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PRESS RELEASE

FINANCIAL STATEMENTS OF THE ECB FOR 2014

- ECB's net profit for 2014: €989 million (2013: €1,440 million)
- Net interest income from the Securities Markets Programme: €728 million (2013: €962 million)
- Interest income on banknotes: €126 million (2013: €406 million)
- Size of the ECB's balance sheet: €185 billion (2013: €174 billion)

The Governing Council of the European Central Bank (ECB) yesterday approved the audited Annual Accounts of the ECB for the year ending 31 December 2014.[1]

The Governing Council decided to transfer as at 31 December 2014 an amount of €15 million (2013: €0.4 million) to the risk provision, which increased it to the level of its ceiling of €7,575 million as at that date. The purpose of the risk provision is to cover foreign exchange rate, interest rate, credit and gold price risks, which are monitored on an ongoing basis. The size of this provision is reviewed annually. As a result of the transfer to the risk provision, the ECB's **net profit for 2014 was €989 million** (2013: €1,440 million). The decrease was mainly due to (a) the lower interest income on banknotes as a result of the lower average rate on the main refinancing operations; (b) a decrease in the net interest income from the Securities Markets Programme (SMP) owing to redemptions; and (c) the higher operating expenses, primarily owing to costs associated with the establishment of the Single Supervisory Mechanism (SSM).

The Governing Council decided to make an interim profit distribution, amounting to €841 million, to the euro area national central banks (NCBs) on 30 January 2015. At yesterday's meeting the Governing Council decided to distribute the remainder of the profit, amounting to €148 million, to the euro area NCBs on 20 February 2015.

The ECB's income derives mainly from investment earnings on its foreign reserves portfolio and own funds portfolio, from interest income on its 8% share of the total euro banknotes in

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1 From 2015 the management report of the ECB and the consolidated balance sheet of the Eurosystem will be published together with the ECB's Annual Accounts. The consolidated balance sheet of the Eurosystem is based on provisional unaudited data. The annual accounts of all the NCBs will be finalised by the end of May 2015 and the final consolidated annual balance sheet of the Eurosystem will be published thereafter.

circulation and, in recent years, from net interest income arising from securities purchased for monetary policy purposes.

Net interest income totalled €1,536 million in 2014 (2013: €2,005 million). It included interest income of €126 million earned on the ECB's share of the total euro banknotes in circulation (2013: €406 million) and net interest income of €728 million (2013: €962 million) arising from securities purchased under the SMP, of which €298 million (2013: €437 million) arose from the ECB's SMP holdings of Greek government bonds. It also included net interest income of €174 million (2013: €204 million) arising from securities purchased under the three covered bond purchase programmes and €1 million arising from securities purchased under the asset-backed securities purchase programme (ABSPP). The ECB paid remuneration of €57 million (2013: €192 million) to the NCBs on their claims in respect of the foreign reserve assets transferred by them to the ECB, while interest income on foreign reserve assets amounted to €217 million (2013: €187 million).

Realised gains arising from financial operations amounted to €57 million (2013: €52 million).

Write-downs amounted to €8 million in 2014 (2013: €115 million). The significantly lower write-downs in 2014 were mainly due to the overall increase in the market value of the securities held in both the US dollar portfolio and the own funds portfolio.

The ECB's **administrative expenses** consist of staff costs and all other administrative expenses. **Staff costs rose to €301 million** in 2014 (2013: €241 million) as staff numbers gradually increased over the year owing to the preparations for the launch of the SSM in November 2014. **Expenditure related to the SSM** incurred in November and December 2014 **amounted to €30 million**. This amount will be invoiced in 2015 but is recorded as income from fees in the ECB's Profit and Loss Account for 2014 on an accrual basis.

Other administrative expenses, comprising rental of premises, professional fees and other goods and services, **amounted to €376 million** in 2014 (2013: €287 million). The vast majority of the costs incurred in connection with the construction of the ECB's new premises have been capitalised and are excluded from this item. After the ECB moved into its new premises in November 2014 the capitalised expenditure incurred up to that point was transferred from "Assets under construction" to the appropriate fixed asset headings. The depreciation of the ECB's new premises commenced in January 2015, in line with the ECB's normal depreciation policy.

The total size of the ECB's balance sheet increased by €11 billion to €185 billion in 2014 (2013: €174 billion). This increase was mainly due to the appreciation of foreign reserve assets and of gold held by the ECB, as well the increase in banknotes in circulation.

The **consolidated balance sheet of the Eurosystem amounted to €2,208 billion** at the end of 2014, compared with €2,273 billion in 2013. Total liabilities decreased, mainly owing to the suspension of the weekly fine-tuning operation sterilising the liquidity injected under the SMP, which resulted in a reduction in “fixed-term deposits”. Total assets decreased, mainly owing to early repayments by counterparties of the amounts allotted to them under the two three-year longer-term refinancing operations.

The Eurosystem’s holdings of securities held for monetary policy purposes decreased by €19 billion to €217 billion (2013: €236 billion). Securities held under the SMP declined by €34.5 billion owing to redemptions. This reduction was partially offset by securities purchased under the third covered bond purchase programme and the ABSPP which commenced in late 2014 and amounted to €31.3 billion at the year-end.

The **management report**, which in previous years was published with the ECB’s Annual Report, is an integral part of the ECB’s annual financial reporting and provides contextual information that enables readers to better understand the business of the ECB, its operational framework and the impact of the ECB’s operations on its financial statements. This year the management report has been enhanced by including information directly relevant to the financial statements of the ECB.

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Notes

(1) *Accounting policies of the ECB and the Eurosystem*: Common accounting policies have been established by the Governing Council for the Eurosystem, including the ECB, in accordance with Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank (Statute of the ESCB), and have been published in the Official Journal of the European Union.[2] Although generally based on internationally accepted accounting practice, these policies are designed with special regard to the unique circumstances of the central banks of the Eurosystem. Particular attention is given to the issue of prudence, owing to the large foreign exchange exposures of most of the Eurosystem central banks. This prudent approach applies particularly to the differing treatment of unrealised gains and unrealised losses for the purpose of recognising income, and to the prohibition on netting unrealised losses on one asset against unrealised gains on another. Unrealised gains are transferred directly to revaluation accounts. Unrealised losses exceeding the related revaluation account balances are treated as expenses at the end of the year. Impairment losses are taken to the Profit and Loss Account in their entirety. All euro area NCBs are required to follow these policies for the purpose of reporting their operations as part of the Eurosystem, which are included in the Eurosystem's weekly consolidated financial statements and the annual consolidated balance sheet. Moreover, they voluntarily apply broadly the same policies as the ECB in preparing their own annual financial statements.

(2) In 2014 the Governing Council decided to change the accounting treatment of securities currently held for monetary policy purposes. These securities are now accounted for at amortised cost (subject to impairment), regardless of the holding intention. This change had no impact on the financial result for 2014.

(3) Marketable securities, other than securities held for monetary policy purposes, are revalued at market prices, unless they are classified as held-to-maturity. Held-to-maturity securities are valued at amortised cost (subject to impairment).

(4) Gold and all other on-balance-sheet and off-balance-sheet assets and liabilities denominated in foreign currency are converted into euro at the exchange rate prevailing on the balance sheet date.

(5) *Costs related to banking supervision*: in accordance with the SSM Regulation,[3] the ECB will levy an annual supervisory fee on the supervised credit institutions. These fees will cover, but not exceed, expenditure incurred by the ECB in relation to its supervisory tasks. Expenditure incurred by the ECB will be recovered with effect from the time it

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2 Decision ECB/2010/21 of 11 November 2010, OJ L 35, 9.2.2011, p. 1, as amended, contains the detailed accounting policies of the ECB.

3 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.

assumed operational responsibility for supervision, i.e. November 2014. The amounts required to cover expenditure incurred in November and December 2014 are recorded as income from fees in the ECB's Profit and Loss Account for 2014 on an accrual basis, but will be invoiced in 2015.

(6) *Remuneration of foreign reserve assets transferred to the ECB*: On transferring foreign reserve assets to the ECB upon joining the Eurosystem, each NCB acquires a remunerated claim on the ECB equivalent to the amount it transfers. The Governing Council has decided that these claims are denominated in euro, and are remunerated on a daily basis at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations, adjusted to take account of the zero rate of return on the gold component.

(7) *Profit distribution/allocation of losses:* Pursuant to Article 33 of the Statute of the ESCB, up to 20% of the net profit for any year may be transferred to the general reserve fund, subject to a limit equal to 100% of the ECB's capital. The remaining net profit is to be distributed to the euro area NCBs in proportion to their paid-up shares. In the event of a loss incurred by the ECB, the shortfall may be offset against (a) the ECB's general risk provision and the general reserve fund; and (b) the monetary income for the relevant financial year, following a decision by the Governing Council. Finally, any remaining net loss may be recorded on the Balance Sheet as losses carried forward and be offset against any net income received in subsequent years.

(8) *Eurosystem SMP holdings*: The table below presents the breakdown by issuer of the outstanding amounts of the Eurosystem's SMP holdings as at 31 December 2014.

Issuer country	**Nominal amount** (EUR billions)	**Book value** [1] (EUR billions)	**Average remaining maturity** (years)
Ireland	9.7	9.3	4.3
Greece	19.8	18.1	3.5
Spain	28.9	28.6	3.8
Italy	76.2	73.9	3.8
Portugal	14.9	14.3	3.3
Total[2]	**149.4**	**144.3**	**3.7**

[1] SMP holdings are valued at amortised cost.

[2] Totals may not add up due to rounding.

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