

MANAGEMENT REPORT FOR THE YEAR ENDING 31 DECEMBER 2007

1 NATURE OF THE BUSINESS

The ECB's activities in 2007 are described in detail in the relevant chapters of the Annual Report.

2 OBJECTIVES AND TASKS

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

3 KEY RESOURCES, RISKS AND PROCESSES

GOVERNANCE OF THE ECB

Information relating to the governance of the ECB is given in Chapter 8.

MEMBERS OF THE EXECUTIVE BOARD

The members of the Executive Board are appointed from among persons of recognised standing and professional experience in monetary or banking matters by common accord of the governments of the Member States at the level of the Heads of State or Government, upon a recommendation from the EU Council after it has consulted the European Parliament and the Governing Council.

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

The emoluments of the members of the Executive Board are set out in note 29 "Staff costs" of the Annual Accounts.

EMPLOYEES

The average number of staff (full-time equivalent) employed on permanent or fixed-

term contracts by the ECB rose from 1,337 in 2006 to 1,366 in 2007. At the end of that year 1,375 staff were employed. For further details, see note 29 "Staff costs" of the Annual Accounts and Chapter 8, Section 2, which also describes the ECB's human resources strategy.

INVESTMENT ACTIVITIES AND RISK MANAGEMENT

The ECB's foreign reserves portfolio consists of foreign reserve assets transferred to it by the euro area NCBs in accordance with the provisions of Article 30 of the Statute of the European System of Central Banks and of the European Central Bank, and the income thereon. It serves to fund the ECB's operations in the foreign exchange market for the purposes set out in the Treaty.

The ECB's own funds portfolio reflects the investment of its paid-up capital, the counterpart of the provision against foreign exchange, interest rate and gold price risks, the general reserve fund and income accumulated on the portfolio in the past. Its purpose is to provide the ECB with income to contribute to the coverage of its operating expenses.

The ECB's investment activities and its management of the associated risks are described in greater detail in Chapter 2.

THE BUDGET PROCESS

The Budget Committee (BUCOM), composed of ECB and euro area NCB experts, is a key contributor to the ECB's financial governance process. In accordance with Article 15 of the Rules of Procedure, BUCOM supports the Governing Council by providing a detailed evaluation of annual ECB budget proposals and requests for supplementary budget funding by the Executive Board, prior to their submission to the Governing Council for approval. Spending against agreed budgets is monitored regularly by the Executive Board, taking into account the advice of the ECB's internal controlling function, and by the Governing Council with the assistance of BUCOM.

4 FINANCIAL RESULT

FINANCIAL ACCOUNTS

Under Article 26.2 of the Statute of the ESCB, the Annual Accounts of the ECB are drawn up by the Executive Board, in accordance with the principles established by the Governing Council. The accounts are then approved by the Governing Council and subsequently published.

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

Since most of the ECB's assets and liabilities are periodically revalued at current market exchange rates and security prices, the ECB's profitability is strongly affected by exchange rate exposures and, to a lesser extent, interest rate exposures. These exposures stem mainly from its holdings of foreign reserve assets held in US dollars, Japanese yen and gold, which are predominantly invested in interest-bearing instruments.

In 2005, taking into account the ECB's large exposure to these risks and the size of its revaluation accounts, the Governing Council decided to establish a provision against foreign exchange rate, interest rate and gold price risks. As at 31 December 2006, this provision amounted to €2,371,395,162. In accordance with Article 49.2 of the Statute of the ESCB, Banka Slovenije also contributed an amount of €10,947,042 to the provision with effect from 1 January 2007. Taking the results of its assessment into account, the Governing Council decided to transfer as at 31 December 2007 an additional amount of €286,416,109 to the provision, which increased its size to €2,668,758,313 and, as in 2006, reduced net profit to exactly zero.

This provision will be used to cover realised and unrealised losses, in particular valuation losses not covered by the revaluation accounts. Its size and continuing requirement is reviewed annually, taking a range of factors into account, including in particular the level of holdings of risk-bearing assets, the extent of materialised

risk exposures in the current financial year, projected results for the coming year, and a risk assessment involving calculations of Values at Risk (VaR) on risk-bearing assets, which is applied consistently over time. The Governing Council has decided that the provision, together with any amounts held in the ECB's general reserve fund, may not exceed the value of the capital shares paid up by the euro area NCBs.

FINANCIAL RESULT FOR 2007

Had the provision against foreign exchange rate, interest rate and gold price risks not been increased in 2007, the ECB would have reported a net profit of €286 million.

In 2007, the appreciation of the euro vis-à-vis the US dollar and, to a lesser extent, the Japanese yen resulted in write-downs in the euro value of the ECB's holdings of assets denominated in these currencies. These write-downs amounted to some €2.5 billion and were expensed in the Profit and Loss Account.

In 2007 net interest income increased to €2,421 million from €1,972 million in 2006, owing mainly to an increase in euro banknotes in circulation and in the marginal rate for the Eurosystem's main refinancing operations, which determines the remuneration that the ECB receives on its share of euro banknotes in the Eurosystem.

Net realised gains arising from financial operations rose from €475 million in 2006 to €779 million in 2007, mainly due to (a) the drop in US interest rates in 2007 which resulted in higher net realised gains from security sales during the year and (b) the rise in the price of gold, which led to greater realised gains from gold sales in 2007. These sales were conducted in accordance with the Central Bank Gold Agreement, which came into effect on 27 September 2004 and of which the ECB is a signatory.

Total administrative expenses of the ECB, including depreciation, increased from €361 million in 2006 to €385 million in 2007.

CHANGE TO THE CAPITAL OF THE ECB

In accordance with Article 49.3 of the Statute of the ESCB, which was added to the Statute by the Treaty of Accession, the ECB's subscribed capital is automatically increased when a new Member State joins the EU and its NCB joins the ESCB. This increase requires the calculation of the capital key weighting of each NCB that is part of the ESCB by analogy with Article 29.1 and in compliance with Article 29.2 of the Statute of the ESCB. Consequently, upon the accession of Bulgaria and Romania as new Member States as at 1 January 2007 (a) the NCBs' capital key shares were adjusted in accordance with Council Decision 2003/517/EC of 15 July 2003 on the statistical data to be used for the adjustment of the key for subscription to the capital of the European Central Bank and (b) the subscribed capital of the ECB was increased to €5,761 million.

In addition, in accordance with Article 49.1 of the Statute of the ESCB, Banka Slovenije paid up the remainder of its capital subscription to the ECB upon Slovenia's adoption of the single currency as at 1 January 2007, while the Bulgarian National Bank and Banca Națională a României, similarly to the other non-euro area NCBs, paid up 7% of their subscribed capital as a contribution to the operational costs of the ECB.

The combined effect of the developments described was that the ECB's paid-up capital increased from €4,089 million on 31 December 2006 to €4,127 million on 1 January 2007. Details of these changes are contained in note 15 "Capital and reserves" of the Annual Accounts.

BALANCE SHEET AS AT 31 DECEMBER 2007

ASSETS	NOTE NUMBER	2007 €	2006 €
Gold and gold receivables	1	10,280,374,109	9,929,865,976
Claims on non-euro area residents denominated in foreign currency	2		
Receivables from the IMF		449,565,998	414,768,308
Balances with banks and security investments, external loans and other external assets		28,572,614,853	29,313,377,277
		29,022,180,851	29,728,145,585
Claims on euro area residents denominated in foreign currency	2	3,868,163,459	2,773,828,417
Claims on non-euro area residents denominated in euro	3		
Balances with banks, security investments and loans		25,128,295	4,193,677
Other claims on euro area credit institutions denominated in euro	4	100,038,774	33,914
Intra-Eurosystem claims	5		
Claims related to the allocation of euro banknotes within the Eurosystem		54,130,517,580	50,259,459,435
Other claims within the Eurosystem (net)		17,241,183,222	3,545,868,495
		71,371,700,802	53,805,327,930
Other assets	6		
Tangible fixed assets		188,209,963	175,180,989
Other financial assets		9,526,196,135	8,220,270,389
Off-balance-sheet instruments revaluation differences		34,986,651	29,518,315
Accruals and prepaid expenses		1,557,414,330	1,094,509,354
Sundry		69,064,934	5,580,697
		11,375,872,013	9,525,059,744
Total assets		126,043,458,303	105,766,455,243

LIABILITIES	NOTE NUMBER	2007 €	2006 €
Banknotes in circulation	7	54,130,517,580	50,259,459,435
Liabilities to other euro area residents denominated in euro	8	1,050,000,000	1,065,000,000
Liabilities to non-euro area residents denominated in euro	9	14,571,253,753	105,121,522
Liabilities to non-euro area residents denominated in foreign currency	10		
Deposits, balances and other liabilities		667,076,397	330,955,249
Intra-Eurosystem liabilities	11		
Liabilities equivalent to the transfer of foreign reserves		40,041,833,998	39,782,265,622
Other liabilities	12		
Off-balance-sheet instruments revaluation differences		69,589,536	0
Accruals and income collected in advance		1,863,461,316	1,262,820,884
Sundry		659,763,920	899,170,800
		2,592,814,772	2,161,991,684
Provisions	13	2,693,816,002	2,393,938,510
Revaluation accounts	14	6,169,009,571	5,578,445,671
Capital and reserves	15		
Capital		4,127,136,230	4,089,277,550
Profit for the year		0	0
Total liabilities		126,043,458,303	105,766,455,243

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31 DECEMBER 2007

	NOTE NUMBER	2007 €	2006 €
Interest income on foreign reserve assets		1,354,887,368	1,318,243,236
Interest income arising from the allocation of euro banknotes within the Eurosystem		2,004,355,782	1,318,852,000
Other interest income		4,380,066,479	2,761,697,060
<i>Interest income</i>		<i>7,739,309,629</i>	<i>5,398,792,296</i>
Remuneration of NCBs' claims in respect of foreign reserves transferred		(1,356,536,045)	(965,331,593)
Other interest expense		(3,962,006,944)	(2,461,625,254)
<i>Interest expense</i>		<i>(5,318,542,989)</i>	<i>(3,426,956,847)</i>
Net interest income	23	2,420,766,640	1,971,835,449
Realised gains/losses arising from financial operations	24	778,547,213	475,380,708
Write-downs on financial assets and positions	25	(2,534,252,814)	(718,467,508)
Transfer to/from provisions for foreign exchange rate and price risks		(286,416,109)	(1,379,351,719)
Net result of financial operations, write-downs and risk provisions		(2,042,121,710)	(1,622,438,519)
Net expense from fees and commissions	26	(621,691)	(546,480)
Income from equity shares and participating interests	27	920,730	911,866
Other income	28	6,345,668	11,407,583
Total net income		385,289,637	361,169,899
Staff costs	29	(168,870,244)	(160,847,043)
Administrative expenses	30	(184,589,229)	(166,426,595)
Depreciation of tangible fixed assets		(26,478,405)	(29,162,141)
Banknote production services	31	(5,351,759)	(4,734,120)
Profit for the year		0	0

Frankfurt am Main, 26 February 2008

EUROPEAN CENTRAL BANK

Jean-Claude Trichet
President

ACCOUNTING POLICIES¹

FORM AND PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements of the European Central Bank (ECB) have been designed to present fairly the financial position of the ECB and the results of its operations. They have been drawn up in accordance with the following accounting policies², which the Governing Council considers to be appropriate to the nature of central bank activity.

ACCOUNTING PRINCIPLES

The following accounting principles have been applied: economic reality and transparency, prudence, recognition of post-balance-sheet events, materiality, the accruals principle, going concern, 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 market valuation of marketable securities, 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 are settled.

With effect from 1 January 2007, the basis for recording foreign exchange transactions, financial instruments denominated in foreign currency and related accruals in the accounts of Eurosystem central banks has changed. Early application was permitted, and the ECB introduced the change as at 1 October 2006, with the following effects. With the exception

of securities, transactions are now recorded in off-balance-sheet accounts on the trade date. At settlement date the off-balance-sheet entries are reversed and transactions are booked on-balance-sheet. Purchases and sales of foreign currency affect the net foreign currency position on the trade date, rather than on the spot settlement date as was the case hitherto, and realised results arising from sales are also calculated on the trade 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 instead of changing only when interest cash flows actually occur, as was the case previously.

GOLD AND FOREIGN CURRENCY ASSETS AND LIABILITIES

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

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

Gold is valued at the market price prevailing at the year-end. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold valuation is accounted for on the basis of the price in euro per fine ounce of gold, which, for the year ending 31 December 2007, was derived from

- 1 The detailed accounting policies of the ECB were laid down in Decision ECB/2002/11, OJ L 58, 3.3.2003, p. 38, as amended. With effect from 1 January 2007, this Decision was repealed and replaced by Decision ECB/2006/17, OJ L 348, 11.12.2006, p. 38, as amended.
- 2 These policies are consistent with the provisions of Article 26.4 of the Statute of the ESCB, which require a harmonised approach to the rules governing the accounting and financial reporting of Eurosystem operations.

the exchange rate of the euro against the US dollar on 31 December 2007.

SECURITIES

All marketable securities and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing at the Balance Sheet date on a security-by-security basis. For the year ending 31 December 2007, mid-market prices on 28 December 2007 were used. Non-marketable securities are valued at cost, while illiquid equity shares are valued at cost subject to impairment.

INCOME RECOGNITION

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

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

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

Premiums or discounts arising on purchased securities are calculated and presented as part of interest income and are amortised over the remaining life of the assets.

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 inward deposits on the liability side of the Balance Sheet and also lead to an interest expense in the Profit and Loss Account. Securities sold under such an agreement remain on the Balance Sheet of the ECB.

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

Reverse transactions (including security lending transactions) conducted under an automated security lending programme are recorded on the Balance Sheet only where collateral is provided to the ECB in the form of cash over the maturity of the transaction. In 2007 the ECB did not receive any collateral in the form of cash over the maturity of such transactions.

OFF-BALANCE-SHEET INSTRUMENTS

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

Interest rate instruments are revalued on an item-by-item basis. Daily changes in the variation margin of open interest rate futures contracts are recorded in the Profit and Loss Account. The valuation of forward transactions in securities and of interest rate swaps is based on generally

accepted valuation methods using observable market prices and rates and the discount factors from the settlement dates to the valuation date.

POST-BALANCE-SHEET EVENTS

Assets and liabilities are adjusted for events that occur between the annual Balance Sheet date and the date on which the Governing Council approves the financial statements, if such events materially affect the condition of assets and liabilities at the Balance Sheet date.

INTRA-ESCB BALANCES/INTRA-EUROSYSTEM BALANCES

Intra-ESCB transactions are cross-border transactions that occur between two EU central banks. These transactions are processed primarily via TARGET/TARGET2 – the Trans-European Automated Real-time Gross settlement Express Transfer system (see Chapter 2) – and give rise to bilateral balances in accounts held between those EU central banks connected to TARGET/TARGET2. These bilateral balances are then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-à-vis the ECB only. This position in the books of the ECB represents the net claim or liability of each NCB against the rest of the ESCB.

Intra-ESCB balances of the euro area NCBs with the ECB (except for the capital of the ECB and positions resulting from the transfer of foreign reserve assets to the ECB) are described as intra-Eurosystem claims or liabilities and are presented in the Balance Sheet of the ECB as a single net asset or liability position.

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-ESCB balances of non-euro area NCBs with the ECB, arising from their participation in TARGET/TARGET2,³ are disclosed under “Liabilities to non-euro area residents denominated in euro”.

TREATMENT OF FIXED ASSETS

Fixed assets, with the exception of land, are valued at cost less depreciation. Land is valued at cost. Depreciation is calculated on a straight-line basis, beginning in the quarter after acquisition and continuing over the period for which the asset is expected to be available for use, as follows:

Computers, related hardware and software, and motor vehicles	4 years
Equipment, furniture and plant in building	10 years
Fixed assets costing less than €10,000	Written off in the year of acquisition

The depreciation period for capitalised building and refurbishment expenditure relating to the ECB’s existing premises has been reduced in order to ensure that these assets are completely written off before the ECB moves to its new premises.

THE ECB’S RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The ECB operates a defined benefit scheme for its staff. This is funded by assets held in a long-term employee-benefit fund.

BALANCE SHEET

The liability recognised in the Balance Sheet in respect of the defined benefit plans is the present value of the defined benefit obligation at the Balance Sheet date, less the fair value of plan assets used to fund the obligation, adjusted for unrecognised actuarial gains or losses.

³ As at 31 December 2007, the non-euro area NCBs participating in TARGET/TARGET2 were: Danmarks Nationalbank, Central Bank of Cyprus, Latvijas Banka, Lietuvos bankas, Central Bank of Malta and Bank of England.

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 determined by discounting the estimated future cash flows, using interest rates of high-quality corporate bonds that are denominated in euro and have similar terms of maturity to the term of the related pension liability.

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.

PROFIT AND LOSS ACCOUNT

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

- (a) the current service cost of the benefits accruing for the year;
- (b) interest at the discount rate on the defined benefit obligation;
- (c) the expected return on the plan assets; and
- (d) any actuarial gains and losses recognised in the Profit and Loss Account, using a “10% corridor” approach.

“10% CORRIDOR” APPROACH

Net cumulative unrecognised actuarial gains and losses which exceed the greater of (a) 10% of the present value of the defined benefit obligation and (b) 10% of the fair value of plan assets, are to be amortised over the expected average remaining working lives of the participating employees.

PENSIONS OF EXECUTIVE BOARD MEMBERS AND OTHER POST-RETIREMENT OBLIGATIONS

Unfunded arrangements are in place for the pensions of members of the Executive Board and disability benefit provisions for the staff. The

expected costs of these benefits are accrued over the Executive Board/staff members’ terms of office/employment using an accounting approach similar to that of defined benefit pension plans. Actuarial gains and losses are recognised in the same manner as outlined above.

These obligations 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.⁴ 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.⁵

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, which is disclosed under the Balance Sheet liability item “Banknotes in circulation”. The ECB’s share of the total euro banknote issue is backed by claims on the NCBs. These claims, which bear interest,⁶ 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 within the item “Net interest income”. This income is due to the NCBs in the financial year in which it accrues, but is to be distributed on the second working day of the following year.⁷ It is distributed in full unless

4 Decision ECB/2001/15 of 6 December 2001 on the issue of euro banknotes, OJ L 337, 20.12.2001, p. 52, as amended.

5 “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.

6 Decision ECB/2001/16 of 6 December 2001 on the allocation of monetary income of the national central banks of participating Member States from the financial year 2002, OJ L 337, 20.12.2001, p. 55, as amended.

7 Decision ECB/2005/11 of 17 November 2005 on the distribution of the income of the European Central Bank on euro banknotes in circulation to the national central banks of the participating Member States, OJ L 311, 26.11.2005, p. 41. This Decision repealed Decision ECB/2002/9.

the ECB's net profit for the year is less than its income earned on euro banknotes in circulation and subject to any decisions by the Governing Council to make transfers to a provision for foreign exchange rate, interest rate and gold price risks and to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against this income.

OTHER ISSUES

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

In accordance with Article 27 of the Statute of the ESCB, and on the basis of a recommendation of the Governing Council, the EU Council has approved the appointment of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the external auditors of the ECB for a five-year period up to the end of the financial year 2007.

NOTES ON THE BALANCE SHEET

1 GOLD AND GOLD RECEIVABLES

As at 31 December 2007 the ECB held 18,091,733 ounces of fine gold (2006: 20,572,017 ounces). The reduction was due to (a) gold sales of 2,539,839 ounces in accordance with the Central Bank Gold Agreement, which came into effect on 27 September 2004 and of which the ECB is a signatory, and (b) Banka Slovenije's transfer to the ECB of 59,555 ounces of fine gold⁸ upon Slovenia's adoption of the single currency, in accordance with Article 30.1 of the Statute of the ESCB. The decrease in the euro equivalent of this holding, resulting from these transactions, was more than offset by a significant rise in the price of gold during 2007 (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies).

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

RECEIVABLES FROM THE IMF

This asset represents the ECB's holdings of special drawing rights (SDRs) as at 31 December 2007. 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. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of the exchange rates of four major currencies (euro, Japanese yen, pound sterling and US dollar). For accounting purposes, SDRs are treated as a foreign currency (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies).

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

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

<i>Claims on non-euro area residents</i>	2007 €	2006 €	Change €
Current accounts	761,073,851	1,388,630,590	(627,556,739)
Money market deposits	688,783,688	1,352,326,756	(663,543,068)
Reverse repurchase agreements	543,247,188	330,983,321	212,263,867
Security investments	26,579,510,126	26,241,436,610	338,073,516
Total	28,572,614,853	29,313,377,277	(740,762,424)

<i>Claims on euro area residents</i>	2007 €	2006 €	Change €
Current accounts	574,945	18,535	556,410
Money market deposits	3,867,588,514	2,621,949,594	1,245,638,920
Reverse repurchase agreements	0	151,860,288	(151,860,288)
Total	3,868,163,459	2,773,828,417	1,094,335,042

Despite the depreciation of both the US dollar and the Japanese yen against the euro in 2007, the net euro value of these positions increased, mainly as a result of (a) the investment of the proceeds of the gold sales in Japanese yen and to a lesser extent in the US dollar portfolio (see note 1, "Gold and gold receivables") and (b) income received primarily in the US dollar portfolio.

Additionally, upon Slovenia's adoption of the single currency with effect from 1 January 2007, Banka Slovenije transferred US dollars with a value of €162.9 million to the ECB, in accordance with Article 30.1 of the Statute of the ESCB.

⁸ The transfer, with a value equivalent to €28.7 million, was made with effect from 1 January 2007.

The ECB's net foreign currency holdings⁹ of US dollars and Japanese yen, as at 31 December 2007, were as follows:

	(million currency units)
US dollars	37,149
Japanese yen	1,076,245

3 CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO

As at 31 December 2007 this claim consisted of money market deposits with a value of €20.0 million and current accounts with non-euro area residents.

4 OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

As at 31 December 2007 this claim consisted of money market deposits with a value of €100.0 million and current accounts with euro area residents.

5 INTRA-EUROSYSTEM CLAIMS

CLAIMS RELATED TO THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSISTEM

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).

OTHER CLAIMS WITHIN THE EUROSISTEM (NET)

This item consists of the TARGET/TARGET2 balances of the euro area NCBs vis-à-vis the ECB (see "Intra-ESCB balances/intra-Eurosystem balances" in the notes on accounting policies). The increase in this position is due mainly to the settlement of the euro leg of the back-to-back swap transactions conducted with NCBs in connection with the US dollar Term Auction Facility (see note 9, "Liabilities to non-euro area residents denominated in euro").

	2007 €	2006 €
Due from euro area NCBs in respect of TARGET/TARGET2	145,320,642,526	83,764,470,700
Due to euro area NCBs in respect of TARGET/TARGET2	(128,079,459,304)	(80,218,602,205)
Other claims within the Eurosystem (net)	17,241,183,222	3,545,868,495

6 OTHER ASSETS

TANGIBLE FIXED ASSETS

These assets comprised the following main items on 31 December 2007:

	2007 €	2006 €	Change €
Cost			
Land and buildings	156,964,236	160,272,602	(3,308,366)
Computer hardware and software	168,730,634	157,573,338	11,157,296
Equipment, furniture, plant in building and motor vehicles	27,105,564	26,670,476	435,088
Assets under construction	59,791,855	28,790,200	31,001,655
Other fixed assets	1,195,290	1,232,143	(36,853)
Total cost	413,787,579	374,538,759	39,248,820
Accumulated depreciation			
Land and buildings	(49,672,589)	(39,696,727)	(9,975,862)
Computer hardware and software	(150,195,777)	(135,057,096)	(15,138,681)

9 Assets minus liabilities denominated in the respective foreign currency that are subject to foreign currency revaluation. These are included under the headings "Claims on non-euro area residents denominated in foreign currency", "Claims on euro area residents denominated in foreign currency", "Accruals and prepaid expenses", "Liabilities to non-euro area residents denominated in foreign currency", "Off-balance-sheet instruments revaluation differences" (Liabilities side) and "Accruals and income collected in advance", also taking into account foreign exchange forward and swap transactions under off-balance-sheet items. The effects of the price revaluation gains on financial instruments denominated in foreign currency are not included.

	2007 €	2006 €	Change €
Equipment, furniture, plant in building and motor vehicles	(25,562,068)	(24,471,251)	(1,090,817)
Other fixed assets	(147,182)	(132,696)	(14,486)
Total accumulated depreciation	(225,577,616)	(199,357,770)	(26,219,846)
Net book value	188,209,963	175,180,989	13,028,974

The decrease in “Land and buildings” at cost is due mainly to the sale in January 2007 of the official residence for Presidents of the ECB purchased in 2001. A new official residence was acquired in December 2006.

The increase in the category “Assets under construction” is due mainly to initial works related to the ECB’s new premises. Transfers from this category to the relevant fixed asset headings will occur once the assets are in use.

OTHER FINANCIAL ASSETS

The main components of this item are as follows:

	2007 €	2006 €	Change €
Securities denominated in euro	8,815,612,722	7,303,413,758	1,512,198,964
Reverse repurchase agreements in euro	668,392,837	874,669,464	(206,276,627)
Other financial assets	42,190,576	42,187,167	3,409
Total	9,526,196,135	8,220,270,389	1,305,925,746

(a) Securities denominated in euro and reverse repurchase agreements in euro constitute the investment of the ECB’s own funds (see note 12, “Other liabilities”). The increase in securities held was due mainly to the investment in the own funds portfolio of the counterpart of the amount transferred to the ECB’s provision against foreign exchange, interest rate and gold price risks in 2006.

(b) The ECB holds 3,211 shares in the BIS, which are included at the acquisition cost of €41.8 million.

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 2007 (see note 21, “Foreign exchange swap and forward transactions”). These valuation changes are the result of the conversion of such transactions into their euro equivalents at the exchange rates prevailing on the Balance Sheet date, compared with the euro values resulting from the conversion of the transactions at the average cost of the respective foreign currency (see “Gold and foreign currency assets and liabilities” in the notes on accounting policies). Valuation gains in forward transactions in securities are also included in this item.

ACCRUALS AND PREPAID EXPENSES

In 2007, this position included accrued interest receivable on the ECB’s claims related to the allocation of euro banknotes within the Eurosystem for the final quarter (see “Banknotes in circulation” in the notes on accounting policies) amounting to €545.8 million, and accrued interest receivable on the TARGET/TARGET2 balances due from euro area NCBs for the final month of 2007 amounting to €481.6 million.

Also included under this item is accrued interest, including the amortisation of discounts, on securities and other financial assets.

SUNDRY

This item consists mainly of balances related to swap and forward transactions in foreign currency that were outstanding on 31 December 2007 (see note 21, “Foreign exchange swap and forward transactions”). These balances arise 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 are initially recorded (see "Off-balance-sheet instruments" in the notes on accounting policies).

This item also includes a claim against the German Federal Ministry of Finance in respect of recoverable value added tax and other indirect taxes paid. Such taxes are refundable under the terms of Article 3 of the Protocol on the privileges and immunities of the European Communities, which applies to the ECB by virtue of Article 40 of the Statute of the ESCB.

7 BANKNOTES IN CIRCULATION

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

8 LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

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

9 LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

This item consists mainly of a liability to the Federal Reserve amounting to €13.9 billion in connection with the US dollar Term Auction Facility. Under this programme, USD 20 billion were provided by the Federal Reserve to the ECB by means of a temporary reciprocal currency arrangement (swap line), with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the

resulting funds to conduct liquidity-providing operations with the Eurosystem counterparties. These back-to-back swap transactions resulted in non-remunerated intra-Eurosystem balances between the ECB and the NCBs reported under "Other claims within the Eurosystem (net)".

The remainder of this item reflects balances held at the ECB by non-euro area NCBs arising from transactions processed via the TARGET/TARGET2 system (see "Intra-ESCB balances/intra-Eurosystem balances" in the notes on accounting policies).

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

This position consists of repurchase agreements conducted with non-euro area residents in connection with the management of the foreign currency reserves of the ECB.

11 INTRA-EUROSYSTEM LIABILITIES

These represent the liabilities to the euro area NCBs that arose from the transfer of foreign reserve assets to the ECB when they joined the Eurosystem. They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component (see note 23, "Net interest income").

The enlargement of the EU through the accession of Bulgaria and Romania and the concomitant adjustment of the total limit of NCBs' claims and weightings in the ECB's capital key (see note 15, "Capital and reserves"), along with Banka Slovenije's transfer of foreign reserve assets upon Slovenia's adoption of the single currency, led to an increase of these liabilities by €259,568,376.

	Until 31 December 2006 €	From 1 January 2007 ¹ €
Nationale Bank van België/Banque Nationale de Belgique	1,419,101,951	1,423,341,996
Deutsche Bundesbank	11,761,707,508	11,821,492,402
Central Bank and Financial Services Authority of Ireland	513,006,858	511,833,966
Bank of Greece	1,055,840,343	1,046,595,329
Banco de España	4,326,975,513	4,349,177,351
Banque de France	8,275,330,931	8,288,138,644
Banca d'Italia	7,262,783,715	7,217,924,641
Banque centrale du Luxembourg	87,254,014	90,730,275
De Nederlandsche Bank	2,223,363,598	2,243,025,226
Oesterreichische Nationalbank	1,157,451,203	1,161,289,918
Banco de Portugal	982,331,062	987,203,002
Banka Slovenije	-	183,995,238
Suomen Pankki – Finlands Bank	717,118,926	717,086,011
Total	39,782,265,622	40,041,833,998

1) Individual amounts are shown rounded to the nearest euro. Total may not add up due to rounding.

Banka Slovenije's claim was set at €183,995,238 in order to ensure that the ratio between that claim and the aggregate claim credited to the other NCBs that have adopted the euro will be equal to the ratio between Banka Slovenije's weighting in the ECB's capital key and the other participating NCBs' aggregate weighting in this key. The difference between the claim and the value of the assets transferred (see notes 1 "Gold and gold receivables" and 2 "Claims on non-euro area and euro area residents denominated in foreign currency") was treated as part of the contributions of Banka Slovenije, due under Article 49.2 of the Statute of the ESCB, to the reserves and provisions equivalent to reserves of the ECB existing as at 31 December 2006 (see notes 13 "Provisions" and 14 "Revaluation accounts").

12 OTHER LIABILITIES

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 2007 (see note 21, "Foreign exchange swap and forward transactions"). These valuation changes are the result of the conversion of such transactions into their euro equivalents at the exchange rates prevailing on the Balance Sheet date, compared with the euro values resulting from the conversion of the transactions at the average cost of the respective foreign currency (see "Gold and foreign currency assets and liabilities" in the notes on accounting policies and also note 6, "Other assets").

Valuation losses in forward transactions in securities and interest rate swaps are also included in this item.

ACCRUALS AND INCOME COLLECTED IN ADVANCE

This item consists mainly of interest payable to the NCBs in respect of their claims relating to the foreign reserves transferred (see note 11, "Intra-Eurosystem liabilities"), amounting to €1.4 billion. Also included within this balance are accruals on balances due to NCBs in respect of TARGET/TARGET2, accruals on financial instruments, including the amortisation of coupon bond premiums, and other accruals.

SUNDRY

This item consists mainly of outstanding repurchase transactions of €517 million conducted in connection with the management of the ECB's own funds (see note 6, "Other assets") and the net liability in respect of the ECB's pension obligations as described below.

THE ECB'S RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The amounts recognised in the Balance Sheet in respect of the ECB's pension obligations (see "The ECB's retirement plan and other post-employment benefits" in the notes on accounting policies) are as follows:

	2007 € millions	2006 € millions
Present value of obligations	285.8	258.5
Fair value of plan assets	(229.8)	(195.3)
Unrecognised actuarial gains/(losses)	35.4	17.3
Liability recognised in the Balance Sheet	91.4	80.5

The present value of the obligations includes unfunded obligations of €36.8 million (2006: €32.6 million) relating to the pensions of Executive Board members and to staff disability provisions.

The amounts recognised in the Profit and Loss Account in 2007 and 2006 in respect of “Current service cost”, “Interest on obligation” and “Expected return on plan assets” are as follows:

	2007 € millions	2006 € millions
Current service cost	26.5	27.3
Interest on obligation	8.6	6.8
Expected return on plan assets	(7.9)	(6.7)
Net actuarial (gains)/losses recognised in year	0	0
Total included in “Staff costs”	27.2	27.4

Under the 10% corridor approach (see “The ECB’s retirement plan and other post-employment benefits” in the notes on accounting policies), no actuarial gains were recognised in the Profit and Loss Account in 2007.

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

	2007 € millions	2006 € millions
Opening defined benefit obligation	258.5	223.5
Service cost	26.5	27.3
Interest cost	8.6	6.8
Contributions paid by plan participants	14.2	10.4
Other net changes in liabilities representing plan participants’ contributions	2.5	3.7
Benefits paid	(2.5)	(2.6)
Actuarial (gains)/losses	(22.0)	(10.6)
Closing defined benefit obligation	285.8	258.5

Changes in the fair value of plan assets are as follows:

	2007 € millions	2006 € millions
Opening fair value of plan assets	195.3	161.2
Expected return	7.9	6.7
Actuarial gains/(losses)	(4.0)	0.2
Contributions paid by employer	16.2	15.4
Contributions paid by plan participants	14.1	10.3
Benefits paid	(2.2)	(2.2)
Other net changes in assets representing plan participants’ contributions	2.5	3.7
Closing fair value of plan assets	229.8	195.3

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 staff scheme liability are as follows. The expected rate of return on plan assets is used by the actuaries for the purpose of calculating the annual charge to the Profit and Loss Account.

	2007 %	2006 %
Discount rate	5.30	4.60
Expected return on plan assets	6.50	6.00
Future salary increases	2.00	2.00
Future pension increases	2.00	2.00

13 PROVISIONS

As at 31 December 2005, taking into account the ECB's large exposure to foreign exchange rate, interest rate and gold price risks, and the size of its revaluation accounts, the Governing Council deemed it appropriate to establish a provision against these risks. This provision will be used to fund future realised and unrealised losses, in particular valuation losses not covered by the revaluation accounts. The size and continuing requirement for this provision is reviewed annually, based on the ECB's assessment of its exposure to the above risks. This assessment takes a range of factors into account, including in particular the level of holdings of risk-bearing assets, the extent of materialised risk exposures in the current financial year, projected results for the coming year, and a risk assessment involving calculations of Values at Risk (VaR) on risk-bearing assets, which is applied consistently over time.¹⁰ The provision, together with any amount held in the general reserve fund, may not exceed the value of the ECB's capital paid up by the euro area NCBs.

As at 31 December 2006, the provision against foreign exchange rate, interest rate and gold price risks amounted to €2,371,395,162. In accordance with Article 49.2 of the Statute of the ESCB, Banka Slovenije also contributed an amount of €10,947,042 to the provision with effect from 1 January 2007. Taking the results of its assessment into account, the Governing Council decided to transfer, as at 31 December 2007, an additional amount of €286,416,109 to the provision, which increased its size to €2,668,758,313 and, as in 2006, reduced net profit to exactly zero.

This item also includes an appropriate provision against the contractual obligation of the ECB to restore its current premises to their original condition when they are vacated and the ECB moves to its final site, and other miscellaneous provisions.

14 REVALUATION ACCOUNTS

These accounts represent revaluation balances arising from unrealised gains on assets and liabilities. In accordance with Article 49.2 of the Statute of the ESCB, Banka Slovenije contributed an amount of €26 million to these balances with effect from 1 January 2007.

	2007 €	2006 €	Change €
Gold	5,830,485,388	4,861,575,989	968,909,399
Foreign currency	0	701,959,896	(701,959,896)
Securities	338,524,183	14,909,786	323,614,397
Total	6,169,009,571	5,578,445,671	590,563,900

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

Exchange rates	2007	2006
US dollars per euro	1.4721	1.3170
Japanese yen per euro	164.93	156.93
Euro per SDR	1.0740	1.1416
Euro per fine ounce of gold	568.236	482.688

15 CAPITAL AND RESERVES

CAPITAL

(A) CHANGE TO THE ECB'S CAPITAL KEY

Pursuant to Article 29 of the Statute of the ESCB, the shares of the NCBs in the ECB's capital key are weighted according to the shares of the respective Member States in the EU's total population and GDP in equal measure, as notified to the ECB by the European Commission. These weights are adjusted every five years and whenever new Member States join the EU. Based on Council Decision 2003/517/EC of 15 July 2003 on the statistical data to be used for the adjustment of the key for subscription to the capital of the European Central Bank,¹¹ the NCBs' capital key shares were adjusted on 1 January 2007, upon the accession of Bulgaria and Romania as new Member States, as follows:

¹⁰ See also Chapter 2 of the ECB's Annual Report.

¹¹ OJ L 181, 19.7.2003, p. 43.

	From 1 May 2004 to 31 December 2006 %	From 1 January 2007 %
Nationale Bank van België/ Banque Nationale de Belgique	2.5502	2.4708
Deutsche Bundesbank	21.1364	20.5211
Central Bank and Financial Services Authority of Ireland	0.9219	0.8885
Bank of Greece	1.8974	1.8168
Banco de España	7.7758	7.5498
Banque de France	14.8712	14.3875
Banca d'Italia	13.0516	12.5297
Banque centrale du Luxembourg	0.1568	0.1575
De Nederlandsche Bank	3.9955	3.8937
Oesterreichische Nationalbank	2.0800	2.0159
Banco de Portugal	1.7653	1.7137
Banka Slovenije	-	0.3194
Suomen Pankki – Finlands Bank	1.2887	1.2448
Subtotal for euro area NCBs	71.4908	69.5092
Bulgarian National Bank	-	0.8833
Česká národní banka	1.4584	1.3880
Danmarks Nationalbank	1.5663	1.5138
Eesti Pank	0.1784	0.1703
Central Bank of Cyprus	0.1300	0.1249
Latvijas Banka	0.2978	0.2813
Lietuvos bankas	0.4425	0.4178
Magyar Nemzeti Bank	1.3884	1.3141
Central Bank of Malta	0.0647	0.0622
Narodowy Bank Polski	5.1380	4.8748
Banca Națională a României	-	2.5188
Banka Slovenije	0.3345	-
Národná banka Slovenska	0.7147	0.6765
Sveriges Riksbank	2.4133	2.3313
Bank of England	14.3822	13.9337
Subtotal for non-euro area NCBs	28.5092	30.4908
Total	100.0000	100.0000

(B) CAPITAL OF THE ECB

In accordance with Article 49.3 of the Statute of the ESCB, which was added to the Statute by the Treaty of Accession, the ECB's subscribed capital is automatically increased when a new Member State joins the EU and its NCB joins the ESCB. The increase is determined by multiplying the prevailing amount of the subscribed capital (i.e. €5,565 million as at 31 December 2006) by the ratio, within the expanded capital key, between the weighting of the entering NCB(s) and the weighting of those NCBs that are already members of the ESCB. Therefore, on 1 January 2007, the subscribed capital of the ECB was increased to €5,761 million.

In accordance with Article 49.1 of the Statute of the ESCB and a legal act adopted by the Governing Council on 30 December 2006¹², Banka Slovenije paid up an amount of €17,096,556 as at 1 January 2007, which represented the remainder of its capital subscription to the ECB.

The non-euro area NCBs are required to pay up 7% of their subscribed capital as a contribution to the operational costs of the ECB. Therefore, as at 1 January 2007, the Bulgarian National Bank and Banca Națională a României paid amounts of €3,561,869 and €10,156,952 respectively. Including these amounts, this contribution amounted to a total of €122,952,830 at end-2007. The non-euro area NCBs are not entitled to receive any share of the distributable profits of the ECB, including income arising from the allocation of euro banknotes within the Eurosystem, nor are they liable to fund any loss of the ECB.

The combined effect of the three developments described was that the ECB's paid-up capital increased from €4,089,277,550 on 31 December 2006 to €4,127,136,230 on 1 January 2007, as shown in the table below:¹³

¹² Decision ECB/2006/30 of 30 December 2006 on Banka Slovenije's paying-up of capital, transfer of foreign reserve assets and contribution to the European Central Bank's reserves and provisions, OJ L 24, 31.1.2007, p. 17.

¹³ Individual amounts are shown rounded to the nearest euro. Totals in the tables of this section may not add up due to rounding.

	Subscribed capital until 31 December 2006 €	Paid-up capital until 31 December 2006 €	Subscribed capital from 1 January 2007 €	Paid-up capital from 1 January 2007 €
Nationale Bank van België/ Banque Nationale de Belgique	141,910,195	141,910,195	142,334,200	142,334,200
Deutsche Bundesbank	1,176,170,751	1,176,170,751	1,182,149,240	1,182,149,240
Central Bank and Financial Services Authority of Ireland	51,300,686	51,300,686	51,183,397	51,183,397
Bank of Greece	105,584,034	105,584,034	104,659,533	104,659,533
Banco de España	432,697,551	432,697,551	434,917,735	434,917,735
Banque de France	827,533,093	827,533,093	828,813,864	828,813,864
Banca d'Italia	726,278,371	726,278,371	721,792,464	721,792,464
Banque centrale du Luxembourg	8,725,401	8,725,401	9,073,028	9,073,028
De Nederlandsche Bank	222,336,360	222,336,360	224,302,523	224,302,523
Oesterreichische Nationalbank	115,745,120	115,745,120	116,128,992	116,128,992
Banco de Portugal	98,233,106	98,233,106	98,720,300	98,720,300
Banka Slovenije	-	-	18,399,524	18,399,524
Suomen Pankki – Finlands Bank	71,711,893	71,711,893	71,708,601	71,708,601
Subtotal for euro area NCBS	3,978,226,562	3,978,226,562	4,004,183,400	4,004,183,400
Bulgarian National Bank	-	-	50,883,843	3,561,869
Česká národní banka	81,155,136	5,680,860	79,957,855	5,597,050
Danmarks Nationalbank	87,159,414	6,101,159	87,204,756	6,104,333
Eesti Pank	9,927,370	694,916	9,810,391	686,727
Central Bank of Cyprus	7,234,070	506,385	7,195,055	503,654
Latvijas Banka	16,571,585	1,160,011	16,204,715	1,134,330
Lietuvos bankas	24,623,661	1,723,656	24,068,006	1,684,760
Magyar Nemzeti Bank	77,259,868	5,408,191	75,700,733	5,299,051
Central Bank of Malta	3,600,341	252,024	3,583,126	250,819
Narodowy Bank Polski	285,912,706	20,013,889	280,820,283	19,657,420
Banca Națională a României	-	-	145,099,313	10,156,952
Banka Slovenije	18,613,819	1,302,967	-	-
Národná banka Slovenska	39,770,691	2,783,948	38,970,814	2,727,957
Sveriges Riksbank	134,292,163	9,400,451	134,298,089	9,400,866
Bank of England	800,321,860	56,022,530	802,672,024	56,187,042
Subtotal for non-euro area NCBS	1,586,442,685	111,050,988	1,756,469,003	122,952,830
Total	5,564,669,247	4,089,277,550	5,760,652,403	4,127,136,230

16 POST-BALANCE-SHEET EVENTS

ENTRY OF CYPRUS AND MALTA INTO THE EURO AREA

Pursuant to Council Decision 2007/503/EC of 10 July 2007, taken in accordance with Article 122(2) of the Treaty, Cyprus and Malta adopted the single currency on 1 January 2008. In accordance with Article 49.1 of the Statute of the ESCB and the legal acts adopted by the Governing Council on 31 December 2007,¹⁴ the Central Bank of Cyprus and the Central Bank of Malta paid up amounts of €6,691,401 and €3,332,307 respectively as at 1 January 2008, representing the remainder of their capital

subscription to the ECB. In accordance with Article 30.1 of the Statute of the ESCB, the Central Bank of Cyprus and the Central Bank of Malta transferred foreign reserve assets with a

¹⁴ Decision ECB/2007/22 of 31 December 2007 on the paying-up of capital, transfer of foreign reserve assets and contributions by the Central Bank of Cyprus and the Central Bank of Malta to the European Central Bank's reserves and provisions, OJ L 28, 1.2.2008, p. 36; Agreement of 31 December 2007 between the European Central Bank and the Central Bank of Cyprus regarding the claim credited to the Central Bank of Cyprus by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank, OJ C 29, 1.2.2008, p. 4; Agreement of 31 December 2007 between the European Central Bank and the Central Bank of Malta regarding the claim credited to the Central Bank of Malta by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank, OJ C 29, 1.2.2008, p. 6.

total value equivalent to €109,953,752 to the ECB with effect from 1 January 2008. The total amount transferred was determined by multiplying the euro value, at the exchange rates prevailing on 31 December 2007, of the foreign reserve assets already transferred to the ECB by the ratio between the number of shares subscribed by the two central banks and the number of shares already paid up by the other NCBs without a derogation. These foreign reserve assets comprised amounts of US dollars in the form of cash, and gold, in proportions of 85 to 15 respectively.

The Central Bank of Cyprus and the Central Bank of Malta were credited with claims in respect of the paid-up capital and foreign reserve assets equivalent to the amounts transferred. The latter are to be treated in an identical manner to the existing claims of the other participating NCBs (see note 11, “Intra-Eurosystem liabilities”).

OFF-BALANCE-SHEET INSTRUMENTS

17 AUTOMATIC SECURITY LENDING PROGRAMME

As part of the management of the ECB’s own funds, the ECB has concluded an automatic security lending programme agreement, whereby an appointed agent enters into security lending transactions on behalf of the ECB with a number of counterparties, designated by the ECB as eligible counterparties. Under this agreement, reverse transactions with a value of €3.0 billion (2006: €2.2 billion) were outstanding as at 31 December 2007 (see “Reverse transactions” in the notes on accounting policies).

18 INTEREST RATE FUTURES

In 2007 interest rate futures were used as part of the management of the ECB’s foreign reserves and own funds. As at 31 December 2007, the following transactions were outstanding:

Foreign currency interest rate futures	Contract value €
Purchases	5,932,333,678
Sales	2,105,780,978

Euro interest rate futures	Contract value €
Purchases	25,000,000
Sales	190,600,000

19 INTEREST RATE SWAPS

Interest rate swap transactions with a contract value of €13 million were outstanding as at 31 December 2007. These transactions were conducted in the context of the management of the ECB’s foreign reserves.

20 FORWARD TRANSACTIONS IN SECURITIES

Forward securities purchases of €113 million and sales of €9 million remained outstanding as at 31 December 2007. These transactions were conducted in the context of the management of the ECB’s foreign reserves.

21 FOREIGN EXCHANGE SWAP AND FORWARD TRANSACTIONS

Foreign exchange swap and forward transaction claims of €794 million and liabilities of €797 million remained outstanding as at 31 December 2007. These transactions were conducted in the context of the management of the ECB’s foreign reserves.

In addition, forward claims on NCBs and liabilities to the Federal Reserve, which arose in connection with the US dollar Term Auction Facility established by the Federal Reserve (see note 9, “Liabilities to non-euro area residents denominated in euro”), remained outstanding as at 31 December 2007.

22 PENDING LAWSUITS

An action for damages was brought against the ECB before the Court of First Instance of the European Communities (CFI) by Document Security Systems Inc. (DSSI), alleging that the ECB had infringed a DSSI patent¹⁵ in the production of euro banknotes. The CFI has dismissed DSSI's action for damages against the ECB.¹⁶ The ECB is currently pursuing actions to revoke that patent in a number of national jurisdictions. Furthermore, the ECB has the firm conviction that it has in no way infringed the patent, and will consequently also enter a defense against any infringement action that may be brought by DSSI before any competent national court.

¹⁵ DSSI's European Patent No 0455 750 B1.

¹⁶ Order of the Court of First Instance of 5 September 2007, Case T-295/05. Available at www.curia.eu.

NOTES ON THE PROFIT AND LOSS ACCOUNT

23 NET INTEREST INCOME

INTEREST INCOME ON FOREIGN RESERVE ASSETS

This item includes interest income, net of interest expense, in respect of the assets and liabilities denominated in foreign currency, as follows:

	2007 €	2006 €	Change €
Interest income on current accounts	24,052,321	15,399,229	8,653,092
Money market deposit income	196,784,561	195,694,549	1,090,012
Reverse repurchase agreements	138,079,630	201,042,718	(62,963,088)
Net income on securities	1,036,836,752	934,077,489	102,759,263
Net interest income on forward and swap transactions in foreign currencies	19,766,033	3,853,216	15,912,817
Total interest income on foreign reserve assets	1,415,519,297	1,350,067,201	65,452,096
Interest expense on current accounts	(154,041)	(225,549)	71,508
Repurchase agreements	(60,476,997)	(31,598,416)	(28,878,581)
Net interest expense on interest rate swaps	(891)	0	(891)
Interest income on foreign reserve assets (net)	1,354,887,368	1,318,243,236	36,644,132

INTEREST INCOME ARISING FROM THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSISTEM

This item consists of the interest income relating to the ECB's share in the total euro banknote issue. Interest on the claims of the ECB in respect of its share of banknotes is earned at the latest available marginal rate for the Eurosystem's main refinancing operations. The increase in income in 2007 reflected both the general increase in euro banknotes in circulation and the increases in the ECB's main refinancing

rate. This income is distributed to the NCBs as described in "Banknotes in circulation" in the notes on accounting policies.

Based on the ECB's estimated financial result for 2007, the Governing Council decided to withhold distribution of the whole of this income.

REMUNERATION OF NCBs' CLAIMS IN RESPECT OF FOREIGN RESERVES TRANSFERRED

Remuneration paid to euro area NCBs on their claims on the ECB in respect of the foreign reserve assets transferred under Article 30.1 of the Statute of the ESCB is disclosed under this item.

OTHER INTEREST INCOME AND OTHER INTEREST EXPENSE

These items include interest income of €3.9 billion (2006: €2.5 billion) and expenses of €3.8 billion (2006: €2.4 billion) on balances arising from TARGET/TARGET2. Interest income and expenses in respect of other assets and liabilities denominated in euro are also shown here.

24 REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

Net realised gains/losses arising from financial operations in 2007 were as follows:

	2007 €	2006 €	Change €
Net realised price gains/(losses) on securities and interest rate futures	69,252,941	(103,679,801)	172,932,742
Net realised exchange rate and gold price gains	709,294,272	579,060,509	130,233,763
Realised gains arising from financial operations	778,547,213	475,380,708	303,166,505

25 WRITE-DOWNS ON FINANCIAL ASSETS AND POSITIONS

	2007 €	2006 €	Change €
Unrealised price losses on securities	(15,864,181)	(73,609,623)	57,745,442
Unrealised price losses on interest rate swaps	(18,899)	0	(18,899)
Unrealised exchange rate losses	(2,518,369,734)	(644,857,885)	(1,873,511,849)
Total write-downs	(2,534,252,814)	(718,467,508)	(1,815,785,306)

The exchange rate losses are primarily due to the write-down of the average acquisition costs of the ECB's US dollar and Japanese yen holdings to their end-of-year exchange rates, following the depreciation of these currencies against the euro over the year.

26 NET EXPENSE FROM FEES AND COMMISSIONS

	2007 €	2006 €	Change €
Income from fees and commissions	263,440	338,198	(74,758)
Expenses relating to fees and commissions	(885,131)	(884,678)	(453)
Net expense from fees and commissions	(621,691)	(546,480)	(75,211)

Income under this heading includes penalties imposed on credit institutions for non-compliance with the minimum reserve requirements. Expenses relate to fees payable on current accounts and in connection with the execution of foreign currency interest rate futures (see note 18, "Interest rate futures").

27 INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

Dividends received on shares in the BIS (see note 6, "Other assets") are shown under this heading.

28 OTHER INCOME

Other miscellaneous income during the year arose principally from the contributions of other central banks to the cost of a service contract held centrally by the ECB with an external provider of an IT network.

29 STAFF COSTS

Salaries, allowances, staff insurance and other miscellaneous costs of €141.7 million (2006: €133.4 million) are included under this heading. Staff costs of €1.1 million (2006: €1.0 million) incurred in connection with the construction of the new ECB premises have been capitalised and are excluded from this item. Salaries and allowances, including the emoluments of holders of senior management positions, are modelled in essence on, and are comparable with, the remuneration scheme of the European Communities.

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

Basic salaries paid to members of the Executive Board over the year were as follows:

	2007 €	2006 €
Jean-Claude Trichet (President)	345,252	338,472
Lucas D. Papademos (Vice-President)	295,920	290,112
Gertrude Tumpel-Gugerell (Board Member)	246,588	241,752
José Manuel González-Páramo (Board Member)	246,588	241,752
Lorenzo Bini Smaghi (Board Member)	246,588	241,752
Otmar Issing (Board Member until May 2006)	-	100,730
Jürgen Stark (Board Member since June 2006)	246,588	141,022
Total	1,627,524	1,595,592

The total allowances paid to the members of the Executive Board and their benefits from the ECB's contributions to the medical and accident insurance schemes amounted to €579,842 (2006: €557,421), resulting in total emoluments of €2,207,366 (2006: €2,153,013).

Transitional payments are made to former members of the Executive Board for a period after the end of their terms of office. In 2007, these payments and the ECB's contributions to the medical and accident insurance schemes of former members amounted to €52,020 (2006: €292,280). Pension payments, including related allowances, to former members of the Executive Board or their dependents and contributions to the medical and accident insurance schemes amounted to €249,902 (2006: €121,953).

Also included under this item is an amount of €27.2 million (2006: €27.4 million) recognised in connection with the ECB's retirement plan and other post-employment benefits (see note 12, "Other liabilities").

At the end of 2007 the actual full-time equivalent number of staff holding permanent or fixed-term contracts was 1,375¹⁷, including 149 with managerial positions. The change in the number of staff during 2007 was as follows:

	2007	2006
As at 1 January	1,342	1,338
New staff ¹⁾	82	54
Resignations/end of contract ²⁾	49	50
As at 31 December	1,375	1,342
Average number of staff employed	1,366	1,337

1) This item also includes the effects of changes from part to full-time employment.
2) This item also includes the effects of changes from full to part-time employment.

The number of staff as at 31 December 2007 includes the full-time equivalent of 79 staff (2006: 63) on unpaid/parental leave and 21 on maternity leave (2006: 10). In addition, as at 31 December 2007, the ECB employed the full-time equivalent of 71 staff (2006: 70) on short-term contracts to replace staff on unpaid/parental and maternity leave.

The ECB also offers the possibility to staff from other central banks of the ESCB to undertake temporary assignments at the ECB, and the related costs are included under this heading. 76 ESCB staff were participating in this programme as at 31 December 2007 (2006: 61).

30 ADMINISTRATIVE EXPENSES

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

31 BANKNOTE PRODUCTION SERVICES

This expense relates to costs arising from cross-border transportation of euro banknotes between NCBs to meet unexpected fluctuations in demand for banknotes. These costs are borne centrally by the ECB.

¹⁷ Until 2006, the full-time equivalent of all permanent and fixed-term contractual commitments was provided in this note. From 2007, it has been decided to provide the actual full-time equivalent number of staff holding permanent or fixed-term contracts, as it is considered to be more relevant to the users of the financial statements. The 2006 figures have been adjusted accordingly.

Independent auditor's report

President and Governing Council
of the European Central Bank

Frankfurt am Main

We have audited the accompanying annual accounts of the European Central Bank, which comprise the balance sheet as at 31 December 2007, the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The responsibility of the European Central Bank's Executive Board for the annual accounts

The Executive Board is responsible for the preparation and fair presentation of these annual accounts in accordance with the principles established by the Governing Council, which are set out in Decision ECB/2006/17 on the annual accounts of the European Central Bank, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of the European Central Bank as of 31 December 2007 and of the results of its operations for the year then ended in accordance with the principles established by the Governing Council, which are set out in Decision ECB/2006/17 on the annual accounts of the European Central Bank, as amended.

Frankfurt am Main, 26 February 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Wohlmannstetter
Wirtschaftsprüfer



Dr. Lemnitzer
Wirtschaftsprüfer

NOTE ON PROFIT DISTRIBUTION/ ALLOCATION OF LOSSES

This note is not part of the financial statements of the ECB for the year 2007.

transfers to the general reserve fund or profit distribution to the shareholders of the ECB took place. There was also no requirement to offset a loss.

INCOME RELATED TO THE ECB'S SHARE OF TOTAL BANKNOTES IN CIRCULATION

In 2006, following a decision by the Governing Council, income of €1,319 million earned on the ECB's share of total banknotes in circulation was retained to ensure that the ECB's total profit distribution for the year did not exceed its net profit for the year. Similarly, in 2007 an amount of €2,004 million was retained. Both amounts represented the full income earned on the ECB's share of total euro banknotes in circulation in the years in question.

PROFIT DISTRIBUTION/COVERAGE OF LOSSES

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

- (a) an amount to be determined by the Governing Council, which may not exceed 20% of the net profit, shall be transferred to the general reserve fund subject to a limit equal to 100% of the capital; and
- (b) the remaining net profit shall be distributed to the shareholders of the ECB in proportion to their paid-up shares.

In the event of a loss incurred by the ECB, the shortfall may be offset against the general reserve fund of the ECB and, if necessary, following a decision by the Governing Council, against the monetary income of the relevant financial year in proportion and up to the amounts allocated to the NCBs in accordance with Article 32.5 of the Statute.¹⁸

In 2007 the funding of the provision against foreign exchange rate, interest rate and gold price risks for the amount of €286 million had the effect of reducing net profit to exactly zero. Consequently, as in both 2005 and 2006, no

¹⁸ 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.