Lietuvos bankas	-	-	0.4132	1,677,335
Magyar Nemzeti Bank	1.3798	5,601,129	1.3798	5,601,129
Narodowy Bank Polski	5.1230	20,796,192	5.1230	20,796,192
Banca Națională a României	2.6024	10,564,124	2.6024	10,564,124
Sveriges Riksbank	2.2729	9,226,559	2.2729	9,226,559
Bank of England	13.6743	55,509,148	13.6743	55,509,148
Subtotal for non-euro area NCBs	29.6085	120,192,083	30.0217	121,869,418
Total	100.0000	7,740,076,935	100.0000	7,697,025,340

The non-euro area NCBs are required to pay up 3.75% of their subscribed capital as a contribution to the operational costs of the ECB. This contribution amounted to a total of €120,192,083 at the end of 2015. The non-euro area NCBs are not entitled to receive any share of the distributable profits of the ECB, including income arising from the allocation of euro banknotes within the Eurosystem, nor are they liable to fund any loss of the ECB.

Off-balance-sheet instruments

16 Automated security lending programme

As part of the management of the ECB's own funds, the ECB has an automated security lending programme agreement in place, whereby an appointed agent enters into security lending transactions on behalf of the ECB with a number of designated eligible counterparties.

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

As a result of the ECB's security lending arrangements, reverse transactions with a value of €4.5 billion (2014: €4.8 billion) were outstanding as at 31 December 2015. Of this amount, €0.3 billion (2014: €0) related to the lending of securities held for monetary policy purposes.

17 Interest rate futures

As at 31 December 2015 the following foreign currency transactions, presented at year-end market rates, were outstanding:

Foreign currency interest rate futures	2015 Contract value €	2014 Contract value €	Change €
Purchases	694,406,172	911,374,681	(216,968,509)
Sales	690,554,100	1,001,647,311	(311,093,211)

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

18 Interest rate swaps

Interest rate swap transactions with a notional value of €274.5 million (2014: €270.8 million), presented at year-end market rates, were outstanding as at 31 December 2015. These transactions were conducted in the context of the management of the ECB's foreign reserves.

19 Foreign exchange swap and forward transactions

Management of foreign reserves

Foreign exchange swap and forward transactions were conducted in 2015 in the context of the management of the ECB's foreign reserves. Claims and liabilities resulting from these transactions that were outstanding as at 31 December 2015 with a settlement date in 2016 are presented at year-end market rates as follows:

Foreign exchange swap and forward transactions	2015 €	2014 €	Change €
Claims	2,467,131,004	1,899,819,430	567,311,574
Liabilities	2,484,517,472	1,777,894,537	706,622,935

Liquidity-providing operations

US dollar-denominated claims and liabilities with a settlement date in 2016, which arose in connection with the provision of US dollar liquidity to Eurosystem counterparties (see note 9, "Liabilities to non-euro area residents denominated in euro"), were outstanding on 31 December 2015.

20 Administration of borrowing and lending operations

In 2015 the ECB continued to be responsible for the administration of the borrowing and lending operations of the EU under the medium-term financial assistance facility, the European Financial Stabilisation Mechanism, the European Financial Stability Facility and the European Stability Mechanism (ESM), as well as for the loan facility agreement for Greece. In 2015 the ECB processed payments related to these operations, as well as payments in the form of member subscriptions to the ESM's authorised capital stock.

21 Contingent liabilities from pending lawsuits

Three lawsuits were filed against the ECB and other EU institutions by a number of depositors, shareholders and bondholders of Cypriot credit institutions. The applicants alleged that they had suffered financial losses as a result of acts that they deemed to have led to the restructuring of these credit institutions in the context of the financial assistance programme for Cyprus. The General Court of the EU found twelve similar cases inadmissible in their entirety in 2014. Appeals were brought against eight of these verdicts. The ECB's involvement in the process leading up to the conclusion of the financial assistance programme was limited to the provision of technical advice, pursuant to the Treaty establishing the European Stability Mechanism, acting in liaison with the European Commission, as well as the issuance of a non-binding opinion on the Cypriot draft resolution law. It is therefore considered that no losses will be incurred by the ECB as a result of these cases.

Notes on the Profit and Loss Account

22 Net interest income

22.1 Interest income on foreign reserve assets

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

	2015 €	2014 €	Change €
Interest income on current accounts	552,459	548,634	3,825
Interest income on money market deposits	6,306,443	4,234,448	2,071,995
Interest income on repurchase agreements	38,311	208,426	(170,115)
Interest income on reverse repurchase agreements	2,920,201	867,860	2,052,341
Interest income on securities	261,121,900	206,165,493	54,956,407
Interest income/(expense) on interest rate swaps	(861,355)	407,588	(1,268,943)
Interest income on forward and swap transactions in foreign currencies	13,127,982	4,570,710	8,557,272
Interest income on foreign reserve assets (net)	283,205,941	217,003,159	66,202,782

The overall increase in net interest income in 2015 was due mainly to both higher interest income generated on the US dollar portfolio and the appreciation of the US dollar against the euro.

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

This item consists of the interest income relating to the ECB's 8% share of the total euro banknote issue (see "Banknotes in circulation" in the notes on accounting policies and note 5.1, "Claims related to the allocation of euro banknotes within the Eurosystem"). Despite an 8.1% increase in the average value of banknotes in circulation, there was a decrease in income in 2015 owing to the fact that the average rate on the main refinancing operations was lower than in 2014 (at 0.05% in 2015, compared with 0.16% in 2014).

22.3 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 11.1, "Liabilities equivalent to the transfer of foreign reserves") is disclosed under this heading. The decrease in this remuneration in 2015 reflected the fact that the average rate on the main refinancing operations was lower than in 2014.

22.4 Other interest income; and other interest expense

In 2015 these items included net interest income of €608.7 million (2014: €727.7 million) on the securities purchased by the ECB under the SMP, while the net interest income on the remaining securities purchased for monetary policy purposes amounted to €280.9 million (2014: €174.9 million).

They also included interest income of €0.4 billion (2014: €1.1 billion) and expenses of €0.4 billion (2014: €1.1 billion) arising from TARGET2 balances (see note 11.2, "Other liabilities within the Eurosystem (net)", and note 9, "Liabilities to non-euro area residents denominated in euro"). Interest income and expense in respect of other assets and liabilities denominated in euro are also shown under these headings.

23 Realised gains/losses arising from financial operations

Net realised gains arising from financial operations in 2015 were as follows:

	2015 €	2014 €	Change €
Net realised price gains	175,959,137	47,223,558	128,735,579
Net realised exchange rate and gold price gains	38,474,593	10,036,857	28,437,736
Net realised gains arising from financial operations	214,433,730	57,260,415	157,173,315

Net realised price gains included realised gains and losses on securities, interest rate futures and interest rate swaps. The overall increase in net realised price gains in 2015 was due mainly to higher realised price gains generated on securities in the US dollar portfolio.

24 Write-downs on financial assets and positions

Write-downs on financial assets and positions in 2015 were as follows:

	2015 €	2014 €	Change €
Unrealised price losses on securities	(63,827,424)	(7,664,489)	(56,162,935)
Unrealised price losses on interest rate swaps	(223,892)	(198,804)	(25,088)
Unrealised exchange rate losses	(1,901)	-	(1,901)
Total write-downs	(64,053,217)	(7,863,293)	(56,189,924)

The higher write-downs compared with 2014 were mainly the result of the overall decrease in the market prices of the securities held in the US dollar portfolio.

25 Net income/expense from fees and commissions

	2015 €	2014 €	Change €
Income from fees and commissions	277,324,169	30,024,834	247,299,335
Expenses relating to fees and commissions	(8,991,908)	(1,866,180)	(7,125,728)
Net income from fees and commissions	268,332,261	28,158,654	240,173,607

In 2015 income under this heading consisted mainly of supervisory fees (see note 26, “Income and expenses related to supervisory tasks”) and also included penalties imposed on credit institutions for non-compliance with the minimum reserve requirements. Expenses consisted mainly of fees payable to the external asset managers conducting purchases of eligible asset-backed securities on explicit instructions from, and on behalf of, the Eurosystem. They also included fees relating to current accounts and to interest rate futures transactions (see note 17, “Interest rate futures”).

26 Income and expenses related to supervisory tasks

The expenditure incurred by the ECB in relation to its supervisory tasks is recovered via annual fees levied on supervised entities. This expenditure primarily consists of costs that are directly related to the ECB’s supervisory tasks, such as the direct supervision of significant entities, the oversight of the supervision of less significant entities and the performance of horizontal tasks and specialised services. It also includes costs that are indirectly related to the ECB’s supervisory tasks, such as services provided by the ECB’s support areas, including premises, human resources management and information technology services.

The related income of the ECB for supervisory tasks in 2015 was as follows:

	2015 €	2014 ⁴³ €
Supervisory fees	277,086,997	29,973,012
<i>of which:</i>		
<i>Fees levied on significant entities or significant groups</i>	<i>245,620,964</i>	<i>25,622,812</i>
<i>Fees levied on less significant entities or less significant groups</i>	<i>31,466,033</i>	<i>4,350,200</i>
Total income from banking supervision tasks	277,086,997	29,973,012

Income from supervisory fees is included under “Net income from fees and commissions” (see note 25, “Net income/expense from fees and commissions”).

Based on the estimated annual expenditure, the ECB announced in April 2015 that the annual supervisory fees for 2015 would amount to €296.0 million.⁴⁴ The surplus of €18.9 million compared with the actual expenditure of €277.1 million is shown under the heading “Accruals and income collected in advance” (see note 12.2,

⁴³ For 2014 the ECB recovered via supervisory fees its banking supervision-related costs for the period commencing in November 2014, which is when it assumed its supervisory tasks.

⁴⁴ This amount, together with the costs incurred in the last two months of 2014 amounting to €30.0 million, was invoiced in 2015 with a due date of 20 November 2015.

“Accruals and income collected in advance”) and will reduce the supervisory fees to be levied in 2016.

As at the end of 2015 minor amounts in respect of fees, as well as interest charged to the supervised entities for late payments, were still to be received. The ECB takes all necessary action to collect outstanding amounts from the supervised entities.

Furthermore, the ECB is entitled to impose fines or periodic penalty payments on undertakings for failure to comply with obligations under its regulations and decisions. No such fines or penalties were imposed in 2015.

The expenditure incurred by the ECB for 2015 was as follows:

	2015 €	2014 ⁴⁵ €
Salaries and benefits	141,262,893	18,456,945
Rent and building maintenance	25,513,220	2,199,243
Other operating expenditure	110,310,884	9,316,824
Total expenditure related to banking supervision tasks	277,086,997	29,973,012

27 Income from equity shares and participating interests

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

28 Other income

Other miscellaneous income during 2015 mainly arose from the accrued contributions of the euro area NCBs to the costs incurred by the ECB in connection with joint Eurosystem projects.

29 Staff costs

Staff costs increased in 2015, mainly owing to the higher average number of staff employed by the ECB, as well as the higher net expense in relation to post-employment benefits and other long-term benefits.

Salaries, allowances, staff insurance and other miscellaneous costs of €306.4 million (2014: €244.9 million) are included under this heading. Also included in this item is an amount of €134.4 million (2014: €56.2 million) recognised in connection with the ECB’s pension plans, other post-employment benefits and other long-term benefits (see note 12.3, “Sundry”). Staff costs of €0.8 million (2014: €1.2 million) incurred in

⁴⁵ The figures for 2014 relate to the expenditure incurred for the last two months of that year, as the ECB assumed operational responsibility for banking supervision in November 2014.

connection with the construction of the ECB's new premises have been capitalised and are excluded from this item.

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

Members of the Executive Board and the members of the Supervisory Board employed by the ECB receive a basic salary, while part-time members of the Supervisory Board employed by the ECB are also remunerated, based on the number of meetings attended. In addition, the members of the Executive Board and the full-time members of the Supervisory Board employed by the ECB receive additional allowances for residence and representation. In the case of the President, an official residence owned by the ECB is provided in lieu of a residence allowance. Subject to the Conditions of Employment for Staff of the European Central Bank, members of both boards are entitled to household, child and education allowances, depending on their individual circumstances. Salaries are subject to a tax for the benefit of the European Union, as well as to deductions in respect of contributions to the pension, medical and accident insurance schemes. Allowances are non-taxable and non-pensionable.

In 2015 the basic salaries of the members of the Executive Board and members of the Supervisory Board employed by the ECB (i.e. excluding representatives of national supervisors) were as follows:⁴⁶

	2015 €	2014 €
Mario Draghi (President)	385,860	379,608
Vitor Constâncio (Vice-President)	330,744	325,392
Peter Praet (Board Member)	275,604	271,140
Jörg Asmussen (Board Member until January 2014)	-	4,912
Benoît Cœuré (Board Member)	275,604	271,140
Yves Mersch (Board Member)	275,604	271,140
Sabine Lautenschläger (Board Member)	275,604	253,457
Total Executive Board	1,819,020	1,776,789
Total Supervisory Board (members employed by the ECB)⁴⁷	635,385	508,589
<i>of which:</i>		
Danièle Nouy (Chair of the Supervisory Board)	275,604	271,140
Total	2,454,405	2,285,378

Furthermore, the remuneration of the part-time members of the Supervisory Board amounted to €352,256 (2014: €74,776).

The total allowances paid to members of both boards and the ECB's contributions to the medical and accident insurance schemes on their behalf amounted to €625,021 (2014: €674,470).

⁴⁶ Amounts are presented gross, i.e. before any tax deductions for the benefit of the European Union.

⁴⁷ This total excludes the salary of Sabine Lautenschläger, which is reported with those of the other members of the Executive Board.

In 2015 no benefits on appointment or termination of service were paid to the members of either board (2014: €68,616).

Transitional payments may be made to former members of the Executive Board and the Supervisory Board for a limited period after the end of their terms of office. In 2015 these payments, the related family allowances and the ECB's contributions to the medical and accident insurance schemes of former members amounted to €9,730 (2014: €243,178). Pension payments, including related allowances, to former board members or their dependents and contributions to the medical and accident insurance schemes amounted to €783,113 (2014: €599,589).

At the end of 2015 the actual full-time equivalent number of staff holding contracts with the ECB was 2,871,⁴⁸ including 293 with managerial positions. The change in the number of staff during 2015 was as follows:

	2015	2014
Total staff as at 1 January	2,577	1,790
Newcomers/change of contractual status	648	1,458
Resignations/end of contract	(299)	(681)
Net increase/(decrease) due to changes in part-time working patterns	(55)	10
Total staff as at 31 December	2,871	2,577
Average number of staff employed	2,722	2,155

30 Administrative expenses

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

31 Banknote production services

This expense 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.

⁴⁸ 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.

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

10 February 2016

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 2015, 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 2015 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

Independent Member of Ernst & Young Global Limited

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Note on profit distribution/allocation of losses

This note is not part of the financial statements of the ECB for the year 2015.

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.⁴⁹

The ECB's net profit for 2015 was €1,081.8 million. Following a decision by the Governing Council, an interim profit distribution, amounting to €812.1 million, was paid out to the euro area NCBs on 29 January 2016. Furthermore, the Governing Council decided to distribute the remaining profit of €269.7 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.

	2015 €	2014 €
Profit for the year	1,081,790,763	988,832,500
Interim profit distribution	(812,134,494)	(840,719,787)
Profit for the year after the interim profit distribution	269,656,269	148,112,713
Distribution of the remaining profit	(269,656,269)	(148,112,713)
Total	0	0

⁴⁹ Under Article 32.5 of the Statute of the ESCB, the sum of the NCBs' monetary income shall be allocated to the NCBs in proportion to their paid-up shares in the capital of the ECB.

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