



# Annual Accounts of the ECB

## 2017

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# Management report

## 1 Purpose of the ECB's management report

The management report is an integral part of the ECB's Annual Accounts and is designed to provide readers with contextual information related to the financial statements.<sup>1</sup> Given that the ECB's activities and operations are undertaken in support of its policy objectives, its financial position and result should be viewed in conjunction with its policy actions.

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

## 2 Activities

The ECB is part of the Eurosystem, which has the primary objective of maintaining price stability. The ECB's main tasks, as described in the Statute of the ESCB,<sup>2</sup> comprise the implementation of the monetary policy of the euro area, the conduct of foreign exchange operations, the management of the official foreign reserves of the euro area countries and the promotion of the smooth operation of payment systems.

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

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

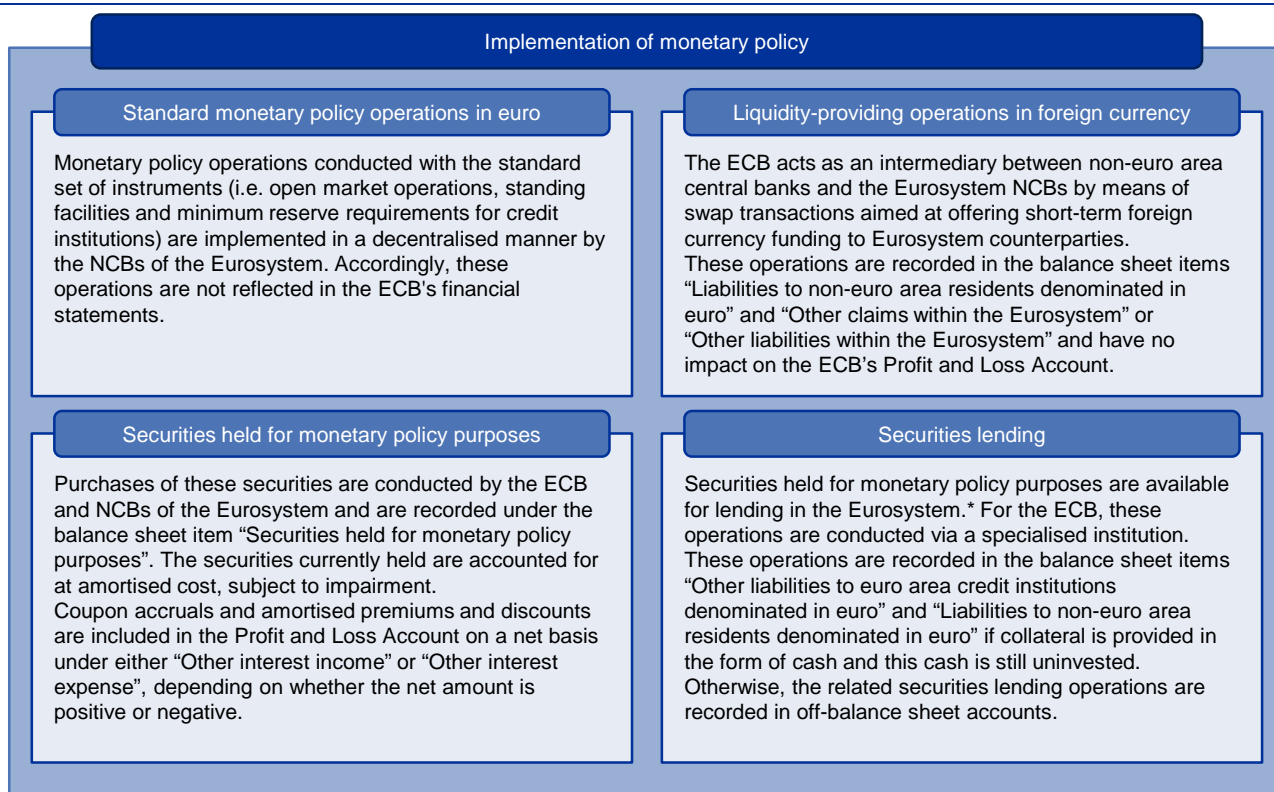
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<sup>1</sup> The "financial statements" comprise the Balance Sheet, the Profit and Loss Account and the related notes. The "Annual Accounts" comprise the financial statements, the management report, the auditor's report and the note on profit distribution/allocation of losses.

<sup>2</sup> Protocol on the Statute of the European System of Central Banks and of the European Central Bank.

**Figure 1**

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



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



## Promotion of the smooth operation of payment systems

### Payment systems (TARGET2)

Intra-Eurosystem balances of euro area NCBs vis-à-vis the ECB arising from TARGET2\* are presented together on the Balance Sheet of the ECB as a single net asset or liability position. The remuneration of these balances is included in the Profit and Loss Account under the items "Other interest income" and "Other interest expense".

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

## Contributing to the safety and soundness of the banking system and the stability of the financial system

### Banking supervision – the Single Supervisory Mechanism

The annual expenses of the ECB in relation to its supervisory tasks are recovered via annual supervisory fees levied on the supervised entities. The supervisory fees are included in the Profit and Loss Account under the heading "Net income from fees and commissions".

Furthermore, the ECB is entitled to impose administrative penalties on supervised entities for failure to comply with obligations under EU banking prudential regulation (including ECB supervisory decisions). The related income is recorded in the Profit and Loss Account under the heading "Net income from fees and commissions".

## Other

### 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".

### Own funds portfolio

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 amortised premiums and discounts, is included in the Profit and Loss Account under "Other interest income" and "Other interest expense".

Unrealised price losses exceeding previously recorded unrealised price gains on the same items, as well as realised gains and losses arising from the sale of securities, are also included in the Profit and Loss Account under the items "Write-downs on financial assets and positions" and "Realised gains/losses arising from financial operations" respectively. Unrealised price gains are recorded on-balance sheet under the item "Revaluation accounts".

## 3 Financial developments

### 3.1 Balance Sheet

Chart 1 presents the main components of the ECB's Balance Sheet over the period 2013-17. The expansion of the ECB's Balance Sheet started in the fourth quarter of 2014, triggered by the acquisition of securities under the third covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP). This expansion has continued in subsequent years, owing mainly to the acquisition of securities under the public sector purchase programme (PSPP).

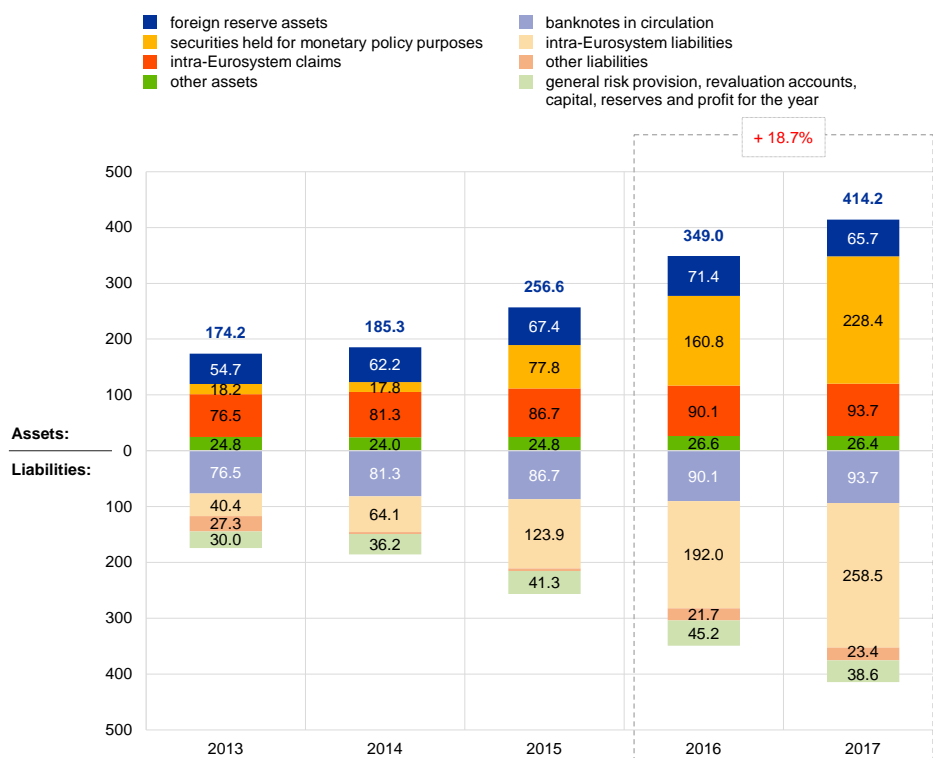


**€65.2 billion**  
Increase in total assets  
in 2017

In 2017 the **ECB's total assets** increased by €65.2 billion to €414.2 billion, mainly owing to its share of purchases of securities under the asset purchase programme (APP)<sup>3</sup>. These purchases resulted in an increase in the item "Securities held for monetary policy purposes", while the cash settlement of those purchases via TARGET2 accounts led to a corresponding increase in "Intra-Eurosystem liabilities".

**Chart 1**  
The ECB's Balance Sheet

(EUR billions)



Source: ECB.

<sup>3</sup> The APP consists of the CBPP3, the ABSPP, the PSPP and the corporate sector purchase programme (CSPP). Further details on the APP can be found on the [ECB's website](#).



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

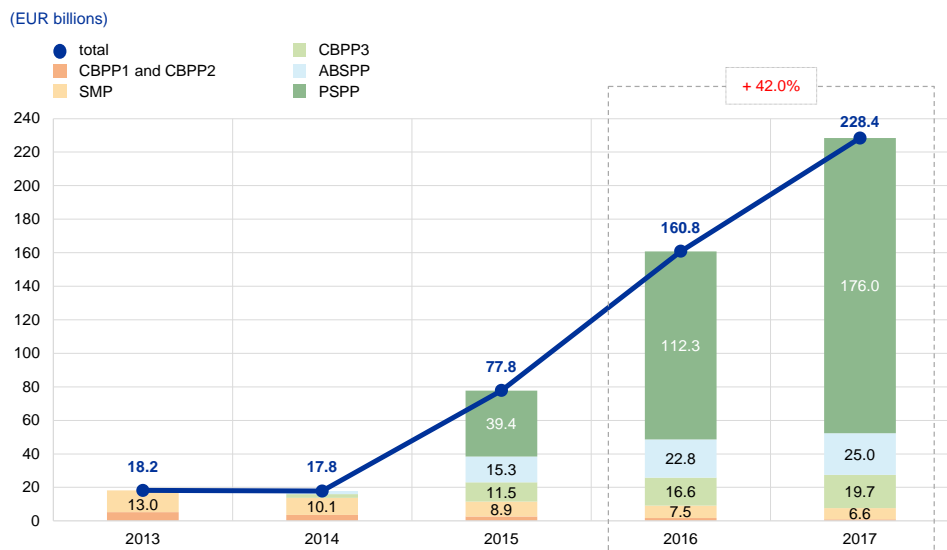


**€67.6 billion**  
Increase in securities held for monetary policy purposes

**Euro-denominated securities held for monetary policy purposes** constituted 55% of the ECB's total assets as at the end of 2017. Under this balance sheet position the ECB holds securities acquired in the context of the Securities Markets Programme (SMP), the three covered bond purchase programmes (CBPP1, CBPP2 and CBPP3), the ABSPP and the PSPP.<sup>4</sup> In 2017 purchases of securities under the CBPP3, ABSPP and PSPP<sup>5</sup> continued on the basis of the Governing Council's decisions on the overall monthly Eurosystem purchases and subject to predetermined eligibility criteria.

As a result of the purchases, in 2017 the portfolio of securities held for monetary policy purposes by the ECB increased by €67.6 billion to €228.4 billion (see Chart 2), with PSPP purchases accounting for the majority of this increase. The decrease in holdings under the CBPP1, CBPP2 and SMP was due to redemptions, which amounted to €1.5 billion.

**Chart 2**  
Securities held for monetary policy purposes



Source: ECB.

In 2017 the total euro equivalent value of the **ECB's foreign reserve assets**, which consist of gold, special drawing rights, US dollars, Japanese yen and, commencing in 2017, Chinese renminbi, decreased by €5.7 billion to €65.7 billion.

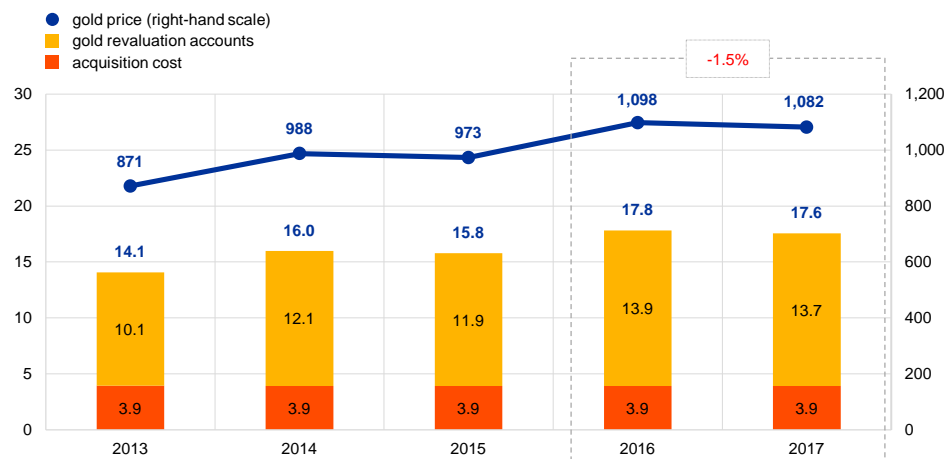
The euro equivalent value of the ECB's holdings of gold and gold receivables decreased by €0.3 billion to €17.6 billion in 2017 (see Chart 3), owing to a decline in the market price of gold in euro terms, while the size of these holdings in fine ounces remained unchanged. This decrease also led to a reduction in the ECB's revaluation accounts, which fell by the same amount (see Section 3.2).

<sup>4</sup> The ECB does not acquire securities under the CSPP.

<sup>5</sup> No further purchases were conducted under the first two covered bond purchase programmes or the SMP in 2017, as the Governing Council decided to cease these programmes.

### Chart 3 Gold holdings and gold prices

(Left-hand scale: EUR billions; right-hand scale: euro per fine ounce of gold)



Source: ECB.

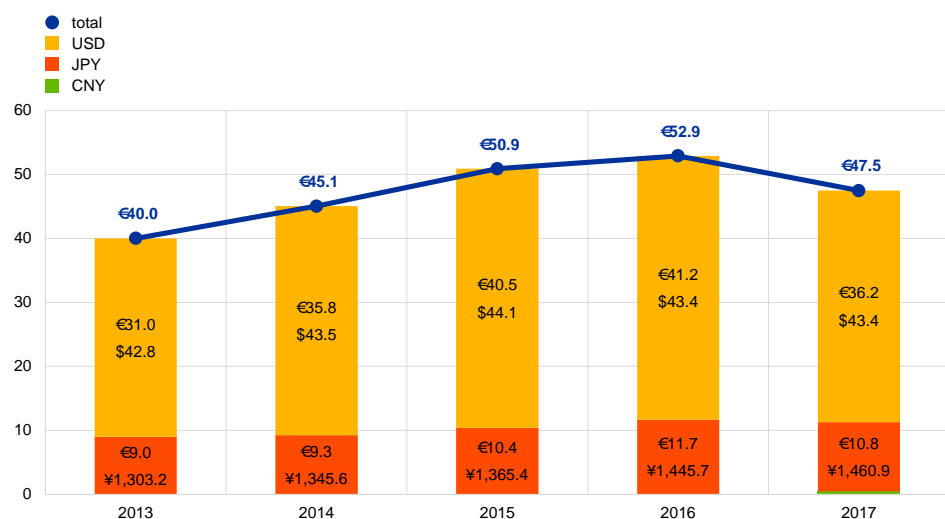


The value of the ECB's net foreign currency holdings decreased owing to the appreciation of the euro

The ECB's net foreign currency holdings of US dollar, Japanese yen and Chinese renminbi, decreased in euro terms by €5.4 billion to €47.5 billion (see Chart 4), mainly owing to the appreciation of the euro against the US dollar and Japanese yen. This reduction is also reflected in the smaller balances in the ECB's revaluation accounts (see Section 3.2).

### Chart 4 Foreign currency holdings

(EUR billions)



Source: ECB.



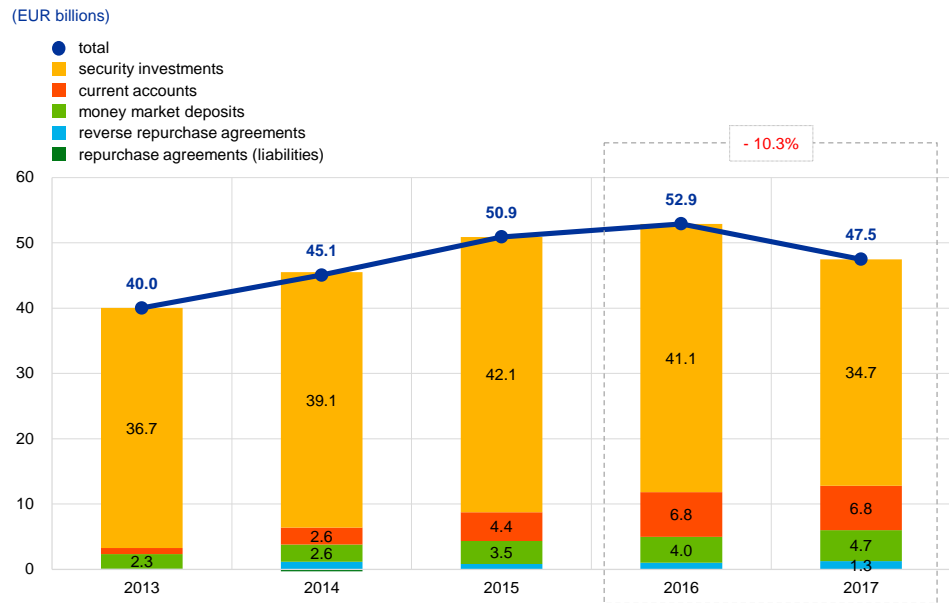
The ECB added a Chinese renminbi component to its foreign reserves

In 2017 the ECB invested the equivalent of €0.5 billion in Chinese renminbi, making it the third currency in its foreign currency reserves.<sup>6</sup> The ECB funded this investment by selling a small portion of its US dollar holdings and reinvesting the full amount in Chinese renminbi. US dollars continue to be the main component of the ECB's foreign currency holdings, accounting for approximately 76% of the total.

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

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

**Chart 5**  
Composition of foreign currency investments



Source: ECB.



**62.8%**  
Foreign currency-denominated securities with a maturity of less than one year

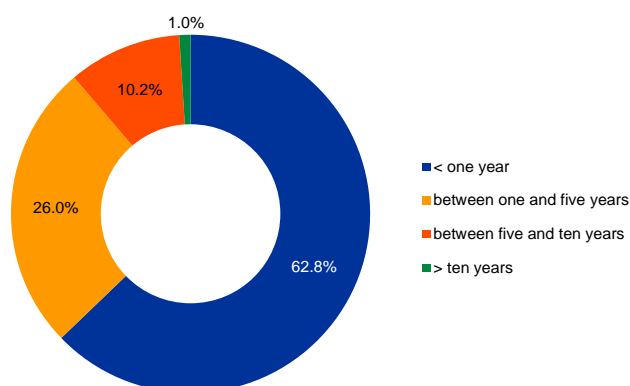
The purpose of the ECB's foreign currency reserves is to finance potential interventions in the foreign exchange market. For this reason, the ECB's foreign currency reserves are managed in accordance with three objectives. In order of priority, those objectives are liquidity, safety and return. Therefore,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

<sup>6</sup> See the ECB's press release of 13 June 2017.



## Chart 6

### Maturity profile of foreign currency-denominated securities



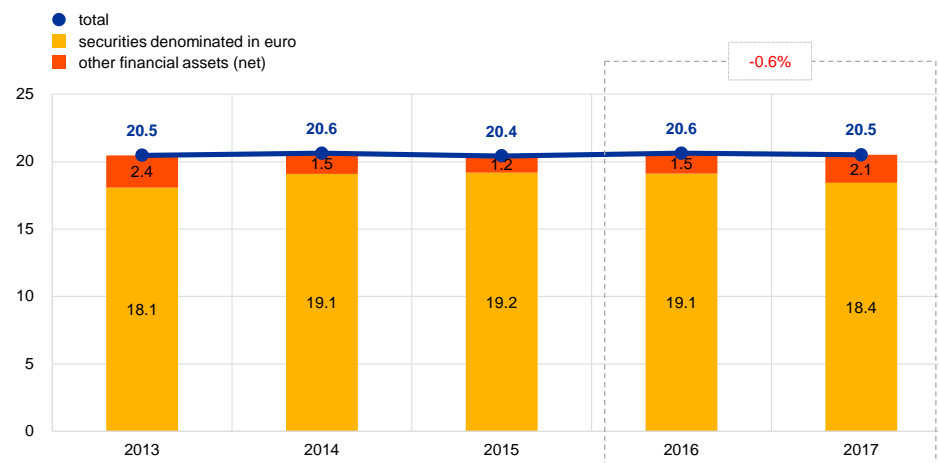
Source: ECB.

In 2017 the **own funds portfolio** remained virtually unchanged at €20.5 billion (see Chart 7). This portfolio mainly consists of euro-denominated securities which are valued at year-end market prices.

## Chart 7

### The ECB's own funds portfolio

(EUR billions)



Source: ECB.

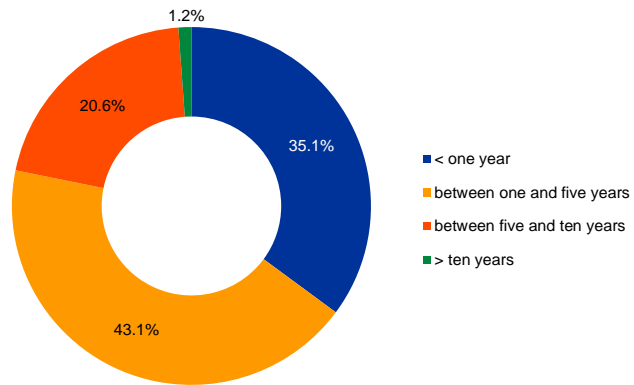
The ECB's own funds portfolio is held as a direct counterpart to its paid-up capital, the provision for foreign exchange rate, interest rate, credit and gold price risks, and its general reserve fund. The purpose of this portfolio is to provide income to help fund the ECB's operating expenses which are not related to the performance of its supervisory tasks.<sup>7</sup> In this context, the objective of the management of the own funds portfolio is to maximise returns, subject to a number of risk limits. This results in a

<sup>7</sup> The expenses incurred by the ECB in the performance of its supervisory tasks are recovered via annual fees levied on supervised entities.

more diversified maturity structure (see Chart 8) than in the foreign currency reserves portfolio.

### Chart 8

Maturity profile of the ECB's own funds securities



Source: ECB.

## 3.2

### Financial resources



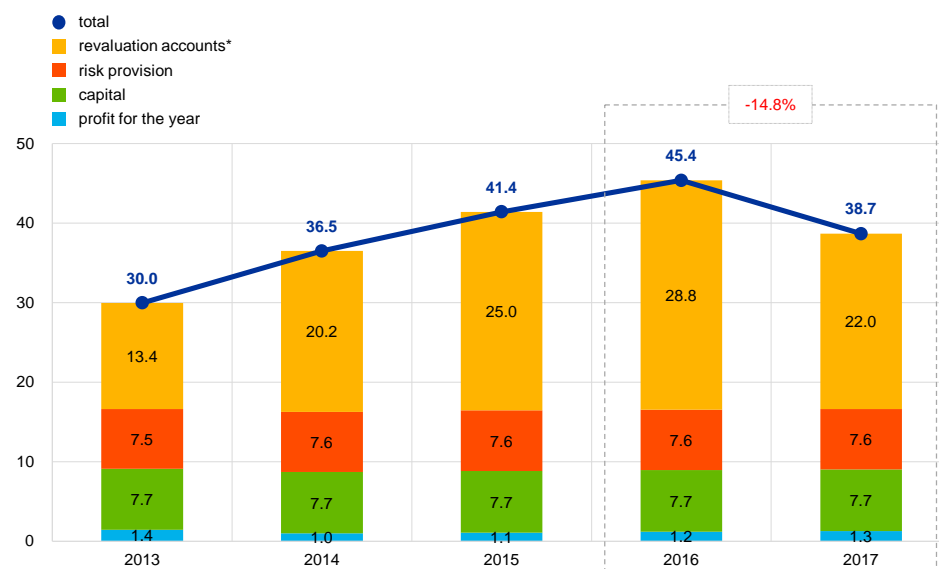
**€38.7 billion**  
The ECB's financial resources

The ECB's financial resources consist of its capital, the general risk provision, the revaluation accounts and the net income for the year. These financial resources are (i) invested in assets that generate income, and/or (ii) used to directly offset losses materialising from financial risks. As at 31 December 2017, the **ECB's financial resources** totalled €38.7 billion (see Chart 9). This amount was €6.7 billion lower than in 2016, owing to a reduction in the revaluation accounts following the appreciation of the euro.

## Chart 9

### The ECB's financial resources

(EUR billions)



Source: ECB.

\* This includes total revaluation gains on the gold, foreign currency and securities holdings, but excludes the revaluation account for post-employment benefits.



**+14%**

Appreciation of the euro against the US dollar in 2017

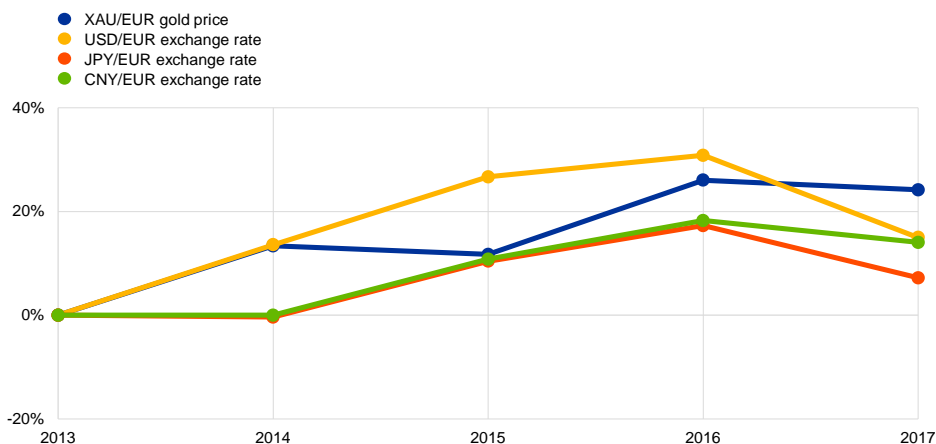
Unrealised gains on gold, foreign currencies and securities that are subject to price revaluation are not recognised as income in the Profit and Loss Account but are recorded directly in **revaluation accounts** shown on the liability side of the ECB's Balance Sheet. The balances in these accounts can be used to absorb the impact of any future unfavourable movement in the respective prices and/or exchange rates, and thus strengthen the ECB's resilience to the underlying risks. In 2017 the revaluation accounts for gold, foreign currencies and securities<sup>8</sup> decreased by €6.8 billion, to €22.0 billion, mainly owing to the appreciation of the euro against the US dollar and Japanese yen (see Chart 10).

<sup>8</sup> The balance sheet item "Revaluation accounts" also includes remeasurements in respect of post-employment benefits.

## Chart 10

### The main foreign exchange rates and gold price over the period 2013-17

(percentage changes vis-à-vis 2013)



Source: ECB.

The net income resulting from the ECB's assets and liabilities in a given financial year can be used to absorb potential losses incurred in the same year. In 2017 the **ECB's net income** was €1.3 billion, €0.1 billion higher than in 2016.



The general risk provision stands at its maximum permitted level

In view of its exposure to financial risks (see Section 4.1), the ECB maintains a **provision for foreign exchange rate (currency), interest rate, credit and gold price (commodity) risks**. The size of this provision is reviewed annually, taking a range of factors into account, including the level of holdings of risk-bearing assets, the projected results for the coming year and a risk assessment. The risk provision, together with any amount held in the ECB's general reserve fund, may not exceed the value of the capital paid up by the euro area NCBs. Since 2015 this provision has stood at its maximum permitted level of €7.6 billion.

The **ECB's capital** paid up by euro area and non-euro area NCBs remained unchanged compared with its level at the end of 2016 and stood at €7.7 billion on 31 December 2017.

## 3.3 Profit and Loss Account

Chart 11 presents the main components of the ECB's Profit and Loss Account over the period 2013-17. During this period the profit of the ECB ranged from €1.0 billion to €1.4 billion. Over the past three years there has been a gradual increase in the ECB's profit, which is mainly attributable to higher interest income generated on foreign reserve assets and on securities held for monetary policy purposes. These

increases more than offset the decline in interest income on banknotes in circulation<sup>9</sup> and on the own funds portfolio.

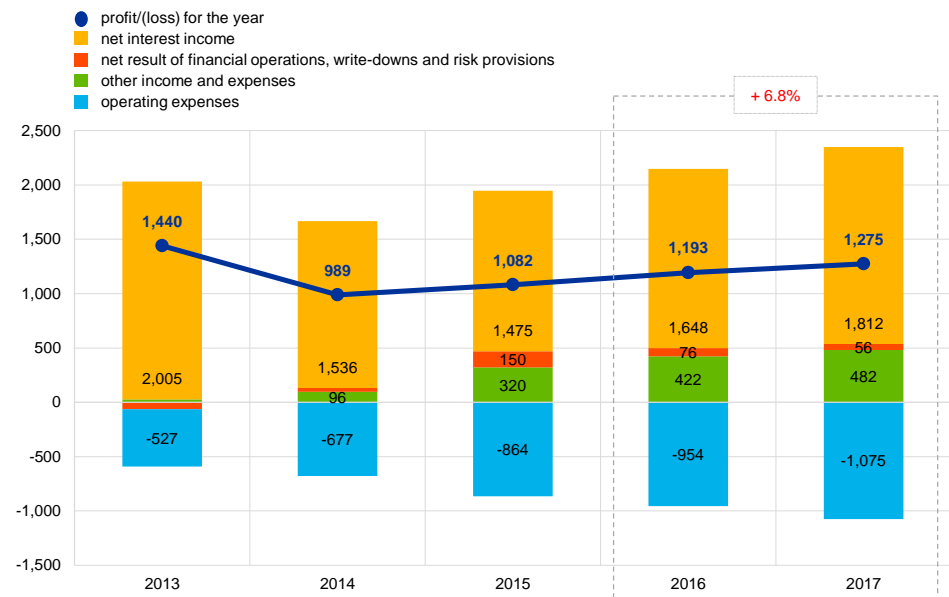


**€1,275 million**  
The ECB's profit in 2017

In 2017, the **ECB's profit** was €1,275 million (2016: €1,193 million). The increase of €82 million compared with 2016 was mainly due to the increase in net interest income.

**Chart 11**  
The ECB's Profit and Loss Account

(EUR millions)



Source: ECB.

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



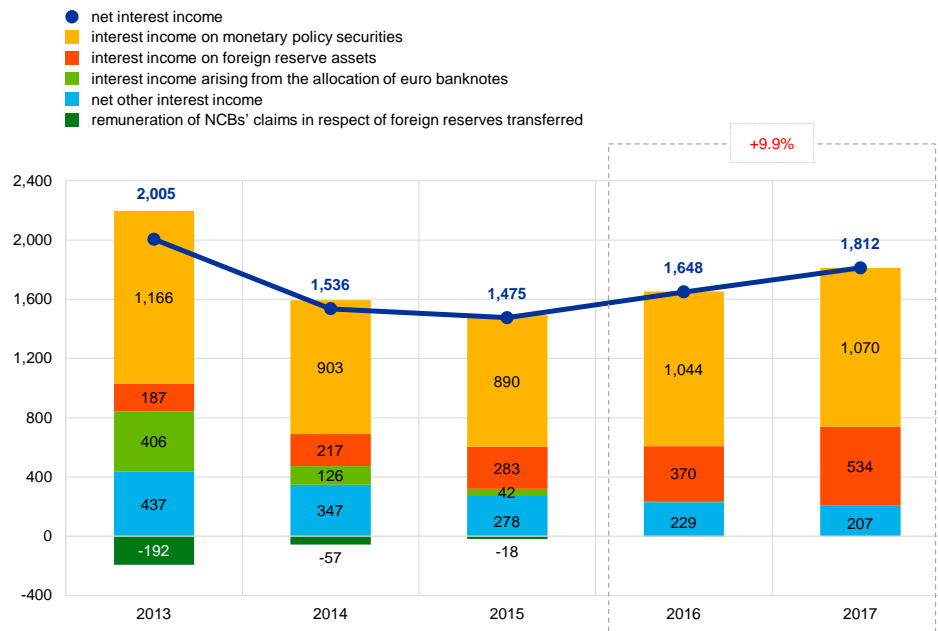
Increase in foreign reserve income and monetary policy income

The **net interest income** of the ECB increased by €163 million to €1,812 million (see Chart 12), mainly owing to the higher interest income earned on the foreign reserve assets and on securities held for monetary policy purposes.

<sup>9</sup> The ECB's income on euro banknotes in circulation comprises the income accruing to the ECB on the remuneration of its intra-Eurosystem claims on NCBs related to its 8% share of total euro banknotes in circulation.

## Chart 12 Net interest income

(EUR millions)



Source: ECB.

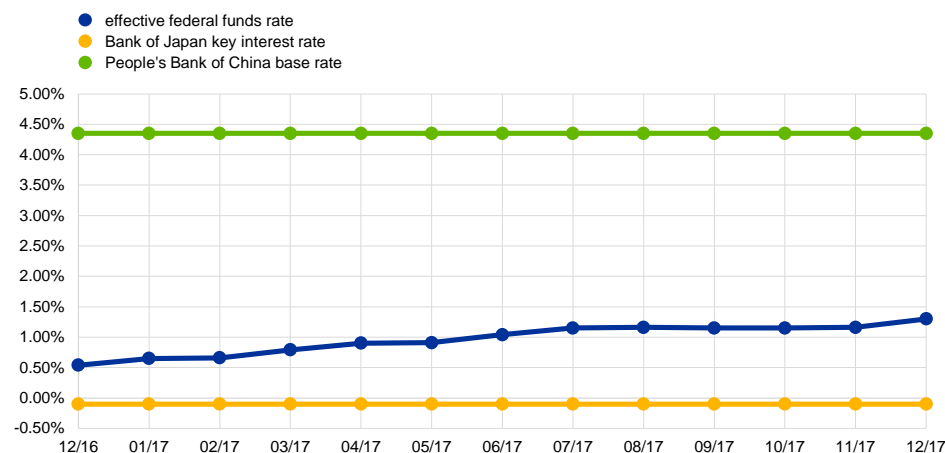


Increase in interest income on foreign reserve assets, mainly owing to increased US dollar yields

**Interest income on foreign reserve assets** increased by €164 million to €534 million, mainly as a result of the higher interest income earned on securities denominated in US dollars owing to the increasing yields of US dollar securities with short maturities (see Chart 13).

## Chart 13 Key benchmark rates

(percentages per annum; monthly data)



Sources: Federal Reserve Board, Bank of Japan and People's Bank of China.



Higher APP income was partially offset by a reduction in the income from ceased programmes

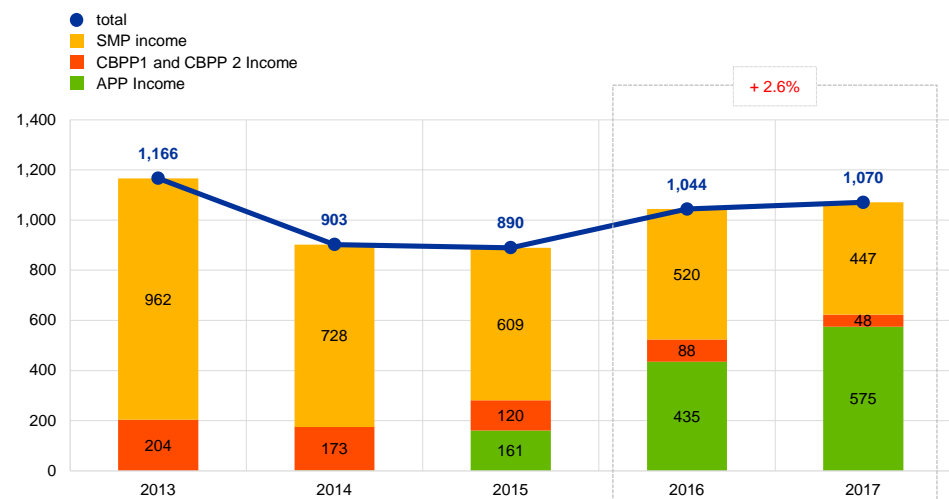
### Net interest income generated on securities held for monetary policy purposes

in 2017 was €1,070 million, which was €27 million higher than in 2016 (see Chart 14). Net interest income arising from the APP securities increased by €140 million to €575 million. This was a result of the increased size of the holdings (see Chart 2), while euro area sovereign bond yields remained low on average during the year (see Chart 15). However, this increase was largely offset by a reduction in net interest income on the SMP, CBPP1 and CBPP2 portfolios, which fell by €113 million to €496 million, owing to the decline in the size of these portfolios as a result of the maturing of securities. In 2017, securities held for monetary policy purposes generated around 60% of the ECB's net interest income.

**Chart 14**

#### Net interest income on securities held for monetary policy purposes

(EUR millions)

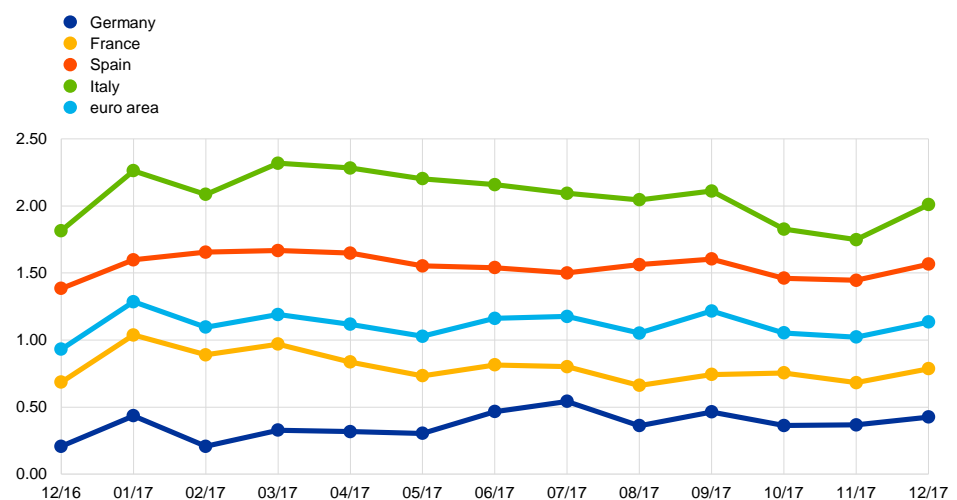


Source: ECB.

**Chart 15**

#### Ten-year sovereign bond yields

(percentages per annum; monthly data)



Source: ECB.



**0.0%**

MRO rate in 2017

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

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



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

The **net result of financial operations and write-downs** on financial assets amounted to €56 million, which was €20 million lower than in 2016 (see Chart 16), mainly as a result of the lower net realised price gains.

The decrease in net realised price gains was mainly due to lower price gains on US dollar-denominated securities, as their market value was negatively affected by the increasing trend in US dollar yields which started in 2015.

This negative impact on the market price of the US dollar portfolio in 2017 was less than the corresponding impact in 2016, which explains the lower price write-downs in 2017 compared with the previous year.

The increase in net realised exchange rate and gold price gains was due to the realised currency gains resulting primarily from the sale of US dollar holdings to fund the creation of the Chinese renminbi portfolio.

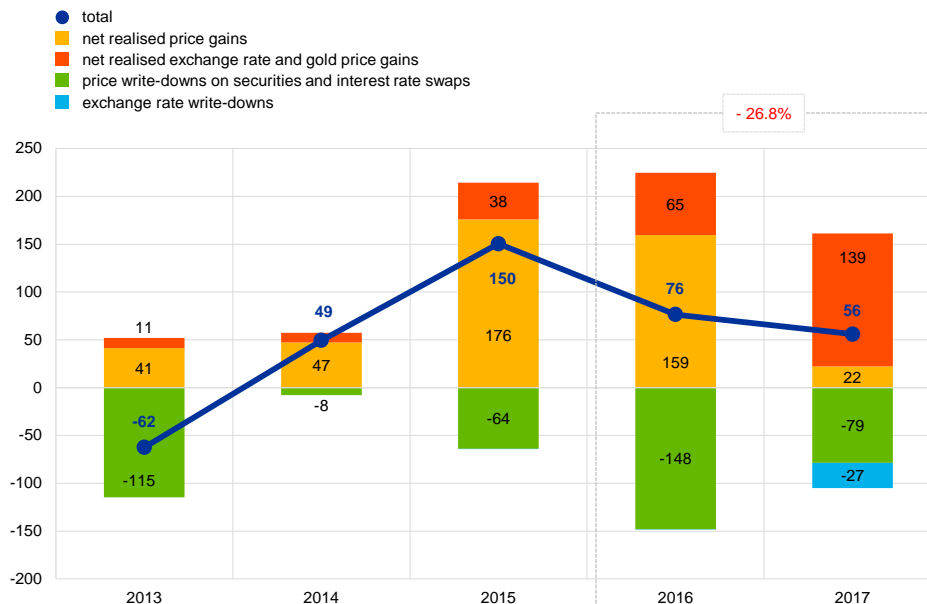
The exchange rate write-downs come from the Chinese renminbi holdings as a result of the depreciation of the Chinese renminbi against the euro since the investment in the currency was made.



## Chart 16

### Realised results and write-downs

(EUR millions)



Source: ECB.



**€437 million**  
Fees levied by the  
ECB for conducting  
supervisory tasks

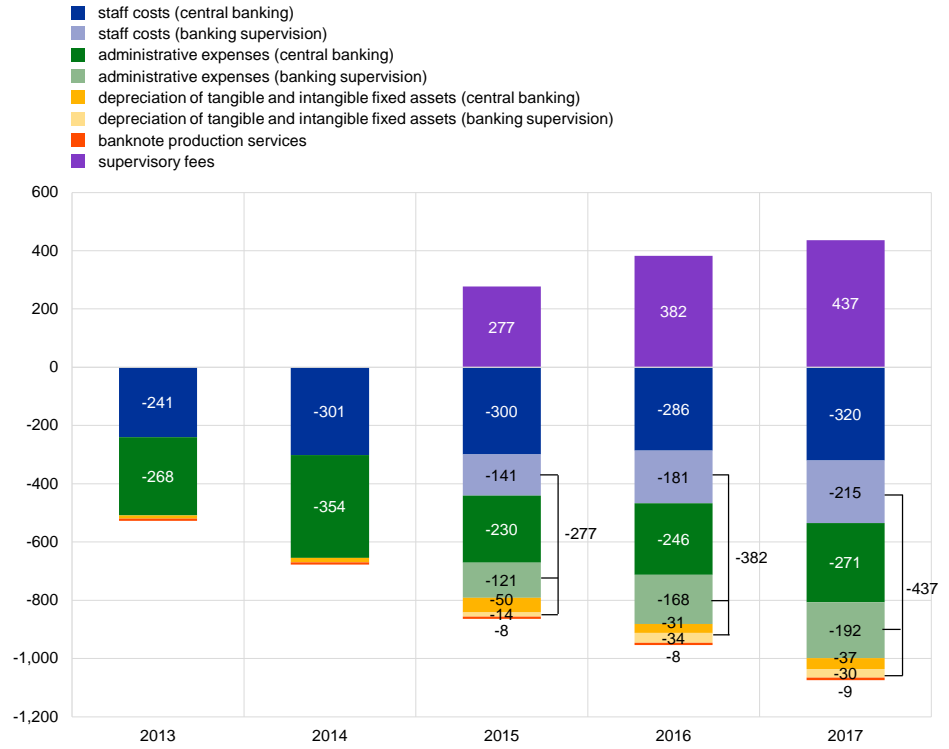
The **total operating expenses** of the ECB, including depreciation and banknote production services, increased by €121 million to €1,075 million (see Chart 17). This increase was mainly due to higher expenses incurred in connection with banking supervision and the introduction of a new career transition support (CTS) scheme, supporting staff members commencing alternative careers outside the ECB. The chart below shows that the establishment of the SSM in 2014 has contributed to a significant increase in staff and administrative expenses. However, these banking supervision-related expenses are fully covered via fees levied on the supervised entities.<sup>10</sup>

<sup>10</sup> Supervisory fees are included under the item "Other income and expenses" (see Chart 11).

**Chart 17**

**Operating expenses and supervisory fees**

(EUR millions)

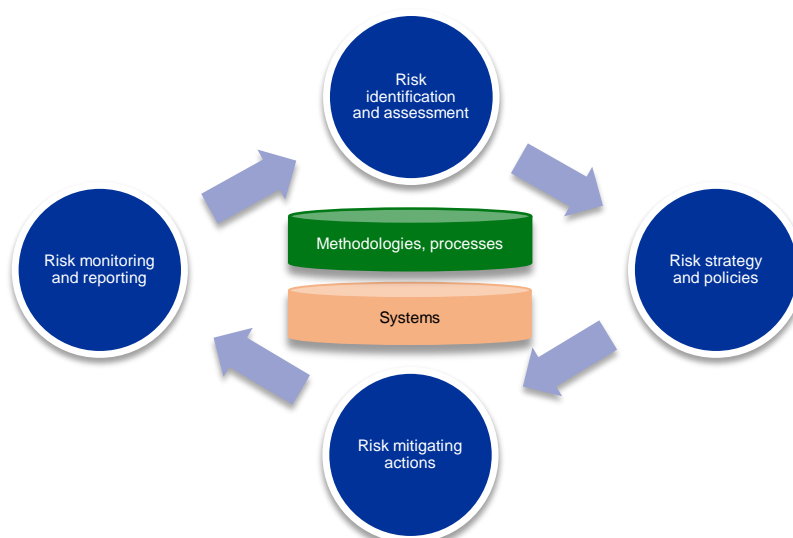


Source: ECB.

## 4 Risk management

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

**Figure 2**  
Risk management cycle



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

## 4.1 Financial risks



The Executive Board proposes policies and procedures that ensure an appropriate level of protection against risks

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



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

**Financial risks arise from the ECB's core activities and associated exposures.** The risk control frameworks and limits that the ECB uses to manage its risk profile differ across types of operation, reflecting the policy or investment objectives of the different portfolios and the risk characteristics of the underlying assets.



The ECB relies on a number of risk estimation techniques developed in-house

**To monitor and assess the risks, the ECB relies on a number of risk estimation techniques developed in-house.** These techniques are based on a joint market and credit risk simulation framework. The core modelling concepts, techniques and assumptions underlying the risk measures draw on industry standards and available market data. The risks are typically quantified by the Expected Shortfall (ES),<sup>11</sup> estimated at the 99% confidence level, over a one-year horizon. Two approaches are

<sup>11</sup> The ES is defined as a probability-weighted average loss in the scenarios that occur with a frequency lower than the given confidence level.

used to calculate risks: (i) the accounting approach, under which the ECB's revaluation accounts are considered as a buffer in the calculation of risk estimates in line with all applicable accounting rules; and (ii) the financial approach, under which the revaluation accounts are not considered as a buffer in the risk calculation. The ECB also regularly calculates other risk measures at different confidence levels, performs sensitivity and stress scenario analyses, and assesses longer-term projections of exposures and income to maintain a comprehensive picture of the risks.<sup>12</sup>



**€10.6 billion**  
Total risk in 2017  
(ES 99% accounting  
approach)

**The total risks of the ECB increased during the year.** As at 31 December 2017 the total financial risks for all the ECB's portfolios combined, as measured by the ES at the 99% confidence level over a one-year horizon following the accounting approach, stood at €10.6 billion, which was €1.4 billion higher than the risks estimated as at 31 December 2016. This increase was mainly due to the continued securities purchases in the context of the APP.

## Box 1

### Change in the risk measure disclosed in the Annual Accounts

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Since 2007 the ECB has reported in its Annual Accounts the financial risks relating to all of its portfolios combined as measured by the financial Value at Risk (VaR) at a 95% confidence level over a one-year horizon. As at 31 December 2016 – as reported in the 2016 Annual Accounts – this amounted to €10.6 billion.

In recent years the ECB has enhanced its risk modelling framework. Some of the changes implemented include the following:

- the ECB now uses the Expected Shortfall (ES) at a 99% confidence level as the main measure for risk calculations, with other risk measures and confidence levels being used to provide complementary information;
- an “accounting approach” has been devised in addition to the existing “financial approach”. Under the financial approach the revaluation accounts are not considered as a buffer in the calculation of risks, whereas under the accounting approach risks are quantified after considering the revaluation accounts, in line with the applicable accounting rules. Therefore, the two approaches reflect two different ways of looking at risks: the financial approach considers their impact on the ECB's net equity, whereas the accounting approach considers their impact on the ECB's Profit and Loss Account.

The accounting approach is deemed more appropriate in the context of the Annual Accounts as it offers a clearer picture of the risks in terms of their accounting consequences. Therefore, also seeking to align published data with the internal risk modelling and reporting approach, the ECB's Annual Accounts will, henceforth, report the ES at a 99% confidence level following the accounting approach, instead of the VaR at a 95% confidence level following the financial approach.

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<sup>12</sup> Further details on the risk modelling approach can be found in “[The financial risk management of the Eurosystem's monetary policy operations](#)”, ECB, July 2015.

Depending on the size of the ECB's revaluation accounts, the financial and accounting approaches for measuring risks can result in significantly different risk estimates in terms of their size and composition. In particular, the financial approach, using the same risk measure and confidence level, results in larger risk estimates, mainly dominated by sizeable market risks associated with foreign reserve holdings. Since significant revaluation accounts exist for such exposures, the accounting approach results in lower risk figures, mainly driven by potential credit risk events.

The changeover from the financial VaR 95% to the accounting ES 99% in the Annual Accounts for 2017 results in a higher risk estimate in nominal terms (see Table 1), as the increase in the risk estimate from choosing a higher confidence level (99% instead of 95%) and a more conservative risk measure (ES instead of VaR) more than compensates for the reduction in the risk estimate brought about by considering the revaluation accounts as a buffer.

**Table 1**

The financial VaR 95% and accounting ES 99% as at 31 December 2017 (EUR billions)

Financial VaR 95%	Accounting ES 99%
8.6	10.6



Credit risk

**Credit risk arises from the ECB's monetary policy portfolios, its euro-denominated own funds portfolio and its foreign reserve holdings.** While

securities held for monetary policy purposes are valued at amortised cost subject to impairment and are therefore, in the absence of sales, not subject to price changes associated with credit migrations, they are still subject to credit default risk. Euro-denominated own funds and foreign reserves are valued at market prices and, as such, are subject to credit migration and default risk. As a result of the continued purchases under the APP in 2017, the credit risk of the ECB increased compared with the previous year.

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



Currency and commodity risks

**Currency and commodity risks arise from the ECB's foreign currency and gold holdings.** As a result of the decrease in revaluation accounts for these holdings,

mainly owing to the appreciation of the euro against the US dollar, the currency and commodity risks, as measured following the accounting approach, increased compared with the previous year.

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



Interest rate risk

**The ECB's foreign reserves and euro-denominated own funds are mainly invested in fixed income securities and are subject to mark-to-market interest rate risk,** given that they are valued at market prices. The ECB's foreign reserves holdings are mainly invested in assets with relatively short maturities (see Chart 6 in Section 3.1), while the assets in the own funds portfolio generally have longer

maturities (see Chart 8 in Section 3.1). This risk, as measured following the accounting approach, remained unchanged compared with 2016.

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

**The ECB is also subject to interest rate risk arising from mismatches between the interest rate earned on its assets and the interest rate paid on its liabilities**, which has an impact on its net interest income. This risk is not directly linked to any particular portfolio but rather to the structure of the ECB's Balance Sheet as a whole and, in particular, the existence of maturity and yield mismatches between assets and liabilities. It is monitored by means of a forward-looking analysis of the ECB's profitability, which indicates that the ECB is expected to continue to earn net interest income in the coming years, despite the increasing share of monetary policy assets with low yields and long maturities on its Balance Sheet.

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

## 4.2 Operational risk

The ECB's operational risk<sup>13</sup> management (ORM) covers all **non-financial risks**.

The Executive Board is responsible for and approves the ECB's ORM policy and framework. The Operational Risk Committee (ORC) supports the Executive Board in the performance of its role in overseeing the management of operational risks. **ORM is an integral part of the ECB's governance structure<sup>14</sup> and management processes.**

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

**The ECB operates in an increasingly complex threat landscape** and there are a wide range of operational risks associated with its day-to-day activities. The main areas of concern for the ECB include: information security risks (e.g. cyber threats), IT-related risks, and premises and physical security-related risks. Consequently, the ECB has put in place processes to facilitate ongoing and effective management of its



Operational risk management is an integral part of the governance and management processes

<sup>13</sup> Operational risk is defined as the risk of a negative financial, business or reputational impact resulting from people, the inadequate implementation or failure of internal governance and business processes, the failure of systems on which processes rely, or external events (e.g. natural disasters or external attacks).

<sup>14</sup> Further information about the ECB's governance structure can be found on the [ECB's website](#).

operational risks and to integrate risk information into the decision-making process. Moreover, contingency plans have been established to ensure the continuity of critical business functions in the event of any disruption.

# Financial statements of the ECB

## Balance Sheet as at 31 December 2017

ASSETS	Note number	2017 €	2016 €
Gold and gold receivables	1	17,558,411,241	17,820,761,460
<b>Claims on non-euro area residents denominated in foreign currency</b>	2		
Receivables from the IMF	2.1	670,290,069	716,225,836
Balances with banks and security investments, external loans and other external assets	2.2	43,760,643,939	50,420,927,403
		<b>44,430,934,008</b>	<b>51,137,153,239</b>
<b>Claims on euro area residents denominated in foreign currency</b>	2.2	<b>3,711,569,259</b>	<b>2,472,936,063</b>
<b>Other claims on euro area credit institutions denominated in euro</b>	3	<b>143,315,512</b>	<b>98,603,066</b>
<b>Securities of euro area residents denominated in euro</b>	4		
Securities held for monetary policy purposes	4.1	228,386,260,874	160,815,274,667
<b>Intra-Eurosystem claims</b>	5		
Claims related to the allocation of euro banknotes within the Eurosystem	5.1	93,657,169,470	90,097,085,330
<b>Other assets</b>	6		
Tangible and intangible fixed assets	6.1	1,196,018,177	1,239,325,587
Other financial assets	6.2	20,502,633,142	20,618,929,223
Off-balance-sheet instruments revaluation differences	6.3	451,129,972	839,030,321
Accruals and prepaid expenses	6.4	2,597,290,354	2,045,522,937
Sundry	6.5	1,527,699,142	1,799,777,235
		<b>26,274,770,787</b>	<b>26,542,585,303</b>
<b>Total assets</b>		<b>414,162,431,151</b>	<b>348,984,399,128</b>



LIABILITIES	Note number	2017 €	2016 €
<b>Banknotes in circulation</b>	7	93,657,169,470	90,097,085,330
<b>Other liabilities to euro area credit institutions denominated in euro</b>	8	1,060,813,972	1,851,610,500
<b>Liabilities to other euro area residents denominated in euro</b>	9		
Other liabilities	9.1	1,150,056,196	1,060,000,000
<b>Liabilities to non-euro area residents denominated in euro</b>	10	19,549,390,872	16,730,644,177
<b>Intra-Eurosystem liabilities</b>	11		
Liabilities equivalent to the transfer of foreign reserves	11.1	40,792,608,418	40,792,608,418
Other liabilities within the Eurosystem (net)	11.2	217,751,769,550	151,201,250,612
		<b>258,544,377,968</b>	<b>191,993,859,030</b>
<b>Other liabilities</b>	12		
Off-balance-sheet instruments revaluation differences	12.1	431,115,965	660,781,618
Accruals and income collected in advance	12.2	76,283,568	69,045,958
Sundry	12.3	1,063,113,810	1,255,559,836
		<b>1,570,513,343</b>	<b>1,985,387,412</b>
<b>Provisions</b>	13	7,669,798,641	7,706,359,686
<b>Revaluation accounts</b>	14	21,945,472,247	28,626,267,808
<b>Capital and reserves</b>	15		
Capital	15.1	7,740,076,935	7,740,076,935
<b>Profit for the year</b>		1,274,761,507	1,193,108,250
<b>Total liabilities</b>		<b>414,162,431,151</b>	<b>348,984,399,128</b>

## Profit and Loss Account for the year ending 31 December 2017

	Note number	2017 €	2016 €
Interest income on foreign reserve assets	22.1	534,161,570	370,441,770
Interest income arising from the allocation of euro banknotes within the Eurosystem	22.2	0	8,920,896
Other interest income	22.4	1,527,294,605	1,604,648,023
<i>Interest income</i>		<i>2,061,456,175</i>	<i>1,984,010,689</i>
Remuneration of NCBs' claims in respect of foreign reserves transferred	22.3	0	(3,611,845)
Other interest expense	22.4	(249,812,879)	(332,020,205)
<i>Interest expense</i>		<i>(249,812,879)</i>	<i>(335,632,050)</i>
<b>Net interest income</b>	<b>22</b>	<b>1,811,643,296</b>	<b>1,648,378,639</b>
Realised gains/losses arising from financial operations	23	161,069,043	224,541,742
Write-downs on financial assets and positions	24	(105,133,331)	(148,172,010)
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks		0	0
<b>Net result of financial operations, write-downs and risk provisions</b>		<b>55,935,712</b>	<b>76,369,732</b>
<b>Net income/expense from fees and commissions</b>	<b>25</b>	<b>440,069,889</b>	<b>371,322,769</b>
<b>Income from equity shares and participating interests</b>	<b>26</b>	<b>1,181,547</b>	<b>869,976</b>
<b>Other income</b>	<b>27</b>	<b>51,815,338</b>	<b>50,000,263</b>
<b>Total net income</b>		<b>2,360,645,782</b>	<b>2,146,941,379</b>
Staff costs	28	(535,251,909)	(466,540,231)
Administrative expenses	29	(463,232,194)	(414,207,622)
Depreciation of tangible and intangible fixed assets		(66,722,125)	(64,769,605)
Banknote production services	30	(9,478,047)	(8,315,671)
Other expenses	31	(11,200,000)	0
<b>Profit for the year</b>		<b>1,274,761,507</b>	<b>1,193,108,250</b>

Frankfurt am Main, 13 February 2018

European Central Bank

Mario Draghi  
President

## Accounting policies<sup>15</sup>

### Form and presentation of the financial statements

The financial statements of the ECB have been drawn up in accordance with the following accounting policies,<sup>16</sup> which the Governing Council of the ECB considers to achieve a fair presentation of the financial statements, reflecting at the same time the nature of central bank activities.

### Accounting principles

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

### Recognition of assets and liabilities

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

### Basis of accounting

The accounts have been prepared on a historical cost basis, modified to include the market valuation of marketable securities (other than securities 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

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<sup>15</sup> The detailed accounting policies of the ECB are laid down in [Decision \(EU\) 2016/2247 of the ECB of 3 November 2016 on the annual accounts of the ECB \(ECB/2016/35\) \(OJ L 347, 20.12.2016, p. 1\)](#), as amended. In order to ensure the harmonised accounting and financial reporting of Eurosystem operations the Decision is based on [Guideline \(EU\) 2016/2249 of the ECB of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks \(ECB/2016/34\) \(OJ L 347, 20.12.2016, p. 37\)](#).

<sup>16</sup> These policies, which are reviewed and updated regularly as deemed appropriate, are consistent with the provisions of Article 26.4 of the Statute of the ESCB, which require a harmonised approach to the rules governing the accounting and financial reporting of Eurosystem operations.

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

## Gold and foreign currency assets and liabilities

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

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

Gold is valued at the market price prevailing at the balance sheet date. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold valuation is accounted for on the basis of the price in euro per fine ounce of gold, which, for the year ending 31 December 2017, was derived from the exchange rate of the euro against the US dollar on 29 December 2017.

The special drawing right (SDR) is defined in terms of a basket of currencies and its value is determined by the weighted sum of the exchange rates of five major currencies (the US dollar, euro, Chinese renminbi, Japanese yen and pound sterling). The ECB's holdings of SDRs were converted into euro using the exchange rate of euro per SDR as at 29 December 2017.

## 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 2017, mid-market prices on 29 December 2017 were

used. Illiquid equity shares and any other equity instruments held as permanent investments are valued at cost subject to impairment.

## Income recognition

Income and expenses are recognised in the period in which they are earned or incurred.<sup>17</sup> Realised gains and losses arising from the sale of foreign currency, gold and securities are taken to the Profit and Loss Account. Such realised gains and losses are calculated by reference to the average cost of the respective asset.

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

Unrealised losses are taken to the Profit and Loss Account if, at the year-end, they exceed previous revaluation gains registered in the corresponding revaluation account. Such unrealised losses on any one security or currency or on gold are not netted against unrealised gains on other securities or currencies or gold. In the event of such unrealised 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 amortised over the securities' remaining contractual life.

## Reverse transactions

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

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

Under a reverse repurchase agreement, securities are bought for cash with a simultaneous agreement to sell them back to the counterparty at an agreed price on a set future date. Reverse repurchase agreements are recorded as collateralised

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<sup>17</sup> A minimum threshold of €100,000 applies for administrative accruals and provisions.

loans on the asset side of the Balance Sheet, but are not included in the ECB's security holdings.

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

## 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 and then assigned to the ECB on a daily basis, leaving each national central bank (NCB) with a single net bilateral position vis-à-vis the ECB only. Payments conducted by the ECB and settled in TARGET2 also affect the single net bilateral positions. These

positions in the books of the ECB represent the net claim or liability of each NCB against the rest of the European System of Central Banks (ESCB). Intra-Eurosystem balances of euro area NCBs vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (e.g. 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,<sup>18</sup> 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. The ECB’s main building is valued at cost less depreciation subject to impairment. For the depreciation of the ECB’s main building, costs are assigned to the appropriate asset components which are depreciated in accordance with their estimated useful lives. Depreciation is calculated on a straight-line basis over the expected useful life of the 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.

Since 2017 the ECB has performed an annual impairment test of its main building based on International Accounting Standard (IAS) 36 “Impairment of assets”. If an impairment indicator is identified signalling that the main building may be impaired,

<sup>18</sup> As at 31 December 2017 the non-euro area NCBs participating in TARGET2 were Българска народна банка (Bulgarian National Bank), Danmarks Nationalbank, Hrvatska narodna banka, Narodowy Bank Polski and Banca Națională a României.

the recoverable amount is estimated. An impairment loss is recorded in the Profit and Loss Account if the recoverable amount is less than the net book value.

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

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

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

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

The staff pension plan is funded by assets held in a long-term employee benefit fund. The compulsory contributions made by the ECB and the staff are reflected in the defined benefit pillar of the plan. Staff can make additional contributions on a voluntary basis in a defined contribution pillar that can be used to provide additional benefits.<sup>19</sup> These additional benefits are determined by the amount of voluntary contributions together with the investment returns arising from those contributions.

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

### Net defined benefit liability

The liability recognised in the Balance Sheet under “Other liabilities” in respect of the defined benefit plans, including other long-term benefits and termination benefits, is the present value of the defined benefit obligation at the balance sheet date, less the fair value of plan assets used to fund the related obligation.

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

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<sup>19</sup> 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.



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

## Net defined benefit cost

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

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

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

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

- (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.<sup>20</sup> 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.<sup>21</sup>

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

<sup>20</sup> Decision of the ECB of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29) (2011/67/EU) (OJ L 35, 9.2.2011, p. 26), as amended.

<sup>21</sup> “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.

“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,<sup>22</sup> are disclosed under the sub-item “Intra-Eurosystem claims: claims related to the allocation of euro banknotes within the Eurosystem” (see “Intra-ESCB balances/intra-Eurosystem balances” in the notes on accounting policies). Interest income on these claims is included in the Profit and Loss Account under the item “Interest income arising from the allocation of euro banknotes within the Eurosystem”.

## Interim profit distribution

An amount that is equal to the sum of the ECB’s income on euro banknotes in circulation and income arising from the securities held for monetary policy purposes purchased under (a) the Securities Markets Programme; (b) the third covered bond purchase programme; (c) the asset-backed securities purchase programme; and (d) the public sector purchase programme is distributed in January of the following year by means of an interim profit distribution, unless otherwise decided by the Governing Council.<sup>23</sup> 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 reduce the amount of the income on euro banknotes in circulation to be distributed in January by the amount of the costs incurred by the ECB in connection with the issue and handling of euro banknotes.

## Other issues

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

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<sup>22</sup> Decision (EU) 2016/2248 of the ECB of 3 November 2016 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (ECB/2016/36) (OJ L 347, 20.12.2016, p. 26).

<sup>23</sup> 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 2017 the ECB held 16,229,522 ounces<sup>24</sup> of fine gold. No transactions in gold took place in 2017 and the ECB's holdings therefore remained unchanged compared with their level as at 31 December 2016. The decrease in the euro equivalent value of these holdings was owing to a decline in the market price of gold in euro terms (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 2017. 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 decrease in the euro equivalent value of the ECB's holdings of SDRs was due to the depreciation of the SDR against the euro during 2017.

### 2.2 Balances with banks and security investments, external loans and other external assets; and claims on euro area residents denominated in foreign currency

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

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<sup>24</sup> This corresponds to 504.8 tonnes.

Claims on non-euro area residents	2017 €	2016 €	Change €
Current accounts	6,793,888,796	6,844,526,120	(50,637,324)
Money market deposits	2,316,566,582	2,005,810,644	310,755,938
Reverse repurchase agreements	0	503,747,273	(503,747,273)
Security investments	34,650,188,561	41,066,843,366	(6,416,654,805)
<b>Total</b>	<b>43,760,643,939</b>	<b>50,420,927,403</b>	<b>(6,660,283,464)</b>

Claims on euro area residents	2017 €	2016 €	Change €
Current accounts	1,022,379	1,211,369	(188,990)
Money market deposits	2,422,295,400	1,964,182,715	458,112,685
Reverse repurchase agreements	1,288,251,480	507,541,979	780,709,501
<b>Total</b>	<b>3,711,569,259</b>	<b>2,472,936,063</b>	<b>1,238,633,196</b>

The total value of these items decreased in 2017, mainly owing to the depreciation of both the US dollar and the Japanese yen against the euro.

The ECB's net foreign currency holdings<sup>25</sup> as at 31 December 2017 were as follows:

	2017 Currency in millions	2016 Currency in millions
US dollars	46,761	46,759
Japanese yen	1,093,563	1,091,844
Chinese renminbi	3,755	0

During the first half of 2017 the ECB implemented a decision taken by the Governing Council to invest a small part of its foreign reserves holdings in Chinese renminbi (CNY). The investment was made by changing the composition of the ECB's foreign reserves. The ECB sold a small portion of its US dollar holdings and reinvested the full amount in Chinese renminbi.<sup>26</sup>

### 3 Other claims on euro area credit institutions denominated in euro

As at 31 December 2017 this item consisted of current account balances with euro area residents amounting to €143.3 million (2016: €98.6 million).

<sup>25</sup> These holdings comprise assets minus liabilities denominated in the given foreign currency that are subject to foreign currency revaluation. They are included under the headings "Claims on non-euro area residents denominated in foreign currency", "Claims on euro area residents denominated in foreign currency", "Accruals and prepaid expenses", "Off-balance-sheet instruments revaluation differences" (liabilities side) and "Accruals and income collected in advance" and take into account foreign exchange forward and swap transactions included in off-balance-sheet items. Price gains on financial instruments denominated in foreign currency arising as a result of revaluations are not included.

<sup>26</sup> See the ECB's press release of [13 June 2017](#).

## 4 Securities of euro area residents denominated in euro

### 4.1 Securities held for monetary policy purposes

As at 31 December 2017 this item consisted of securities acquired by the ECB within the scope of the three covered bond purchase programmes (CBPPs), the Securities Markets Programme (SMP), the asset-backed securities purchase programme (ABSPP) and the public sector purchase programme (PSPP).<sup>27</sup>

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

In 2017 the Eurosystem continued its securities purchases under the asset purchase programme (APP), which consists of the third CBPP, the ABSPP, the PSPP and the corporate sector purchase programme (CSPP).<sup>28</sup> The monthly pace of combined net APP purchases by the NCBs and the ECB was €80 billion on average until March 2017, and €60 billion from April 2017 until the end of the year. Based on the Governing Council decision in October 2017,<sup>29</sup> these purchases are intended to continue at a monthly pace of €30 billion from January to September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation that is consistent with its inflation aim. The net purchases will be made alongside reinvestments of the principal payments from maturing securities purchased under the APP.

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

The amortised cost of the securities held by the ECB, as well as their market value<sup>30</sup> (which is not recorded on the Balance Sheet and is provided for comparison purposes only), are as follows:

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

<sup>28</sup> Further details on the APP can be found on the [ECB's website](#).

<sup>29</sup> See the ECB's press release of [26 October 2017](#).

<sup>30</sup> 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.

	2017 €		2016 €		Change €	
	Amortised cost	Market value	Amortised cost	Market value	Amortised cost	Market value
First covered bond purchase programme	618,533,956	654,666,968	1,032,305,522	1,098,106,253	(413,771,566)	(443,439,285)
Second covered bond purchase programme	385,880,413	421,794,246	690,875,649	743,629,978	(304,995,236)	(321,835,732)
Third covered bond purchase programme	19,732,748,768	19,958,910,843	16,550,442,553	16,730,428,857	3,182,306,215	3,228,481,986
Securities Markets Programme	6,644,212,912	7,554,660,470	7,470,766,415	8,429,995,853	(826,553,503)	(875,335,383)
Asset-backed securities purchase programme	25,014,963,778	25,044,597,490	22,800,124,065	22,786,088,513	2,214,839,713	2,258,508,977
Public sector purchase programme	175,989,921,047	177,087,513,888	112,270,760,463	112,958,545,591	63,719,160,584	64,128,968,297
<b>Total</b>	<b>228,386,260,874</b>	<b>230,722,143,905</b>	<b>160,815,274,667</b>	<b>162,746,795,045</b>	<b>67,570,986,207</b>	<b>67,975,348,860</b>

The decrease in the amortised cost of the portfolios held under the first and second CBPPs and 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.

Impairment tests are conducted on an annual basis, using data as at the year-end, and are approved by the Governing Council. In these tests, impairment indicators are assessed separately for each programme. In cases where impairment indicators were observed, further analysis has been performed to confirm that the cash flows of the underlying securities have not been affected by an impairment event. Based on the results of this year's impairment tests, no losses have been recorded by the ECB for the securities held in its monetary policy portfolios in 2017.

## 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<sup>31</sup> (see note 22.2, "Interest income arising from the allocation of euro banknotes within the Eurosystem").

<sup>31</sup> Since 16 March 2016 the interest rate used by the Eurosystem in its tenders for main refinancing operations has been 0.00%.

## 6 Other assets

### 6.1 Tangible and intangible fixed assets

These assets comprised the following items on 31 December 2017:

	2017 €	2016 €	Change €
<b>Cost</b>			
Land and buildings	1,006,108,554	1,011,662,911	(5,554,357)
Plant in building	221,866,010	221,888,762	(22,752)
Computer hardware and software	109,919,236	88,893,887	21,025,349
Equipment, furniture and motor vehicles	95,383,187	96,197,706	(814,519)
Assets under construction	3,364,162	3,024,459	339,703
Other fixed assets	10,082,651	9,713,742	368,909
<b>Total cost</b>	<b>1,446,723,800</b>	<b>1,431,381,467</b>	<b>15,342,333</b>
<b>Accumulated depreciation</b>			
Land and buildings	(95,622,635)	(72,284,513)	(23,338,122)
Plant in building	(47,644,949)	(31,590,282)	(16,054,667)
Computer hardware and software	(74,188,322)	(57,935,440)	(16,252,882)
Equipment, furniture and motor vehicles	(31,856,677)	(29,107,438)	(2,749,239)
Other fixed assets	(1,393,040)	(1,138,207)	(254,833)
<b>Total accumulated depreciation</b>	<b>(250,705,623)</b>	<b>(192,055,880)</b>	<b>(58,649,743)</b>
<b>Net book value</b>	<b>1,196,018,177</b>	<b>1,239,325,587</b>	<b>(43,307,410)</b>

The net increase in the category “Computer hardware and software” reflected investments in servers, data storage, networking components and software, enhancing the current technological infrastructure.

In respect of the ECB’s main building, an impairment test was conducted at the end of the year and no impairment loss has been recorded.

### 6.2 Other financial assets

This item consists mainly of the investment of the ECB’s own funds held as a direct counterpart to the capital and reserves and the provision for foreign exchange rate, interest rate, credit and gold price risks. It also includes 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:

	2017 €	2016 €	Change €
Current accounts in euro	30,000	30,000	0
Securities denominated in euro	18,416,779,029	19,113,074,101	(696,295,072)
Reverse repurchase agreements in euro	2,043,990,172	1,463,994,460	579,995,712
Other financial assets	41,833,941	41,830,662	3,279
<b>Total</b>	<b>20,502,633,142</b>	<b>20,618,929,223</b>	<b>(116,296,081)</b>

The net decrease in this item in 2017 was due mainly to the reduction in the market value of the euro-denominated securities held in the ECB's own funds portfolio.

### 6.3 Off-balance-sheet instruments revaluation differences

This item is composed primarily of valuation changes in swap and forward transactions in foreign currency that were outstanding on 31 December 2017 (see note 19, "Foreign exchange swap and forward transactions"). These valuation changes amount to €450.3 million (2016: €837.4 million) and are the result of the conversion of such transactions into their euro equivalents at the exchange rates prevailing on the balance sheet date, compared with the euro values resulting from the conversion of the transactions at the average cost of the respective foreign currency on that date (see "Off-balance-sheet instruments" and "Gold and foreign currency assets and liabilities" in 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 2017 this item included accrued coupon interest on securities, including outstanding interest paid at acquisition, amounting to €2,476.3 million (2016: €1,924.5 million) (see note 2.2, "Balances with banks and security investments, external loans and other external assets; and claims on euro area residents denominated in foreign currency", note 4, "Securities of euro area residents denominated in euro", and note 6.2, "Other financial assets").

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

### 6.5 Sundry

This item includes 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 includes balances with a value of €491.6 million (2016: €804.3 million) related to swap and forward transactions in foreign currency outstanding on 31 December 2017 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 total euro banknotes in circulation (see "Banknotes in circulation" in the notes on accounting policies).

## 8 Other liabilities to euro area credit institutions denominated in euro

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

As at 31 December 2017 the outstanding value of such PSPP securities lending transactions conducted with euro area credit institutions was €1.1 billion (2016: €1.9 billion). Cash received as collateral was transferred to TARGET2 accounts. As the cash remained uninvested at the year-end, these transactions were recorded on the Balance Sheet (see "Reverse transactions" in the notes on accounting policies).<sup>32</sup>

## 9 Liabilities to other euro area residents denominated in euro

### 9.1 Other liabilities

This item amounts to €1,150.1 million (2016: €1,060.0 million) and comprises deposits or payments of funds accepted by the ECB and made by or on behalf of the participants in EURO1 and RT1<sup>33</sup>, which are used as a guarantee fund for EURO1 or to support settlement in RT1.

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<sup>32</sup> Securities lending transactions that do not result in uninvested cash collateral at the year-end are recorded in off-balance-sheet accounts (see note 16, "Securities lending programmes").

<sup>33</sup> EURO1 and RT1 are payment systems operated by ABE CLEARING S.A.S à capital variable (EBA Clearing).

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

As at 31 December 2017, the largest component was a liability amounting to €10.1 billion (2016: €4.1 billion) arising from the standing reciprocal currency arrangement with the Federal Reserve Bank of New York. Under this arrangement, US dollars are provided by the Federal Reserve 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”).

This item also includes an amount of €6.1 billion (2016: €9.5 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 decrease in these balances in 2017 was due to payments from non-euro area residents to euro area residents.

The remainder of this item consists of an amount of €3.4 billion (2016: €3.1 billion) arising from outstanding PSPP securities lending transactions conducted with non-euro area residents in which cash was received as collateral and transferred to TARGET2 accounts (see note 8, “Other liabilities to euro area credit institutions denominated in euro”).

## 11 Intra-Eurosystem liabilities

### 11.1 Liabilities equivalent to the transfer of foreign reserves

These represent the liabilities to euro area NCBs that arose from the transfer of foreign reserve assets to the ECB when they joined the Eurosystem. No changes occurred in 2017.

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

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 2017 this item consisted mainly of the TARGET2 balances of euro area NCBs vis-à-vis the ECB (see “Intra-ESCB balances/intra-Eurosystem balances” in the notes on accounting policies). The increase in this position resulted mainly from net purchases of securities under the APP (see note 4, “Securities of euro area residents denominated in euro”), which were settled via TARGET2 accounts. The impact of the net purchases was partially offset by the increase in the amounts related to the back-to-back swap transactions conducted with NCBs in connection with US dollar liquidity-providing operations.

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 includes 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).

	2017 €	2016 €
Due to euro area NCBs in respect of TARGET2	1,263,961,444,256	1,058,484,156,256
Due from euro area NCBs in respect of TARGET2	(1,047,197,405,166)	(908,249,140,203)
Due to euro area NCBs in respect of the ECB's interim profit distribution	987,730,460	966,234,559
<b>Other liabilities within the Eurosystem (net)</b>	<b>217,751,769,550</b>	<b>151,201,250,612</b>

## 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 2017 (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 2017 this item included administrative accruals, income collected in advance, primarily in connection with the Single Supervisory Mechanism (SSM) (see note 25, "Net income/expenses from fees and commissions"), and accruals on financial instruments.

	2017 €	2016 €	Change €
Administrative accruals	41,447,444	20,723,173	20,724,271
Financial instruments	6,767,861	3,621,142	3,146,719
Income collected in advance	28,068,263	41,089,798	(13,021,535)
Foreign reserves transferred to the ECB	0	3,611,845	(3,611,845)
<b>Total</b>	<b>76,283,568</b>	<b>69,045,958</b>	<b>7,237,610</b>

### 12.3 Sundry

In 2017, as in the previous year, this item included balances amounting to €498.3 million (2016: €714.9 million) related to swap and forward transactions in foreign currency that were outstanding on 31 December 2017 (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).

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

### *The ECB's post-employment benefits, other long-term benefits and termination benefits*<sup>34</sup>

## Balance Sheet

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

	2017 Staff €millions	2017 Boards €millions	2017 Total €millions	2016 Staff €millions	2016 Boards €millions	2016 Total €millions
Present value of obligation	1,510.0	28.9	1,538.9	1,361.3	27.7	1,388.9
Fair value of plan assets	(1,017.1)	-	(1,017.1)	(878.0)	-	(878.0)
<b>Net defined benefit liability recognised in the Balance Sheet</b>	<b>492.9</b>	<b>28.9</b>	<b>521.8</b>	<b>483.3</b>	<b>27.7</b>	<b>510.9</b>

In 2017 the present value of the obligation vis-à-vis staff of €1,510.0 million (2016: €1,361.3 million) included unfunded benefits amounting to €224.6 million (2016: €187.0 million) relating to post-employment benefits other than pensions, to other long-term benefits and to staff termination benefits. The present value of the obligation vis-à-vis the members of the Executive Board and the members of the Supervisory Board of €28.9 million (2016: €27.7 million) relates solely to unfunded arrangements in place for post-employment and other long-term benefits.

## Profit and Loss Account

The amounts recognised in the Profit and Loss Account in 2017 were as follows:

<sup>34</sup> In all the tables of this section, totals may not add up due to rounding. The columns labelled "Boards" report the amounts in respect of both the Executive Board and the Supervisory Board.

	2017 Staff €millions	2017 Boards €millions	2017 Total €millions	2016 Staff €millions	2016 Boards €millions	2016 Total €millions
Current service cost	153.2	1.9	155.1	104.4	1.6	106.0
Past service cost	4.1	-	4.1	-	-	-
Net interest on the net defined benefit liability	10.1	0.6	10.7	9.7	0.6	10.3
<i>of which:</i>						
<i>Interest cost on the obligation</i>	28.3	0.6	28.9	29.1	0.6	29.8
<i>Interest income on plan assets</i>	(18.2)	-	(18.2)	(19.5)	-	(19.5)
Remeasurement (gains)/losses on other long-term benefits	(0.9)	0.2	(0.7)	0.6	0.1	0.7
<b>Total related to actuarial valuation</b>	<b>166.5</b>	<b>2.7</b>	<b>169.2</b>	<b>114.6</b>	<b>2.4</b>	<b>117.0</b>
Release of CTS provision	(9.0)	-	(9.0)	-	-	-
<b>Total included in "Staff costs" after the release of provision</b>	<b>157.5</b>	<b>2.7</b>	<b>160.2</b>	<b>114.6</b>	<b>2.4</b>	<b>117.0</b>

The current service cost increased in 2017 to €155.1 million (2016: €106.0 million), mainly owing to the introduction of the temporary Career Transition Support (CTS) scheme in 2017 addressed to long-serving staff members to facilitate their voluntary transition to a career outside the ECB under specified conditions. The impact on staff costs was partially offset by the release of a dedicated provision amounting to €9.0 million that was set-up in 2016 for this purpose.

The past service cost in 2017 is due to the introduction of the long-term care plan, which is a defined benefit plan designed to cover non-medical assistance. The past service cost relates to the current pensioners who are entitled to receive benefits from the new plan with immediate effect.

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

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

	2017 Staff €millions	2017 Boards €millions	2017 Total €millions	2016 Staff €millions	2016 Boards €millions	2016 Total €millions
Opening defined benefit obligation	1,361.3	27.7	1,388.9	1,116.7	24.1	1,140.8
Current service cost	153.2	1.9	155.1	104.4	1.6	106.0
Past service cost	4.1	-	4.1	-	-	-
Interest cost on the obligation	28.3	0.6	28.9	29.1	0.6	29.8
Contributions paid by plan participants <sup>35</sup>	23.1	0.2	23.3	19.5	0.2	19.8
Benefits paid	(11.9)	(0.9)	(12.7)	(8.6)	(0.8)	(9.5)
Remeasurement (gains)/losses	(48.1)	(0.6)	(48.7)	100.2	1.9	102.1
<b>Closing defined benefit obligation</b>	<b>1,510.0</b>	<b>28.9</b>	<b>1,538.9</b>	<b>1,361.3</b>	<b>27.7</b>	<b>1,388.9</b>

The total remeasurement gains of €48.7 million on the defined benefit obligation in 2017 arose as a result of the increase in the discount rate from 2% in 2016 to 2.1% in 2017 and a reduction of assumed future pension increases from 1.4% in 2016 to 1.3% in 2017.

Changes in 2017 in the fair value of plan assets in the defined benefit pillar relating to staff were as follows:

	2017 €millions	2016 €millions
Opening fair value of plan assets	878.0	755.3
Interest income on plan assets	18.2	19.5
Remeasurement gains	54.6	44.7
Contributions paid by employer	51.8	45.0
Contributions paid by plan participants	23.1	19.5
Benefits paid	(8.6)	(6.0)
<b>Closing fair value of plan assets</b>	<b>1,017.1</b>	<b>878.0</b>

Remeasurement gains on plan assets in both 2017 and 2016 reflected the fact that actual returns on the fund units were higher than the estimated interest income on plan assets.

Changes in 2017 in the remeasurement results (see note 14, "Revaluation accounts") were as follows:

<sup>35</sup> The compulsory contributions paid by the staff are 7.4%, whilst those paid by the ECB are 20.7% of the basic salary.

	2017 € millions	2016 € millions
Opening remeasurement losses	(205.1)	(148.4)
Gains on plan assets	54.6	44.7
Gains/(losses) on obligation	48.7	(102.1)
Losses recognised in the Profit and Loss Account	(0.7)	0.7
<b>Closing remeasurement losses included under "Revaluation accounts"</b>	<b>(102.5)</b>	<b>(205.1)</b>

## 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 liability for post-employment benefits and other long-term benefits are as follows:

	2017 %	2016 %
Discount rate	2.10	2.00
Expected return on plan assets <sup>36</sup>	3.10	3.00
General future salary increases <sup>37</sup>	2.00	2.00
Future pension increases <sup>38</sup>	1.30	1.40

Furthermore, voluntary contributions made by staff in a defined contribution pillar in 2017 amounted to €149.9 million (2016: €133.2 million). These contributions are invested in the plan assets and 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.

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. 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

<sup>36</sup> 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.

<sup>37</sup> 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.

<sup>38</sup> 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.



amount held in the general reserve fund, may not exceed the value of the ECB's capital paid up by the euro area NCBs.

As at 31 December 2017 the provision for foreign exchange rate, interest rate, credit and gold risks amounted to €7,619,884,851, unchanged from 2016. This amount corresponds to the value of the ECB's capital paid up by the euro area NCBs as at that date.

## 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 post-employment benefits, other long-term benefits and termination benefits" in the notes on accounting policies and note 12.3, "Sundry").

	2017 €	2016 €	Change €
Gold	13,664,030,012	13,926,380,231	(262,350,219)
Foreign currency	7,851,010,723	14,149,471,665	(6,298,460,942)
Securities and other instruments	532,971,621	755,494,021	(222,522,400)
Net defined benefit liability in respect of post-employment benefits	(102,540,109)	(205,078,109)	102,538,000
<b>Total</b>	<b>21,945,472,247</b>	<b>28,626,267,808</b>	<b>(6,680,795,561)</b>

The decrease in the size of the revaluation accounts is predominantly due to the appreciation of the euro against the US dollar and Japanese yen in 2017.

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

Exchange rates	2017	2016
US dollars per euro	1.1993	1.0541
Japanese yen per euro	135.01	123.40
Chinese renminbi per euro	7.8044	7.3202
Euro per SDR	1.1876	1.2746
Euro per fine ounce of gold	1,081.881	1,098.046

## 15 Capital and reserves

### 15.1 Capital

The subscribed capital of the ECB is €10,825,007,069. The capital paid up by euro area and non-euro area NCBs amounts to €7,740,076,935.

The euro area NCBs have fully paid up their share of subscribed capital, which since 1 January 2015 has amounted to €7,619,884,851, as shown in the table.<sup>39</sup>

	Capital key since 1 January 2015 <sup>40</sup> %	Paid-up capital since 1 January 2015 €
Nationale Bank van België/ Banque Nationale de Belgique	2.4778	268,222,025
Deutsche Bundesbank	17.9973	1,948,208,997
Eesti Pank	0.1928	20,870,614
Central Bank of Ireland	1.1607	125,645,857
Bank of Greece	2.0332	220,094,044
Banco de España	8.8409	957,028,050
Banque de France	14.1792	1,534,899,402
Banca d'Italia	12.3108	1,332,644,970
Central Bank of Cyprus	0.1513	16,378,236
Latvijas Banka	0.2821	30,537,345
Lietuvos bankas	0.4132	44,728,929
Banque centrale du Luxembourg	0.2030	21,974,764
Central Bank of Malta	0.0648	7,014,605
De Nederlandsche Bank	4.0035	433,379,158
Oesterreichische Nationalbank	1.9631	212,505,714
Banco de Portugal	1.7434	188,723,173
Banka Slovenije	0.3455	37,400,399
Národná banka Slovenska	0.7725	83,623,180
Suomen Pankki – Finlands Bank	1.2564	136,005,389
<b>Total</b>	<b>70.3915</b>	<b>7,619,884,851</b>

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. Since 1 January 2015 this contribution has amounted to a total of €120,192,083. Non-euro area NCBs are not entitled to receive any share of the distributable profits of the ECB, nor are they liable to cover any loss of the ECB.

The non-euro area NCBs have paid up the following amounts:

<sup>39</sup> Individual amounts are shown rounded to the nearest euro. Consequently, totals in the tables of this note may not add up due to rounding.

<sup>40</sup> The shares of the individual NCBs in the key for subscription to the ECB's capital were last changed on 1 January 2014. However, on 1 January 2015, owing to the entry of Lithuania into the euro area, the total capital key weight of euro area NCBs in the ECB's overall capital increased, whereas the total capital key weight of non-euro area NCBs decreased. No changes have taken place since then.

	Capital key since 1 January 2015 %	Paid-up capital since 1 January 2015 €
Българска народна банка (Bulgarian National Bank)	0.8590	3,487,005
Česká národní banka	1.6075	6,525,450
Danmarks Nationalbank	1.4873	6,037,512
Hrvatska narodna banka	0.6023	2,444,963
Magyar Nemzeti Bank	1.3798	5,601,129
Narodowy Bank Polski	5.1230	20,796,192
Banca Națională a României	2.6024	10,564,124
Sveriges Riksbank	2.2729	9,226,559
Bank of England	13.6743	55,509,148
<b>Total</b>	<b>29.6085</b>	<b>120,192,083</b>

## Off-balance-sheet instruments

### 16 Securities lending programmes

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

In addition, in accordance with the Governing Council's decisions, the ECB has made available for lending its holdings of securities purchased under the first, second and third CBPPs, as well as its holdings of securities purchased under the PSPP and those purchased under the SMP that are also eligible for purchase under the PSPP.<sup>41</sup>

Unless these securities lending operations are conducted against cash collateral that remains uninvested at the end of the year, they are recorded in off-balance-sheet accounts.<sup>42</sup> Such securities lending operations with a value of €13.4 billion (2016: €10.9 billion) were outstanding as at 31 December 2017. Of this amount, €7.2 billion (2016: €3.9 billion) related to the lending of securities held for monetary policy purposes.

### 17 Interest rate futures

As at 31 December 2017 the following foreign currency transactions, presented at year-end market rates, were outstanding:

Foreign currency interest rate futures	2017 Contract value €	2016 Contract value €	Change €
Purchases	6,518,052,197	558,770,515	5,959,281,682
Sales	6,584,789,977	2,258,798,975	4,325,991,002

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 €415.9 million (2016: €378.3 million), presented at year-end market rates, were outstanding as at

<sup>41</sup> The ECB does not purchase securities under the CSPP and consequently has no related holdings available for lending.

<sup>42</sup> If cash collateral remains uninvested at the year-end, these transactions are recorded in on-balance-sheet accounts (see note 8, "Other liabilities to euro area credit institutions denominated in euro", and note 10, "Liabilities to non-euro area residents denominated in euro").

31 December 2017. 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 2017 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 2017 are presented at year-end market rates as follows:

Foreign exchange swap and forward transactions	2017 €	2016 €	Change €
Claims	2,731,848,697	3,123,544,615	(391,695,918)
Liabilities	2,719,012,506	2,855,828,167	(136,815,661)

### Liquidity-providing operations

US dollar-denominated claims and liabilities with a settlement date in 2017 arose in connection with the provision of US dollar liquidity to Eurosystem counterparties (see note 10, "Liabilities to non-euro area residents denominated in euro").

## 20 Administration of borrowing and lending operations

In 2017 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 2017 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

Four lawsuits have been filed against the ECB and other EU institutions by a number of depositors, shareholders and bondholders of Cypriot credit institutions. The applicants allege that they have suffered financial losses as a result of acts that they deem to have led to the restructuring of these credit institutions in the context of the financial assistance programme for Cyprus. The General Court of the EU found twelve similar cases inadmissible in their entirety in 2014. Appeals were brought against eight of these verdicts and in 2016 the Court of Justice of the European

Union either confirmed the inadmissibility of the cases or ruled in favour of the ECB in these appeals. The ECB's involvement in the process leading up to the conclusion of the financial assistance programme was limited to the provision of technical advice, pursuant to the ESM Treaty, acting in liaison with the European Commission, as well as the issuance of a non-binding opinion on the Cypriot draft resolution law. It is therefore considered that no losses will be incurred by the ECB as a result of these cases.

## 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:

	2017 €	2016 €	Change €
Interest income on current accounts	5,111,897	1,499,288	3,612,609
Interest income on money market deposits	54,839,007	18,095,835	36,743,172
Interest expense on repurchase agreements	(1,101,476)	(34,017)	(1,067,459)
Interest income on reverse repurchase agreements	37,067,062	12,745,338	24,321,724
Interest income on securities	389,779,270	304,958,993	84,820,277
Interest income/(expense) on interest rate swaps	(109,873)	19,080	(128,953)
Interest income on forward and swap transactions in foreign currencies	48,575,683	33,157,253	15,418,430
<b>Interest income on foreign reserve assets (net)</b>	<b>534,161,570</b>	<b>370,441,770</b>	<b>163,719,800</b>

The overall increase in net interest income in 2017 was due mainly to higher interest income generated on the US dollar portfolio.

#### 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"). For 2017 this interest income was zero, owing to the fact that the rate on the main refinancing operations remained at 0% during the entire year.

#### 22.3 Remuneration of NCBs' claims in respect of foreign reserves transferred

Remuneration paid to euro area NCBs on their claims in respect of the foreign reserve assets transferred to the ECB (see note 11.1, "Liabilities equivalent to the transfer of foreign reserves") is disclosed under this heading. The remuneration in 2017 was zero, reflecting the fact that the rate on the main refinancing operations was 0% during the entire year.

## 22.4 Other interest income; and other interest expense

In 2017 these items comprised mainly net interest income of €1.1 billion (2016: €1.0 billion) on the securities held by the ECB for monetary policy purposes. Of this amount, €0.6 billion (2016: €0.4 billion) related to net interest income on securities purchased under the APP and €0.4 billion (2016: €0.5 billion) related to net interest income on securities purchased under the SMP, of which €154.5 million (2016: €185.3 million) arose from the ECB's SMP holdings of Greek government bonds.

The remainder of these items consisted mainly of interest income and expense on the ECB's own funds portfolio (see note 6.2, "Other financial assets") and on other miscellaneous interest-bearing balances.

## 23 Realised gains/losses arising from financial operations

Net realised gains arising from financial operations in 2017 were as follows:

	2017 €	2016 €	Change €
Net realised price gains	22,249,008	159,456,244	(137,207,236)
Net realised exchange rate and gold price gains	138,820,035	65,085,498	73,734,537
<b>Net realised gains arising from financial operations</b>	<b>161,069,043</b>	<b>224,541,742</b>	<b>(63,472,699)</b>

Net realised price gains include realised gains and losses on securities, interest rate futures and interest rate swaps. The decrease in net realised price gains in 2017 was due mainly to lower realised price gains generated on securities in the US dollar portfolio.

The overall increase in net realised exchange rate and gold price gains was due mainly to the sale of a small portion of US dollars holdings in order to fund the creation of the Chinese renminbi portfolio<sup>43</sup> (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").

## 24 Write-downs on financial assets and positions

Write-downs on financial assets and positions in 2017 were as follows:

<sup>43</sup> See the ECB's press release of [13 June 2017](#).



	2017 €	2016 €	Change €
Unrealised price losses on securities	(78,577,070)	(148,159,250)	69,582,180
Unrealised exchange rate losses	(26,556,261)	(12,760)	(26,543,501)
<b>Total write-downs</b>	<b>(105,133,331)</b>	<b>(148,172,010)</b>	<b>43,038,679</b>

The market value of a number of securities held in the US dollar portfolio further declined in 2017, alongside an increase in the corresponding yields. This resulted in unrealised price losses during the year.

The unrealised exchange rate losses are mainly due to the write-down of the average acquisition cost of the ECB's holding of Chinese renminbi to its 2017 year-end exchange rate owing to the depreciation of this currency against the euro since the purchases were made.

## 25 Net income/expense from fees and commissions

	2017 €	2016 €	Change €
Income from fees and commissions	452,095,734	382,191,051	69,904,683
Expenses relating to fees and commissions	(12,025,845)	(10,868,282)	(1,157,563)
<b>Net income from fees and commissions</b>	<b>440,069,889</b>	<b>371,322,769</b>	<b>68,747,120</b>

In 2017 income under this heading consisted mainly of supervisory fees and administrative penalties imposed on supervised entities for non-compliance with the EU banking regulations on prudential requirements (including ECB supervisory decisions). Expenses consisted mainly of custody fees, as well as fees payable to the external asset managers for conducting purchases of eligible asset-backed securities on explicit instructions from, and on behalf of, the Eurosystem until the end of March 2017.<sup>44</sup>

### *Income and expenses related to supervisory tasks*

On November 2014 the ECB assumed its supervisory tasks in accordance with Article 33 of the SSM Regulation.<sup>45</sup> In order to recover expenditure incurred for performing these tasks the ECB levies annual fees on supervised entities. The ECB announced in April 2017 that the annual supervisory fees in 2017 would amount to €425.0 million.<sup>46</sup> This figure was based on estimated annual expenses for supervisory tasks of €464.7 million in 2017, adjusted for (i) surplus supervisory fees

<sup>44</sup> See the ECB's press release of [15 December 2016](#).

<sup>45</sup> Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

<sup>46</sup> This amount was invoiced in October 2017 with a due date of 30 November 2017.

of €41.1 million charged in 2016; and (ii) amounts refunded in relation to changes in the number or status of supervised entities<sup>47</sup> (€1.4 million).

Based on the actual expenses incurred by the ECB in its performance of banking supervisory tasks, the supervisory fee income for 2017 stood at €436.7 million. The net surplus of €27.9 million arising from the difference between the estimated expenses (€464.7 million) and the actual expenses (€436.7 million) for 2017 is shown under the heading “Accruals and income collected in advance” (see note 12.2, “Accruals and income collected in advance”). It will be offset against the supervisory fees to be levied in 2018.

The ECB is also entitled to impose administrative penalties on supervised entities for failure to comply with the EU banking regulations on prudential requirements (including ECB supervisory decisions).<sup>48</sup> The related income is not considered in the calculation of the annual supervisory fees. Instead, it is recorded as income in the ECB’s Profit and Loss Account and is distributed to euro area NCBs as part of the ECB’s profit distribution regime. In 2017 penalties imposed by the ECB on supervised entities amounted to €15.3 million.

Thus, the related income of the ECB for supervisory tasks in 2017 was as follows:<sup>49</sup>

	2017 €	2016 €	Change €
Supervisory fees	436,746,219	382,151,355	54,594,864
<i>of which:</i>			
<i>Fees relating to significant entities or significant groups</i>	397,493,784	338,418,328	59,075,456
<i>Fees relating to less significant entities or less significant groups</i>	39,252,435	43,733,027	(4,480,592)
Imposed administrative penalties	15,300,000	0	15,300,000
<b>Total income related to banking supervision tasks</b>	<b>452,046,219</b>	<b>382,151,355</b>	<b>69,894,864</b>

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

In addition, the collection of an amount of €11.2 million related to administrative penalties imposed by the ECB on a supervised entity was considered uncertain, as

<sup>47</sup> Based on Article 7 of Regulation (EU) No 1163/2014 of the ECB of 22 October 2014 on supervisory fees (ECB/2014/41) (OJ L 311, 31.10.2014, p. 23), in cases where (i) a supervised entity or a supervised group is supervised for only part of the fee period or (ii) the status of a supervised entity or a supervised group changes from significant to less significant, or vice versa, the individual supervisory fees are amended. Any such amounts received or refunded are taken into account for the calculation of the total annual supervisory fees to be levied in subsequent years.

<sup>48</sup> Further details on the administrative penalties imposed by the ECB can be found on the [ECB Banking Supervision website](#).

<sup>49</sup> Individual amounts are shown rounded to the nearest euro. Consequently, totals in the tables of this note may not add up due to rounding.

the banking licence of this entity has been subsequently withdrawn and it is currently in liquidation. In accordance with the prudence principle, an allowance for the full amount of this claim was created at the year-end (see note 31, "Other expenses"). The related expense is not considered in the calculation of the annual supervisory fees, but it is recorded in the Profit and Loss Account of the ECB and reduces its net result.

For 2017 the total actual expenses related to the ECB's supervisory tasks are broken down under the following headings:

	2017 €	2016 €	Change €
Salaries and benefits	215,017,183	180,655,666	34,361,517
Rent and building maintenance	52,959,161	58,103,644	(5,144,483)
Other operating expenditure	168,769,875	143,392,045	25,377,830
<b>Expenses related to banking supervision tasks relevant for supervisory fees</b>	<b>436,746,219</b>	<b>382,151,355</b>	<b>54,594,864</b>
Allowance for doubtful administrative penalties	11,200,000	0	11,200,000
<b>Total expenses related to banking supervision tasks</b>	<b>447,946,219</b>	<b>382,151,355</b>	<b>65,794,864</b>

The rise in the total number of staff working in ECB Banking Supervision and an increase in costs for external consultative support, primarily in connection with the Targeted Review of Internal Models (TRIM), contributed to the growth in actual banking supervision expenses in 2017 compared to 2016.

## 26 Income from equity shares and participating interests

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

## 27 Other income

Other miscellaneous income during 2017 mainly arose from the accrued contributions of the euro area NCBs to the costs incurred by the ECB in connection with joint Eurosystem projects.

## 28 Staff costs

The higher average number of staff employed by the ECB in 2017 and the expenses in relation to termination benefits arising under the CTS scheme introduced by the ECB in 2017 (see note 12.3, "Sundry") led to an overall increase in staff costs.

Salaries, allowances, staff insurance and other miscellaneous costs of €366.0 million (2016: €349.5 million) are included under this heading. The item also includes an amount of €169.2 million (2016: €117.0 million) recognised in connection with the

ECB's post-employment benefits, other long-term benefits and termination benefits (see note 12.3, "Sundry").

Salaries and allowances 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 may receive additional remuneration based on the number of meetings attended. Furthermore, 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 may be entitled to household, child and education allowances, depending on their individual circumstances. Salaries are subject to a tax for the benefit of the 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 2017 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:<sup>50</sup>

	2017 €	2016 <sup>51</sup> €
Mario Draghi (President)	396,900	389,760
Vitor Constâncio (Vice-President)	340,200	334,080
Peter Praet (Board Member)	283,488	278,388
Benoît Cœuré (Board Member)	283,488	278,388
Yves Mersch (Board Member)	283,488	278,388
Sabine Lautenschläger (Board Member)	283,488	278,388
<b>Total Executive Board</b>	<b>1,871,052</b>	<b>1,837,392</b>
<b>Total Supervisory Board (members employed by the ECB)<sup>52</sup></b>	<b>793,817</b>	<b>632,060</b>
<i>of which:</i>		
<i>Danièle Nouy (Chair of the Supervisory Board)</i>	283,488	278,388
<b>Total</b>	<b>2,664,869</b>	<b>2,469,452</b>

The part-time members of the Supervisory Board also received additional remuneration amounting to €96,470 in 2017 (2016: €343,341).

The total allowances paid to members of both boards and the ECB's contributions to medical and accident insurance schemes on their behalf amounted to €852,998

<sup>50</sup> Amounts are presented gross, i.e. before any tax deductions for the benefit of the European Union.

<sup>51</sup> The salaries of the President and the Vice President published last year included the annual general salary adjustment (GSA). For other members of both boards, including the Chair of the Supervisory Board, the GSA was applied retroactively in 2017.

<sup>52</sup> This total excludes the salary of Sabine Lautenschläger – the Vice-Chair of the Supervisory Board – which is reported with those of the other members of the Executive Board.

(2016: €807,475). The increase compared with 2016 was mainly the result of a new member joining the Supervisory Board in February 2017.

Pension payments, including post-employment allowances, and contributions to the medical and accident insurance schemes for former board members and their dependants, amounted to €857,476 (2016: €834,668).<sup>53</sup>

At the end of 2017 the actual full-time equivalent number of staff holding contracts with the ECB was 3,384,<sup>54</sup> including 330 with managerial positions. The change in the number of staff during 2017 was as follows:

	2017	2016
Total staff as at end of previous year	3,171	2,871
Starters	726	725
Leavers	(443)	(380)
Net increase/(decrease) due to changes in part-time working patterns	(70)	(45)
<b>Total staff as at 31 December</b>	<b>3,384</b>	<b>3,171</b>
<i>of which:</i>		
Leavers as at 31 December	113	80
<b>Average number of staff employed</b>	<b>3,254</b>	<b>3,007</b>

## 29 Administrative expenses

This item amounting to €463.2 million (2016: €414.2 million) covers all other current expenses relating to the renting and maintenance of premises, information technology, goods and equipment of a non-capital nature, professional fees and other services and supplies, together with staff-related expenses, including recruitment, relocation and training expenses.

## 30 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.

<sup>53</sup> For the net amount charged to the Profit and Loss Account in relation to the pension arrangements for the current members of the Executive Board and members of the Supervisory Board see note 12.3, "Sundry".

<sup>54</sup> Staff on unpaid leave are excluded. This number includes staff with permanent, fixed or short-term contracts and participants in the ECB's Graduate Programme. Staff on maternity or long-term sick leave are also included.

## 31 Other expenses

In 2017 this item comprised an allowance for administrative penalties imposed by the ECB on a supervised entity where collection was assessed as uncertain (see note 25, "Net income/expense from fees and commissions").



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

14 February 2018

## Independent auditor's report

### *Opinion*

We have audited the financial statements of the European Central Bank, which comprise the balance sheet as at 31 December 2017, the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the European Central Bank give a true and fair view of the financial position of the European Central Bank as at 31 December 2017 and of the results of its operations for the year then ended, in accordance with the principles established by the Governing Council, which are laid down in Decision (EU) 2016/2247 of the ECB of 3 November 2016 on the annual accounts of the ECB (ECB/2016/35), as amended.

### *Basis for Opinion*

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

### *Responsibilities of the European Central Bank's Executive Board and Those Charged with Governance for the Financial Statements*

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

In preparing the financial statements, the Executive Board is responsible for using the going concern basis of accounting in accordance with Article 4 of the applicable Decision (ECB/2016/35), as amended.

Those charged with governance are responsible for overseeing the European Central Bank's financial reporting process.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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



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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Yours sincerely,

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft



Claus-Peter Wagner  
Wirtschaftsprüfer



Victor Veger  
Certified Public Accountant



## Note on profit distribution/allocation of losses

*This note is not part of the financial statements of the ECB for the year 2017.*

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.<sup>55</sup>

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.<sup>56</sup>

The ECB's net profit for 2017 was €1,274.7 million. Following a decision by the Governing Council, an interim profit distribution, amounting to €987.7 million, was paid out to the euro area NCBs on 31 January 2018. Furthermore, the Governing Council decided to distribute the remaining profit of €287.0 million to the euro area NCBs.

	2017 €	2016 €
Profit for the year	1,274,761,507	1,193,108,250
Interim profit distribution	(987,730,460)	(966,234,559)
Profit after the interim profit distribution	287,031,047	226,873,691
Distribution of the remaining profit	(287,031,047)	(226,873,691)
<b>Total</b>	<b>0</b>	<b>0</b>

<sup>55</sup> Non-euro area NCBs are not entitled to receive any share of the ECB's distributable profits, nor are they liable to cover any loss of the ECB.

<sup>56</sup> 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.

## Abbreviations

ABSPP	asset-backed securities purchase programme
APP	asset purchase programme
BIS	Bank for International Settlements
CBPP	covered bond purchase programme
CNY	Chinese renminbi
CSPP	corporate sector purchase programme
CTS	career transition support
EBA	Euro Banking Association
ECB	European Central Bank
ES	expected shortfall
ESCB	European System of Central Banks
ESM	European Stability Mechanism
EU	European Union
GSA	general salary adjustment
IMF	International Monetary Fund
IT	information technology
NCB	national central bank
ORC	Operational Risk Committee
ORM	operational risk management
PSPP	public sector purchase programme
RMC	Risk Management Committee
SDR	special drawing right
SMP	Securities Markets Programme
SSM	Single Supervisory Mechanism
TARGET2	Trans-European Automated Real-time Gross settlement Express Transfer system
TRIM	Targeted Review of Internal Models
VaR	value at risk

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