OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

ANNUAL REPORT 2010

including the Intellectual Capital Report and the Environmental Report

SUSTAINABILITY REPORT 2010

Mission Statement

The Eurosystem Mission Statement

In 2005, the national central banks of the independent Eurosystem (including the OeNB) published a joint mission statement that enshrines the following key objectives and values:

The Eurosystem, which comprises the European Central Bank and the national central banks of the Member States whose currency is the euro, is the monetary authority of the euro area. We in the Eurosystem have as our primary objective the maintenance of price stability for the common good. Acting also as a leading financial authority, we aim to safeguard financial stability and promote European financial integration.

In pursuing our objectives, we attach utmost importance to credibility, trust, transparency and accountability. We aim for effective communication with the citizens of Europe and the media. We are committed to conducting our relations with European and national authorities in full accordance with the Treaty provisions and with due regard to the principle of independence.

We jointly contribute, strategically and operationally, to attaining our common goals, with due respect to the principle of decentralisation. We are committed to good governance and to performing our tasks effectively and efficiently, in a spirit of cooperation and teamwork. Drawing on the breadth and depth of our experiences as well as on the exchange of know-how, we aim to strengthen our shared identity, speak with a single voice and exploit synergies, within a framework of clearly defined roles and responsibilities for all members of the Eurosystem.

The OeNB's Mission Statement

The OeNB's mission statement complements the Eurosystem's mission statement and transposes it to Austrian requirements. The main messages are:

- As the central bank of the Republic of Austria, the OeNB serves the Austrian and European public.
- To build and maintain trust in the OeNB, we perform our tasks professionally, drawing on the high competence and motivation of our employees.
- Our products and services are clearly customer oriented to ensure their value to our customers and partners.
- Ongoing market-oriented product and process innovation ensures the efficient and cost-effective provision of services in line with sustainability and, in particular, environmental protection.
- We are cooperative, solution-oriented and reliable partners in our relations with customers and associates.
- Our employees' commitment, motivation, creativity, willingness to learn, team spirit and mobility – the success factors of our work now and in the future – are the hallmarks of our working style.

Contents

Editorial close: April 28, 2011

President's Report

The global economy continued to regain strength in 2010. Following the recovery of international financial markets at the beginning of 2010, tensions resurfaced several times throughout the year, though, reflecting the government debt crises in several European countries. Bond yields started to diverge markedly across countries, signaling financial market participants' waning confidence. In fact, it took extensive support by the international community and exceptional monetary policy measures to stabilize the bond markets.

Amid the great uncertainty in financial markets, the OeNB, in its reserve management, focused primarily on preserving value and thus managed to keep interest rate and exchange rate risk at a minimum. Consequently, only marginal value adjustments on financial assets were needed. The heightened risk arising from the single monetary policy of the euro area, however, required the OeNB and other Eurosystem central banks to make substantial transfers to risk provisions. The OeNB nevertheless made an operating profit of EUR 291 million in 2010, which was only slightly less than in 2009.

Handling the financial crisis has fundamentally changed central banks' balance sheets and has led to a considerable increase in risks. The OeNB, too, was faced with a marked rise in international risks. Specifically, the exceptional monetary policy measures, such as the program established by the Governing Council of the ECB to stabilize government bond markets (Securities Markets Programme), and stepped-up participation in the facilities of the International Monetary Fund clearly raised credit risk. The OeNB has therefore been paying particular attention to augmenting its risk provisions accordingly. The ECB and a number of other Eurosystem central banks have likewise started to strengthen their capital base and to set aside appropriate risk provisions. The Eurosystem's high risk-bearing capacity is, after all, a fundamental prerequisite for ensuring the public's trust in the single currency.

The OeNB succeeded across its business areas in coping with the tensions in the international financial system. Apart from its Eurosystem cooperation tasks, the OeNB also fulfilled its mandate of safeguarding financial stability, developing banking supervision capacities further, contributing to drawing up international regulatory capital and liquidity standards, and participating in establishing a banking supervisory authority for Europe, the European Banking Authority.

The OeNB's subsidiaries achieved further productivity gains despite the difficult economic environment. Strong demand for gold and silver coins provided for high capacity utilization at Münze Österreich AG. In cashless payments, Geldservice Austria GmbH is slated to become the national clearing house, which will reduce liquidity and risk costs for banks.

All OeNB business areas are involved in consistently implementing the corporate strategy for the years 2011 to 2015 that targets a pronounced headcount reduction and efficiency improvements. Adjustments to the corporate structures are meant to ensure that the OeNB will operate smoothly in a changed environment. Efficient use of resources and the willingness to make the necessary changes are key to the OeNB's successful development.

I would like to express my gratitude to the members of the Governing Board and the General Council as well as the OeNB staff for their work for, and dedication to, the OeNB and the Eurosystem. As the transfer of all OeNB stocks to the Republic of Austria in 2010 represented a change in ownership structure, let me also thank the former shareholders for their decades of valuable support, which contributed significantly to the success of Austria's stability policy.

President
Claus J. Raidl

Governor's Report

In fulfillment of their legal mandate, the Eurosystem and the OeNB have maintained price stability since the introduction of the euro: From 1999 to 2010, inflation posted an annual average of 1.9% in the euro area and 1.7% in Austria.

Overcoming the economic and financial crisis required rapid, flexible monetary policy measures. These indeed contributed substantially to renewing economic momentum while achieving price stability. Euro area inflation came to 1.6%, Austrian inflation to 1.7% in 2010. After contracting sharply in 2009, economic growth recovered to about 2% in the euro area and in Austria in 2010. These developments allowed the Eurosystem to gradually phase out its extraordinary measures in the course of 2010.

In 2011, the recovery continued at a similar pace. High commodity prices pushed inflation above the 2% mark, however. Given the upside risks to price stability, the Governing Council of the ECB raised the key interest rates for the euro area for the first time in nearly two years, increasing rates by 25 basis points at the beginning of April 2011. This decision is intended to keep at bay the danger of second-round effects.

Some euro area countries were faced by a debt crisis when their general government deficits increased on account of both cyclical and structural factors. Strong reactions in the markets in the form of high spreads on government bonds not only gave rise to the need to grant the affected countries bridge loans, but also necessitated the (re)introduction of some nonstandard monetary policy measures. Over the medium term, however, the top priority of national and EU economic policymakers must be to rapidly implement the comprehensive reforms already initiated to ensure that public finances are sound and sustainable. This is an indispensable prerequisite for preserving the stability of the euro.

The OeNB makes an important contribution to financial stability as well. The lessons learned from the financial crisis have set in motion an international reform process. In the future, the authorities will rely on a combination of regulatory and supervisory measures to fulfill the financial stability mandate. Strengthening banks' resilience and risk-bearing capacity above all by means of higher capital ratios and better capital quality represent the core elements of the new international regulatory framework for banks known as Basel III. The European System of Financial Supervision established at the beginning of 2011 encompasses four new institutions at the EU level: the European Systemic Risk Board (ESRB), which is charged with monitoring and assessing systemic risk, and three new European Supervisory Authorities (ESAs), namely the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). The OeNB plays an active role in all these bodies.

In recent years, the OeNB has evolved into a modern enterprise with sustainability-oriented corporate governance principles. The hallmarks of the OeNB's success are the high quality of its products and services, despite a medium-term reduction in staff numbers, and continuous cost optimization. Continued efforts to provide market-oriented pay scales have positioned the OeNB as an attractive employer. A new, competitive pay system oriented on market principles will be introduced in 2011 for new staff.

2010 was yet another year marked by challenges for monetary policymakers and banking supervisors, which the OeNB's staff have once again mastered excellently thanks to their high qualifications and commitment. I would like to explicitly thank them for their dedicated efforts and the Governing Board and General Council for their valuable cooperation.

Governor
Ewald Nowotny

The Year 2010 at a Glance

World Economy Returns to Growth Path

Global upturn driven by emerging economies

The global recovery, which had begun in mid-2009, gained strength and became more broadly based in 2010. In the first half of 2010, a comprehensive set of monetary and fiscal policy measures supported the upturn, whereas the implementation of necessary consolidation measures in a number of countries across the world slowed the pace of growth somewhat in the second half. Emerging countries, especially in Asia, figured as the main engines of global growth.

Greece and Ireland require support to cope with fiscal difficulties

In the euro area, monetary policy measures, coupled with financial sector reforms as well as emerging countries' demand, fueled the upswing. The tepid recovery of the labor market, however, acted as a damper on consumer demand. Real GDP growth ran to 1.8% in 2010. While growth is likely to decelerate a bit in 2011 in the wake of fiscal consolidation measures, it should become increasingly self-sustained. Inflation as measured by the Harmonised Index of Consumer Prices (HICP) returned to a more normal level of 1.6% in 2010, reflecting the economic recovery and the related rise in oil prices as well as weather-related food price hikes. The simultaneous implementation of austerity measures in numerous countries across the globe, the development of commodity prices and the sudden reduction of global imbalances represent risks for the further course of the recovery.

Exports bolster euro area GDP

In Austria, the economy received a powerful boost in mid-2010, with demand from Germany, Austria's main trading partner, providing the greatest stimulus. During the economic and financial crisis, Austrian unemployment had risen comparatively little and developed surprisingly positively during the upturn as well. Conversely, construction investment remained weak both in Austria and throughout Europe. Real GDP expanded at an annual average rate of 2.1% in Austria, surpassing the euro area growth rate. At 1.7%, HICP inflation was roughly as low as in the euro area.

Monetary policymaking between normalization and new pressures

Markets React Sharply to Deterioration of Fiscal Situation in Some Countries

Austria's economy benefits from upswing in Germany

The recession pushed the euro area average budget deficit to about 6% of GDP in 2009 and 2010. Whereas most countries appeared set to embark on recovery and consequently to reduce budget deficits, the pronounced deterioration of public finances in Greece and in Ireland disconcerted markets and caused risk premia on these countries' government bonds to soar. To give Greece sufficient time to consolidate its public finances, the euro area countries decided to grant bridging loans in May 2010. When it became apparent that Ireland, too, would need financial assistance, a three-year rescue program was drawn up by the EU and IMF, and the country formally applied for financial support under this program in November 2010. In December 2010, the European Council agreed to establish a permanent European Stability Mechanism (ESM) from 2013 to ensure swift help for countries under financial pressure.

When the tensions in the money markets began to unwind, the Eurosystem started to phase out its nonstandard monetary policy measures at the beginning of 2010. Operations with a one-year maturity were discontinued, and the purchase program for covered bonds was completed on schedule. As banks successively reduced their liabilities to the Eurosystem, surplus liquidity was absorbed.

Since the government bond markets play a central role for the transmission

Chart 1

Real GDP

Quarterly changes in %

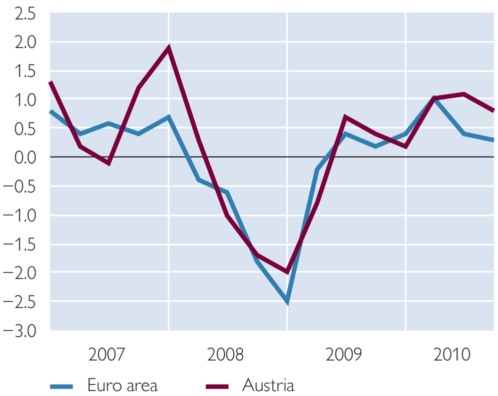


Chart 2

HICP Inflation

%

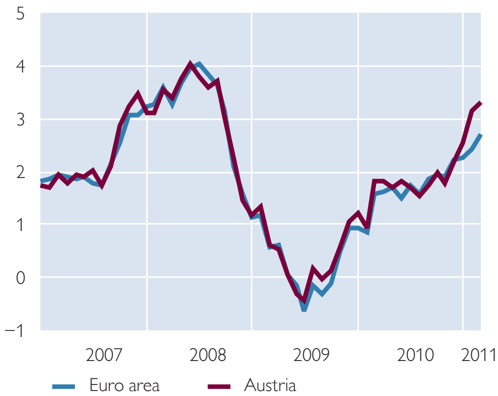


Chart 3

Key Interest and Money Market Rates in the Euro Area

%

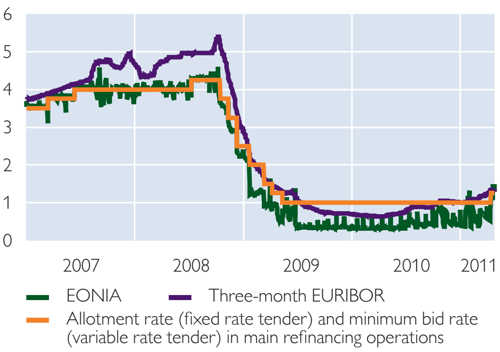


Chart 4

Lending Rates in the Euro Area and in Austria – New Business

%

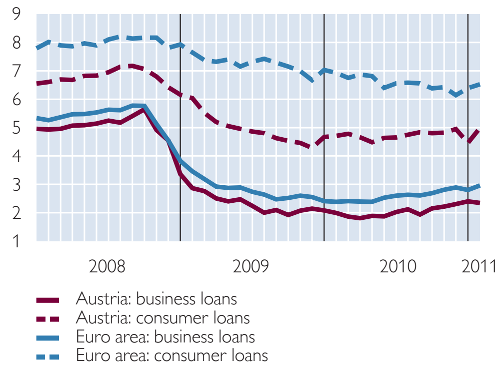


Chart 5

Stock Price Indices

Indexed January 1, 2003 = 100

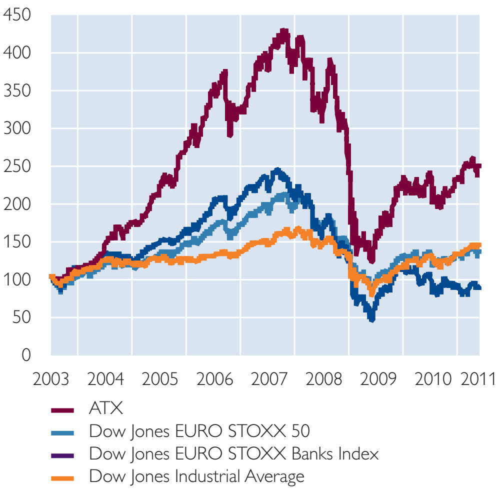
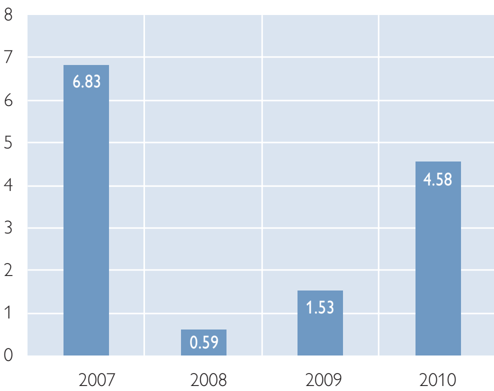


Chart 6

Net Income of Austrian Banks[1]

EUR billion



[1] *Consolidated data.*

Source: Statistics Austria, WIFO, Eurostat, Thomson Reuters, OeNB, ECB.

of monetary policy, tensions in this market segment made it necessary to (re)introduce some nonstandard monetary policy measures. Therefore, the Governing Council of the ECB decided to conduct its refinancing operations as fixed rate tender procedures with full allotment at least until the end of June 2011. Moreover, in May 2010, the ECB initiated the Securities Markets Programme (SMP), a program for conducting interventions in debt securities markets, with a view to restoring an appropriate monetary policy transmission mechanism. Against the background of considerable uncertainties and strong fluctuations in the markets, the OeNB pursued a very cautious investment policy targeted at limiting risk by diversifying its reserve assets more broadly.

Numerous Reforms Aim at Ensuring Stability in Financial Markets

The economic recovery lifted financial market sentiment in 2010. Stock markets continued to rebound, risk premia in the credit market dropped, and the interbank market also slowly reverted to more normal conditions. However, the bright overall sentiment was clouded by sovereign debt crises in some euro area countries. In spite of considerable effort to contain the associated risks, uncertainty remained strong, and at times heated up demand for alternative forms of investment, such as gold.

Austrian banks' profitability increases

Austrian banks' performance in 2010 reflected the improved economic conditions. The rise in profitability breaks down into weaker domestic business results and, like in 2009, comparatively higher contributions to the overall result by Austrian banks' subsidiaries in Central, Eastern and Southeastern Europe (CESEE). Deposit business also developed well; lending and demand for loans also grew, albeit at a more subdued pace. Austrian banks' foreign exposure remained concentrated on the CESEE region. By contrast, claims on euro area countries whose high indebtedness upset the market were comparatively small. The performance of the Austrian insurance industry and Wiener Börse also recovered after the economic crisis.

Risks associated with foreign currency loans remain high

Capital ratios, an important indicator of banks' risk-bearing capacity, improved further but were still below the international average. Stress tests performed by the EU and the OeNB confirmed the Austrian banking system's improved resilience to economic shocks. The OeNB and the Financial Market Authority (FMA) continued their activities to contain the risks related to foreign currency loans in Austria and extended their reach to CESEE. In a first step, Austrian banks agreed to stop foreign currency lending in particular in Swiss francs and Japanese yen. In a next step, the authorities are targeting a reduction of foreign currency lending in euro and in U.S. dollars.

Reforms of the international supervisory architecture

Prompted by the financial crisis, a reform process was initiated to strengthen banks' risk-bearing capacity, above all by boosting capitalization and strengthening the quality of capital. At the end of 2010, the Basel Committee on Banking Supervision agreed on a new international regulatory framework for banks known as Basel III. A macroprudential supervisory framework to identify systemic risks early was established, and a new legal framework for crisis management was discussed. The OeNB has been and is closely involved especially in the new European System of Financial Supervision (ESFS), which became effective January 1, 2011. Within the ESFS, the European Systemic Risk Board (ESRB) was established as an institutionalized early warning system for financial market risk. For the OeNB, the establishment of the ESRB has entailed a greater cross-sectoral focus of the analysis of financial stability at the EU and at the national level, including assessments of the impact of warnings and recommendations for action issued by the ESRB on the Austrian financial market (impact assessments) and monitoring the effectiveness of the measures adopted.

Greater Need for Information at Times of Uncertainty

Providing the general public with information and transferring knowledge to key economic stakeholders has gained special significance at a time of economic uncertainty. The OeNB addresses the need for more information with its regular publications and engages in intensified exchanges with national and international (economic) researchers, politicians and opinion leaders as well as with international institutions. With its broad range of publications and services, the OeNB has positioned itself as a competence center for monetary policy and financial sector policy issues.

Financial crisis increases need for information and communication

The international economic and financial crisis also presented new challenges for bodies in charge of collecting, processing and analyzing data. As a case in point, the crisis has raised the profile of stress tests for the banking sector. Greater national and international integration of financial supervisors entailed a need for new indicators

Table 1

Selected OeNB Indicators

	2009	2010
Performance indicators (as on December 31)	*EUR million*	
Net currency position	10,766	14,811
Banknotes in circulation	20,640	21,492
Total assets	71,614	79,766
Operating profit excluding selected items[1]	852	612
Writedowns on financial assets and positions, transfers to/from provisions for foreign exchange rate, interest rate, credit and gold price risks, transfers from provisions in respect of monetary policy operations of the Eurosystem	–534	–321
Operating profit	318	291
Corporate income tax	79	73
Central government's share of profit	193	196
Profit for the year	21	22
Full-time equivalent staff in core business areas (intellectual capital indicators)	**984.1**	**986.2**
University graduates (%)	44.5	47.2
OeNB website, number of page views per day (average)	90,104	133,036
Queries to OeNB hotlines	29,837	36,112
OeNB newsletter subscriptions	18,948	18,110
OeNB publications	70	75
Cash authentication training courses	390	367
Environmental performance indicators		
Heat consumption (kWh/m^2)	52	60
Electricity consumption (MWh/employee)	7.65	7.86

[1] *These selected items are: writedowns on financial assets and positions; transfers to/from provisions for foreign exchange rate, interest rate, credit and gold price risks; and transfers from provisions in respect of monetary policy operations of the Eurosystem.*

Source: OeNB.

and new analyses for early identification of developments that could indicate a crisis in the making. The OeNB succeeded in meeting these new requirements while keeping its staff levels almost unchanged, an achievement made possible by increasing efficiency, reassigning staff and implementing a human resources and training policy focused on long-term results.

Risk Provisions Boosted Further

Operating profit: EUR 291 million, profit for the year: EUR 22 million

The OeNB's operating profit of EUR 291 million in 2010 resulted from net interest income of EUR 719 million, realized gains/losses arising from financial operations of EUR 97 million, writedowns on financial assets and positions of EUR 73 million, EUR 52 million of transfers from provisions in respect of monetary policy operations of the Eurosystem and additional transfers to/from provisions for foreign exchange, interest rate, credit and gold price risks of EUR 300 million. Staff costs of EUR 120 million were in effect unchanged from 2009, and expenditure on goods and services diminished by EUR 3 million to EUR 78 million. This brought the central government's profit share, which is 90% under the provisions of the Nationalbank Act, to EUR 196 million. Deducting corporate income tax of EUR 73 million from the amount remaining resulted in a profit for the year of EUR 22 million. The OeNB's net currency position, which includes claims and liabilities as well as transactions that are not disclosed in the balance sheet denominated in foreign currency, rose to EUR 14.8 billion. The increase by EUR 4 billion compared to December 31, 2009, basically reflected unrealized valuation gains from the valuation on December 31, 2010. Gold and gold receivables accounted for EUR 9.5 billion of the net currency position.

Ownership Structure and Decision-Making Bodies

Mandate

The Oesterreichische Nationalbank (OeNB) is the central bank of the Republic of Austria and, as such, an integral part of the European System of Central Banks (ESCB). In this capacity, the OeNB acts on the basis of full personal, financial and institutional independence. The OeNB's aims and actions are guided by the fundamental principles security, stability and trust.

The Eurosystem/ESCB, including the OeNB, has a clear statutory mandate to maintain price stability in the euro area in order to preserve purchasing power and to contribute to maintaining financial stability. In addition to these two primary objectives, national central banks are also obligated to support the general economic policies (i.e. economic and employment growth) in the European Union and thus also in Austria.

Responsibilities

Under the impression of the financial crisis, the OeNB undertook a critical review of its tasks. Subsequently, it went on to refocus its tasks by formulating and adopting a strategy for 2010 to 2015. In pursuit of continued specialization, the OeNB will further strengthen its core central banking tasks, while optimizing its value chain.

Monetary Policy, Monetary Integration and Economic Research

- Participation in shaping the monetary policy of the Eurosystem
- Economic forecasting for Austria
- Conduct of macroeconomic research and analysis on Austria and countries especially relevant to Austria, in particular Central Eastern and Southeastern Europe (CESEE)

Monetary Policy Operations – Reserve Management

- Conduct of monetary policy operations with Austrian banks
- Conduct of minimum reserve operations and monitoring of Austrian banks' compliance with minimum reserve requirements
- Participation in Eurosystem foreign exchange interventions
- Investment of reserve assets which the OeNB manages on behalf of the ECB
- Management of the OeNB's own reserve assets with due respect to the principles of stability, liquidity and return

Financial Stability and Banking Supervision

- Conduct of banking supervision in cooperation with the Financial Market Authority
- Conduct of payment system oversight
- Analysis of financial markets and banks
- Further development of risk management provisions at the macro and micro levels
- Collaboration in establishing European supervisory frameworks and institutions

Statistics

- Compilation of conclusive, high-quality statistics, above all monetary, interest rate and prudential statistics as well as external statistics (e.g. balance of payments and financial accounts)
- Operation of the Central Credit Register
- Collaboration in shaping and implementing new data requirements at both the national and the international level, for instance for the European Systemic Risk Board

Functioning as a Cash Supply Hub

- Provision of Austrian businesses and consumers with counterfeit-proof banknotes and coins
- Analysis of cash flows to ensure smooth cash circulation
- Preparatory work for the new series of euro banknotes

Securing Cashless Payment Services

- Provision and promotion of reliable payment systems in Austria and their cross-border integration
- Assessment of global payment innovations and implementation options for Austria
- Implementation of a national clearing procedure in coordination with Austrian commercial banks

International and National Cooperation and Communication

- Close cooperation with national institutions, e.g. the Financial Market Authority, the Government Debt Committee and the Statistics Advisory Board
- International monetary policy cooperation and participation in international financial institutions (IMF, BIS)

The OeNB's Owners

The OeNB is a stock corporation. Its nominal capital totals EUR 12 million; this sum is held in its entirety by the Austrian federal government, which became the sole shareholder in July 2010.

General Council (Generalrat)

The General Council is charged with the supervision of all business not falling within the remit of the European System of Central Banks (ESCB). The General Council is convened by its President, as a rule once a month. Pursuant to Article 20 paragraph 2 of the Federal Act on the Oesterreichische Nationalbank 1984 (Nationalbank Act), the General Council shall advise the Governing Board in the conduct of the OeNB's business and in matters of monetary policy. Joint meetings of the General Council and the Governing Council must take place at least once every quarter. General Council approval is required for a number of management decisions, e.g. for starting and discontinuing business lines, establishing and closing down branch offices, as well as acquiring and selling holdings and real property. Also, the General Council must approve appointments of members of supervisory boards and executive bodies of companies in which the OeNB is a shareholder. Appointments of the second executive tier of the OeNB itself must likewise be confirmed by the General Council. Finally, the General Council has the exclusive right of decision on issues detailed in Article 21 paragraph 2 Nationalbank Act, e.g. on drawing up nonbinding tripartite proposals to the Austrian federal government for appointments to the OeNB's Governing Board by the Federal President, on defining general operational principles for all matters not covering the remit of the ESCB, on approving the financial statements for submission to the General Meeting, and on approving the cost estimates for the next financial year.

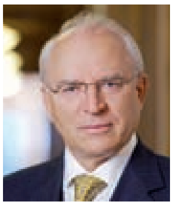
Composition of the General Council

The General Council consists of the President, one Vice President and twelve other members. Only persons holding Austrian citizenship may be members of the General Council. The President, the Vice President and six other members of the General Council are appointed by the federal government for a term of five years and may be reappointed. The remaining six members are elected by the General Meeting for a term of five years, and may be reelected. Articles 20 through 30 of the Nationalbank Act cover issues pertaining to the General Council.

Personnel Changes between April 29, 2010, and April 28, 2011

On May 27, 2010, the General Meeting reelected *Walter Rothensteiner*, whose term as member of the General Council had expired with the regular General Meeting in 2010.

The General Council of the OeNB comprised the following members on December 31, 2010:



Claus J. Raidl
President

(Chairman of the Management Board and CEO of Böhler-Uddeholm AG until December 31, 2010)

Max Kothbauer
Vice President

Chairman of the University Board of the University of Vienna

August Astl
Secretary General of the Austrian Chamber of Agriculture

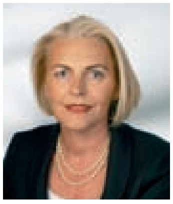
Markus Beyrer
Secretary General of the Federation of Austrian Industries

Bernhard Felderer
Director of the Institute for Advanced Studies (IHS)

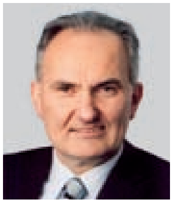
Elisabeth Gürtler-Mauthner
Managing Director of Sacher Hotels Betriebsges.m.b.H. and Vice President of the Österreichische Hotelier-vereinigung (ÖHV)

Erich Hampel
CEO of UniCredit Bank Austria

Alfred Hannes Heinzel
President and CEO of Heinzel Holding GmbH

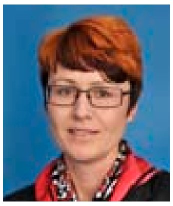


Anna Maria Hochhauser
Secretary General of the Austrian Federal Economic Chamber



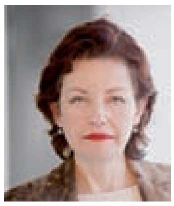
Johann Marihart
CEO of Agrana Beteiligungs-AG

Werner Muhm
Director of the Vienna Chamber of Labour



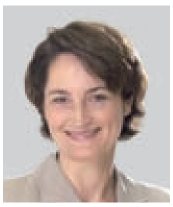
Gabriele Payr
CEO of Wiener Stadtwerke Holding AG

Walter Rothensteiner
Chairman of the Managing Board of Raiffeisen Zentralbank Österreich AG



Dwora Stein
Federal CEO of the Union of Salaried Private Sector Employees, Graphical Workers & Journalists

Representatives delegated by the Central Staff Council to participate in negotiations on personnel, social and welfare matters pursuant to Article 22 paragraph 5 of the Federal Act on the Oesterreichische Nationalbank:



Martina Gerharter
Central Staff Council Chair

Robert Kocmich
Central Staff Council Deputy Chair

State Commissioner
Thomas Wieser
Director General of the Economic Policy and Financial Markets Directorate General of the Federal Ministry of Finance

Deputy State Commissioner
Alfred Lejsek
Head of the Financial Markets Directorate at the Federal Ministry of Finance

Governing Board

The Governing Board is responsible for the overall running of the OeNB and for conducting the OeNB's business. In pursuing the objectives and tasks of the ESCB, the Governing Board undertakes to act in accordance with the guidelines and instructions of the ECB. The Governing Board consists of the Governor, the Vice Governor and two other members, all of whom are appointed by the Federal President of Austria acting on a proposal from the federal government. Each appointment is for a term of five years, and persons holding office may be reappointed. The Governor of the OeNB is a member of both the Governing Council and the General Council of the ECB. When taking decisions on monetary policy and on other tasks of the ECB and the Eurosystem, the Governor and the Vice Governor are bound neither by the decisions of the OeNB's Governing Board nor by those of the OeNB's General Council; moreover, they are not subject to any other instructions. The Governing Board comprised the following members on December 31, 2010:

Andreas Ittner, Wolfgang Duchatczek, Ewald Nowotny, Peter Zöllner (from left to right)

Ewald Nowotny
Governor

Wolfgang Duchatczek
Vice Governor

Peter Zöllner
Member of the Governing Board

Andreas Ittner
Member of the Governing Board

For additional information about the Governing Board of the OeNB, go to *www.oenb.at*.

Organization of the OeNB

President
Claus J. Raidl

Office of the General Council
Richard Mader, Head

Vice President
Max Kothbauer

Governing Board

Central Bank Policy
Ewald Nowotny, Governor

Internal Audit Division
Axel Aspetsberger, Head

Communications, Planning and Human Resources Department
Markus Arpa, Director

Communications Division
Günther Thonabauer, Head

Planning and Controlling Division
Elisabeth Kerbl, Head

Personnel Division
Hannes Brodtrager, Head

Economic Analysis and Research Department
Peter Mooslechner, Director

Economic Analysis Division
Ernest Gnan, Head

Economic Studies Division
Martin Summer, Head

European Affairs and International Financial Organizations Division
Franz Nauschnigg, Head

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As of April 28, 2011

The OeNB Safeguards Price Stability

The economic recovery continued in 2010 and became increasingly broad-based. Under the joint effect of monetary and economic policies, significant progress has been made toward reestablishing favorable economic conditions at both the global and the European level. Inflation was on the rise in 2010, first gradually approaching the level of the Eurosystem's price stability goal and eventually breaching the 2% mark again, pushed up by the ongoing surge in commodity prices. The recovery of Germany, Austria's single-most important trading partner, was instrumental in boosting economic activity in Austria. Against this backdrop, the Eurosystem started to gradually phase out, in early 2010, some of the nonstandard measures taken to enhance the transmission of monetary policy. Subsequently, the need arose to (re)introduce some nonstandard monetary policy measures and to grant bridging loans to some euro area countries, given the strong market reactions to the deterioration of public finances in these countries and the central role of government bond markets for the functioning of the monetary transmission mechanism.

Difficult Framework Conditions Require Flexibility in Monetary Policymaking

Money Markets Move between Normalization and Renewed Tensions

The severe contraction of economic activity in the euro area in 2009 was followed by a revival in 2010, which was accompanied by a moderate rise in inflation to 1.6% (2009: 0.3%). In this environment, the Governing Council of the ECB kept the interest rate for its main refinancing operations unchanged at the historically low level of 1% from May 2009. Similarly, the interest rates for the deposit facility and for the marginal refinancing facility were retained at 0.25% and 1.75%, respectively. The easing of tensions in money markets in late 2009 made it possible to gradually phase out some of the nonstandard monetary policy measures adopted in the fall of 2008 and in the first half of 2009. At the same time, other major challenges arose for monetary policymaking in 2010 from the sovereign debt crisis in some euro area countries and from ensuing developments in government bond markets, which called for the circumspect and flexible use of existing nonstandard measures or for the introduction of new instruments.

Policy rates still at historical lows

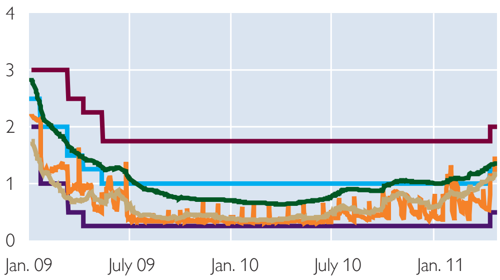
As money market conditions improved and a more appropriate functioning of the monetary transmission mechanism had been restored, the Governing Council of the ECB decided in December 2009 to phase out the nonstandard liquidity-providing operations with a maturity of 6 and 12 months, as they matured, and to cut back the number of 3-month refinancing operations to precrisis levels. In coordination with the U.S. Federal Reserve System and the Swiss National Bank, the ECB moreover discontinued its U.S. dollar and Swiss franc liquidity-providing provisions to banks resident in the euro area in February 2010. March 2010 saw the first 3-month longer-term refinancing operation to be conducted as a variable rate tender since September 2008, another sign of the normalization of monetary policymaking. The Covered Bond Purchase Programme (CBPP), finally, for which EUR 60 billion had been appropriated, was completed as planned at the end of

Nonstandard measures were phased out automatically as they expired

Chart 7

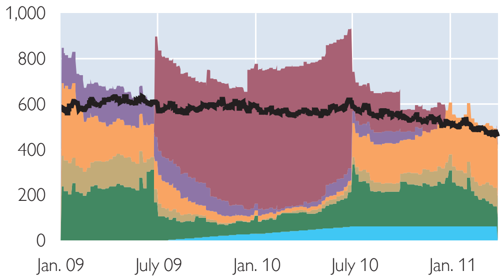
Developments in Interest Rates and in Liquidity Conditions in the Euro Area

Key Policy Rates and Money Market Rates



Provision of Liquidity in the Euro Area

Broken down by maturity, EUR billion



Source: Thomson Reuters, ECB, OeNB.

Money market rates rise as excess liquidity declines

June 2010. The CBPP had been adopted in May 2009 to revive the covered bond market, which plays a key role in the refinancing of European banks and hence in their lending activities. The announcement of the program and the purchases made in the 12 months thereafter contributed to an increase in the number of covered bonds issued and to a decline in risk premia; in other words, the CBPP has achieved its aim.

Liquidity conditions remain generous

While the ECB phased out some of its nonstandard measures in 2010, it retained two elements of its enhanced credit support framework. First, the Eurosystem continued to accept a wider range of instruments as collateral from its counterparties also in 2010. Second, the Eurosystem continued to conduct main refinancing operations with the allotment procedure introduced in the fall of 2008, i.e. banks' liquidity requirements were met in full at the announced fixed interest rate, subject to the provision of adequate collateral. Thus the Eurosystem stood ready to provide banks with as much liquidity as they needed at all times.

In the first half of 2010, banks' demand for central bank liquidity increased as tensions heightened in the markets for some government bonds. In the second half of the year, numerous banks repaid a large part of this liquidity when the supplementary 12-month longer-term refinancing operations matured. As a result, the amount of excess liquidity, i.e. the excess over minimum reserve requirements and over the demand for cash in circulation, contracted from more than EUR 300 billion in mid-2010 to less than EUR 50 billion at year-end. This contraction went hand in hand with a shortening of the average maturity of liquidity-providing operations.

Conditions in the money market – especially in the short-term segments, such as EONIA (euro overnight index average) rates – largely mirrored the levels of excess liquidity: In the first half of 2010, EONIA rates lay consistently and significantly below the main refinancing rate and close to the rate for the deposit facility, which stood at 0.25%. When the amount of excess liquidity declined in the second half, EONIA rates rebounded, subject to some fluctuations, approaching or even exceeding the main refinancing rate on some days. Subject to expectations of persistently higher EONIA rates, the longer-term money market rates – such as the 3-month EURIBOR, which plays a major role in banks' retail transactions – rose as well. This increase in interest rates can be taken as a sign of gradually normalizing money market conditions.

Sovereign Debt Crisis Required Reintroduction of Some Nonstandard Measures

In spring 2010, tensions resurfaced in some financial market segments, above all in the markets for government bonds. Some euro area countries saw the spreads of their government bonds widen strongly relative to those of German government bonds. In response to these developments, the governments of the euro area countries adopted a comprehensive package of measures, including the creation of the European Financial Stability Facility (EFSF; see the section "Spotlight on Public Finances"), and the ECB announced the establishment of a Securities Markets Programme (SMP), both in May 2010. The SMP enables the ECB to intervene in the markets for public and private bonds, as required, to restore adequate liquidity in dysfunctional market segments and to thus ensure that the monetary policy transmission mechanisms operate appropriately.

Sovereign bond markets play a central role in the transmission of monetary policy measures to the economy. The yields of government bonds are a key benchmark for the interest rates payable on corporate bonds. Moreover, government bonds constitute important asset items in the balance sheets of the private sector. The low secondary market prices for bonds can give rise to major revaluation losses, which in turn has repercussions on the size of the balance sheet and on corporate creditworthiness. Last but not least, a lack of liquidity in the markets for government bonds makes it more difficult for banks and other financial intermediaries to use these bonds as collateral. The interventions under the SMP are therefore intended to stabilize dysfunctional markets with a view to decreasing adverse repercussions on monetary policy transmission. The additional liquidity created through purchases under the SMP is removed from circulation through special liquidity-absorbing operations, so that the supply of central bank money is not increased on balance. Therefore, the SMP affects neither liquidity conditions nor money market conditions.

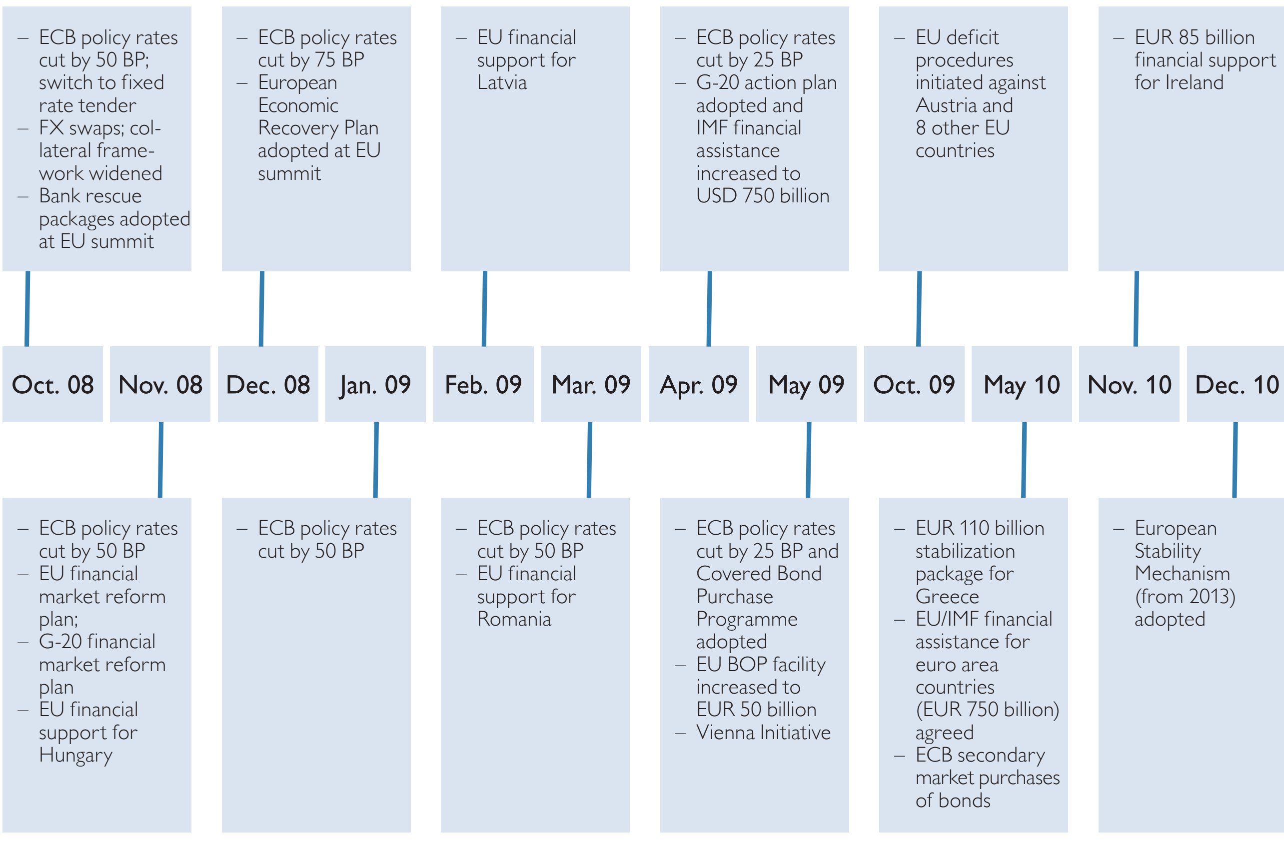
Sovereign bond markets play a central role

When it announced the Securities Markets Programme, the Eurosystem also reactivated some of its nonstandard measures: In addition to conducting a supplementary 6-month longer-term refinancing operation, the ECB switched back to a fixed rate tender procedure with full allotment for its

Nonstandard measures were withdrawn gradually

Chart 8

Key Crisis Measures Adopted in the Period from 2008 to 2010



3-month refinancing operations from May 2010 onward.

Following an initial peak in May, purchases of securities under the SMP have reverted to very low levels in recent months, with some weeks seeing no purchases at all. At the same time, given the continued uncertainty in financial markets, the Governing Council of the ECB decided to continue to conduct all refinancing operations with full allotment at least until the end of June 2011 under the prevailing circumstances.

Box 1

Communications as a Key Instrument in Monetary Policymaking

When Austria joined the European Economic and Monetary Union (EMU), the OeNB became the communications hub between the Eurosystem on the one hand and economic policymakers, businesses and the general population in Austria on the other hand.

As such, the OeNB communicates the monetary policy decisions of the Governing Council of the ECB to the general public. The OeNB continued to use a broad range of communications tools to handle this task in 2010: Apart from the statutory semiannual hearings of the governor and the vice governor before the financial committee of parliament, the OeNB addressed general audiences and specialists through a variety of channels: some 130 press releases, 25 press conferences, numerous interviews and speeches, expert meetings, periodical economic analyses, economic conferences and seminars, advertorials and small ads, information folders, seminars for journalists, Internet chats as well as an online platform.

The OeNB's broad-based communications policies help deepen people's knowledge and understanding of the monetary policy of the Eurosystem, enhance confidence in the euro as a stable currency, and provide additional security for market participants in their decision-making processes. The mass media play a central role both as the conduit for information and as opinion leaders.

The economy started to recover in 2010, and significant progress was made in restoring the stability of financial markets through the coordinated action of monetary and economic policymakers, but an environment of heightened uncertainty persisted in the euro area. In addition, the sovereign debt problems of some euro area countries and the ensuing repercussions for the euro moved center stage in the public debate.

Hence, the challenge the OeNB faces is to continue its communications activities in line with its guiding principles of promoting an environment of "Stability and Security."

Reserve Asset Management Generates Profits despite Adverse Market Conditions

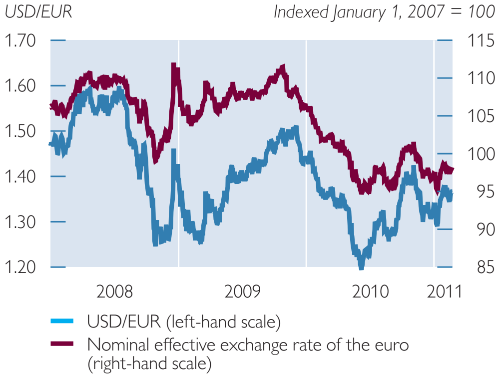
Financial markets reflect the tensions created by European sovereign debt problems

Rising public debt and concerns about the financial strength of individual euro area countries fueled increased market demand for safe forms of investment in the first half of 2010. While government bonds of countries with continuously good ratings as well as gold benefited from these dynamics as traditional safe havens, riskier assets such as stocks suffered spells of weakness. The external value of the euro also declined toward mid-year, displaying strong volatility, but subsequently rebounded, following the consensus reached in May 2010 about a rescue package for Greece and amid improving conditions for growth.

When the sovereign debt crisis reintensified in late 2010, the crisis was essentially limited to a rise in yield spreads, whereas the generally positive mood in financial markets remained unaffected. This positive sentiment reflected the strong revival of emerging market and commodity exporting countries, which attracted large amounts of capital as the risk aversion of investors declined. Measured against the currencies of the major trading

Chart 9

Exchange Rate



Source: Thomson Reuters.

partners of the euro area, the effective exchange rate of the euro depreciated by 8.2% in 2010.

As economic conditions were characterized by major uncertainties and strong market volatilities, the OeNB had to wield very prudent investment policies focused primarily on limiting risk. On the scale of priorities, the safety of investments took precedence over liquidity and return in 2010 – even more so as the IMF has been relying more heavily on funding from central banks such as the OeNB, given the higher need for funds in the wake of the financial and economic crisis (see also the section below entitled “Enhanced Role of the IMF”). The OeNB responded to the market tensions by diversifying its reserve assets more broadly, which made it possible to increase the return on the foreign currency component of investment.

Uncertainty pushes gold price to unprecedented levels

The sovereign debt problem as well as spells of increased economic uncertainty triggered a renewed surge in gold prices, which continued on a record-breaking run well into 2011. Measured in U.S. dollars, the gold price was 30% higher at the end of 2010 than a year earlier, and in euro terms it was even up by 40%. The OeNB's gold reserves remained unchanged in quantity at 280 tons in 2010, but the corresponding revaluation gains have raised their value significantly (see the relevant section of the financial statements for 2010).

Limiting risks while successfully diversifying reserve asset management

In 2010, the Governing Council of the ECB established the Eurosystem Risk Management Committee (RMC), in which the OeNB is also represented. The mandate of the RMC includes enhancing risk management measures and methods applicable to monetary policy operations and to the investment of the Eurosystem's pooled own funds. In addition, the RMC is also responsible for analyzing and reporting on the risk position of the Eurosystem.

Enhanced risk management at the ECB

Economy Overcomes Recession and Moves Back on a Moderate Growth Path

World Economy Continues to Revive

Following the recent sharp economic setback, the economy started to revive in mid-2009, leading to a more broadly based recovery in 2010. The revival of the world economy was particularly pronounced in the first half of 2010 and was driven by a mix of monetary and fiscal policy measures, the return to more normal financing conditions as well as international inventory buildups reflecting the favorable economic outlook. Against this backdrop, world trade rebounded visibly.

World trade achieves visible momentum

In the latter part of 2010, the global recovery lost some momentum when numerous economic stimulus packages expired. Moreover, the first round of consolidation packages adopted by some countries also had a dampening effect on growth. On balance, the world economy grew by 5.0% in 2010, and global growth is likely to become even more robust in 2011 as financing conditions continue to improve. The IMF expects world economic growth to reach 4.4% in 2011.

First signs of labor market recovery

Recovery largely driven by emerging economies

The revival of the economy has stayed heterogeneous across regions. So far, Asia's emerging economies have been the main drivers of the global recovery. The Chinese economy, for instance, grew almost four times as fast as the U.S. economy in 2010. Asia's emerging economies have been outperforming industrial countries also in terms of trade dynamics. To unwind existing external imbalances and thus support the revival of the world economy, the G-20 has committed itself to identifying policy actions and to issuing country-specific recommendations in 2011.

Broad-Based Recovery in the Euro Area

Across the euro area, real GDP grew by 1.8% in 2010, reflecting above all the revival of exports, with net exports making a positive contribution to growth thanks to dynamic demand from emerging economies. Overall, the revival has become broadly based, though, and it has benefited from expansionary monetary policies and from measures to strengthen the financial sector. At the same time, the recovery of business investment and private consumption from the deep recession is still incomplete. As a case in point, investment activities have been dampened by the necessary restructuring of corporate balance sheets. Broken down by sectors, the contribution to growth from the manufacturing industry was significantly higher than that of the services sector, and the construction industry continued to suffer from the bursting of housing price bubbles in a number of countries.

Manufacturing industry is the largest contributor to growth

The increase in private consumption reflects rising disposable incomes and declining saving ratios, which are, in turn, the result of broadly stabilized conditions in the labor market. The decline in employment came to a halt in 2010 for the first time in years, and, as companies were reversing the temporary reductions in working hours implemented during the recession, the number of hours worked rebounded visibly. At the same time, private demand has yet to pick up strongly, as a number of countries are unwinding their economic stimulus packages and as the labor market is slow to recover.

Budget deficits stabilize

Public consumption also increased in 2010, albeit at a lesser pace than in 2009, as some countries had already initiated consolidation measures to keep budget balances from deteriorating further. The financial crisis and the ensuing recession pushed the euro area average deficit ratio to approximately 6% of GDP in 2009, where it broadly stabilized in 2010. The ongoing economic recovery and initial consolidation measures are set to provide for a significant improvement of budget balances already in 2011.

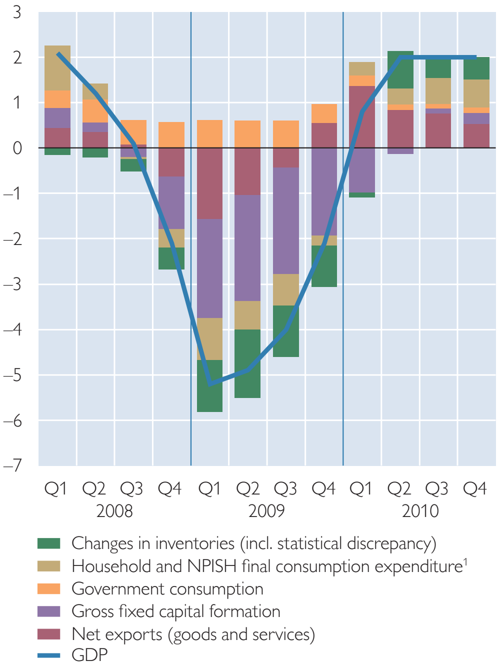
The global recovery, expansionary monetary policies and sustainable measures to stabilize the financial system will continue to support the euro area economy. In line with the gradual improvement of private domestic demand, growth will become increasingly self-sustained. However, the inevitable fiscal consolidation measures both in the government and the nonfinancial sector have a dampening effect on growth. On balance, average GDP growth in the euro area is expected to lie within a range of 1.3% and 2.1% in 2011 (ECB staff projections released in

Chart 10

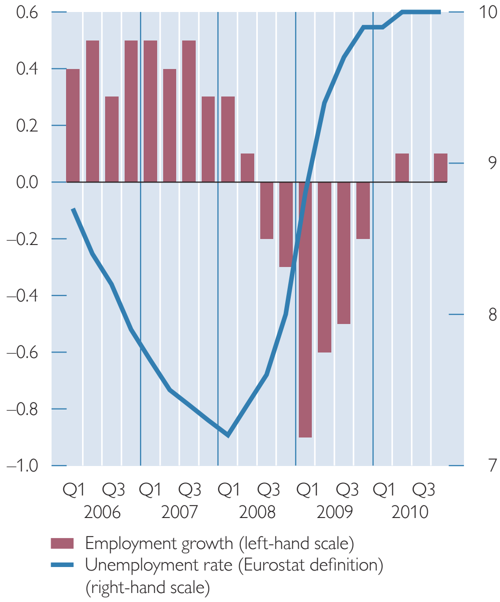
Selected Economic Indicators for the Euro Area

Contributions to Real GDP Growth

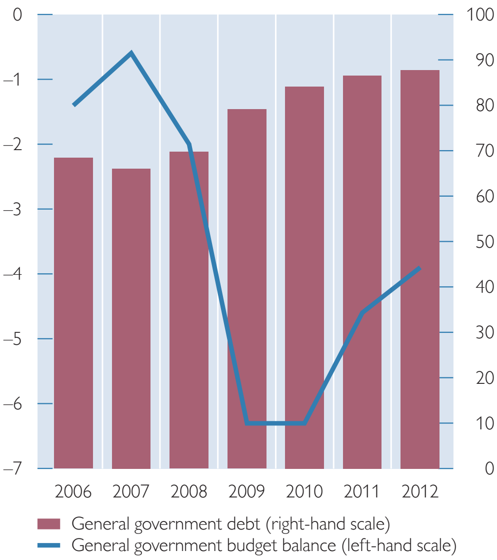
Percentage points, changes in % on same quarter of previous year



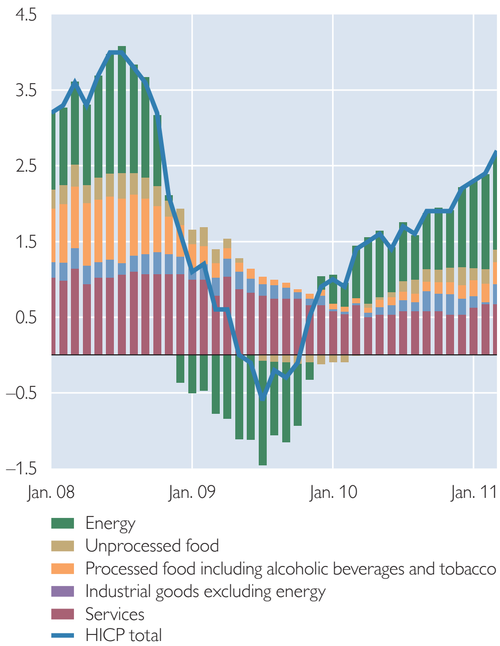
Labor Market



Fiscal Developments



Contributions to HICP Changes



Source: Eurostat, European Commission.

¹ *Nonprofit institutions serving households.*

Note: Data for 2010–2012 are forecasts.

March 2011) before accelerating again in 2012.

Cyclical revival and commodity prices fuel inflation

After inflation rates had been negative in some euro area countries in 2009, euro area inflation rose to 1.6% in 2010, reflecting above all the surge in commodity prices. Developments in 2010 were characterized by rising crude oil prices and by a sharp increase in global food prices, which even exceeded the peaks registered in 2008. Yet unlike in 2008, when growing global demand had been the key driver, the price dynamics seen in the course of 2010 were primarily attributable to adverse weather conditions; in other words, developments in 2010 can be regarded as temporary. In contrast, the prices for services remained unchanged in 2010 as a result of the time lag with which the recession hit the services industry.

Rising energy and food prices fed through to higher HICP inflation rates fairly quickly, though, which rose from approximately 1½% in mid-2010 to about 2% at end-2010 and further to 2.7% in March 2011. Apart from these visible effects on current inflation rates, significant price increases have also been observed in downstream production stages, which nourished concerns about additional inflation pass-through effects. In such situations it is particularly important to prevent second-round effects from materializing as a result of price-setting activities and wage settlements. Therefore, the Governing Council of the ECB decided on April 7, 2011, to preempt upside risks to inflation by raising the key refinancing rate to 1.25%. This measure will help keep inflation expectations in the euro area anchored at the targeted level of below, but close to 2%.

Spotlight on Public Finances

Turbulence in bond markets

Notwithstanding the signs of an emerging economic recovery, concerns about public households moved center stage in 2010. While household deficits turned out to be lower than had been expected in early 2010 in most euro area countries, there were two outliers, namely Greece and Ireland. In Greece, persistent government deficits and high debt-to-GDP ratios, in addition to misreporting of fiscal data up until 2009, as well as a postponement of necessary reforms had undermined the credibility of the authorities. Mounting skepticism about the solvency of Greece drove up risk spreads on government bonds, thus visibly increasing domestic refinancing costs. Ireland, too, faced rising risk spreads on bonds. Following the bursting of a real estate bubble in 2008, the country experienced a deep recession, which hit the overly large banking sector hard. When the government stepped in, public support for the financial sector caused the public deficit and debt levels to explode. As the sovereign debt crisis of Greece and Ireland unfolded, markets became skittish about the countries at the periphery of the euro area in general. Portugal, finally, was the third country in the euro area to see a rise in its risk spreads on government bonds and thus in its refinancing costs in 2010, even though its debt-to-GDP ratio was below the euro area average.

EU support for Greece and Ireland during the debt crisis

In view of the massive market reactions, the EU Member States granted Greece and Ireland bridging loans to give the two countries enough leeway to consolidate their households. Portugal, too, will receive financial assistance from May 2011 onward.

For Greece, the European Council adopted a package of measures on May 2, 2010, consisting of bilateral loans totaling EUR 80 billion to be provided by other euro area countries as well as IMF loans totaling EUR 30 billion, subject to strong conditionality. Austria contributed EUR 2.3 billion to the bilateral loans.

When, next to Greece, Ireland also required financial assistance, policymakers created a financial stability package to address the needs of Ireland, or of other countries that might find themselves in financial distress, pending the adoption of a permanent crisis mechanism to safeguard financial stability in the euro area by mid-2013. This package consists of two temporary facilities: the European Financial Stability Mechanism (EFSM) and the European Financial Stability Facility (EFSF). The EFSM allows the European Commission to raise up to EUR 60 billion (and is available to all 27 EU Member States). The EFSF was set up as a special purpose vehicle under Luxembourg law that is authorized to issue debt securities, guaranteed up to a total of EUR 440 billion by euro area countries, for lending to euro area countries. Loans from the EFSM and the EFSF are subject to strong conditionality and, as a rule, disbursed in the context of joint programs with the IMF.

The package providing financial assistance to Ireland (adopted on November 28, 2010) totals EUR 85 billion and consists of EFSM/EFSF loans, IMF loans and bilateral loans granted by the United Kingdom, Sweden and Denmark as well as Irish funds (pension fund monies and cash reserves of the Irish finance ministry). In return, Ireland pledged to undertake stringent reforms.

Reform of economic governance within the EU

Given the lessons learned from the crisis, the EU heads of state or government as well as the European Commission initiated a sweeping reform of the EU's economic governance framework, as outlined in a report of the Van Rompuy task force and six draft regulations of the European Commission. The reform is primarily geared at securing the sustainability of public finances in all EU Member States and includes:

- deeper fiscal policy and macroeconomic monitoring of EU Member States and improved coordination of fiscal and structural policy measures ("EU 2020") within the context of the European semester;
- stricter rules and sanctions under the Stability and Growth Pact;
- binding arrangements on national fiscal frameworks for more efficient fiscal policymaking; and
- a new surveillance framework aimed at avoiding large macroeconomic imbalances.

In its Euro Plus Pact, the European Council agreed on concrete measures to be undertaken by EU Member States to strengthen the competitiveness of the euro. The implementation of these measures is to be assessed on the basis of indicators such as wage and productivity developments or the functioning of the labor market. All euro area countries plus Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania have committed themselves to the Euro Plus Pact. Any Pact-related measures are to be written into the respective national reform programs and stability programs. The coordination of tax policies is meant to be handled pragmatically, without interfering with Member State competences.

Permanent European Stability Mechanism as of 2013

These crisis prevention measures are intended to complement the permanent crisis resolution mechanism endorsed by the European Council in December 2010, which will take the form of a European Stability Mechanism (ESM). The ESM has been scheduled to replace the temporary EFSF framework in 2013 and will contribute to the long-term stabilization of international financial markets.

Box 2

The Euro – A Safe and Stable Currency

In the twelve years of its existence, the advantages of the euro have become readily apparent.

Since the start of the third stage of EMU in 1999, the monetary policy of the Eurosystem has been effective in keeping both high inflation and deflation at bay, thus securing the value of the euro, despite a number of macroeconomic shocks. Measured in terms of the HICP, the inflation rate lay slightly below 2% in the euro area economies on average between 1999 and 2010, in line with the Eurosystem's definition of price stability; this means that inflation was 0.4 percentage points lower than in the seven years before the introduction of the euro.

The euro and the single monetary policy of the euro area proved to be a shelter especially during the financial crisis. Rapid action and flexible provision of central bank liquidity secured the functioning of the banking sector and of payment systems in Europe even at the height of the tensions. Moreover, years of strengthened economic policy coordination within the euro area facilitated joint action to safeguard the stability of the financial system and to establish the European system of supervision.

The euro developed into an international currency within just a few years and has since replaced the U.S. dollar as the single most important global currency in a number of areas. For instance, the euro today outperforms the U.S. dollar in terms of cash in circulation, and it has been gaining importance as a reserve and anchor currency.

The single European currency and the absence of exchange rate fluctuations have simplified trade and have reduced trading costs not only between European countries but also between the euro area and its major trading partners. Such stability has caused trading volumes to increase, and this has been beneficial for growth. For instance, Austria's export ratio (the ratio of exports of goods and services to GDP) rose from about 40% in 1999 to approximately 60% in 2010.

The euro serves 331 million people in the euro area as a secure means of payment. According to European Commission surveys made in the fall of 2010, 67% of the euro area population thought the euro was a good thing; only 17% thought that having the euro was a bad thing for Europe.

The strong increase in government deficits as a result of crisis resolution measures in some euro area countries resulted in a massive debt crisis, which also put pressure on the euro. The necessary consolidation measures are far-reaching and represent a major political challenge for the affected countries. At the same time, the remaining euro area countries headed into uncharted territories in tackling the question of how far financial assistance should go.

The European integration process has faced similar big challenges in the past, including the crisis of the European Exchange Rate Mechanism, or negative outcomes of national referendums on major Community treaties. These historical examples show that such obstacles have the potential to mobilize political forces that will move the European integration process forward.

Enhanced Role of the IMF

IMF crisis resolution funds increased

In the course of the economic and financial crisis, the IMF repeatedly demonstrated its key role in providing support to countries in dire economic straits. To safeguard the capacity of the IMF to take action in times of crisis, New Arrangements to Borrow (NAB) have been concluded that enable the IMF to secure additional funding from its member states should the regular funds prove insufficient. At present, the IMF is seeking to increase its funds by EUR 375 billion. Within the context of the EU's share, which is to be increased by EUR 125 billion, Austria is to pay up to EUR 3.4 billion in additional funding via the OeNB. The Austrian parliament already adopted a federal act to this effect on December 17, 2010. The bilateral loan arrangement concluded earlier between the OeNB and the IMF on the amount of EUR 2.18 billion will be integrated into the NAB mechanism.

In view of global economic developments, dynamic emerging economies such as China, India and Brazil have been gaining influence in international financial organizations, as reflected, for instance, in a decision of the IMF's Executive Board of December 10, 2010, to increase and rebalance members' quotas, following the 14th General Review of Quotas, and to reform the Executive Board. Specifically, there will be a shift of more than 6 percentage points in quota shares to dynamic emerging markets and developing countries, from overrepresented to underrepresented countries, and quotas will be doubled to USD 733.9 billion or to SDR 476.8 billion[1]). This implies an increase in Austria's quota to SDR 3,932 million. The size of the 24-member Executive Board, representing the various constituencies of the IMF, will remain unchanged, but there will be two fewer Board members from European countries.

Increasing influence of emerging economies

Economic Revival Also Benefits Central, Eastern and Southeastern Europe

The economy regained momentum also in the Central, Eastern and Southeastern European (CESEE) economies in the course of 2010. Real GDP growth in the region was positive in an annual average, yet – much like the erstwhile crisis-related downturn – the revival was characterized by the heterogeneity of the region. While the economy was booming again in some countries (even with double-digit growth rates in some instances, such as Turkey), it stagnated in Latvia and Bulgaria, and output growth even continued to decline in Romania and Croatia.

External sector as key driver of growth in CESEE economies

Growth was driven by the external sector and by inventory restocking. Export activity benefited above all from the dynamics of the world economy as well as from the revival of major euro area countries. At the same time, some countries' price competitiveness improved, essentially on account of productivity increases. The contributions of the domestic economy were positive only in some countries (such as Poland, Russia and Turkey), above all because of adverse labor market and moderate wage developments, the necessary deleveraging of households, as well as increased fiscal consolidation needs in many countries in the region.

Economic activity is dependent on international developments and temporary factors in large parts of the CESEE region, so it is not yet sustainable or self-sustained. In addition, a number of uncertainties persist: A key challenge for some countries in the area is to bring government deficits down again. Furthermore, reduced creditworthiness is a burden for the banking sector. For instance, the share of nonperforming loans in total lending now significantly exceeds precrisis levels.

Growth dynamics likely to stay subdued until 2012

Against this backdrop, economic activity in the region is likely to remain subdued also in 2011 according to current projections, but thereafter growth should stabilize at 4% on average in 2012. Hence, the income convergence of the CESEE economies relative to the euro area is set to accelerate again after a temporary slowdown. At the same time, the growth records of the boom period before the crisis are likely to remain a historical exception for the time being.

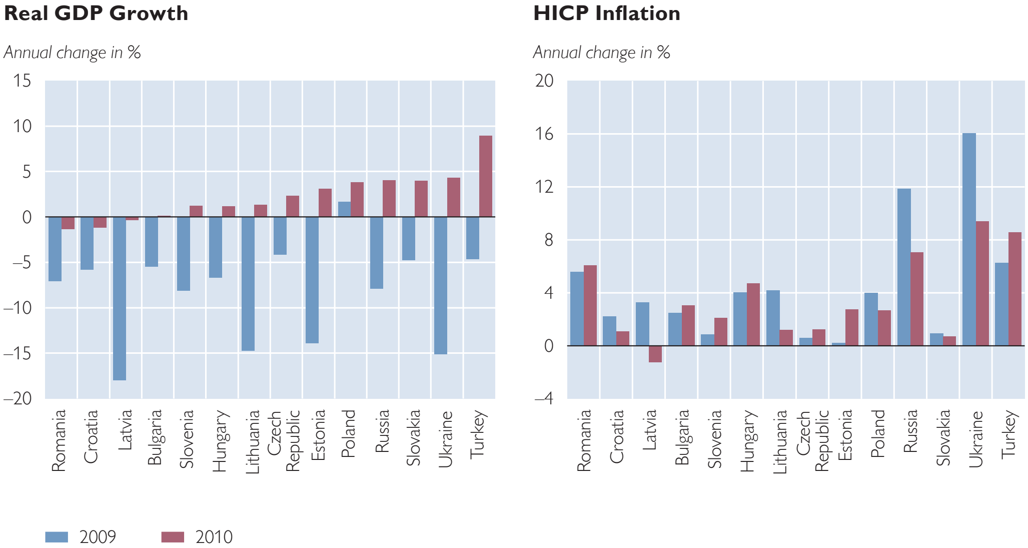
Inflation quickened above all toward the end of 2010

Mirroring the heterogeneous economic pattern, price dynamics were mixed in the CESEE region in 2010. The necessary fiscal consolidation

[1] *SDR: Spezial Drawing Rights.*

Chart 11

Economic Indicators for Selected CESEE Economies



Source: Eurostat, wiiw.

Negotiations with EU candidate countries

measures went hand in hand with a surge in inflation in some countries: For instance, the level of VAT was raised from 19% to 24% in Romania, and from 19% to 20% in the Czech Republic in the summer of 2010. In Hungary, too, changes in the VAT system and of several excise duties had a significant impact on inflation. This heterogeneity notwithstanding, energy and food prices emerged as the key drivers of inflation in the second half of the year, in line with global developments. Accelerating inflation toward the end of 2010 prompted the return to restrictive monetary policies in some countries after the large-scale policy rate cuts in 2008 and 2009.

European Integration Makes Headway

Estonia introduces the euro

On January 1, 2011, Estonia joined the euro area and introduced the euro as legal tender; it was the 17th country to do so. The Estonian kroon was replaced by the euro at the irrevocably fixed exchange rate of EUR 1 = EEK 15.6466.

In the context of the EU enlargement process, the number of official candidates for EU membership rose to five in 2010, namely Iceland, Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Turkey. In February 2010, the European Commission published a statement ("avis") on the application of Iceland, and it agreed to start negotiations with Iceland in June 2010. The negotiations with Croatia entered the final round in 2010. The European Council confirmed the status of Montenegro as a candidate country in December 2010, and a new chapter was opened in the negotiations with Turkey. Four other countries have been recognized as potential EU candidate countries, namely Albania, Bosnia and Herzegovina, Kosovo and Serbia.

Recovery of the Austrian Economy Continues

The Austrian economy, too, reentered a positive growth path in 2010. Real GDP increased by 2.1%, broadly reaching 2007 levels in the annual average, thus exceeding euro area average growth by 0.4 percentage points.

An analysis of intrayear dynamics shows that the economic path continued to be marked by above-average volatility. After posting stagnating quarterly growth in early 2010, the economy staged an exceptionally strong recovery in mid-2010. The growth rates observed in the second and third quarters of 2010 were roughly twice as high as the long-term average.

Austrian GDP gained strength mainly on the back of powerful economic growth in Germany, Austria's major trading partner. As in previous upswings, external trade thus proved to be the mainstay of the current recovery. According to the OeNB's leading export indicator, which is based on truck toll data, nominal exports jumped by 16.5% in 2010, thus coming within close reach of precrisis levels.

The manufacturing industry was a key beneficiary of the dynamic export activities. By the end of 2010, this sector had been able to offset nearly two-thirds of the drop in production by almost 20% brought about by the crisis. Thanks to growth in exports and industrial production, the contractionary phase of the investment cycle also came to an end in mid-2010. Manufacturers reported above-average levels of capacity utilization, and investments in plant and equipment began to climb again for the first time in nearly two years. By contrast, construction investment delivered a disappointing performance. Investment in both residential and civil engineering construction has continued to contract.

Growth of private consumption subdued in Austria

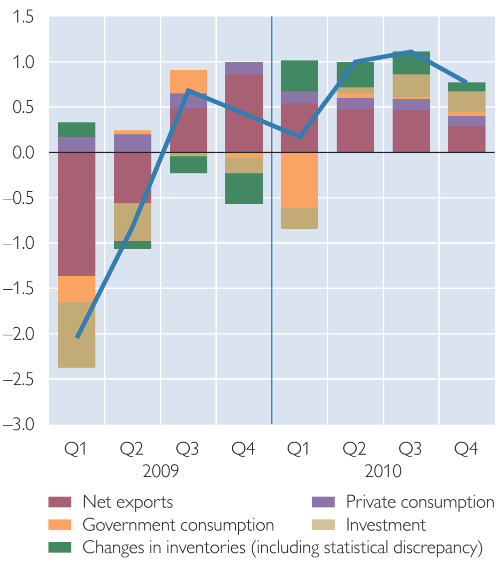
The growth of consumer spending had a stabilizing effect during the crisis. In 2010, however, private consumption did not provide an additional positive impact on growth, given moderate

Chart 12

GDP Growth in Austria

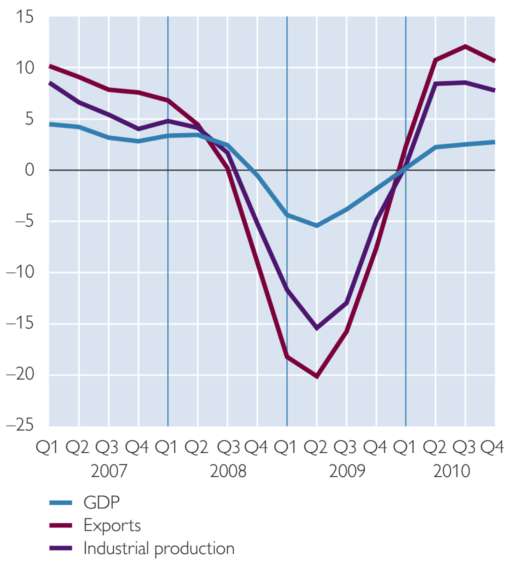
Contribution of Demand Components to GDP Growth (real, seasonally adjusted)

Contributions to growth in percentage points, change on previous period in % (GDP)



Developments of GDP, Exports and Industrial Production (real, seasonally adjusted)

Change on the same period of the previous year in %



Source: Eurostat, Statistics Austria.

wage settlements, even though labor market conditions improved.

Real GDP to grow in a range of 2% to 2½% in 2011 and 2012

The revival of the Austrian economy is projected to continue in 2011 and 2012. However, with the downswing of the inventory cycle and the expiration of fiscal policy stimuli coupled with increased endeavors to consolidate the budgets, the upturn in worldwide economic activity and trade will lose some pace in the next few months. In its economic outlook of December 2010, the OeNB projected the output of the Austrian economy to grow within a range of 2% and 2½%. Since then, the outlook for growth has continued to improve. Exports continue to be the key driver of growth, with the contribution of domestic demand remaining subdued. Yet the increase in the heterogeneity of developments across the globe means that Austria's growth prospects will stay subject to high macroeconomic risks from abroad to an above-average extent.

Positive news from the labor market

Given the scale of the slump in business activity, the economic and financial crisis has had only a relatively minor impact on the Austrian labor market. The unemployment rate (Eurostat definition) rose from 3.8% in 2008 to 4.8% in 2009. And, in the current upswing, the labor market developments are again proving to be a pleasant surprise. Stepped-up growth in 2010 boosted payroll employment substantially (+21,000 persons); the unemployment rate sank to 4.4%. Leading indicators such as the rising number of job vacancies, moreover, imply that this positive trend is likely to continue. Employment growth is anticipated to stay robust in 2011 and 2012, but the unemployment rate will decline only marginally to about 4.3% in 2012 on account of the clearly procyclical behavior of the labor supply.

Significant budget deficit revisions as a result of new Eurostat rules

The budgetary notification of March 2011 brought significant revisions of the general government debt and deficit figures for previous years, reflecting above all the more stringent rules on public accounting for the debt of government units introduced with Eurostat's new Manual on Government Deficit and Debt (MGDD). Henceforth, liabilities of units not classified to the general government sector which are ultimately absorbed by taxpayers need to be booked as deficit-increasing or debt-increasing already when the debt is incurred. Applying these new rules to the off-budget debt of the state-run hospitals and to the financing arrangement between the federal government and the infrastructure company of the Austrian Federal Railways (ÖBB) implied an increase in the annual deficit by more than ½% of GDP and a corresponding increase in the general government debt ratio (Maastricht definition).

Budget deficit increases to more than 4½% of GDP in 2010

The deterioration of the general government deficit ratio (Maastricht definition) from 4.1% of GDP in 2009 to 4.6% in 2010 is attributable above all to one-off effects following recapitalization measures for nationalized banks (KA Finanz AG: EUR 1 billion, Hypo Alpe Adria: EUR 700 million). Adjusted for these capital transfers, which drove up the deficit further, fiscal developments were actually better than expected, on account of low interest rate levels and relatively favorable economic conditions. The debt ratio slightly exceeded 72% of GDP at the end of 2010.

Deficit back on consolidation track

The Austrian parliament adopted sweeping fiscal consolidation measures in late 2010. Revenue-side measures included the introduction of a stability tax ("bank tax") and the increase of petroleum and tobacco taxes. On the expenditure side, the spending caps for the federal budget adopted in spring 2010 were translated into actual measures, with spending cuts in the context of family transfer payments and pension payments accounting for the lion's share. The finance ministry expects these measures to help bring the general government deficit (Maastricht definition) back below 3% of GDP by 2013. Because demographic aging will pose an additional burden on Austria's public finances, further consolidation efforts will, however, be needed to reduce the debt ratio to less than 60%.

After dropping to a historical low of 0.4% in 2009, HICP inflation quickened to 1.7% in 2010. This increase was mainly attributable to the significant surge in fuel prices. At the same time, food prices augmented markedly in the second half of the year. The service sector saw increases, above all in the latter part of 2010, for restaurant and hotel services as well as for package tours. By contrast, the partial abolition of student tuition fees and the introduction of free access to kindergarten in the course of 2010 had a dampening effect on inflation.

Inflation to temporarily exceed 2% in 2011

On the assumption that future commodity prices evolve in line with futures market expectations, inflation will temporarily accelerate to 2¾% in 2011, essentially on the back of rising commodity prices and the announced fiscal consolidation measures. In 2012, HICP inflation should ease again visibly.

Box 3

Revival Driven by the External Sector: Current Account Surplus

As in previous years, Austria recorded a sizeable current account surplus in 2010, namely EUR 7.8 billion (2009: +EUR 8.5 billion). This result reflects the high surplus generated by services (+EUR 13.3 billion, with the traditionally strong tourist industry accounting for EUR 6.4 billion of this amount), while the goods balance was negative again (–EUR 3.2 billion). Yet the patterns that shaped the trends observed in 2010 and that played a key role in the economic revival from mid-2010 resulted from the surge in goods exports. The economic revival of Austria's key trading partners – especially Germany, the U.S.A. and Switzerland – was at the heart of the 15% rise in nominal goods exports. Exporters of machinery and processed goods were particularly successful. As was to be expected, imports also rebounded considerably as the economy revived (+15%). In this respect, the costs of importing energy and commodities affected the goods balance adversely.

In international services trade, Austria reported 5% nominal growth of both imports and exports following a crisis-related setback in 2009. Trade in transport services tends to be highly sensitive to cyclical developments; here, exports grew by EUR 1.1 billion (+12%) and imports by EUR 1.4 billion (+18%). Austria's travel receipts totaled approximately EUR 14 billion, not least because of an exceptionally good summer season, thus repeating the strong results of 2009.

By contrast, Austria's financial account continued to reflect caution and restraint among investors in 2010. Cross-border portfolio investment, while doubling 2009 levels at EUR 6.4 billion, continued to fall short of the volumes observed before the crisis (2006: EUR 27 billion). As a result of the financial crisis, 2010 even brought a slight reversal of capital inflows from international portfolio investors on balance, namely outflows of EUR 1.2 billion. Under normal economic conditions, portfolio investors have, in contrast, typically been a major source of funding for the Austrian economy (2006: EUR 38 billion). The behavior of Austrian banks in the international loan and deposit business fit into this picture neatly. In 2010, banks reduced their net deposits abroad by more than EUR 20 billion and their net lending by approximately EUR 6 billion. In other words, as in the crisis year 2009, banks showed restraint in their international business. Mirroring these developments, the liabilities of banks resulting from international deposits (including interbank deposits) shrank by some EUR 13 billion. The overall impression is that, in line with typical lags, the emerging recovery of the real economy has yet to feed through to the behavior of domestic financial market agents.

The OeNB Safeguards Financial Stability

The financial crisis triggered a reform process that has resulted in an enhanced regulatory framework. The adoption of Basel III, the new rules and standards geared at raising banks' risk-bearing capacity, by the Basel Committee on Banking Supervision was one of the key international regulatory achievements in 2010. At the European level, the creation of the macroprudential supervisory framework to identify systemic risk has been successfully completed.

Concerns about the sustainability of public finances in some euro area countries overshadowed – at least in the short term – the economic recovery and the improved financial market conditions in 2010. In a persistently difficult environment, Austria's banks increased their profitability and risk-bearing capacity. At the same time, capitalization, credit quality in CESEE, foreign currency loan exposures and new regulatory requirements remain key challenges for the financial sector.

Substantial Challenges for Financial Stability

Loan Loss Provisions Dampen Recovery of the Austrian Banking System

Austrian banks' business in terms of consolidated total assets stagnated in 2010, coming to EUR 1,131 billion at the end of the year; like in 2009, this was due to a decline in interbank business, which, in turn, had resulted mainly from restructuring in some major groups. The refinancing conditions for banks improved again; the overall liquidity situation was sound. Deposits, banks' traditionally important refinancing source, increased by 0.2% year on year. Despite the improved conditions, bank lending remained subdued in Austria in 2010. Likewise, demand from households and nonfinancial corporations for loans was muted. Austrian banks' loan volume expanded by 0.5% year on year.

Deposit business up

Austrian banks' profitability increased in 2010, in particular as the need for loan loss provisions eased. Interest income, the most important component of Austrian banks' income, rose by 4.8%. Supported by improved capital market conditions, fee and commission income climbed by almost 7.2% in the year under review, after having plummeted by 15.5% in 2009. Proprietary trading, which plays a subordinate role as a component of operating income, was volatile throughout 2010. Austrian banks' consolidated profit after tax and minority interests came to some EUR 4.6 billion in 2010. The return on assets hence stood at just below 0.5%. As previously, the domestic result was rather weak, whereas Austrian banks' CESEE subsidiaries contributed more to operating income.

Profitability increased on lower loan loss provisions

The Austrian banking system's risk-bearing capacity continued to improve in 2010. The consolidated capital ratio increased to 13.2% and the consolidated tier 1 capital ratio came to 10.0%, which also implies, however, that Austrian banks, in particular the major institutions, continued to maintain below-average capital ratios by international comparison.

Capital ratios are higher but still below average

Austrian banks' international business remained predominantly focused on CESEE. The claims of CESEE banks under Austrian majority ownership amounted to just below EUR 210 billion at the end of 2010; total CESEE claims of all Austrian banks stood at slightly more than EUR 300 billion. By contrast, domestic banks' exposure to Greece, Ireland, Portugal and Spain, which attracted international attention in 2010 because of the uncertainty surrounding the sustainability of their public finances, was relatively small at EUR 10.8 billion or 3.8% of Austrian GDP. The Austrian banking system's claims on the public sector of these four countries totaled EUR 3.2 billion.

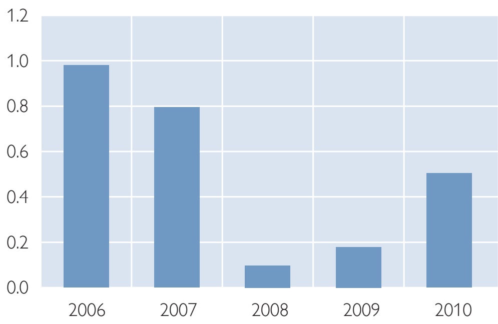
Low exposure to Greece, Ireland, Portugal and Spain

Strengthening capital ratios further, managing credit quality in CESEE, reducing the foreign currency loan exposure, improving the weak profitability of domestic business and implementing the new regulatory measures (e.g. Basel III, deposit guarantee schemes) remain the key challenges for the Austrian banking system.

Chart 13

Consolidated Return on Assets of the Austrian Banking Sector

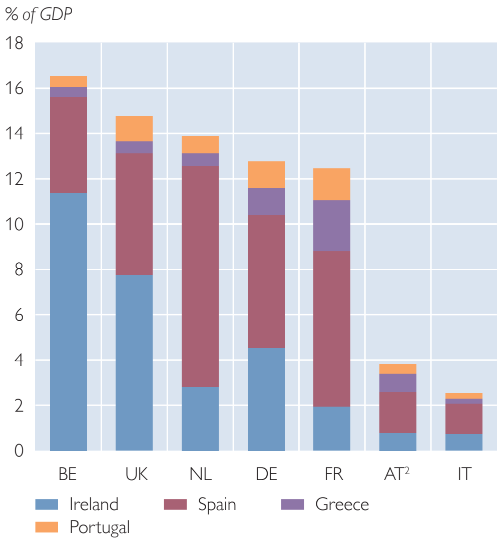
Net profit after taxes in % of average total assets



Source: OeNB.

Chart 14

Selected Banking Systems' Exposures to All Sectors in PT, IE, GR, ES[1]



Source: OeNB, BIS, Eurostat.

[1] As at Q3 2010.
[2] As at Q4 2010 (Q3 2010: 4.1%).

plans posted a notable increase in premiums (by 24% year on year at end-2010).

Insurance sector prepares for Solvency II

The Austrian insurance sector recovered from the economic crisis in 2010, significantly increasing premium income and strengthening profitability. Thanks to the generally favorable financial market conditions, investment income rose year on year. In preparing for the new European solvency rules (Solvency II), which will come into force in 2013, Austrian insurers took part in the fifth Quantitative Impact Study (QIS5) in late 2010. Preliminary results show the position of Austrian insurance companies as being very sound in comparison with that of their European counterparts.

The Vienna stock exchange also saw an uptrend in 2010, with the Austrian stock index ATX gaining 16.4%. This pushed up market capitalization by some 18% to almost EUR 94 billion. At the same time, however, average monthly trading volumes remained almost unchanged compared with 2009 at roughly EUR 6.1 billion. The prevailing low-interest environment, heightened risk in the public sector, the search for yields in some market segments and the future regulatory framework are among the current challenges financial intermediaries in Austria are facing.

Other Financial Intermediaries Benefit from Relatively Favorable Capital Market Conditions

The increasingly benign capital market environment contributed to international investors' returning risk appetite. Mutual funds, insurers and the Austrian stock market benefited from this development. The assets under management by mutual funds, for instance, augmented by 7% year on year to EUR 147 billion at the end of 2010. Likewise, unit-linked life insurance

The OeNB's Contribution to Financial Stability

Financial crisis reinforces role of international cooperation

The financial crisis revealed, among other things, shortcomings in monitoring and analyzing financial developments at the systemic level and their interaction with developments at the individual bank level. Addressing these shortcomings, the OeNB has upgraded its databases for the analysis of systemic risk, has enhanced the expert network and has stepped up the dialogue between OeNB experts and experts from other organizations, has developed new cross-departmental tools for analysis, and has increased the frequency of assessments (see also Intellectual Capital Report). The OeNB publishes the results of its analyses regularly in its Financial Stability Report; they are also discussed with the FMA and other authorities at the national and international level. To contribute to the exchange of information about the Austrian financial system and regulatory developments, the OeNB in 2010 hosted a workshop about the macrofinancial challenges in CESEE, which was attended by high-level representatives of banks, supervisors and international financial institutions. The initiative for the reduction of foreign currency loans was one important example of measures taken jointly with other European supervisory authorities. The OeNB contributes to the new European supervisory framework by providing expertise in the development of macroprudential tools designed to counter the emergence of systemic risk.

EU and OeNB Stress Tests Examine Banks' Resilience

The OeNB has regularly carried out macroeconomic stress tests to examine the resilience of Austrian banks since 2004; since 2009, the tests have been conducted twice a year. The underlying scenarios used in these stress tests are based on forecasts by the IMF and – for CESEE – by the OeNB. The results are published in aggregate form in the OeNB's Financial Stability Report.

OeNB conducts stress tests twice a year

The stress test the OeNB conducted in the fall of 2010 included not only the baseline scenario, which captures the implications of the economic outlook, but also simulated, under a hypothetical pessimistic scenario, the effect on the Austrian banking system of a refinancing crisis triggered by a steep increase of global risk premiums and interest rates against the backdrop of dwindling investor confidence. The massive economic slump assumed under the pessimistic scenario is comparable with the one seen during the recent economic crisis.

Resilience of Austrian banking system has improved

The baseline scenario concluded that the resilience both of the domestic banking system as a whole and of the six largest Austrian banks to economic shocks had improved since the spring 2010 stress test. Under this scenario, the tier 1 capital ratio of the Austrian banking system would increase by 1.1 percentage points and come to 11.1% by end-2012; under the stress scenario, the tier 1 capital ratio would drop by 1.5 percentage points to 8.5% over the same period. The capitalization of the major banks would decline by 1.9 percentage points to 7.7%. All in all, the stress test of fall 2010 indicated that the Austrian banking system's resilience to another global crisis had improved but that the dispersion in individual banks' results had increased.

91 European banks take part in EU stress test in spring 2010

As mandated by the Economic and Financial Affairs Council (Ecofin Council), the Committee of European Banking Supervisors (CEBS) conducted a stress testing exercise for the EU banking sector in cooperation with the ECB, the European Commission, national supervisory authorities and national central banks in the spring of 2010. The objective of the exercise was to assess the resilience of the participating 91 EU banks to a scenario assuming severe but plausible negative economic developments. This also included an assessment of banks' ability to absorb potential credit and market risk shocks, including sovereign risk shocks.

Austrian banks achieve satisfactory results in EU stress test

Under the scenario of a dramatic economic downturn, the aggregate tier 1 capital ratio of the participating banks would drop from 10.3% in 2009 to 9.2% at the end of 2011. The tier 1 ratio of seven participating banks would fall below the lower threshold of 6% used in the simulation (which is not a regulatory threshold). The stress test results

Currency-adjusted amount of foreign currency loans declines

High foreign currency loan exposure in CESEE

Risks associated with foreign currency loans still high

of the participating Austrian banks (Raiffeisen Zentralbank and Erste Group Bank; UniCredit Bank Austria took part through its Italian parent bank) were satisfactory. The tier 1 ratio of Erste Group Bank would decline under the stress scenario from 9.2% at end-2009 to 8.0% at the end of 2011, that of Raiffeisen Zentralbank would fall from 9.3% to 7.8%. These results put the two Austrian major banks in the lower midfield of the European sample and confirm that their capital ratios would be adequate under stress. The European Banking Authority (EBA), the successor organization to CEBS, is preparing another stress testing exercise for spring 2011. The OeNB is involved in these preparations and will also play an active part in the conduct of the exercise.

Initiative to Curb Foreign Currency Lending Starts to Show Effects

In the fall of 2008, the risks associated with foreign currency loans and loans with repayment vehicles unfolded as exchange rate volatility was running high and financial market losses caused a decline in the value of repayment vehicles. The FMA issued a recommendation to Austrian banks not to offer foreign currency loans as a mainstream lending product. This recommendation was refined in consultation with the banks and implemented in March 2010 as a supplement to the FMA Minimum Standards on Foreign Currency Loans. Banks are required to exercise particular caution regarding the risk associated with repayment vehicles in the case of euro loans linked to such instruments for accumulating capital.

The OeNB also adapted reporting requirements to improve the monitoring of foreign currency and repayment vehicle-linked lending. Since the fourth quarter of 2010, banks have been required to report also new loans to households (denominated in euro, Swiss francs and Japanese yen).

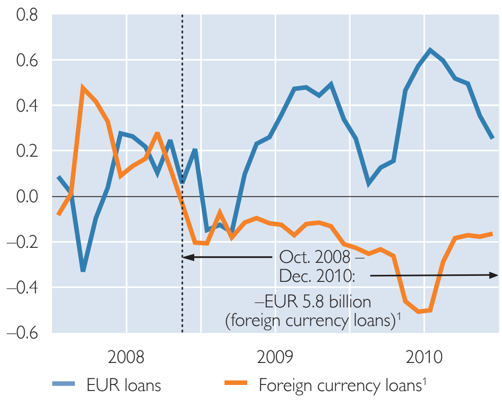
The currency-adjusted amount of outstanding foreign currency loans to household decreased by 14% (EUR 6 billion) between October 2008 and December 2010. However, the outstanding volume in December 2010 corresponded exactly to the amount (EUR 40 billion), and, consequently, the risk in October 2008 due to the strong appreciation of the Swiss franc in this period. The amount of foreign currency loans to all domestic nonbanks totaled some EUR 59 billion in December 2010.

Austria's banks have outstanding foreign currency loans not only in Austria but also in CESEE. By mid-2010, the subsidiaries of Austrian banks had extended some EUR 81 billion in foreign currency loans to companies and households; this equals a 48% share of foreign currency loans in total loans. In 2010, the outstanding amount and the share in total loans declined only marginally from end-2009 (by 1.3% and by 1.4 percentage points, respectively). The bulk of foreign currency loans was denominated in euro (56%). The U.S. dollar accounted for a share of 24%, and 20% of foreign currency loans were denominated in Swiss francs. The quality of foreign currency loans was slightly lower than that of loans denominated in local currency. The total amount of lending (including loans and leasing receivables) denominated in foreign currency extended in CESEE came to slightly below EUR 128 billion at mid-2010.

Chart 15

Foreign Currency Loans and Euro-Denominated Loans

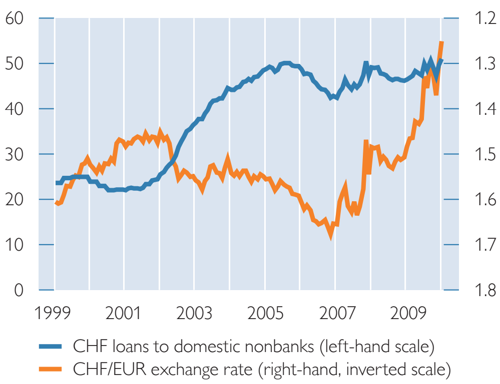
Monthly change (moving three-month average) in EUR billion



Source: OeNB.
[1] Exchange rate-adjusted.

Chart 16

Swiss Franc-Denominated Loans and CHF/EUR Exchange Rate



Source: OeNB.

Vienna Initiative Takes on New Focus

Since its launch in 2009, the *Vienna Initiative* has contributed to the stabilization of CESEE. In 2010, the initiative's focus shifted from crisis management to crisis prevention. In this vein, *Vienna Plus* was launched to support above all the development of local capital markets and, consequently, the promotion of credit and refinancing markets in local currency, thereby improving the incentive for lending in local currency. The Vienna Initiative brings together stakeholders such as the EBRD, the IMF, the European Commission, the World Bank, international commercial banks with business in CESEE and regional supervisory authorities as well as the OeNB and the FMA.

"Vienna Plus" supports local capital markets in CESEE

After successfully implementing their campaign to curb foreign currency lending in Austria, the OeNB and the FMA have expanded the campaign to CESEE. In a first step, the Austrian banks doing business in the region agreed not to extend any new loans denominated in Swiss francs, Japanese yen or other non-euro currencies (and non-U.S. dollar currencies in the CIS) to households and small and medium-sized companies that do not have income in matching currencies. Euro- or U.S. dollar-denominated consumer loans are to be granted to the most creditworthy households only. Reducing lending in euro (CESEE) and U.S. dollars (CIS) will be the next step. A country-specific approach under Vienna Plus will be necessary to account for national particularities as regards the role of euro and U.S. dollar funding. To ensure a level playing field for banks, the supervisory authorities involved need to proceed in a concerted fashion. The ESRB will also address the issue of foreign currency lending, with the OeNB and the FMA actively providing their expertise in this area.

OeNB and FMA Cooperate Closely in Banking Supervision

A financial system needs to be stable to best fulfill its macroeconomic function of providing funds efficiently and on reasonable terms. Therefore, safeguarding the functioning of the lending channel is one of the key objectives of prudential supervision. To make investment decisions, enterprises need to be certain that they have access to sufficient funds at economically viable conditions. The smooth operation of this lending mechanism is also a precondition for the economy to grow. Supervisors must raise banks' awareness for transparent and understandable processes (good corporate governance) at credit institutions, and they monitor compliance with prudential legal requirements.

Effective banking supervision contributes to financial system stability

The supervisory reform in Austria that took effect on January 1, 2008, placed the Austrian financial supervisory framework on a new footing and further enhanced its effectiveness. In essence, the new supervisory structure can be split up into the fact-finding function (comprehensive risk assessment) and the decision-making function (decisions by the prudential authority). The OeNB is in charge of fact finding, and, as an independent and integrated financial supervisor, the FMA is in charge of decision making. This division of tasks is complemented by the two institutions' joint responsibility for the entire supervisory process.

The OeNB and the FMA reviewed the Austrian supervisory framework in 2010 and concluded that the reorganization of responsibilities of 2008 had increased the effectiveness and efficiency of supervision. The review also revealed synergies between the two institutions; furthermore, it involved the implementation of recommendations by the Court of Auditors. The OeNB reorganized its Financial Stability and Bank Inspections Department in order to raise its effectiveness, to better account for the structure of the Austrian banking sector and to create the proper organizational structures for the additional staff hired to meet the growing requirements. The reorganization involved bundling the analysis and inspection functions as well as establishing strategic units for supervisory issues as well as for risk models. Establishing close links between microprudential and macroprudential functions was a key objective of the organizational change.

The highly focused use of technical expertise and experience has made it possible to tighten the links at the OeNB between supervision at the individual bank level and at the system level. In this way, the OeNB can better identify and monitor financial system linkages and can incorporate this information in its assessment of the risk of supervised credit institutions. In supervision at the individual bank level, the OeNB has stepped up its analyses and enhanced their frequency, has raised the number of on-site inspections, and has stepped up its activities within the structured dialogue (the framework under which the OeNB maintains direct contact with the banks), in particular for systemically important credit institutions. More recently, the risk-oriented assessment of the sustainability of business models and strategies, the resilience of the supervised banks, and the assessment of forward-looking information have moved into the center of the OeNB's analyses. In addition to the standardized, risk-oriented reports provided by the banks, the OeNB collects additional information to better identify and assess the risk potential of Austrian credit institutions.

Austria implements new EU financial rules

In implementing amendments to the EU banking directives, Austria amended the Austrian Banking Act in 2010. The EU's new capital requirements directive[1] (CRD II) stipulates

[1] *The amendment was published in Federal Law Gazette I No. 72/2010.*

stricter rules on securitized debt, the improvement of liquidity risk management, a reform of the supervision of cross-border banking groups (including the establishment of colleges of supervisors), a harmonized definition of hybrid capital as well as changes to the management of large exposures. CRD III was transposed into Austrian law by another amendment to the Banking Act;[2] this amendment requires credit institutions to apply remuneration policies and practices that are consistent with effective risk management for categories of staff whose professional activities have a material impact on a bank's risk profile.

Increased International Supervisory Coordination

The OeNB and the FMA have committed themselves to strengthening international cooperation in the supervision of cross-border banking groups. The measures to achieve this goal include formal instruments, such as bilateral and multilateral cooperation agreements (memoranda of understanding, MoU), and a stepped-up exchange of information between supervisors.

More international cooperation is to improve access to information and reduce regulatory arbitrage. The competent authorities have so far concluded MoUs with their counterparts in 16 countries. In October 2010, the two Austrian supervisory bodies signed an MoU governing their cooperation with the central bank of Russia. Given the activities of Austrian banking groups in Russia and those of Russian banks in Austria, this agreement is of particular importance.

Colleges of supervisors play a key role in the supervision of cross-border banking groups, especially in CESEE. These colleges provide the framework for close and structured collaboration between home and host supervisors. The principles of collaboration are specified in so-called multilateral agreements. Crisis prevention and crisis management are high priorities. The supervisors provide joint risk assessments and coordinate the necessary supervisory measures and further proceedings (supervisory action plans). Starting in 2011, both home and host supervisors will assess the capital adequacy of banking groups and, if necessary, will jointly work out appropriate measures.

Multilateral cooperation agreements foster exchange of information

Austrian Payment Systems Fulfill their Function Smoothly

ATMs in bank branches one focus of inspections

The smooth functioning of payment systems is of utmost importance to the maintenance of financial stability. The OeNB has been responsible for the oversight of payment systems in Austria since April 1, 2002. These systems include electronic purses used for small payments, retail payment systems (e.g. credit cards, ATM cash withdrawals, POS payments) as well as large payment systems for the transfer of funds between banks.

Monitoring and assessing system security is the key task of the OeNB in payment systems oversight. In 2010, a special inspection of cash machines located in bank branches was carried out. In the field of financial market infrastructures, the OeNB launched an inspection of Central Counterparty Austria.[3] The Austrian payment systems

[2] *The amendment was published in Federal Law Gazette I No. 118/2010.*

[3] *Central Counterparty Austria GmBH is the central counterparty responsible for clearing and risk management in all transactions executed on the Vienna stock exchange.*

remained secure and available throughout the financial crisis.

Apart from fulfilling its oversight tasks in Austria, the OeNB is also represented in the bodies responsible for payment systems oversight at the ESCB level, which, among other things, provide the framework for the cooperation of national central banks in overseeing cross-border payment systems. Enhancing the security of payment cards has been one of the key issues recently.

Toward a New International Financial Architecture

Stronger weight given to systemic risk

Regulators gave a broad-based response to the financial crisis that erupted in mid-2007. At the international level, the driving force behind the far-reaching reform efforts are the G-20, assisted and advised by the relevant expert bodies, especially the Financial Stability Board, the Basel Committee on Banking Supervision and the IMF. At the EU level, the European Commission, supported by, among others, the ECB and the national central banks of the ESCB, is the key player in implementing the financial reform measures. Several milestones were achieved in 2010.

Strengthening banks' risk-bearing capacity

Microprudential supervision, macroprudential supervision, and crisis management are the three key reform areas in banking. First, in microprudential supervision, one of the major goals is to increase the risk-bearing capacity of individual banks, which is to be achieved through the implementation of the reform package Basel III. The most important elements of this set of measures, adopted in September 2010 and confirmed by the G-20 summit in November 2010, are significantly higher quantitative and qualitative capital requirements as well as more stringent liquidity requirements for banks. In addition, the Basel III framework stipulates that systemically important financial institutions (SIFIs) have a higher loss-absorbing capacity than previously and that they meet higher supervisory standards.

Second, macroprudential supervision aims at identifying risks to the entire financial system at an early stage and at taking appropriate measures. Countercyclical capital buffers for banks are one such measure laid down in Basel III. Furthermore, parts of the financial sector that have lacked transparency so far, especially OTC derivatives or the shadow banking system, are to be subjected to closer supervision.

Third, action will be taken in crisis management, or, more precisely, the legal framework for dealing with banks in distress will be improved. The reform measures aim at providing supervisors with the instruments and powers that can be applied in situations involving cross-border institutions and that are necessary to facilitate the orderly market exit of credit institutions. In addition, the European Commission is working toward an EU-wide harmonization of deposit guarantee schemes.

Numerous initiatives in securities regulation

Turning to securities, work toward regulating alternative investment instruments (e.g. hedge funds), rating agencies as well as short selling and credit default swaps (CDS) in the EU was continued. In October 2010, agreement was reached on the Alternative Investment Fund Managers (AIFM) directive. In addition, the European Commission submitted proposals for amending the regulation on credit rating agencies and for a regulation on short selling and CDS.

Basel Committee Agrees on Basel III

On December 16, 2010, the Basel Committee on Banking Supervision published Basel III, the future international regulatory framework for capital and liquidity standards, aimed at strengthening the resilience of the banking sector and safeguarding financial stability. Improving the quality of capital components, higher minimum capital ratios, the introduction of global liquidity standards and a leverage ratio as well as the implementation of capital buffers are the core elements of the new framework.

Basel III introduces two types of equity to replace the three types used before. Tier 1 capital is to compensate for current losses up to a certain level, thereby ensuring the continued existence of a credit institution. Tier 2 capital can be used to cover liabilities once an institution is no longer viable. As a backstop to the risk-based measures, the framework stipulates a non-risk-based leverage ratio to curb excessive balance sheet growth not underpinned by capital.

The financial crisis exposed weaknesses in liquidity management and a high dependence on short-term refinancing. Therefore, Basel III introduces two liquidity ratios: the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) to reflect the stability of longer-term refinancing. These measures will be accompanied by enhanced liquidity management requirements.

Basel Committee creates new instruments to address weaknesses revealed by the crisis

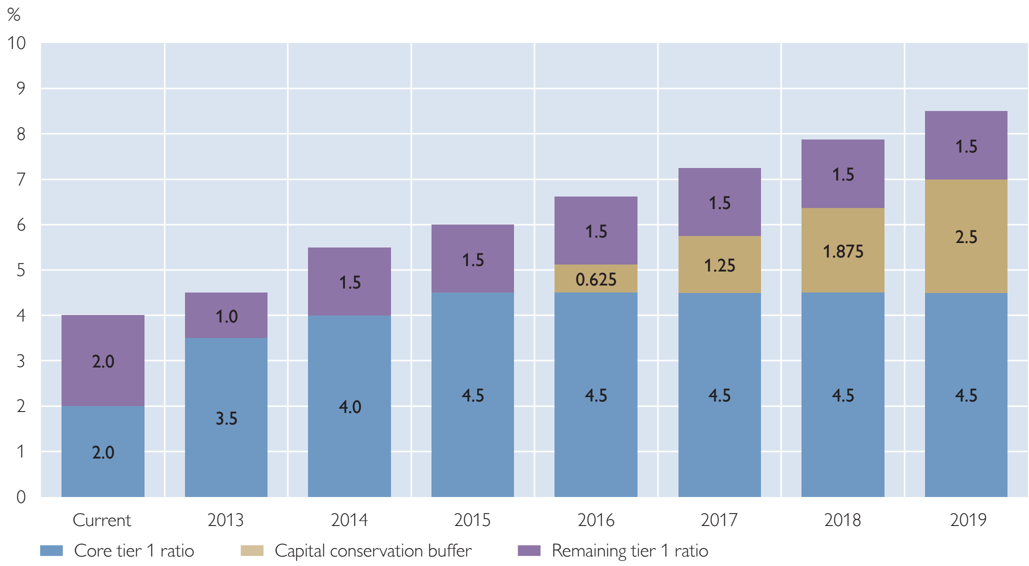
Banks will be obliged to hold a capital conservation buffer (CCB) of 2.5% to reduce the procyclical effects of Basel III. The closer banks' regulatory ratios come to the minimum requirement, the greater the constraints on earnings distributions will be. Finally, a countercyclical buffer of between 0% and 2.5% can be implemented in case of excessive credit growth.

Gradual implementation helps prevent negative impact on growth

The implementation of Basel III is subject to detailed transition arrangements. The entire set of capital ratios must be implemented as of the begin-

Chart 17

Basel III: New Tier 1 Requirements



Source: BIS.

ning of 2019. The core tier 1 ratio will be raised gradually between 2013 and 2015 to 4.5%. The capital conservation buffer of 2.5% will also be introduced step by step (between 2016 and 2019). The leverage ratio will be introduced on a trial basis from 2013 on but will become mandatory only as of 2018. A comprehensive trial phase will also be applied for the two liquidity ratios; their binding introduction is scheduled for 2015 (LCR) and 2018 (NFSR). The new standards have yet to be adopted at the EU level by the Council and the European Parliament. Proposals for a regulation or a directive are expected to be submitted in spring 2011.

For Austria's banks, the reforms imply, according to the current status of the implementation of CRD IV, not only the obligation to meet the new capital ratios but also some adaptations to several equity instruments, in particular cooperative capital, participation capital, preference shares and supplementary equity. The limited eligibility of minority interest also involves some need for change. According to estimates, the Austrian banking sector will have to raise an additional EUR 15 billion to EUR 18 billion (tier 1 and tier 2) to meet the higher qualitative and quantitative capital standards.

Box 4

Potential Implications of the New Regulatory Standards – A Preliminary Assessment

Results of the international study on the impact of Basel III

On December 16, 2010, the Basel Committee on Banking Supervision published the results of the Quantitative Impact Study to assess the effects of the Basel III rules. 263 banks from 23 countries took part in the exercise, which differentiated between banks that have tier 1 capital above EUR 3 billion (Group 1) and all other banks (Group 2). The data were collected in a consolidated form. The purpose of the exercise was to examine the effects of the new standards on a synthetic bank (i.e. the aggregate of all banks) without taking into account any transitional arrangements. The additional capital required refers to the capitalization as at December 31, 2009; no assumptions about banks' future profit or behavioral responses were included. Overall, the exercise showed that the impact on Group 1 banks was much stronger than that on Group 2 banks. In total, banks worldwide are estimated to require an additional EUR 173 billion in common equity tier 1 capital plus a buffer of EUR 602 billion. Of these amounts, Group 1 banks account for EUR 165 billion and EUR 577 billion, respectively.

The exercise also included an assessment of the impact of the new liquidity standards (without assuming any changes in the risk profiles or financing structures of banks). It was found that most banks did not reach the 100% minimum thresholds. For Group 1 banks, the average LCR was 83% (Group 2 banks: 98%) and the average NSFR was 93% (Group 2 banks: 103%).

OeNB study investigates the macroeconomic effects of the new regulatory standards in Austria

The OeNB conducted a study to analyze the impact of the new regulatory rules on the Austrian banking system in 2010.[1] Apart from assessing the effects of the primarily capital- or liquidity-based measures (new definition of equity, capital buffers, structural liquidity ratio, etc.), which had also been examined in the Basel Committee's exercise, the OeNB's study also looked into the macroeconomic effects of additional stabilization measures. These included above all the abolition of implied government guarantees for unsecured bank debt, the treatment of systemically important banks on the basis of contingent capital instruments,[2] as well

[1] See OeNB Financial Stability Report 20, pp. 86–114. http://www.oenb.at/en/img/fsr_20_gesamt_tcm16-214505.pdf.

[2] Contingent capital is capital that becomes available if a contingency (emergency) occurs and that facilitates turning debt into equity or enables writedowns.

as the EU's reform of deposit guarantee schemes. The OeNB estimated the macroeconomic costs under different scenarios that take into account medium- and long-term effects on the one hand and, additionally, indirect effects coming from the euro area on the other hand. The results differ significantly depending on the individual measures, but the macroeconomic costs appear to be within reasonable limits and are comparable with those established for other countries by the Basel Committee. In any case, the costs are substantially below the results published by individual banks and interest groups. Investment in higher stability must be considered in relation to the high costs caused by financial crises.

New European Supervisory Architecture Becomes Operative on January 1, 2011

The reform of the European supervisory architecture has resulted in the creation of four new institutions: the European Systemic Risk Board (ESRB), in charge of identifying and analyzing systemic risk, as well as three other EU supervisory authorities, each responsible for specific financial sectors.

The ESRB – a guardian of financial stability in Europe

The ESRB took up its work as the institutionalized early warning system for financial market risks on January 1, 2011. An integral part of the new European System of Financial Supervision (ESFS) and an independent body of the EU with its office at the ECB, the ESRB has the mandate to provide in-depth analyses of systemic risks to the financial system in the EU and to issue warnings where such risks are deemed to be significant. Furthermore, the ESRB shall issue, where appropriate, recommendations for remedial action in response to the risks identified. The chair of the ESRB is the President of the ECB. The Governor of the OeNB is a voting member of the ESRB General Board. The ESRB will work hand in hand with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA), supplying them with the information about systemic risk that these bodies need to fulfill their tasks. Conversely, the three authorities are required to cooperate closely with the ESRB, in particular by providing the necessary (individual bank) data and by ensuring a proper follow-up to the warnings and recommendations issued by the ESRB. Coordinating the General Board's work is the task of the Steering Committee; the Advisory Technical Committee (ATC) and the Advisory Scientific Committee (ASC) provide assistance and support. The ATC is composed especially of representatives of national central banks, whereas the ASC brings together recognized experts from business and academic fields. The ECB provides analytical, statistical, administrative and logistical support to the ESRB, in particular by hosting the ESRB Secretariat.

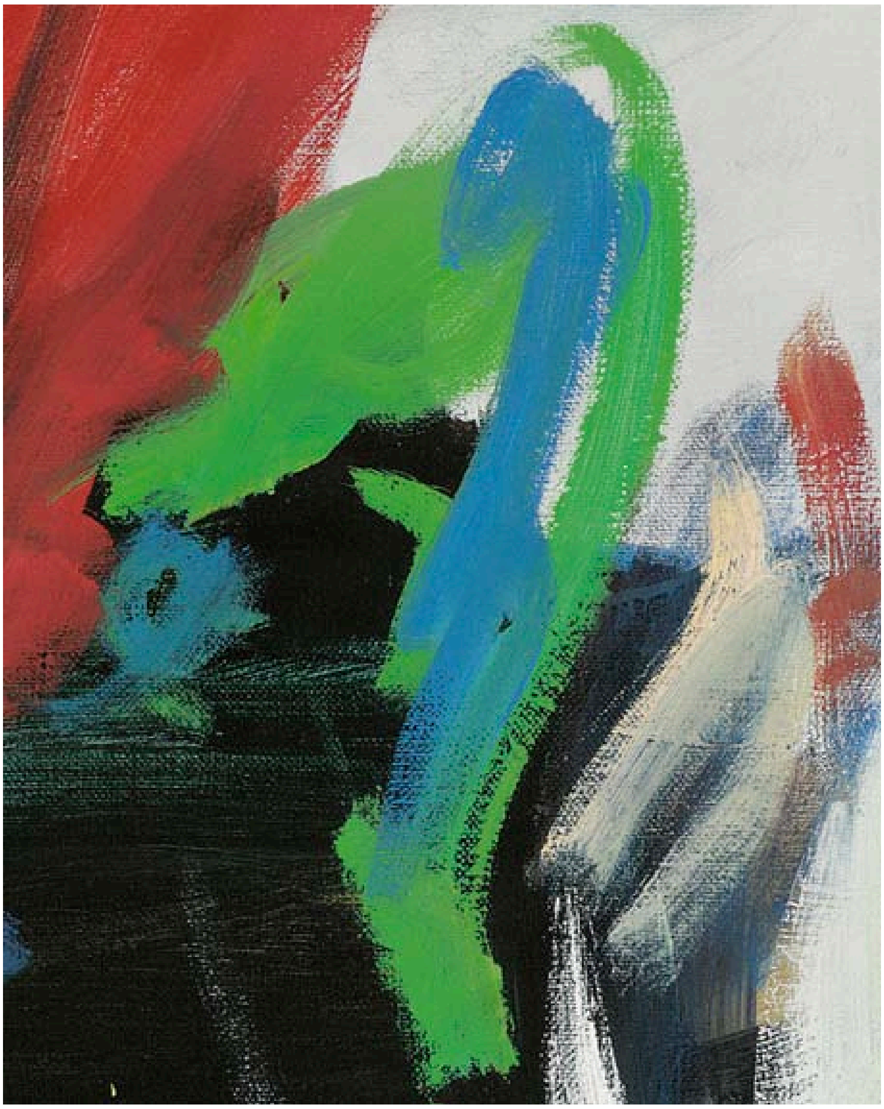
Large-scale preparations for the new supervisory framework at the OeNB

The establishment of the ESRB has made it necessary for the OeNB to more closely coordinate its EU and national financial stability analysis activities, reinforcing its cross-sectoral perspective. This includes drawing up assessments of the effects of risk warnings and recommendations issued by the ESRB on the Austrian financial market (impact assessments) as well as monitoring the effectiveness of the measures taken. Reflecting the broad range of issues covered by the ESRB, the OeNB established a secretariat as a platform for information and coordination, which consists of one expert each from the areas financial stability, economics, and statistics. The FMA is also represented in the secretariat to add its perspective.

EBA responsible for individual bank issues

The European Banking Authority (EBA) officially came into being on January 1, 2011. As the successor organization to the Committee of European Banking Supervisors (CEBS), it has taken over CEBS' tasks and responsibilities; it has legal personality and therefore is to play a key role in harmonizing the legal framework for banks in Europe. To this end, the EBA will issue directly applicable, legally binding implementation standards for supervisory authorities.

Furthermore, the EBA may intervene directly at the bank level (1) in crisis situations (i.e. if the ESRB and the EU Council have identified a crisis), (2) in cases of disagreement among national supervisors, and (3) in situations in which national supervisors breach EU law. In principle, supervision remains a national responsibility, and the national supervisors cooperate closely with the EBA to fulfill this responsibility.



The OeNB as a Customer-Oriented Enterprise

To reach its core objectives – securing price stability, financial stability and payment services – the OeNB relies on precise and timely statistical information and on the continuous development of payment means and payment systems. As the global economy becomes increasingly integrated and dynamic, new indicators of structures and developments in financial markets are needed to identify crisis events at an early stage. Developing such indicators calls for enhanced international cooperation and close contacts among the national agents involved both in the area of statistics and in the harmonization of payment services. Its expertise and geographical location make Austria a cash supply hub for the countries in Central, Eastern and Southeastern Europe (CESEE). The expansion of the strategic stock of cash reserves at the OeNB in Vienna has further strengthened this function. The OeNB's various business areas coordinate their interaction to serve partners and customers both at the national and the international level in the best possible way.

The OeNB – A Center of Competence for Financial Statistics

Statistics – one of the OeNB's core tasks

The turbulences of the past years have shown that precise and timely information on structures and developments in financial markets is essential to identify crisis events at an early stage and react to them quickly. Such information is indispensable for monetary policy decision making, banking supervision and the preservation of financial stability. For the OeNB, statistics have long been a core task – accurate statistics serve the OeNB to reach its objectives of securing price stability, financial stability and payment services. At the same time, the financial crisis has clearly revealed the areas in which statistics will face challenges and where the major potential for the expansion of statistical services lies. Developing a comprehensive and detailed microdata structure that clearly maps all connections between securities – including those between creditors, debtors and types of instruments – in detail is crucial to address crisis situations quickly and efficiently. The OeNB cooperates closely with the ECB in developing a corresponding international database (Securities Holder Statistics).

Extensive cooperation produces know-how and reliable statistics

It is no longer possible to capture and comprehend the increasingly integrated and dynamic world economy on the basis of isolated national statistical systems. In a world where enormous funds can be transferred within a few seconds and investors can be active anywhere on the globe irrespective of their actual location, international cooperation in statistics is of paramount importance and an imperative also for the future. Accordingly, the OeNB has been cooperating for some time with statistical institutions both in Austria and abroad as well as with international organizations like the IMF, the OECD or Eurostat and has taken the initiative in refining European and international statistical standards and regulatory frameworks. Currently, work is under way to draft the new set of Eurostat guidelines on national accounts, while drafting activities for the IMF's Balance of Payments Manual 6 were completed recently. Furthermore, the ECB's monetary and interest rate statistics and the IMF's Financial Soundness Indicators have been improved. International statistical cooperation also focused on the risk indicators used by the newly established European Banking Authority (EBA) and on the impending expansion of the Central Credit Register.

OeNB relies on cost efficiency and reduces reporting burden

Austrian reporting entities, above all banks and other financial services providers as well as nonfinancial corporations and households, are the OeNB's most important partners in producing statistical data. Given the steadily increasing need for statistical information, often prompting the legal obligation to deliver the respective data, both the compilation and transfer of statistical data by the reporting agents and the processing of these data by the OeNB are becoming more and more complex to handle. To reduce the burden on the reporting agents while maintaining compliance with the applicable legal and contractual data delivery obligations, the OeNB has begun to evaluate the entire statistical production process with a view to cost efficiency. Moreover, the OeNB continuously improves the internal processing of reported data by optimizing the respective interfaces (see also Intellectual Capital Report). High efficiency gains also result from the OeNB's long-standing cooperation with Statistics Austria under several cooperation framework agreements.

Raising efficiency through quality management in statistics

In statistical reporting, constant monitoring and fine-tuning of core processes during quality management helped further improve workflows and quality assurance procedures. In the field of supervisory and monetary statistics, intensified ex post assessments across statistical reports were performed (inter alia with a newly developed visualization program) in addition to the existing plausibility checks of reported data. At the end of 2010, the OeNB carried out a survey among agents reporting data for supervisory and monetary statistics, which provided valuable impulses for report processing. All in all, the OeNB's supervisory and monetary statistics were published on time although data volumes had increased.

Customized communication of statistical information

It is of paramount importance for the OeNB to communicate its statistical data to the public in a customized and user-friendly manner. Numerous press conferences and press releases serve to deliver statistical information – in a clear and comprehensible way – to the Austrian population via the media. A series of statistical publications, ranging from leaflets presenting condensed information to comprehensive quarterly publications, provide different readers with precisely the statistical data they seek. As the need for solid financial statistics is likely to increase further in the future, the requirements made on the reliability and robustness of OeNB statistics will rise as well. The OeNB's cooperation with newly established European supervisory bodies such as the European Systemic Risk Board (ESRB) is just one of many examples of the OeNB's endeavors to provide high-quality statistics.

Providing Secure Money – A Core Competence of the OeNB

Austria as a Cash Supply Hub

Austria's geographical position is an asset in implementing the ECB decision to maintain a strategic stock of cash reserves for the Eurosystem. Also, Austria plays an important role in providing euro cash to the CESEE countries. Thus, when Slovenia and Slovakia adopted the euro, the first deliveries of euro banknotes to these countries came from Vienna. Moreover, the OeNB successfully fulfilled its intended role as a cash competence center and logistics hub of the Eurosystem, in particular during the financial turmoil. The fulfillment of this role relies largely on the OeNB's good cooperation with the ECB and the national central banks of the European Union, which appreciate the OeNB's flexibility in cash logistics planning and organizing cross-border cash transports. This is one of the main reasons why the Eurosystem has decided to expand the strategic stock of euro cash held by the OeNB in Vienna.

Information on Security Features Helps Reduce Number of Counterfeit Banknotes in Circulation

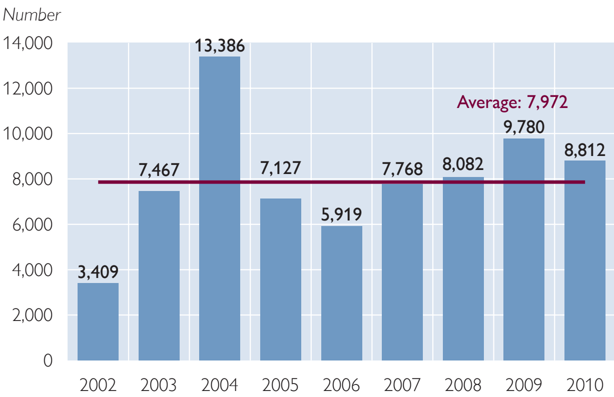
The quantity of counterfeits in Austria remains very small. Thus, a total of 8,812 counterfeit banknotes were recovered from circulation in Austria in 2010. Of this total, counterfeit EUR 20 banknotes accounted for 31.4%, EUR 50 banknotes for 30.6% and EUR 100 banknotes for 24%. The EUR 617,095 total loss incurred from counterfeits was down by 11% against the previous year.

Testing banknote processing machines improves security

Banknotes can be validated quickly and reliably with banknote authentication devices and banknote counting and sorting machines. As required by the

Chart 18

Euro Counterfeits Recovered from Circulation in Austria (2002–2010)



Source: OeNB.

ECB, manufacturers can have their respective devices and special sensors tested free of charge at the OeNB Test Center in Vienna. Test results are made available on the OeNB's and the ECB's websites. In the reporting year, the Test Center tested a total of 144 devices.

Identifying authentic banknotes with certainty

The better the quality of a banknote, the easier it is to check its security features. In 2010, Geldservice Austria Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (GSA) processed 1.5 billion banknotes, checking them for authenticity and fitness in line with OeNB provisions. Over the same period, 2 billion euro coins were checked for authenticity and fitness for circulation.

SEPA – The Single Euro Payments Area

SEPA: making safe payments across Europe

Within the Single Euro Payments Area (SEPA), users of payment services can effect cashless euro payments from a single bank account within Europe, using a single set of payment instruments as easily, efficiently and safely as in previous national payments. This applies to credit transfers, debit transfers, payments with credit and debit cards as well as to the withdrawal of cash from automated teller machines (ATMs). From January 1, 2012, electronic transfers in euro will reach recipients' accounts across the EU on the next business day at the latest (until December 31, 2011, within three days). Moreover, the amount transferred will be credited to the beneficiary's account immediately and in full. Customers will only need to have a single bank account and one payment card from their bank to make both national and cross-border payments within SEPA. In addition, within SEPA, customers will for the first time have the possibility to make cross-border debit transfers in euro. In these transactions, the International Bank Account Number (IBAN) and the Bank Identifier Code (BIC) will be used to safely identify individual bank accounts, thus replacing the previously used national bank account and routing numbers.[1] To communicate these changes in everyday payment transactions in a comprehensive manner, the OeNB launched an information campaign in summer 2010, placing advertorials in Austrian print media and distributing brochures.

National Clearing House Goes Live

Clearing operations of Austrian banks are secure

The domestic interbank clearing service, which is scheduled to go live in November 2011, will further improve the security and quality of interbank

[1] *The applicable IBAN and BIC can be found on bank statements, at online banking portals and on all newly released bank and debit cards.*

retail payments; it will also increase efficiency. Interbank default risks will be reduced, and, as interbank balances will be netted, banks will require less liquidity. This, in turn, will relieve the strain on participating banks' capital requirements and will reduce the risk costs for the entire financial market. Moreover, security will also be boosted, as settlements will have to be final and in central bank money.

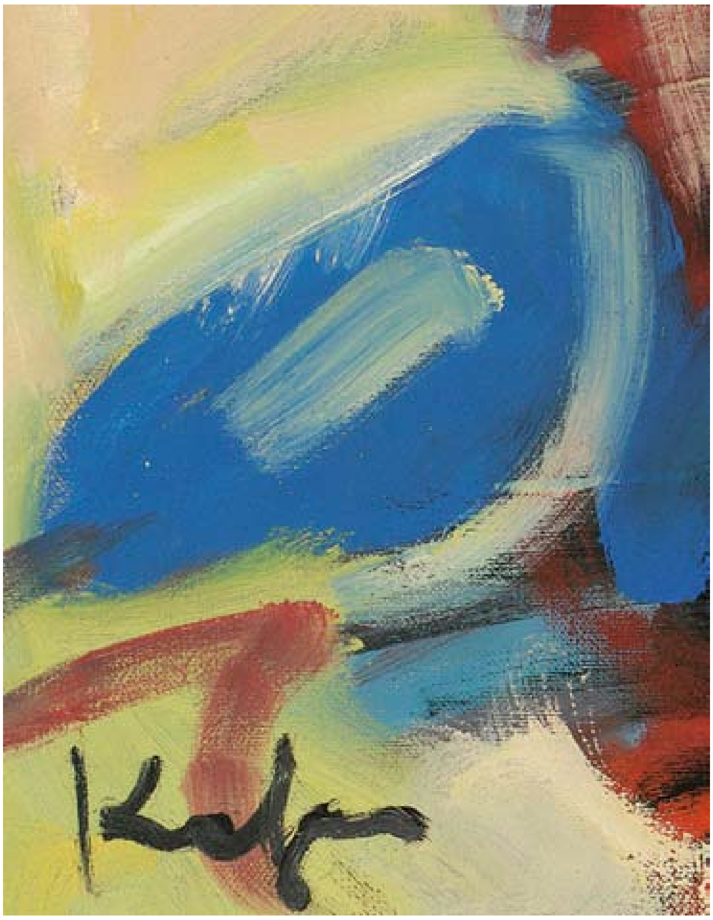
Harmonization of Securities Settlement

TARGET2-Securities – "half-way to delivery"

Via a single shared platform (SSP), TARGET2-Securities (T2S) will enable the harmonized settlement of securities transactions across Europe. T2S will provide European central securities depositories (CSDs) with harmonized services for the settlement of national and cross-border securities transactions. To increase security, settlement in T2S will also be in central bank money. Current T2S activities focus on the harmonization of securities settlement and on the reduction of European securities settlement fees, in particular fees for cross-border transactions. T2S is scheduled to start operation in September 2014.

The OeNB – A Sustainable Enterprise

When Austria joined the Economic and Monetary Union, the OeNB became the country's hub for communications between the Eurosystem, economic policymakers, businesses and the general population. Communicating with the public and transferring knowledge to key economic stakeholders has become even more important in light of the prevailing economic uncertainty. The OeNB has met the heightened demand for information, using a wide range of publications and services. In providing these additional services, it had to rely on efficiency gains alone; staff levels remained constant and natural resources were used responsibly.



Intellectual Capital Report 2010 – Cost-Effective and Transparent Provision of Knowledge-Based Services

Security and Stability in Challenging Times

The Oesterreichische Nationalbank is obligated by law to use all the means at its disposal to maintain price stability and financial stability. Making the best possible use of intellectual capital and relying on modern and efficient business processes is essential for a knowledge-based organization like the OeNB, all the more so in challenging times.

Setting knowledge goals and monitoring success through performance indicators

The OeNB has been tracking developments related to its knowledge goals and has compiled an annual intellectual capital report based on performance indicators since 2003. This report has helped maintain the OeNB's high performance levels by ensuring sustainable cost optimization in light of the goal to reduce staff numbers.

Knowledge Goals of the OeNB

Competence through specialized knowledge: *OeNB staff must meet high quality requirements, not least in light of the OeNB's active role in the Eurosystem.*

Confidence through knowledge transfer: *Proactive dissemination of information is meant to create and foster public understanding of how the OeNB works.*

Efficiency through modern management: *The OeNB is committed to constantly optimizing its business processes and risk management.*

Interdisciplinarity through international orientation and cooperation: *OeNB experts participate in national and international networks, which is crucial for fulfilling the OeNB's stability mandate.*

New Investment in Knowledge-Based Capital

Share of women in management positions on the rise

Share of university graduates continues to rise while staff numbers remain constant

The OeNB's knowledge-based capital is instrumental in maintaining a high performance level. To ensure that its tasks are completed efficiently and to the highest standard, the OeNB needs to invest continuously in its intellectual capital.

The OeNB recruited numerous new staff members in light of higher requirements and new responsibilities it assumed in the field of financial market supervision. Still, staff numbers remained broadly unchanged from 2009, coming to 986.2 full-time equivalents end-2010. Performing these new tasks involves highly specialized know-how; accordingly, the share of university graduates among OeNB employees increased by another 2.7 percentage points to a total of 47.2%. This development underscores the importance of human capital in a knowledge-based organization like the OeNB.

Under the patronage of OeNB Governor Ewald Nowotny, the Women's Platform for Success set itself the goal of fostering transparency and proactively promoting equal opportunity. The platform's continuous work over the past few years has been instrumental in raising awareness for the importance of equal opportunity as a key competitive factor. After all, an organization can only make full use of its human potential once equal opportunity has been achieved. The respective indicators show first signs of progress. For instance, the share of women in manage-

Table 2

Indicators of Investment in Knowledge-Based Capital

Indicator	Unit	2008	2009	2010	Strategic target
Staff structure					
Full-time equivalent staff (year-end)	number	968.2	984.1	986.2	↘
Fluctuation rate	%	1.2	0.9	1.8	→
University graduates	%	41.3	44.5	47.2	↗
Gender management					
Ratio of women to men in staff	%	39 : 61	39 : 61	40 : 60	↗
Ratio of women to men in the specialist career track	%	32 : 68	33 : 67	33 : 67	↗
Ratio of women to men in management positions	%	18 : 82	18 : 82	20 : 80	↗
Flexible working arrangements					
Part-time employees	%	7.8	8.6	9.4	→
Staff in teleworking scheme	%	4.2	5.0	5.7	→
Staff on sabbatical	number	7	5	6	→
Knowledge acquisition					
Training days per employee (annual average)	days	4.2	3.2	3.1	↗
Training participation rate	%	64.5	55.1	57.3	↗
Cost of training and education per employee	EUR	2,280	1,940	1,906	→
Staff who completed the development center program	number	24	24	12	→
Internal job rotations	number	37	19	33	↗
Working visits to national and international organizations (external job rotations)	number	37	32	37	→
Interns from universities of applied sciences	number	30	31	41	→

Source: OeNB.

Note: This table shows indicator values for 2010 as well as for 2008 and 2009. Arrows are used to indicate the OeNB's medium-term targets in areas in which the OeNB takes management measures to achieve certain knowledge goals. These arrows represent strategic targets rather than actual developments.

ment positions has increased by 2 percentage points over the past three years.

The OeNB considers continuous further training of employees an essential success factor. Following a decline in 2009 owing to the challenges posed by the financial and economic crisis, the training participation rate recovered and came to 57.3% in 2010, and the average number of training days per employee remained broadly stable at 3.1 days per year. The OeNB's indicators of staff mobility, too, are on the rise again. In 2010, a total of 70 employees participated in the OeNB's job rotation program, which allowed them to either work in a different OeNB division or with an organization in a related field in Austria or abroad. Another ambitious initiative is the supervisory academy, which is offered jointly by the OeNB and the FMA. This tailor-made and highly technical training program ensures that financial supervisors receive comprehensive basic training and attain uniform qualification levels. The program will benefit above all new staff members, as it allows them to acquire a sound basic knowledge in all areas of supervision. 2010 saw the launch of two courses with almost 50 participants from the OeNB.

Supervisory academy – basic training in all areas of supervision

Optimal Output through Cost-Optimized Processes and Structures

The OeNB aims at achieving maximum efficiency in its business processes while at the same time maintaining the required quality level. For this reason, the OeNB took extensive measures to increase efficiency in 2010, and it continued a cost-cutting program that was launched in 2009. This program focuses on optimizing processes in core business areas and support functions across divisions and on achieving additional synergy effects.

IT Security Standards Raised Again

The OeNB's IT: ISO/IEC 27001 certified

In December 2010, the OeNB's IT function was certified to the internationally recognized ISO 27001 standard by external auditors. The ISO/IEC 27001 standard specifies the requirements on information security management systems, which are intended to manage and control information security risks by implementing, reviewing and continually improving adequate security mechanisms so as to preserve the confidentiality, integrity and availability of all information assets throughout the value chain. The OeNB has had an IT quality management system in place since 2001. This system was recertified to the ISO 9001:2008 standard in December 2010 following the latest revision of the standard. The integration of the OeNB's IT security systems into existing management processes and combined audits have helped unlock substantial synergy potential. An additional layer of IT security was implemented in 2010, thus increasing access security for workstations and optimizing the associated processes.

Reform Concept for the OeNB's Statistical Function

Important reform project launched in the Statistics Department

In 2010, the OeNB launched a project it called "Statistics and Analysis – Reorganization and IT Systems" (START), which forms the basis for an organizational and technical reform of the OeNB's statistical function. Within the five-year implementation period, structures and processes in the Statistics Department will be adapted to meet future requirements, and the related IT applications will be migrated to a future-proof infrastructure. At the same time, the project will contribute significantly to reducing costs as part of the OeNB's cost-cutting program. This marks the beginning of a redesign of the OeNB's statistical function, which will cover the entire field of statistical reporting and the associated process of data compilation, evaluation systems as well as the production and publication of statistics.

Modernization of the System Landscape for Facility Management

A new IT architecture for the OeNB's facility management was implemented in a multi-year project and put into operation in 2010. The optimization of processes and the use of standardized IT applications helped improve both the operating efficiency and the security of the OeNB's facility and infrastructure management.

Participation in ESCB Projects

The OeNB supports collaboration within the ESCB to tap further synergies. To this end, the OeNB is actively involved in the work of the Eurosystem IT Steering Committee (EISC) and the ESCB's Information Technology Committee (ITC). Moreover, the OeNB provides input into specific ESCB projects (e.g. the ESCB teleconference system, tender operations, bilateral interventions, the Counterfeit Monitoring System) and bilateral projects (e.g. eTender, Common Credit Assessment System). As a result of this cooperation at the European level, certain in-house IT applications have gradually been replaced by new systems that are used throughout the ESCB.

Table 3

Indicators of Knowledge-Based Processes

Indicator	Unit	2008	2009	2010	Strategic target
Management structure and processes					
Staff-to-manager ratio	number	6.8	7.0	7.3	→
Product managers	number	73	70	72	→
Process managers	number	38	35	33	→
Technical infrastructure					
IT services for the ESCB/Eurosystem	number	2	3	4	↗
IT applications	number	206	210	214	→
OeNB help desk queries	number	24.192	23.795	21.252	↘
Internal service level agreements	number	55	57	59	→
Average Intranet visits per day	number	4.426	3.760	3.812	↗
Efficient processes					
Quality auditors	number	13	13	13	→
Certified areas	number	12	10	10	→
Entries in the OeNB's terminology database	number	20.170	20.370	20.630	↗
Degree of automation in the procurement process	%	49.0	43.0	46.0	↗
Processed supervisory and monetary statistics data	number (million)	23.1	26.5	28.3	→
Timely publication of supervisory and monetary statistics	%	97.0	92.0	97.0	→
Error-free payment transactions	%	99.9	99.8	99.8	→
Innovations					
Staff resources utilized for innovative projects	%	6.0	4.4	5.5	→
Staff suggestions for improvements	number	92	57	60	→
Decentralized structure					
OeNB representative and branch offices	number	7	6	6	↘
OeNB subsidiaries offering payment systems services	number	–	5	5	→

Source: OeNB.

Note: – stands for "no data available."

Cutting Cost by Optimizing Procurement

To enhance process efficiency, the OeNB uses an e-procurement system to centralize all procurement requests from the various divisions and to process all orders with an IT-based system. The OeNB's procurement policy is guided by the principles of cost effectiveness, efficiency and environmental protection. The OeNB is subject to the Federal Procurement Act, which means that public tenders are required for procurements above EUR 100,000. In 2010, a total of 25 tenders were carried out. Further cost savings were made thanks to intensive cooperation with the European Procurement Coordination Office (EPCO) and coordinated procurement for several central banks.

Sustainable Creation, Exchange and Transfer of Intellectual Capital for Top Performance

High Demand for Economic Analyses

The OeNB provides analyses and studies on a broad range of subjects, including monetary and financial policy as well as real-economy issues that are relevant from a monetary policy perspective. The main focus of these analyses is on crisis resolution, ensuring price stability and maintaining financial stability, as well as on economic developments in Central, Eastern and Southeastern Europe. In 2010, the OeNB also participated in two ESCB research networks (the Household Finance and Consumption Network and the Macro-Prudential Research Network). A cooperation project involving central banks from seven Eastern and Southeastern European countries continued to analyze and evaluate the monetary policy of the Austro-Hungarian monarchy from 1860 to 1918.

In 2010, OeNB staff members authored a total of 172 papers, most of which were published in the OeNB's periodical publications on economics. In addition to the print editions of its publications, the OeNB relied above all on its website – which attracted a substantial number of visits in 2010 – as the main channel of knowledge transfer. Findings were also disseminated through the OeNB's research update. This online publication is aimed primarily at other central banks, international organizations, policymakers and researchers. Conferences, workshops, seminars and a summer school served as forums for exchanging knowledge with national and international experts.

Publications portfolio at *www.oenb.at*

The OeNB's economic expertise is also evident in its portfolio of publications and services as well as a number of analysis and forecasting tools that were developed in-house (e.g. an econometric macro-forecasting model, an economic short-term indicator and a leading indicator of exports). Economic analyses drawn up by OeNB staff provide an essential foundation for taking monetary policy decisions in the Governing Council of the ECB. They also serve as an information interface between the Eurosystem, Austrian economic policymakers and the general public.

Technical Central Bank Cooperation: Sharing Knowledge to Multiply Knowledge

Joint Vienna Institute offers new crisis-related courses

The Joint Vienna Institute (JVI) is an international training institute that was launched in 1992. In 2010, the Austrian Finance Ministry, the IMF and the OeNB concluded a new Memorandum of Understanding on the continuation of its activities, which will allow for an increase in the number of JVI courses by up to 40%. The number of participants in JVI courses rose from 1,495 in

2009 to 1,937 in 2010. Of the 108 course weeks held at the JVI, 10 were offered by various OeNB divisions.

JVI courses are primarily aimed at experts from the public sector and/or central banks of Central, Eastern and Southeastern European countries and of the Commonwealth of Independent States. The courses focus above all on the practical aspects of macroeconomics and finance. The JVI responded swiftly and effectively to the economic and financial crisis: More than 50% of its courses in 2010 were crisis-related.

Supporting multilateral EU programs

In addition to holding lectures at the JVI, OeNB experts also pass on their know-how and experience by contributing to multilateral technical assistance programs that are funded by the EU and coordinated by the ECB. For instance, the OeNB and several ESCB partners have been assisting the Bank of Russia in the implementation of the Basel II framework. In two other projects, they are helping Centralna banka Bosne i Hercegovine and Narodna banka Srbije to attain EU standards in key areas of central banking. Also, the OeNB actively participates in a regional assistance program targeted at banking supervisors in EU candidate and potential candidate countries.

Stepping Up Information Exchange on Financial Stability and Banking Supervision

Establishing platforms for fast and efficient knowledge transfer

The challenges raised by the financial crisis have highlighted the crucial importance of cooperation and the exchange of expertise on banking supervision and financial stability. To facilitate this knowledge transfer, OeNB experts have established and expanded several platforms within the OeNB. Reporting data and market data are now merged in factsheets, thus providing a faster and more standardized, risk-orientated overview of developments in financial markets. The OeNB also produces factsheets for individual CESEE countries, given the substantial exposure of the Austrian financial system to this region. In addition, the OeNB launched several new division newsletters, instituted briefings and established discussion forums, thus ensuring a fast flow of communication and transfer of know-how between management and staff across OeNB divisions.

Efficient knowledge transfer is especially important regarding banking stress tests (see chapter on Financial Stability). Two OeNB departments are involved in stress testing: The Financial Stability and Bank Inspections Department makes calculations and discusses the results with the banks, while the Economic Analysis and Research Department draws up the scenarios. To ensure that the divisions involved are efficiently coordinated, the OeNB deploys a stress test management team in which the Austrian Financial Market Authority is also represented. The team meetings are a platform for discussing the stages of the process, the macroeconomic scenarios, the test results and the conclusions to be drawn as well as options for action.

Statistics Hotline

Statistics hotline operates successfully

In its capacity as a competence center for financial statistics, the OeNB publishes the data it compiles both to meet high customer demand and to fulfill international commitments. The Internet is the most important distribution channel; one-third of those who use the OeNB website go to the Statistics and Reporting area, and statistics newsletters account for around one-half of subscriptions to the OeNB's electronic newsletters. The OeNB issues more than 50 statistical press releases every year. The six press conferences held in

2010 were a welcome opportunity to highlight statistical results and explain the underlying concepts. The OeNB's Statistics hotline took 1,744 calls and e-mail queries in 2010.

OeNB Experts Provide Cash Training

The OeNB uses various channels to inform people how to identify genuine euro banknotes, such as the Internet and media cooperations, information stalls at fairs and the Euro Bus. The information material is tailored to all kinds of target groups ranging from schoolchildren (Euro Kids Tour) to professional cash handlers. As a special service, OeNB experts also hold cash handling courses across Austria, which are open to everyone and can be attended free of charge. These courses aim at familiarizing people with the security features of euro banknotes using the FEEL-LOOK-TILT test. This simple test allows euro counterfeits to be identified without special equipment. Attending such a training course is especially recommended for professional cash handlers, like bank tellers and retail cashiers. In the reporting year, a total of 10,894 people from all target groups participated in the OeNB's cash handling courses. Thanks to an information campaign that was launched during the 2010 Euro Bus tour, the OeNB was able to reach out to more than 5,000 retail salespersons and inform them of the OeNB's cash training.

Feel-Look-Tilt test

International and National Cooperation

The OeNB is currently represented in 254 international bodies. In addition to participating in 146 ESCB/Eurosystem committees and other bodies, the OeNB's management and staff also represented Austrian interests in 108 European and international bodies, including EU, OECD and IMF bodies. Organizing and attending conferences, seminars and workshops is yet another important aspect of the OeNB's international cooperation activities. Some of these events have been taking place for several years. For instance, the meeting of the central bank governors of Austria and its neighbors in Central and Eastern Europe, namely the Czech Republic, Hungary, Slovakia, Slovenia and, since 2009, also Poland, was held for the sixth time in 2010. Another case in point is the informal dialogue between Hrvatska narodna banka and the OeNB, which took place for the fifth time in 2010.

As an integral part of Austria's economic policy architecture, the OeNB is also represented in meetings on the coordination of EU issues between individual ministries and is frequently consulted on specific issues. This exchange of information at the national level is highly important, because the OeNB governor, like his EU counterparts, participates in informal meetings of the EU finance ministers. In addition, the OeNB's vice governor participates in the meetings of the Economic and Financial Committee of the EU. The OeNB is also represented in numerous other Austrian forums, e.g. on payments, banknotes and coins, counterfeiting, as well as Statistics Austria bodies.

The OeNB is represented in numerous national and international bodies

Public Relations Campaigns in Challenging Times

In 2010, the OeNB stepped up its information campaigns in light of the persistently difficult monetary policy environment and the situation in the financial markets. 130 press releases were issued to communicate the OeNB's assessments, data and forecasts on economic developments in Austria, the financial sector in general and Austrian banks in particular. Journalists had the opportunity to obtain information from OeNB experts at 25 press conferences in 2010.

Call center and website inquiries on the rise

The number of inquiries handled by the OeNB's call center rose by 15% to 34,368 in 2010; as in earlier years, there were more phone calls than e-mail inquiries. Most of the questions focused on the economic situation in Greece, the threat of inflation due to rising commodity prices, the Euro Bus tour, foreign currency loans, gold and silver prices as well as the changes regarding cross-border payments (IBAN and BIC). The OeNB call center and the Statistics hotline handled 36,112 inquiries altogether. The OeNB website (www.oenb.at) received an average 133,036 page views per day. To facilitate communication between the general public and the OeNB's management, the OeNB introduced an online platform (www.direktzurnationalbank.at) in 2010, which allows everyone to address questions on central bank issues to the OeNB's Governing Board. This platform is maintained by the OeNB's Press Office, the call center and an external partner. 77 inquiries were posted in 2010, reaching out to 250 readers on average per month.

Numerous conferences and meetings

By organizing 216 events on 243 days for almost 12,000 international and national participants in 2010, the OeNB again strengthened its role as a renowned think tank and hub for knowledge transfer. The events focused above all on monetary and economic policy issues as well as the debt crisis. The OeNB's two major conferences – the Economics Conference in spring ("Central Banking after the Crisis: Responsibilities, Strategies, Instruments") and the Conference on European Economic Integration in fall ("Catching-Up Strategies after the Crisis") drew participants from 32 countries.

Money Museum and trade fairs

In 2010, the Money Museum welcomed 16,060 visitors in 491 groups for guided tours, workshops and special events, such as the Business Week for Kids, children's university events, family days, programs during school vacations as well as the Museum Night. On 43 days, the staff manning the OeNB's information stall at fairs in Salzburg, St. Pölten, Wels, Dornbirn, Klagenfurt, Graz, Innsbruck and Vienna interacted with some 38,500 visitors who inquired about the OeNB's tasks and about topical economic and financial issues.

Euro Bus and Euro Kids Tour

The Euro Bus toured the country for the ninth time in 2010, stopping in 70 places across the country. It attracted 26,400 visitors, who mainly exchanged schilling banknotes and coins totaling ATS 39.4 million into euro and were also provided with information. The Euro Kids Tour, an educational program for elementary schoolchildren, was extended to 65 schools and thus reached out to 10,851 children throughout Austria. In 2010, the OeNB provided around 3,500 secondary schools with a DVD it produced for classroom use, a booklet on money and monetary policy, information leaflets and extensive teaching material as well as short films. With its advertorials and a series of small ads in high-circulation newspapers and magazines, the OeNB reached out to 2.4 million Austrians aged 18 to 59 (94.1% of this age group) between January and December 2010. The advertorials and ads addressed key issues like price stability and inflation, banking supervision and financial stability, euro cash, the Euro Bus as well as gold and the value of the euro.

Table 4

Indicators of Knowledge-Based Output

Indicator	Unit	2008	2009	2010	Strategic target
Cooperation and networks					
National bodies with OeNB representatives	number	103	103	107	→
International bodies with OeNB representatives (ESCB, etc.)	number	235	242	254	→
Technical assistance activities	days	530	597	562	→
Information visits to the OeNB	number	97	102	95	→
People attending courses at the Joint Vienna Institute (JVI)	number	1,366	1,495	1,937	→
OeNB-hosted national and international events	number	260	259	240	→
Staff with external teaching assignments	number	21	29	31	↗
OeNB-financed scholarships	number	45	45	45	→
(Co)supervised master's theses or dissertations	number	36	23	32	→
Lectures delivered	number	729	748	718	→
ESCB staff on external working experience (EWE) visits at the OeNB	number	10	12	3	→
Cash expertise					
Visitors to the Money Museum	number	15,738	16,251	16,060	→
Cash training courses	number	417	390	367	↗
Persons attending cash training courses	number	7,283	9,521	10,894	↗
Euro Kids Tour participants	number	4,119	10,653	10,851	→
Communication and information					
Queries to OeNB hotlines (call center and Statistics hotline)	number	38,829	29,837	36,112	↗
Page views on the OeNB's website (daily average)	number	84,651	90,104	133,036	↗
Newsletter subscriptions	number	17,529	18,948	18,110	↗
Press conferences	number	26	22	25	→
Press releases	number	158	152	130	→
Opinions prepared on projects submitted for research promotion[1]	number	456	983	1711	→
Research cooperation projects with external partners	number	46	70	83	→
Publications					
OeNB publications	number	68	70	75	→
Papers published in specialist journals by OeNB staff	number	178	184	172	→
Scientific papers by OeNB staff published in refereed journals	number	88	99	74	→
Confidence and image					
Confidence index in the fourth quarter of 2010	%	67.0	65.0	65.0	↗
Image index in the fourth quarter of 2010 (values between 5.50 and 10.00 signal success)	value range	7.1	7.1	7.1	↗

Source: OeNB.

[1] *The rise in the number of opinions in 2010 was due to an increase in applications for small business loans under the European Recovery Programme, as the eligible investment amount was raised from EUR 30,000 to EUR 100,000.*

OeNB Promotes Research, Science and Culture

Research promotion

Since its foundation in 1966, the OeNB's Anniversary Fund for the Promotion of Scientific Research and Teaching has supported over 9,200 research projects with funding of around EUR 728 million. The promotion activities concentrate mainly on excellent fundamental research projects in the fields of economics and medical science (clinical research) but also in the social sciences and the humanities. In 2010, the General Council of the OeNB approved grants in the amount of around EUR 7.4 million for 114 new projects. Projects are selected in a peer review process on the basis of sound criteria, with stringent quality standards applying to the funding process. Moreover, the OeNB has provided EUR 421 million of funding to the National Foundation for Research, Technology and Development (FTE-Nationalstiftung) since 2004.

Within the framework of its culture promotion activities, the OeNB maintains a collection of valuable antique string instruments, which currently comprises 36 violins, violas and violoncelli, some of which were crafted by renowned masters of Italian classical violinmaking. The instruments are on loan to Austrian musicians, thus helping to promote Austria's reputation as a land of music. In addition to its collection of string instruments, the OeNB also has two art collections. The first focuses on Austrian painting of the interwar years and the second on Austrian contemporary art. In April 2010, the OeNB published a bilingual catalogue entitled "Austrian Art – Dialogues and Images" with Christian Brandstätter Verlag. This book features selected works of Austrian contemporary artists from the OeNB's collection.

Environmental Statement 2010 – The OeNB as an Ecological Organization

Updated Environmental Statement in Accordance with EMAS Regulation (EC) No 1221/2009

The OeNB has made a sustainable commitment to environmental protection since 1999, when it started to participate in the Community Eco-Management and Audit Scheme (EMAS). In 2002, voluntary implementation of the EMAS regulation was extended to all OeNB sites throughout Austria. As an EMAS certificate holder, the OeNB has documented its effort to improve its corporate input-output balance beyond statutory requirements. Making environmental consciousness part of the OeNB's everyday activities and procedures is at the heart of the OeNB's environmental management system. The Austrian Federal Minister of Agriculture, Forestry, Environment and Water Management highlighted the OeNB's successful role as an eco pioneer and role model when he presented the OeNB's Web and Printing Services with the Austrian Ecolabel for printed matter in November 2010.

Environmental Management – Clear Tasks and Responsibilities

Environmental management system embedded in corporate culture

The EMAS management representative of the OeNB determines the OeNB's environmental policy and ensures that the organization complies with the obligations delineated in the EMAS Council Regulation – e.g. compliance with environmental laws, establishment and pursuit of environmental objectives,

Box 5

The OeNB's Corporate Environmental Policy

Stability, security and trust guide the OeNB in fulfilling its responsibility toward society. These principles reflect the OeNB's corporate governance, which is geared toward sustainability, and apply equally to the OeNB's core business and to its commitment to people and the environment. A top environmental performer among Austrian enterprises, the OeNB nevertheless seeks to continuously improve its environmental track record. Apart from fulfilling all general environmental standards required by law, the OeNB complies with the principles of the EMAS Regulation.

Responsible Resource Consumption

The OeNB endeavors to minimize negative impacts on the environment by preventing unnecessary energy and resource consumption while observing sound business management principles.

Green Procurement

The OeNB observes ecological criteria in purchasing products and services, especially in tenders. Moreover, the OeNB ensures that the products selected are made of ecologically sound materials and that their life cycle is environmentally sustainable.

Promoting Eco-Consciousness among Employees

The OeNB promotes ecological awareness and action among all its employees by providing specific information and training measures.

Research and Cooperation with Partners

The OeNB cooperates with partners and actors of civil society to implement environmental protection measures. In addition, the OeNB provides impulses beyond its immediate scope of action and works toward a livable environment. Its endeavors also include support for research projects.

Information Policy

In providing the public with information, the OeNB pursues an open, responsible policy.

Climate Change

The OeNB acknowledges the risks involved in climate change as a key challenge of our times and therefore strives to make its activities fully carbon neutral in the long run.

OeNB switches to green electricity in early 2010

continuous improvements. The OeNB's well-organized and transparent environmental management system, which is embedded in the organization's corporate culture, has been instrumental in implementing the OeNB's environmental policy in recent years (for details, see the OeNB's Sustainability Report 2009). Although the OeNB has long entered the second decade of compliance with EMAS standards, there is still room for improvement. The OeNB therefore continuously updates its environmental program and activities.

Environmental Core Indicators

Thanks to the OeNB's efforts and the implementation of numerous measures, the OeNB's environmental core indicators have significantly improved over the past few years.

The OeNB Purchases Electricity Generated from Renewable Resources

Since January 1, 2010, the OeNB has been purchasing electricity exclusively from certified electricity providers supplying power from renewable resources (wind, solar and biomass power as well as power generated by small hydroelectric plants). This switch has reduced CO_2 emissions by more than 50% and enables the OeNB to make an important contribution to climate protection and thus to meeting Austria's Kyoto objective (i.e. reducing greenhouse gas emissions by 13% against the basis year 1990).

Table 5

The OeNB's Ecological Indicators

	Site	2008	2009	2010	Unit	Benchmark[1] +	Benchmark[1] ~	Benchmark[1] –
Energy								
Electricity consumption	Vienna	7.46	7.65	7.86	MWh per employee	< 4.5	6	> 8
Distance heat consumption[2]	Vienna	52	52	60	kWh per m^2	< 110	130	> 150
Total energy consumption	Vienna	10,417,500	10,360,270	11,101,696	kWh			
of which renewable energy[3]	Vienna			7,067,666	kWh			
Water								
Water consumption	Vienna	113	118	124	liter per employee per day	< 60	100	> 120
Consumption of materials and products								
Total paper consumption[4]	All sites	119	128	53	kg per employee	< 100	200	> 500
Consumption of printing/photocopying paper	All sites	7,752	6,990	6,034	sheets per employee	< 8,000	10,000	> 12,000
Share of recycled photocopying paper	All sites	90	85	85	%	> 30%	20%	< 10%
Consumption of cleaning agents[5]	Vienna	14	18	17	g per m^2		not available	
CO_2 emissions								
CO_2 emissions (total)[6]	All sites	2.66	2.66	1.19	tons per employee	< 2.8	4	> 4.5

Source: OeNB.

[1] *Sources: Association of Environmental Management in Banks, Savings Banks and Insurance Companies, guideline of the Austrian Society for Environment and Technology (ÖGUT).*
[2] *Increase in heat consumption owing to higher number of heating degree days in 2010.*
[3] *Since January 1, 2010, green electricity from certified providers; recorded and presented according to the EMAS III regulation since 2010.*
[4] *Paper consumption is based on procurement figures and therefore includes stocks. Total consumption in 2010: 59,062 kg.*
[5] *Total consumption in 2010: 1,144 kg.*
[6] *Operations and business travel in 2010: 1,336 tons. Basis for calculation: CO_2 conversion factors according to the Austrian Environment Agency (2010). Including energy consumption, business trips and transportation.*

Table 6

OeNB Transport Mileage

	2008	2009	2010
Business travel by airplane, km	2,840,988	3,068,390	2,888,620
Business travel by car, km	702,866	745,180	770,375
Business travel by train, km	144,600	151,800	148,200
Diesel consumption for transportation, liter	20,153	18,478	18,786

Source: OeNB.

Transportation

While the number of kilometers OeNB staff members traveled on business continued to increase in 2010, the number of kilometers traveled by air went down. As a new environmental measure, the OeNB installed electric charging stations for electric bikes and scooters in 2010, thus providing OeNB staff with an incentive to use these climate-friendly transport alternatives in addition to public transport. The charging stations are also powered by green electricity.

OeNB sets up electric charging stations

Table 7

Waste Generation by the OeNB

	2008	2009	2010
	kg		
Nonhazardous materials	53,360	52,810	54,645
Hazardous materials	7,590	1,710	1,927
Recyclables[1]	150,700	123,780	107,163
Total	**211,650**	**178,300**	**163,735**
Share per employee	228	198	182

Source: OeNB.

[1] *In 2008, the share of waste paper in total recyclables was above average owing to the disposal of printed matter bearing the obsolete OeNB logo.*

Lower Waste Generation and Strong Decline in Paper Consumption

The marked reduction in total paper consumption in 2010 (from 128 kg per staff member to 53 kg) was attributable not only to destocking, but also to the use of optimized (digital) printing techniques and a reduction in the number of printed publications. Photocopying paper consumption went down not least because of the efforts of the environmental protection team and, above all, because an electronic filing system was introduced. Total waste generation also developed positively: Between 2008 and 2010, the volume of waste material generated at the OeNB went down by 44 tons.

The OeNB's Web and Printing Services Is Awarded the Austrian Ecolabel

Austrian Ecolabel for printed matter

In 2010, the OeNB's Web and Printing Services received the Austrian Ecolabel for printed matter, which is its third seal of green approval in addition to the EMAS and ISO 14001 certificates. These standards call for environment-friendly production processes, economical use of resources and waste prevention combined with high quality according to ISO 9001.

The OeNB's Environmental Performance in 2010 and Environmental Program for 2011

Table 8

	Responsible	Deadline	Status
Further greening in procurement			
Use of certified green electricity	Specialist division	2010	Implemented
Austrian Ecolabel for environmentally compatible print products for the OeNB's Web and Printing Services	Specialist division, EPT [1]	2010	Implemented
Relaunch of eProcurement – reassessment of ecolabeled items in the OeNB's electronic order catalogue to promote the increased use of ecological alternatives (foreseen increase of 10 %) and display of ecological options	Specialist division, EPT [1]	2011	In preparation
Consider ecological criteria in choosing companies participating in tenders for printers	Specialist division	2011	In preparation
Purchase fair trade coffee	EPT [1]	2011	In preparation
Responsible resource consumption			
Project "Publications at the OeNB" to cut back on printing and paper consumption	Organization Division	2011	In progress
Use of LED safety lighting in the OeNB's main building and northern office building	Specialist division	2010	Implemented
Further test runs of LEDs (garage)	Specialist division	2011	In preparation
Electric charging stations for electric bikes and scooters	Specialist division, EPT [1]	2011	In progress
Avoid the use of plastics, introduce cloth bags	Organization Division	2011	In progress
Implementation of the Facility Management System FM2 (use of basic data for input/output statement)	Specialist division	2010	Implemented
Greener lunch menus: Use Viennese drinking water and regional, seasonal and biological foods	Specialist division, EPT [1]	2011	In preparation
Increase environmental awareness through training			
Relaunch of the EcoControl database to increase user acceptance and support internal audits	EPT [1]	2010	Implemented
Car-Free Day: Encourage employees to make increased use of public transport	EPT [1]	2011 2010	In preparation Implemented
Day of the sun: Information on alternative energy options	EPT [1]	2011 2010	In preparation Implemented
Campaign to promote the use of Viennese "Citybikes" (station: Otto-Wagner-Platz)	EPT [1]	2011	In preparation
Efficient deployment of the new air conditioning system	EPT [1]	2011	In preparation
Monthly film screenings in the "green cinema" series	EPT [1]	2011	In progress
Environmental award for OeNB employees	EPT [1]	2011	In preparation
Reduce emissions			
Travel concept, review of carriers used for business trips	EPT [1]	2011	In progress
Step up environmental protection activities throughout the OeNB			
Perform environmental audits of suppliers, in particular of subsidiaries	EPT [1]	2011	In preparation
Develop a green IT concept			
Life cycle reviews of energy and resource consumption of the OeNB's IT facilities (servers, computers, printers, etc.)	Specialist division, EPT [1]	2011	In progress
Information events on green IT and lifecycle management (Ecodesign)	EPT [1]	2011	In preparation
Waste, cleaning			
Separate containers for the disposal of aluminum cans and initiative to minimize the purchase of aluminum cans	Specialist division, EPT [1]	2011	In preparation
Use of paper towels and liquid soap with seal of green approval	Specialist division, EPT [1]	2010	Implemented

Source: OeNB.

[1] *EPT = Environmental protection team.*

EMAS Validation and Registration

This Sustainability Report, which consists of the Annual Report, the Intellectual Capital Report and the Environmental Statement of the

Oesterreichische Nationalbank

has been validated in accordance with the EMAS Regulation by

Quality Austria Training, Certification and Evaluation Ltd
Gonzagagasse 1/24, 1010 Vienna, Austria
AT-V-004,

an independent certification, evaluation and validation organization.

The Lead Verifier herewith confirms that the environmental policy, the environmental program, the environmental management system, the environmental review, the environmental audit procedure and the present Sustainability Report of the company conform to Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 (EMAS Regulation) and validates the relevant information for the Environmental Statement in accordance with Annex IV point B (e) to (h).

Moreover, Quality Austria confirms that this report has been drafted in accordance with the G3 Sustainability Reporting Guidelines 2006 of the Global Reporting Initiative (GRI), that the data and information correspond to the documentation examined in the organization and that the information provided in the GRI content index (which is available at *www.oenb.at*) is correct, so that Quality Austria can confirm the organization's self-assessment at a reporting level of B+.

Vienna, March 2011

Konrad Scheiber	Martin Nohava	Martina Göd
Managing Director, Quality Austria	*Lead Verifier*	*Verifier*

The next update of the environmental statement will be published as part of the OeNB's Sustainability Report in May 2012.

Financial Statements of the Oesterreichische Nationalbank for the Year 2010

Balance Sheet as at December 31, 2010

Assets

	December 31, 2010 EUR		December 31, 2009 EUR	
1 Gold and gold receivables		9,500,984,325.08		6,898,736,647.07
2 Claims on non-euro area residents denominated in foreign currency		7,147,181,526.36		5,597,138,934.05
2.1 Receivables from the IMF	2,565,869,545.47		2,321,992,381.43	
2.2 Balances with banks, security investments, external loans and other external assets	4,581,311,980.89		3,275,146,552.62	
3 Claims on euro area residents denominated in foreign currency		85,232,100.26		173,386,148.88
4 Claims on non-euro area residents denominated in euro		2,685,388,020.60		1,596,334,701.39
4.1 Balances with banks, security investments and loans	2,685,388,020.60		1,596,334,701.39	
4.2 Claims arising from the credit facility under ERM II	–		–	
5 Lending to euro area credit institutions related to monetary policy operations denominated in euro		8,182,000,000.00		20,236,000,000.00
5.1 Main refinancing operations	4,209,000,000.00		1,680,000,000.00	
5.2 Longer-term refinancing operations	3,488,000,000.00		18,556,000,000.00	
5.3 Fine-tuning reverse operations	485,000,000.00		–	
5.4 Structural reverse operations	–		–	
5.5 Marginal lending facility	–		–	
5.6 Credits related to margin calls	–		–	
6 Other claims on euro area credit institutions denominated in euro		130,401.68		193,213.60
7 Securities of euro area residents denominated in euro		16,402,575,451.87		10,011,997,205.51
7.1 Securities held for monetary policy purposes	3,824,829,285.49		677,549,594.57	
7.2 Other securities	12,577,746,166.38		9,334,447,610.94	
8 General government debt denominated in euro		420,210,892.83		427,397,446.51
9 Intra-Eurosystem claims		26,182,352,341.38		18,145,821,159.71
9.1 Participating interest in the ECB	144,216,254.37		111,854,587.70	
9.2 Claims equivalent to the transfer of foreign reserves	1,118,545,877.01		1,118,545,877.01	
9.3 Claims related to the issuance of ECB debt certificates[1]	×		×	
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	24,919,590,210.00		16,915,420,695.00	
9.5 Other claims within the Eurosystem (net)	–		–	
10 Items in course of settlement		73,339,279.86		105,810,483.44
11 Other assets		9,087,050,911.43		8,421,390,913.05
11.1 Coins of euro area	123,046,277.19		112,089,846.90	
11.2 Tangible and intangible fixed assets	145,711,556.04		141,920,475.65	
11.3 Other financial assets	7,124,127,740.87		6,529,189,779.49	
11.4 Off balance sheet instruments' revaluation differences	464,005.41		2,106,511.80	
11.5 Accruals and prepaid expenses	636,028,696.57		584,573,890.83	
11.6 Sundry	1,057,672,635.35		1,051,510,408.38	
		79,766,445,251.35		71,614,206,853.21

[1] *Only an ECB balance sheet item.*

Liabilities

	December 31, 2010 EUR		December 31, 2009 EUR	
1 Banknotes in circulation		21,492,172,690.00		20,640,089,545.00
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro		11,699,088,739.55		15,512,640,647.83
2.1 Current accounts (covering the minimum reserve system)	6,765,823,739.55		6,041,731,647.83	
2.2 Deposit facility	4,878,265,000.00		9,470,909,000.00	
2.3 Fixed-term deposits	55,000,000.00		–	
2.4 Fine-tuning reverse operations	–		–	
2.5 Deposits related to margin calls	–		–	
3 Other liabilities to euro area credit institutions denominated in euro		–		–
4 Debt certificates issued [1]		×		×
5 Liabilities to other euro area residents denominated in euro		68,985,378.87		65,481,129.17
5.1 General government	68,059,773.02		61,750,651.79	
5.2 Other liabilities	925,605.85		3,730,477.38	
6 Liabilities to non-euro area residents denominated in euro		5,233,551.11		6,570,964.83
7 Liabilities to euro area residents denominated in foreign currency		77,075.21		76,106.14
8 Liabilities to non-euro area residents denominated in foreign currency		–		–
8.1 Deposits, balances and other liabilities	–		–	
8.2 Liabilities arising from the credit facility under ERM II	–		–	
9 Counterpart of Special Drawing Rights allocated by the IMF		2,009,262,394.16		1,890,151,263.64
10 Intra-Eurosystem liabilities		27,496,473,298.67		19,583,869,233.17
10.1 Liabilities equivalent to the transfer of foreign reserves [1]	×		×	
10.2 Liabilities related to the issuance of ECB debt certificates	–		–	
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem	–		–	
10.4 Other liabilities within the Eurosystem (net)	27,496,473,298.67		19,583,869,233.17	
11 Items in course of settlement		1,405,749.77		25,326,500.57
12 Other liabilities		417,492,422.39		440,245,562.77
12.1 Off balance sheet instruments' revaluation differences	39,335.88		56,134.97	
12.2 Accruals and income collected in advance	28,209,767.30		26,358,438.50	
12.3 Sundry	389,243,319.21		413,830,989.30	
13 Provisions		3,697,957,813.72		3,522,982,866.49
14 Revaluation accounts		8,690,216,953.54		5,756,732,330.54
15 Capital and reserves		4,166,250,053.83		4,148,605,121.92
15.1 Capital	12,000,000.00		12,000,000.00	
15.2 Reserves	4,154,250,053.83		4,136,605,121.92	
16 Profit for the year		21,829,130.53		21,435,581.14
		79,766,445,251.35		71,614,206,853.21

[1] *Only an ECB balance sheet item.*

Profit and Loss Account for the Year 2010

	Year ending December 31, 2010 EUR		Year ending December 31, 2009 EUR	
1.1 Interest income	1,219,511,155.02		1,177,859,436.16	
1.2 Interest expense	–500,914,148.30		–551,958,570.23	
1 Net interest income		718,597,006.72		625,900,865.93
2.1 Realized gains/losses arising from financial operations	97,222,709.52		360,938,334.59	
2.2 Writedowns on financial assets and positions	–73,348,314.03		–34,387,572.03	
2.3 Transfer to/from provisions for foreign exchange, interest rate, credit and goldprice risks	–300,000,000.00		–549,894,072.50	
2 Net result of financial operations, writedowns and risk provisions		–276,125,604.51		–223,343,309.94
3.1 Fees and commissions income	5,192,244.95		5,812,449.66	
3.2 Fees and commissions expense	–4,287,978.51		–4,997,524.43	
3 Net income from fees and commissions		904,266.44		814,925.23
4 Income from equity shares and participating interests		74,652,953.05		67,240,381.56
5 Net result of pooling of monetary income		22,833,435.73		74,578,618.09
6 Other income		22,795,313.44		16,077,283.23
Total net income		563,657,370.87		561,268,764.10
7 Staff costs		–119,512,248.77		–119,261,650.29
8 Expenses for retirement		–38,129,106.64		–4,088,741.27
9 Administrative expenses		–77,718,312.30		–80,420,296.95
10 Depreciation of tangible and intangible fixed assets		–11,738,581.65		–11,750,819.01
11 Banknote production services		–14,850,978.00		–25,205,406.00
12 Other expenses		–10,653,069.79		–2,977,685.51
Total expenses		–272,602,297.15		–243,704,599.03
		291,055,073.72		**317,564,165.07**
13 Corporate income tax		–72,763,768.43		–79,391,041.27
		218,291,305.29		238,173,123.80
14 Transfers to the pension reserve and central government's share of profit		–196,462,174.76		–216,737,542.66
15 Profit for the year		**21,829,130.53**		**21,435,581.14**

Notes to the Financial Statements 2010

General Notes to the Financial Statements

Legal Framework

The Oesterreichische Nationalbank is obligated (under Article 67 paragraph 2 of the Federal Act on the Oesterreichische Nationalbank 1984 as amended and as promulgated in Federal Law Gazette I No. 108/2007 – Nationalbank Act)[1] to prepare its balance sheet and its profit and loss account in conformity with the provisions established by the Governing Council of the ECB under Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank (Statute of the ESCB and of the ECB). These rules are laid down in the recast accounting guideline adopted by the Governing Council of the ECB on November 11, 2010.[2] The OeNB's financial statements for the year 2010 were prepared fully in line with the provisions set forth in this guideline. Cases not covered by the guideline have been covered by the generally accepted accounting principles referred to in Article 67 paragraph 2 second sentence Nationalbank Act and in Article 67 paragraph 3 as regards the applicability of the provisions of the third volume of the Unternehmensgesetzbuch (Commercial Code). The OeNB is exempt from Article 243 paragraph 2 last sentence of the Commercial Code and from preparing consolidated financial statements as required under Article 244 et seq. Commercial Code.

Format of the Balance Sheet and the Profit and Loss Account

The financial statements for 2010 were prepared in the format laid down by the Governing Council of the ECB. It should be noted that *Expenses for retirement* have been shown as a separate item in the profit and loss account (item 8) starting with the financial statements for 2009; all subsequent profit and loss account items were renumbered accordingly. In the financial statements 2010, asset item 9.3 *(Claims related to promissory notes backing the issuance of ECB debt certificates)* was renamed *Claims related to the issuance of ECB debt certificates,* and liabilities item 10.2 *(Liabilities related to promissory notes backing the issuance of ECB debt certificates)* was renamed *Liabilities related to the issuance of ECB debt certificates.*

Accounting Policies

The OeNB's financial statements are prepared in conformity with the provisions governing the Eurosystem's accounting and reporting operations, which follow accounting principles harmonized by Community law and generally accepted international accounting standards. In particular, the following accounting principles have been applied:

- economic reality and transparency
- prudence
- recognition of post-balance sheet events
- materiality
- going-concern basis
- accruals principle
- consistency and comparability

Time of Recording

Foreign exchange transactions, financial instruments denominated in foreign currency and related accruals must be recorded at trade date (economic ap-

[1] *The Nationalbank Act was amended with effect from January 1, 2008, with a view to clarifying responsibility for ensuring financial stability.*

[2] *Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2010/20).*

proach) while securities transactions (including transactions with equity instruments) denominated in foreign currency may still be recorded according to the cash/settlement approach. Interest accrued in relation to foreign currency transactions, including premiums or discounts, must be recorded on a daily basis from the spot settlement date. To record specific euro-denominated transactions, financial instruments and related accruals, the Eurosystem national central banks (NCBs) may use either the economic or the cash/settlement approach.

Foreign currency transactions whose exchange rate is not fixed against the accounting currency were recorded at the euro exchange rate prevailing on the day of the transaction.

Basis of Accounting

At year-end, both financial assets and liabilities are revalued at current market prices/rates. This applies equally to transactions that are disclosed in the balance sheet and to transactions that are not.[3] The arbitrage pricing principle is used to value gold interest rate swaps and gold forward interest rate swaps. To this end, the products are split into the components at which these products are traded on international exchanges (LIBOR curve, gold swap rates and gold forward rates).

The average acquisition cost and the value of each currency position are calculated on the basis of the sum total of the holdings in any one currency, including both asset and liability positions and both on balance sheet items and transactions that are not disclosed in the balance sheet. Own funds invested in foreign exchange assets are treated as a separate currency item under *other financial assets*, as are those equity instruments (equity shares or equity funds) denominated in foreign currency that are to be disclosed under *other financial assets*.

For securities, revaluation takes place on a code-by-code basis, i.e. of securities with the same ISIN number/type.

Securities classified as held-to-maturity or nonmarketable securities are valued at amortized cost subject to impairment. This also applies to securities purchased under the Eurosystem's Covered Bond Purchase Programme (CBPP). Securities purchased under the Eurosystem's Securities Markets Programme (SMP) are subject to a uniform Eurosystem impairment framework.

The prices of master fund shares are calculated daily by the designated custodian bank or the master fund, using established market information systems on the basis of the assets held by the subfunds.

Participating interests are valued on the basis of the net asset value of the respective company.

Income Recognition

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

Gains and losses realized in the course of transactions are taken to the profit and loss account. The average cost method is used on a daily basis for gold, foreign currency instruments and securities to compute the acquisition cost of items sold, having regard to the effect of exchange rate and/or price movements. As a rule, the realized gain or loss is calculated by juxtaposing the sales price of each transaction with the

[3] *Transactions that are not disclosed in the balance sheet are recorded and disclosed separately.*

average acquisition cost of all purchases made during the day. In the case of net sales, the calculation of the realized gain or loss is based on the average cost of the respective holding for the preceding day.

Unrealized revaluation gains are not taken to the profit and loss account, but transferred to a revaluation account on the liabilities side of the balance sheet. Unrealized losses are recognized in the profit and loss account when they exceed previous revaluation gains registered in the corresponding revaluation account; they may not be reversed against new unrealized gains in subsequent years. Unrealized losses in any-one security, currency or in gold holdings are not netted with unrealized gains in other securities, currencies or gold, since netting is prohibited under the ECB's accounting guideline.

In derogation from general accounting principles and standards, alternative valuation methods may be applied to synthetic instruments; unrealized gains and losses of the instruments combined to form a synthetic instrument are netted at year-end.

Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets are valued at cost less depreciation. Depreciation is calculated on a straight-line basis from the quarter after acquisition throughout the expected economic lifetime of the assets (table 1):

Table 1

Asset	Depreciation period
Computers, related hardware and software, motor vehicles	4 years
Equipment, furniture and plant in building	10 years
Buildings	25 years
Fixed assets costing less than EUR 10,000 (net of value added tax)	no capitalization

Realized Gains and Losses and Revaluation Differences and Their Treatment in the Financial Statements of December 31, 2010

Table 2

	Realized gains profit and loss account item 2.1 (posted to the profit and loss account)	Realized losses profit and loss account item 2.1 (posted to the profit and loss account)	Unrealized losses profit and loss account item 2.2 (posted to the profit and loss account)	Change in unrealized gains (posted to revaluation accounts)
	EUR million	*EUR million*	*EUR million*	*EUR million*
Gold	–	–	–	+2,602.247
Foreign currency				
Holdings for own account	23.808	0.280	0	+318.456
Securities				
Holdings for own account	88.616	15.580	66.360	–51.032
Own funds	0.677	0.018	6.988	+14.268
Participating interests	–	–	–	+30.185
Off balance sheet instruments	–	–	–	–0.540
Total	**113.101**	**15.878**	**73.348**	**+2,913.584**

Banknotes in Circulation and Intra-Eurosystem Balances

Euro banknotes are issued by the ECB and the 16 euro area NCBs, which together comprise the Eurosystem. The total value of euro banknotes in circulation is allocated among Eurosystem members on the last working day of each month in accordance with the banknote allocation key.

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% have been allocated to NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to the OeNB is disclosed under the balance sheet liability item *banknotes in circulation*.

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually put into circulation, as reduced by the banknotes it withdrew from circulation, also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest, are disclosed under the subitems *intra-Eurosystem claims/intra-Eurosystem liabilities: Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem* (see Intra-Eurosystem balances in the notes on accounting policies).

In the first five years following the cash changeover year, the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in NCBs' relative income positions as compared to the values before the cash changeover date. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the reference period and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments are reduced in annual stages until the first day of the sixth year after the cash changeover year when income on banknotes is allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital. The adjustments in the review year took into account the cash changeover dates for Slovakia (2009), Cyprus and Malta (2008) as well as in Slovenia (2007). The respective adjustment periods will terminate at the end of 2014, 2013 and 2012.

The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under item 1 *Net interest income* of the profit and loss account.

According to a decision of the Governing Council of the ECB, the ECB's net income arising from securities purchased under the SMP and the income accruing to the ECB on the remuneration of its intra-Eurosystem claims on NCBs related to its share of euro banknotes in circulation shall be due in full to the NCBs in proportion to their shares in the subscribed capital key in the same financial year it accrues. This income shall be distributed in January of the following year in the form of an interim distribution of profit. The amount of the ECB's income on euro banknotes in circulation may be reduced in accordance with any decision by the Governing Council on the basis of the Statute of the ESCB in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes. Before the end of the year, the Governing Council decides whether all or part of the ECB's income arising from SMP securities and, if necessary, all or part of the ECB's income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of the distributed income does not exceed the ECB's net profit for the year.

The Governing Council may also decide to transfer all or part of the income to be distributed to a provision for foreign exchange rate, interest rate, credit and gold price risks. The amount distributed to NCBs is disclosed in the profit and loss account under item 4 *Income from equity shares and participating interests*.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a net single asset or liability under *net claims/net liabilities related to the allocation of euro banknotes within the Eurosystem*.

Risk Management

Financial risks and operational risks that the OeNB incurs as a result of its central banking activities have a crucial impact on its financial result and on its ability to continue as a going concern. The OeNB's risk management framework is based on binding rules; risk is determined by means of recognized procedures, and risk control is guaranteed through continuous monitoring. Moreover, regular reporting procedures have been put in place.

Financial Risk

Financial risk covers a range of collateral-related risks, basically market, credit and liquidity risk. Reserve asset and risk management principles are laid down in a rule book adopted by the OeNB's Governing Board. Reserve assets are invested by the OeNB's Treasury Department on the basis of a risk budget that reflects the risk limits designated by Governing Board, as adopted by the latter on proposal of the Risk Committee. The Risk Committee monitors compliance with the risk budget based on a recognized risk measurement system, and it reports regularly to the Governing Board. Strategies for broadening diversification to include new currencies and instruments must be authorized by the Governing Board. In line with international trends, the OeNB has implemented an integral risk management framework to monitor financial risk.

Market Risk

Market risk is the risk of exposure arising from movements in markets, in particular exchange rate and interest rate changes. The Investment Committee generates a suitable investment allocation framework subject to risk budget constraints. The Governing Board sets concentration limits for each currency and defines a standard allocation. Currency risk and interest rate risk are managed in line with the limits imposed by the risk budget. Compliance with the risk budget is monitored with VaR calculations based on one-year horizons and confidence intervals of 99%.

The actual risk exposure depends on the amount of assets invested, including gold and Special Drawing Rights, as well as on the amount of own funds and earmarked funds invested.

In addition, the OeNB makes provision for ECB and Eurosystem risks commensurate to its relative capital share in the ECB's paid-up capital. The OeNB employs generally recognized calculation models to determine prorata Eurosystem risks and other market risks not covered by the risk budget.

The risk involved in real estate holdings is calculated using an index for real estate stocks.

Credit Risk

Credit risk is the risk that a counterparty will fail to meet some or all of its obligations. Risk management relies on a credit risk limit system which provides real-time information on all risk limits and risk exposures. The ECB monitors credit risk arising from securities used for monetary policy purposes; OeNB risk reporting accounts for this risk on a pro rata basis. Because of discrepancies between the calculation methods, in particular compared to the methods to calculate pro-rata ECB and Eurosystem credit risk, provision for credit risk is made under other risks specific to central banks.

Liquidity Risk

Liquidity risk is the risk arising from a counterparty's inability to meet its financial obligations in a timely manner or in full, because it may not have sufficient liquid funds to meet its obligations. To avoid this risk, the OeNB deals only with creditworthy counterparties, with security and liquidity considerations taking precedence over yield.

Other Risks Specific to Central Banks

Apart from the risks described above, NCBs are also subject to other specific risks arising from fulfillment of their mandate. The OeNB is aware of these risks, takes measures to reduce them and makes appropriate provisions.

Operational Risk

Operational risk is the risk of incurring losses due to defects, inadequate procedures or systems, human error or unforeseen events affecting operations. Management of operational risk is provided for by the rules laid down in the OeNB's *Risk and Crisis Management Handbook*. Risk valuation takes into account the impact of various risk scenarios on the OeNB's reputation, on costs, and any resulting losses, and is an ongoing process. Reports are submitted to management at half-year intervals.

Table 3 shows financial risk and related financial provisions at year-end 2009 and 2010.

Funds earmarked for appropriation by the Anniversary Fund for the Promotion of Scientific Research and Teaching may be used to cover any loss for the year.

IT Security Policy

IT security policy defines guidelines and provisions to guarantee a high level of security for the development, operation and use of IT systems at the OeNB. The following bodies and persons have key responsibilities in the IT security process:

Table 3

Financial Risk and Financial Provisions on December 31

Financial risk			Financial provisions		
	2010	2009	**2010**	2009	
EUR million			*EUR million*		
Treasury Department risk budget	**5,455**	4,282	**2,851**	1,768	Revaluation accounts[1]
			1,080	1,290	Reserve for nondomestic and price risks
			1,524	1,224	Risk provisions
Other financial risks and risks specific to central banks[2]	**957**	799	**893**	683	Reserve for nondomestic and price risks
			64	116	Provisions in respect of monetary policy operations of the Eurosystem
Total	**6,412**	5,081	**6,412**	5,081	
Risk arising from real estate holdings	**25**	25	Covered by related hidden reserves		

[1] *Revaluation accounts are included in financial provisions subject to the prohibition of netting.*
[2] *Includes credit risk, pro-rata Eurosystem risk and other risk.*

- The IT Security Forum, which provides advice on IT security and coordinates and controls related activities;
- The IT security manager, who is responsible for the technical accuracy of the measures submitted for approval as well as for initiating and implementing IT security processes;
- The IT security experts, who are responsible for drafting and implementing IT security guidelines and IT specifications; and
- The technical experts in charge of the respective products.

Regular tests and reports are part of the framework of the IT security processes.

Related-Party Transactions

Article 237 item 8b Commercial Code stipulates that financial statements must include information about material transactions with related parties that were not concluded under normal market conditions.

Any business the OeNB transacted with related parties in 2010 was at market conditions.

The Republic of Austria became the holder of 100% of the OeNB's shares in July 2010. Pursuant to Article 69 paragraph 3 Nationalbank Act, the central government's share of profit corresponds to 90% of the profit for the year after tax, and by decision of the General Meeting, it additionally receives a dividend of up to 10% of its share of the capital.

Capital Movements

Table 4

Changes in 2010	December 31, 2009 *EUR million*	Increase *EUR million*	Decrease *EUR million*	December 31, 2010 *EUR million*
I Capital				
Capital (stock)	12.000	–	–	12.000
Profit-smoothing reserve	2.226	+12.235	–	14.461
	14.226	+12.235	–	**26.461**
II Provisions for business risks				
Reserve for nondomestic and price risks	1,973.263	–	–	1,973.263
	1,973.263	–	–	**1,973.263**
III Capital including reserves and provisions (I + II)	**1,987.489**	+12.235	–	**1,999.724**
IV Supplementary capital (earmarked)				
OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching[1]				
OeNB Anniversary Fund (initial funding)	31.500	–	–	31.500
OeNB Anniversary Fund National Foundation endowment	1,500.000	–	–	1,500.000
Earmarked capital funded with net interest income from ERP loans[2]	629.616	+5.410	–	635.026
	2,161.116	**+5.410**	–	**2,166.526**
Total capital (III + IV)	**4,148.605**	**+17.645**	–	**4,166.250**

[1] *Funds earmarked for appropriation by the Anniversary Fund for the Promotion of Scientific Research and Teaching may be used to cover any loss for the year.*

[2] *ERP capital, which is earmarked exclusively for ERP loans, must not be used to cover any loss.*

Development of the OeNB's Currency Positions in the Financial Year 2010

Table 5

Net currency position (including gold)	December 31, 2010	December 31, 2009	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Gold and gold receivables	9,500.984	6,898.737	+2,602.247	+37.7
Claims on non-euro area residents denominated in foreign currency	7,147.182	5,597.139	+1,550.043	+27.7
Claims on euro area residents denominated in foreign currency	85.232	173.386	–88.154	–50.8
Other assets	126.605	148.745	–22.140	–14.9
less:				
Liabilities to euro area residents denominated in foreign currency	*0.077*	*0.076*	*+0.001*	*+1.3*
Counterpart of SDRs allocated by the IMF	*2,009.262*	*1,890.151*	*+119.111*	*+6.3*
Other liabilities	*1.276*	*0.983*	*+0.293*	*+29.8*
Revaluation accounts[1]	46.401	56.920	–10.519	–18.5
	14,802.987	**10,869.877**	**+3,933.110**	**+36.2**
Transactions that are not disclosed in the balance sheet (net)	7.682	–104.124	+111.806	+107.4
Total	**14,810.669**	**10,765.753**	**+4,044.916**	**+37.6**

[1] *Resulting from the change in net unrealized exchange rate gains on foreign currency-denominated securities on December 31, 2009, and December 31, 2010.*

Notes to the Balance Sheet

Assets

1 Gold and Gold Receivables

Closing balance	*EUR million*	
December 31, 2010	9,500.984	
December 31, 2009	6,898.737	
Change	+2,602.247	(+37.7%)

This item comprises the OeNB's holdings of physical and nonphysical gold, which amounted to 9,002,105.635 fine ounces or 279,996.82 kg of fine gold on December 31, 2010. At a market value of EUR 1,055.418 per fine ounce (i.e. EUR 33,932.47 per kg of fine gold), the OeNB's gold holdings were worth EUR 9,500.984 million at the balance sheet date.

The valuation on December 31, 2010, resulted in unrealized valuation gains of EUR 2,602.247 million.

2 Claims on Non-Euro Area Residents Denominated in Foreign Currency

Closing balance	*EUR million*	
December 31, 2010	7,147.182	
December 31, 2009	5,597.139	
Change	+1,550.043	(+27.7%)

Table 6 shows the development of *receivables from the IMF.*

Transactions (drawings of SDRs on behalf of IMF members, transfers by the IMF as well as euro payments by IMF member countries) boosted *receivables from the IMF* by a total of EUR 34.054 million. The changes in *receivables from the IMF,* moreover, reflect valuation changes, net exchange rate gains and book value reconciliation (totaling +EUR 27.920 million).

The IMF remunerates participations in the Fund at a rate of remuneration that is updated weekly. In 2010,

Table 6

	December 31, 2010	December 31, 2009	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Total claims (Austrian quota) equivalent to SDR 1,872.3 million[1]	2,166.626	2,038.186	+128.440	+6.3
less: *Balances at the disposal of the IMF*	*1,695.909*	*1,629.443*	*+66.466*	*+4.1*
Receivables from the IMF	470.717	408.743	+61.974	+15.2
SDR holdings	2,022.249	1,905.629	+116.620	+6.1
Other claims against the IMF	72.904	7.620	+65.284	n.a.
Total	**2,565.870**	**2,321.992**	**+243.878**	**+10.5**

[1] *Pursuant to federal law as promulgated in Federal Law Gazette No. 309/1971, the OeNB assumed the entire Austrian quota at the IMF on its own account on behalf of the Republic of Austria.*

this rate hovered between 0.22% and 0.40% per annum, mirroring the prevailing SDR rate.

SDR holdings[4] were recognized in the balance sheet at SDR 1,747.5 million at December 31, 2010. The net increase of holdings in 2010 by EUR 116.620 million resulted from remuneration of the participation in the IMF, interest credited and revaluation differences totaling +EUR 121.113 million. In 2010, the OeNB was vested with the power (by Federal Act 71/2010) to participate in the concessional financing facilities for low-income countries (LICs), which were reformed by the IMF Executive Board, with a contribution of SDR 3.9 million (equivalent to EUR 4.5 million). As the contribution is nonrepayable, it was offset against profit and loss account item 12 *Other expenses*.

Principally, the OeNB continues to be obliged under the IMF's Articles of Agreement to provide currency on demand in exchange for SDRs. Members designated by the IMF may use SDRs up to the point at which the OeNB's SDR holdings are three times as high as its net cumulative SDR allocations, which totaled SDR 1,736.3 million on December 31, 2010. See the *Notes on Transactions Not Disclosed in the Balance Sheet* for information about this obligation.

The OeNB's claims arising from contributions to the Emergency Assistance for Natural Disasters (EAND) shown under *other claims against the IMF* until 2010 were settled in 2010.

On behalf of the Republic of Austria, the OeNB signed a bilateral contract with the IMF to grant credit limited to a maximum amount of EUR 2.18 billion prior to the entry into force of the *New Arrangements to Borrow* (NAB).[5] In 2010, the IMF called on NAB funds of SDR 63 million from the OeNB under the bilateral contract. See the *Notes on Transactions Not Disclosed in the Balance Sheet* for information about the remainder of this obligation.

Table 7 shows the development of *balances with banks and security investments, external loans and other external assets*.

The amounts outstanding on U.S. dollar liquidity-providing swaps (USD

[4] *Pursuant to federal law as promulgated in Federal Law Gazette No. 440/1969, the OeNB is entitled to participate in the SDR system on its own account, but on behalf of the Republic of Austria, and to enter the SDRs purchased or allocated gratuitously on the asset side of the balance sheet.*

[5] *Federal Law Gazette I No. 70/2010 of August 18, 2010.*

Table 7

	December 31, 2010 EUR million	December 31, 2009 EUR million	Change EUR million	%
Balances with banks	1,039.675	365.083	+674.592	+184.7
Securities	3,541.637	2,910.064	+631.573	+21.7
Total	**4,581.312**	**3,275.147**	**+1,306.165**	**+39.9**

Table 8

	December 31, 2010 EUR million	December 31, 2009 EUR million	Change EUR million	%
Balances with banks	0.027	104.136	–104.109	–100.0
Securities	85.205	69.250	+15.955	+23.0
Total	**85.232**	**173.386**	**–88.154**	**–50.8**

150 million) and Swiss franc liquidity-providing swaps (CHF 685.9 million) shown in the balance sheet on December 31, 2009, were settled as scheduled, so that no amounts were outstanding on December 31, 2010.

3 Claims on Euro Area Residents Denominated in Foreign Currency

Table 8 shows the development of *claims on euro area residents denominated in foreign currency*.

Balances with banks as shown on December 31, 2009, resulted from claims that arose from USD 150 million of reverse operations with Austrian banks against collateral. This U.S. dollar funding was made available in connection with a EUR/USD swap that the ECB made with the Federal Reserve Bank of New York under the Federal Reserve's Term Auction Facility. These operations were settled in 2010 as scheduled. In 2010, additional liquidity-providing operations with a total volume of USD 780 million were conducted. All EUR/USD swaps had been settled by December 31, 2010.

4 Claims on Non-Euro Area Residents Denominated in Euro

Table 9 shows the development of *claims on non-euro area residents denominated in euro* on December 31, 2009, and December 31, 2010.

Changes in *marketable securities classified as held-to-maturity* resulted from purchases of securities and portfolio shifts in existing portfolios.

5 Lending to Euro Area Credit Institutions Related to Monetary Policy Operations Denominated in Euro

Table 10 shows the development of liquidity-providing transactions executed by the OeNB.

In accordance with Article 32.4 of the Statute of the ESCB and of the

Table 9

	December 31, 2010 EUR million	December 31, 2009 EUR million	Change EUR million	%
Marketable securities other than held-to-maturity	765.700	530.052	+235.648	+44.5
Marketable securities classified as held-to-maturity	1,906.719	1,060.299	+846.420	+79.8
Other investments	12.969	5.984	+6.985	+116.7
Total	**2,685.388**	**1,596.335**	**+1,089.053**	**+68.2**

Table 10

	December 31, 2010	December 31, 2009	Change	
	EUR million	EUR million	EUR million	%
5.1 Main refinancing operations	4,209.000	1,680.000	+2,529.000	+150.5
5.2 Longer-term refinancing operations	3,488.000	18,556.000	–15,068.000	–81.2
5.3 Fine-tuning reverse operations	485.000	–	+485.000	×
Total	**8,182.000**	**20,236.000**	**–12,054.000**	**–59.6**

ECB, any risks from monetary policy, if they were to materialize, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

5.1 Main Refinancing Operations

Main refinancing operations are regular liquidity-providing reverse transactions carried out by the Eurosystem NCBs with a weekly frequency in the form of standard (variable or fixed rate) tender operations. All main refinancing operations will be continued as fixed rate tender procedures with full allotment until at least January 18, 2011.[6] The interest rate on main refinancing operations was set at 1.0% per annum on May 13, 2009, and remained at that level throughout the review year.

5.2 Longer-Term Refinancing Operations

Longer-term refinancing operations (LTROs) are regular liquidity-providing reverse transactions that are carried out through monthly standard tenders and that have a maturity of three months. Special LTROs with maturities of one month and six months were continued in 2010. All LTROs were conducted with full allotment; both fixed rate and variable rate tenders procedures were used.

The three 12-month LTROs with a combined total of EUR 18.1 billion that began in 2009 matured on schedule in 2010.

5.3 Fine-Tuning Reverse Operations

Three 6-day fine-tuning operations and one 13-day fine-tuning operation were conducted as fixed rate tender procedures with full allotment in the Eurosystem to prevent possible liquidity shortages, as well as liquidity effects as a consequence, from occurring when the 6- and 12-month LTROs mature.

6 Other Claims on Euro Area Credit Institutions Denominated in Euro

Closing balance	EUR million	
December 31, 2010	0.130	
December 31, 2009	0.193	
Change	–0.063	(–32.5%)

This item comprises claims not related to monetary policy operations.

7 Securities of Euro Area Residents Denominated in Euro

Table 11 shows the development of *securities of euro area residents denominated in euro.*

7.1 Securities Held for Monetary Policy Purposes

This item contains securities acquired by the OeNB within the scope of the CBPP[7] and public debt securities acquired in the scope of the SMP[8]. The

[6] *Decision of the Governing Council of the ECB of March 4, 2010 (last changed on September 2, 2010).*

[7] *ECB Decision of 2 July 2009 (ECB/2009/16).*

[8] *ECB Decision of 14 May 2010 (ECB/2010/5).*

Table 11

	December 31, 2010	December 31, 2009	Change	
	EUR million	*EUR million*	*EUR million*	*%*
7.1 Securities held for monetary policy purposes	3,824.829	677.550	+3,147.279	+464.5
7.2 Other securities	12,577.746	9,334.447	+3,243.299	+34.7
of which				
Marketable securities other than held-to-maturity	*6,906.736*	*6,642.323*	*+264.413*	*+4.0*
Marketable securities classified as held-to-maturity	*5,671.010*	*2,692.124*	*+2,978.886*	*+110.7*
Total	**16,402.575**	**10,011.997**	**+6,390.578**	**+63.8**

securities are classified as held-to-maturity.

The total Eurosystem NCBs' holdings of CBPP securities amounts to EUR 60 billion, of which the OeNB holds some EUR 1.5 billion. The acquisition of such securities was completed as scheduled at the end of June 2010. These securities are valued at amortized cost subject to impairment. No impairment was recognized on December 31, 2010. Any risks from holdings of CBPP securities, if they were to materialize, are not shared in full by the Eurosystem NCBs.

Total Eurosystem NCBs' holdings of SMP securities amount to EUR 74 billion, of which the OeNB holds EUR 2.263 billion.

These securities are valued at amortized cost, subject to a uniform Eurosystem impairment framework. No impairment was recognized on December 31, 2010.

In accordance with Article 32.4 of the Statute of the ESCB and of the ECB, any risks from holdings of SMP securities, if they were to materialize, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

7.2 Other Securities

The change resulted chiefly from transactions.

8 General Government Debt Denominated in Euro

Closing balance	*EUR million*	
December 31, 2010	420.211	
December 31, 2009	427.397	
Change	–7.186	(–1.7%)

This balance sheet item exclusively subsumes the claim on the Austrian Federal Treasury from silver commemorative coins issued before 1989, based on the 1988 Coinage Act as promulgated in Federal Law Gazette No. 425/1996. Table 12 shows the change in 2010.

Any amount outstanding on December 31, 2040, will have to be repaid in the five following years (2041 to 2045) in five equal installments. The maximum theoretical federal liability came to EUR 1,157.1 million on December 31, 2010.

Table 12

	EUR million
Government remuneration for silver commemorative coins returned to Münze Österreich AG	+6.478
Proceeds from metal recovery	–7.850
Redemptions made out of the central government's profit share in 2009	–5.814
Total	**–7.186**

9 Intra-Eurosystem Claims

Closing balance	EUR million	
December 31, 2010	26,182.352	
December 31, 2009	18,145.821	
Change	+8,036.531	(+44.3%)

This balance sheet item consists of the claims arising from the OeNB's share of the ECB's capital and the claims equivalent to the transfer of foreign reserves to the ECB. Furthermore, this item shows net claims related to the allocation of euro banknotes within the Eurosystem. Table 13 shows the development of *intra-Eurosystem claims* on December 31, 2009, and December 31, 2010.

9.1 Participating Interest in the ECB

This subitem shows the share that the OeNB holds in the capital of the ECB. The OeNB's percentage share in the fully paid-up capital of the ECB came to 2.7821% on December 31, 2010, and thus remained unchanged from December 31, 2009.

The ECB increased its subscribed capital by EUR 5 billion[9] from EUR 5,760,652,402.58[10] to EUR 10,760,652,402.58 with effect from December 29, 2010. The NCBs of the euro area countries shall pay up their increased capital in three equal annual installments. Consequently, on December 29, 2010, the OeNB paid EUR 32.362 million as its first installment. The two remaining installments will be paid at the end of 2011 and 2012, respectively. The remaining installments of EUR 64.723 million are recognized under *transactions not disclosed in the balance sheet*.

9.2 Claims Equivalent to the Transfer of Foreign Reserves

This item represents the OeNB's claims arising from the transfer of foreign reserve assets to the ECB. The claims are denominated in euro at the original conversion rate.[11] See the *Notes on Transactions Not Disclosed in the Balance Sheet Positions* for information about additional capital contributions transferred to the ECB.

9.4 Net Claims Related to the Allocation of Euro Banknotes within the Eurosystem

This item consists of the OeNB's claims vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see also *Banknotes in Circulation and Intra-Eurosystem Balances*).

10 Items in Course of Settlement

This claim results from net float items settled the next year.

Table 13

	December 31, 2010	December 31, 2009	Change	
	EUR million	EUR million	EUR million	%
9.1 Participating interest in the ECB	144.216	111.854	+32.362	+28.9
9.2 Claims equivalent to the transfer of foreign reserves	1,118.546	1,118.546	–	–
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	24,919.590	16,915.421	+8,004.169	+47.3
Total	**26,182.352**	**18,145.821**	**+8,036.531**	**+44.3**

9 *Council Regulation (EC) No 1009/2000 (OJ L 115/1, 16 May 2000).*

10 *After increase by Decision of the European Central Bank 18. December 2006 (ECB/2006/26) in conjunction with Article 49.3 of the Statute of the ESCB and of the ECB.*

11 *The claims equivalent to the transfer of foreign reserves are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted by 15%.*

Table 14

		December 31, 2010	December 31, 2009	Change	
		EUR million	EUR million	EUR million	%
11.1	Coins of euro area	123.046	112.090	+10.956	+9.8
11.2	Tangible and intangible fixed assets	145.711	141.920	+3.791	+2.7
11.3	Other financial assets	7,124.128	6,529.190	+594.938	+9.1
11.4	Off balance sheet instruments' revaluation differences	0.464	2.107	–1.643	–78.0
11.5	Accruals and prepaid expenses	636.029	584.574	+51.455	+8.8
11.6	Sundry	1,057.673	1,051.510	+6.163	+0.6
Total		**9,087.051**	**8,421.391**	**+665.660**	**+7.9**

11 Other Assets

Table 14 shows the development of *other assets*.

11.1 Coins of Euro Area

This item represents the OeNB's stock of fit coins issued by euro area countries.

11.2 Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets comprise OeNB *premises* and *equipment* (including computers, related hardware and software, and motor vehicles), *tangible real assets* and *intangible fixed assets*.

Table 15 shows the development of *premises*.

Table 15

	EUR million
Cost incurred until December 31, 2009[1]	116.240
Purchases in 2010	1.189
Sales (cost incurred) in 2010[2]	0.741
Accumulated depreciation	42.687
Book value on December 31, 2010	74.001
Book value on December 31, 2009	77.618
Annual depreciation in 2010	4.425

[1] *Premises acquired prior to December 31, 1956, were booked at the cost recorded in the schilling opening balance sheet (Federal Law Gazette No. 190/1954).*
[2] *The balance between the book value of the sales and the underlying historical costs less accumulated depreciation is EUR 0.381 million.*

After the closure of the OeNB's Representative Office in Paris, the condominium owned by the OeNB was sold in 2010. Furthermore, the OeNB sold the Hotel Post in Weißenbach/Attersee, which it had owned.

Table 16 shows the development of *equipment*.

Table 16

	EUR million
Cost incurred until December 31, 2009	83.471
Purchases in 2010	5.472
Sales (cost incurred) in 2010[1]	8.251
Accumulated depreciation	57.414
Book value on December 31, 2010	23.278
Book value on December 31, 2009	25.245
Annual depreciation in 2010	7.306

[1] *The balance between the book value of the sales and the underlying historical costs less accumulated depreciation is EUR 0.133 million.*

Table 17 shows the development of *tangible real assets* (coins of the OeNB's Money Museum).

Table 17

	EUR million
Cost incurred until December 31, 2009	0.542
Purchases in 2010	0.011
Sales (cost incurred) in 2010	–
Accumulated depreciation	–
Revaluation	9.269
Book value on December 31, 2010	9.822
Book value on December 31, 2009	0.542
Annual depreciation in 2010	–

After completing inventorying and cataloguing of the coins purchases before 2004, these coins were recognized as an asset in the financial statements for 2010.

Table 18 shows the development of *tangible real assets* (the OeNB's collection of antique string instruments).

Table 18

	EUR million
Cost incurred until December 31, 2009	39.549
Purchases in 2010	0.662
Sales (cost incurred) in 2010	–
Accumulated depreciation	1.600
Book value on December 31, 2010	38.611
Book value on December 31, 2009	37.949
Annual depreciation in 2010	–

On December 31, 2010, the OeNB's collection of valuable instruments encompassed 29 violins, 6 violoncellos and 3 violas. The string instruments are on loan to renowned musicians under the OeNB's cultural promotion program.

Table 19 shows the development of *intangible fixed assets* (right of use).

Table 19

	EUR million
Cost incurred until December 31, 2009	0.720
Purchases in 2010	–
Sales (cost incurred) in 2010	0.720
Book value on December 31, 2010	–
Book value on December 31, 2009	0.566
Annual depreciation in 2010	0.008

In 2010, the OeNB sold the usufructuary rights to the London condominium of the OeNB's London Representative Office and removed the residual value of EUR 0.558 million from the balance sheet.

11.3 Other Financial Assets

Table 20 shows the development of *other financial assets.*

Of the OeNB's securities portfolio, EUR 1,538.163 million represent investments of pension reserve assets, another EUR 1,583.071 million reflect investments of the *OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching* (of which EUR 1,549.991 million were earmarked as an endowment for the National Foundation for Research, Technology and Development, also referred to in brief as the National Foundation). Under its own funds management, the OeNB had invested EUR 2,827.694 million on the balance sheet.[12] Revaluations of the portfolios resulted in unrealized price gains of EUR 44.454 million and unrealized price losses totaling EUR 6.988 million.

Of the *participating interests,* EUR 690.796 million formed part of the own funds portfolio and EUR 311.759 million part of the investment portfolio relating to investments of the pension reserve.

Table 21 shows the development of *participating interests.*

Table 21

	EUR million
Net asset value on December 31, 2009	971.991
Purchases in 2010	–
Sales in 2010 (at book value)	–
Annual depreciation in 2010	–
Revaluation in 2010	30.565
Net asset value on December 31, 2010	1,002.556

Table 20

	December 31, 2010	December 31, 2009	Change	
	EUR million	EUR million	EUR million	%
Securities	5,948.928	5,412.332	+536.596	+9.9
Participating interests	1,002.556	971.991	+30.565	+3.1
Other investments	244.578	225.351	+19.227	+8.5
Items in course of settlement	–71.934	–80.484	+8.550	+10.6
Total	**7,124.128**	**6,529.190**	**+594.938**	**+9.1**

[12] *The OeNB's own funds shown under liabilities include its capital, the reserve for nondomestic and price risks, the profit-smoothing reserve, earmarked ERP capital and the risk provisions.*

Other investments include investments of the pension reserve (EUR 102.599 million), investments to promote the National Foundation (EUR 50.335 million), investments of the initial OeNB Anniversary Fund (EUR 20.753 million) and the own funds portfolio (EUR 70.891 million) and consisted mainly of overnight and short-term funds.

11.4 Off Balance Sheet Instruments' Revaluation Differences

Closing balance	*EUR million*	
December 31, 2010	0.464	
December 31, 2009	2.107	
Change	–1.643	(–78.0%)

The amount shown on December 31, 2010, was attributable exclusively to valuation gains on gold interest rate swaps (–EUR 0.540 million compared to December 31, 2009). The book value reconciliations and realized gains on forward sales and purchases disclosed in the 2009 balance sheet have been fully offset (–EUR 1.103 million).

11.6 Sundry

Table 22 shows the development of *sundry* assets.

Pursuant to Article 3 paragraph 2 ERP Fund Act, the OeNB's maximum financing commitment corresponds to the sum by which the federal debt was written down initially (EUR 341.955 million) plus interest accrued on a reserve account (EUR 635.026 million on December 31, 2010). The ERP loan portfolio managed by the OeNB thus totaled EUR 976.981 million on December 31, 2010. The provisions governing the extension of loans from this portfolio are laid down in Article 83 of the Nationalbank Act.

The residual terms of advances on salaries generally exceed one year. All advance payments are secured by life insurance plans.

Other claims on December 31, 2010, mainly comprised advances, accounts receivable and claims arising from day-to-day business.

Liabilities

1 Banknotes in Circulation

Closing balance	*EUR million*	
December 31, 2010	21,492.173	
December 31, 2009	20,640.090	
Change	+852.083	(+4.1%)

This item reflects the value of euro *banknotes in circulation* allocated to the OeNB. Table 23 shows how this share is calculated and how it developed in 2010.

Table 22

	December 31, 2010	December 31, 2009	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Claims arising from ERP loans to companies	604.951	739.230	–134.279	–18.2
Money market investment with the Oesterreichische Kontrollbank (OeKB) for ERP lending	372.030	232.342	+139.688	+60.1
ERP loan portfolio managed by the OeNB	976.981	971.572	+5.409	+0.6
Settlement account with the tax authorities	9.666	–	+9.666	x
Schilling coins	7.477	5.511	+1.966	+35.7
Shareholder loans	41.500	48.500	–7.000	–14.4
Advances on salaries	6.980	7.216	–0.236	–3.3
Other claims	15.069	18.711	–3.642	–19.5
Total	**1,057.673**	**1,051.510**	**+6.163**	**+0.6**

Table 23

	December 31, 2010 EUR million	December 31, 2009 EUR million	Change EUR million
Total value of euro banknotes actually put in circulation by the OeNB	–3,427.417	+3,724.669	–7,152.086
Adjusted for:			
Liability resulting from the share of euro banknotes in circulation allocated to the ECB's balance sheet[1]	–1,868.938	–1,794.841	–74.097
Claims resulting from the allocation of euro banknotes within the Eurosystem (Capital Share Mechanism – CSM)	+26,788.528	+18,710.262	+8,078.266
Net claims related to the allocation of euro banknotes within the Eurosystem	+24,919.590	+16,915.421	+8,004.169
Banknotes in circulation[2]	**21,492.173**	**20,640.090**	**+852.083**

[1] *The amount corresponds to the OeNB's share of the 8% of the total value of euro banknotes in circulation within the euro area that is allocated to the ECB.*
[2] *This corresponds to 2.5595% of the total amount of euro banknotes in circulation within the euro area.*

See the sections *Banknotes in Circulation* and *Intra-Eurosystem Balances* for further explanations on this item. Table 24 shows the annual averages of *banknotes in circulation* during the past five years.

Table 24

	Banknotes in circulation, annual average EUR million	Change EUR million	%
2006	15,128	+1,510	+11.1
2007	16,614	+1,486	+9.8
2008	18,458	+1,844	+11.1
2009	19,323	+865	+4.7
2010	20,341	+1,018	+5,3

2 Liabilities to Euro Area Credit Institutions Related to Monetary Policy Operations Denominated in Euro

Table 25 shows the development of *liabilities to euro area credit institutions related to monetary policy operations denominated in euro.*

2.1 Current Accounts (Covering the Minimum Reserve System)

This subitem contains the credit balances on the transaction accounts of credit institutions that are required to hold minimum reserves.

Banks' minimum reserve balances have been remunerated since January 1, 1999, at the prevailing interest rate for the Eurosystem's main refinancing operations.

2.2 Deposit Facility

The *deposit facility* item refers to overnight deposits placed with the OeNB by Austrian banks that access the Eurosystem's liquidity-absorbing standing facility at the prespecified rate. In 2010, the volume of such transactions averaged EUR 4,490.130 million.

Table 25

	December 31, 2010 EUR million	December 31, 2009 EUR million	Change EUR million	%
2.1 Current accounts (covering the minimum reserve system)	6,765.824	6,041.732	+724.092	+12.0
2.2 Deposit facility	4,878.265	9,470.909	–4,592.644	–48.5
2.3 Fixed-term deposits	55.000	–	+55.000	x
Total	**11,699.089**	**15,512.641**	**–3,813.552**	**–24.6**

2.3 Fixed-Term Deposits

In 2010, fixed-term deposits of between EUR 10.000 million and EUR 3,805.000 million were made at interest rates of between 0.28% per annum and 1.00% per annum.

9 Counterpart of Special Drawing Rights Allocated by the IMF

Closing balance	*EUR million*	
December 31, 2010	2,009.262	
December 31, 2009	1,890.151	
Change	+119.111	(+6.3%)

This item represents the counterpart in euro of the SDR 1,736 million allocated gratuitously to the OeNB, measured at current market values at the reporting date. The OeNB was allocated SDRs on January 1 from 1970 to 1972, from 1979 to 1981 and on August 28 and September 9, 2009. The increase resulted mainly from the allocation of additional SDRs and valuation changes.

10 Intra-Eurosystem Liabilities

Closing balance	*EUR million*	
December 31, 2010	27,496.473	
December 31, 2009	19,583.869	
Change	+7,912.604	(+40.4%)

This item shows the OeNB's net liabilities arising from transactions with the NCBs participating in TARGET2 and with the ECB. It also comprises the nonremunerated intra-Eurosystem balances between the ECB and the OeNB resulting from EUR/USD and EUR/CHF swap transactions as on December 31, 2009. Moreover, this item covers net claims arising at year-end from the difference between monetary income to be pooled and distributed, the balances arising from any redistribution of ECB seigniorage income, and pro-rata expenditure in connection with losses incurred in respect of monetary policy operations of the Eurosystem.

The ECB remunerates *intra-Eurosystem liabilities* with the ECB (excluding the above-mentioned swap transactions) on a daily basis at the prevailing marginal interest rate for the Eurosystem's main refinancing operations.

11 Items in Course of Settlement

This claim results from 2010 net float items settled the next year.

12 Other Liabilities

Table 26 shows the development of *other liabilities*.

12.1 Off Balance Sheet Instruments' Revaluation Differences

Off balance sheet instruments' revaluation differences subsumes the revaluation losses arising on off balance sheet positions, which are posted to the profit and loss account, and book value reconciliation.

12.3 Sundry

Table 27 shows the development of *sundry* liabilities.

Table 26

	December 31, 2010	December 31, 2009	Change	
	EUR million	*EUR million*	*EUR million*	%
12.1 Off balance sheet instruments' revaluation differences	0.039	0.056	–0.017	–30.4
12.2 Accruals and income collected in advance	28.210	26.358	+1.852	+7.0
12.3 Sundry	389.243	413.832	–24.589	–5.9
Total	**417.492**	**440.246**	**–22.754**	**–5.2**

Table 27

	December 31, 2010	December 31, 2009	Change	
	EUR million	EUR million	EUR million	%
Central government's share of the OeNB's profit	196.462	192.920	+3.542	+1.8
Liability from schilling banknotes in circulation with an exchange deadline	118.132	120.369	–2.237	–1.9
Earmarked funds of the OeNB Anniversary Fund				
OeNB Anniversary Fund (initial funding)	20.226	19.105	+1.121	+5.9
OeNB Anniversary Fund National Foundation endowment	48.375	75.000	–26.625	–35.5
Settlement account with the tax authorities	2.807	3.391	–0.584	–17.2
Other	3.242	3.047	+0.194	+6.4
Total	**389.243**	**413.832**	**–24.589**	**–5.9**

Pursuant to Article 69 paragraph 3 Nationalbank Act, the *central government's share of profit* corresponds to 90% of the profit for the year after tax.

The subitem *liability from schilling banknotes in circulation with an exchange deadline* is attributable to schilling banknotes with an exchange deadline which were still outstanding on December 31, 2010. 2010 did not mark the end of the exchange period of any schilling banknote.

According to the General Meeting's decision, EUR 8.000 million of the profit for the year 2009 were apportioned to the *OeNB's Anniversary Fund for the Promotion of Scientific Research and Teaching*. Adjusted for the return on investment for 2010 and repayments made, the initial OeNB Anniversary Fund thus received funds of EUR 28.474 million. Of these funds, EUR 8.248 million were paid out in 2010; EUR 14.400 million of the remaining undisbursed funds of EUR 20.226 million on December 31, 2010, have been pledged. In 2009, the General Council voted to allocate an additional EUR 7.445 million to fund 114 projects. This means that since funds were first pledged as financial assistance in 1966, a total EUR 728.169 million has been paid out.

The amounts appropriated each year for the National Foundation (EUR 48 million for 2011) are transferred the day after the General Meeting.

13 Provisions

Under its initial retirement plan, the OeNB assumed full liability to provide retirement benefits to all employees recruited up to April 30, 1998. To cover this liability, the OeNB is obligated by law to hold a *pension reserve*. Following a change in the retirement plan, staff recruited since May 1, 1998, stands to receive a state pension supplemented by an occupational pension from an externally managed pension fund. For this supplementary pension, the OeNB took out a contract effective May 1, 1999, which also applies retroactively to employees taken on in the 12 previous months. With the OeNB's direct liability to pay retirement benefits now limited to staff recruited before May 1, 1998, the pension reserve set up to secure this liability has become a closed system. Retirement benefit payments came to EUR 107.304 million (+1.6%) in 2010; EUR 73.339 million of which were covered by investment relating to the pension reserve. These payments include the remuneration of 14 retired board members or their dependants (totaling EUR 4.005 million; 2009: 14 persons at EUR 3.969 million).

The pension reserve is shown at its actuarial present value, based on a dis-

Table 28

	December 31, 2009	Transfer from	Transfer to	December 31, 2010
	EUR million	*EUR million*	*EUR million*	*EUR million*
Pension reserve	1,842.953	–73.408	+74.814	1,844.359
Personnel provisions				
Severance payments	59.644	–5.341	+3.744	58.047
Anniversary bonuses	12.289	–1.656	+1.079	11.712
Residual leave entitlements	10.847	–0.348	+0.236	10.735
Other	5.084	–0.117	+1.348	6.315
Statutory or contractual social charges	0.102	–0.102	+0.165	0.165
Salary cost revisions in 2009 and 2010	0.421	–0.421	+0.441	0.441
Provisions				
Financial risk (risk provisions)	1,223.927	–	+300.000	1,523.927
In respect of monetary policy operations of the Eurosystem	116.015	–52.179	–	63.836
Schilling banknotes without an exchange deadline	180.081	–4.704	–	175.377
Corporate income tax	67.390	–67.390	–	–
Accounts payable	1.228	–1.053	+1.237	1.412
Accounts payable to subsidiaries	2.536	–2.536	+1.202	1.202
Other	0.466	–0.373	+0.337	0.430
Total	**3,522.983**	**–209.628**	**+384.603**	**3,697.958**

count rate[13] of 3.25% per annum (unchanged from 2009) and on the most recent mortality tables[14]. The pension scheme liability for current employees was stated pro rata in the 2010 financial statements, and that for retired employees was stated at the net present value. Pension reserve assets amounted to EUR 2,000.847 million on December 31, 2010; they are fully covered by the pension reserve (and hidden reserves in the real estate portfolio). Hence, the pension liability was not underfunded on December 31, 2010 (December 31, 2009: EUR 33.656 million).

Provisions for severance payments and anniversary bonuses are calculated according to actuarial principles; the discount rate of 3.50 % per annum is the same as that applied in 2009.

To strengthen the OeNB's risk-bearing capacity, EUR 300 million were transferred to risk provisions to cover financial risks (*risk provisions*) in the 2010 financial statements.

Given that under Article 32.4 of the Statute of the ESCB and of the ECB, NCBs incur costs in connection with any losses arising from monetary policy operations in proportion to their paid-up shares in the capital of the ECB, *provisions in respect of monetary policy operations of the Eurosystem* were established in 2008. Initially, a total of EUR 5.736 billion was set aside, with the OeNB's share coming to EUR 165.9 million. In the 2009 financial statements, these provisions had been adjusted to a total of EUR 4.011 billion (OeNB share: EUR 116.0 million); they were adjusted again in 2010 to EUR 2.207 billion. The respective share of the OeNB was also adjusted, bringing *provisions in respect of monetary policy*

[13] *The discount rate is evaluated annually. It is calculated on the basis of the actual investment yield, taking into account general increases in salaries and expected yields. Marginal deviations in the future need not automatically entail an adjustment of the actuarial rate.*

[14] *AVÖ 2008-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler (actuarial basis for pension insurance published by the Austrian actuaries association AVÖ).*

operations of the Eurosystem to EUR 63.8 million in the OeNB's annual accounts in 2010 (–EUR 52.2 million).

The *provisions for schilling banknotes without an exchange deadline* were drawn down for exchanges of schilling banknotes.

No provisions for pending lawsuits were made, as none are expected to have a material impact.

14 Revaluation Accounts

The amounts on the *revaluation accounts* (table 29) reflect the valuation gains established in the course of the valuation of assets as on December 31, 2010. Those gains are realizable only in the context of future transactions in the respective category or may be used to reverse revaluation losses that may arise in future years.

15 Capital and Reserves

According to Article 8 paragraph 1 Nationalbank Act, the *capital* of the OeNB is EUR 12 million. The General Meeting approved the transfer of all OeNB shares to the Republic of Austria on May 27, 2010, making the Republic of Austria the sole shareholder of the OeNB. The Ministry of Finance acts as the shareholder's representative.

Table 30 shows the development of *reserves*.

The change in the *profit-smoothing reserve* resulted from allocations out of the profit for the year 2009, which were made according to the General Meeting's decision of May 27, 2010.

The *reserve for nondomestic and price risks* serves to cover the risks associated with foreign currency and security prices. The section *Risk Management* con-

Table 29

	December 31, 2010	December 31, 2009	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Revaluation accounts				
Gold	7,283.154	4,680.906	+2,602.248	+55.6
Foreign currency	541.880	223.425	+318.455	+142.5
Securities	231.343	257.856	–26.513	–10.3
Participating interests	358.937	328.371	+30.566	+9.3
Off balance sheet instruments	0.464	1.004	–0.540	–53.8
Coins of the OeNB's Money Museum[1]	9.269	–	+9.269	×
Total	8,425.047	5,491.562	+2,933.485	+53.4
Unrealized valuation gains from January 1, 1999 (initial valuation)				
Participating interests	265.170	265.170	–	–
Total	**8,690.217**	**5,756.732**	**+2,933.485**	**+51.0**

[1] *Resulting from the capitalization of coins bought before 2004 (see also asset item 11.2 tangible and intangible fixed assets).*

Table 30

	December 31, 2010	December 31, 2009	Change	
	EUR million	*EUR million*	*EUR million*	*%*
Profit-smoothing reserve	14.461	2.226	+12.235	+549.8
Reserve for nondomestic and price risks	1,973.263	1,973.263	–	–
OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching	1,531.500	1,531.500	–	–
Earmarked capital funded with net interest income from ERP loans	635.026	629.616	+5.410	+0.9
Total	**4,154.250**	**4,136.605**	**+17.645**	**+0.4**

tains more information on the OeNB's risk management principles.

Since 2003, the capital of the OeNB's Anniversary Fund for the Promotion of Scientific Research and Teaching (EUR 1.532 billion) has consisted of its initial funding (EUR 31.5 million) and of an endowment to support the National Foundation (EUR 1.5 billion). The initial funding of EUR 31.5 million consists of EUR 7.3 million apportioned from the net income for the year 1965 in April 1966 and of EUR 24.2 million allocated from the profit for the year 2002 in May 2003.

The endowment of EUR 1.5 billion for the National Foundation was established in 2003 by earmarking funds reappropriated from the *freely disposable reserve fund* (EUR 545 million) and from the *general reserve fund* (EUR 955 million).

Funds earmarked for appropriation by the Anniversary Fund may be used to cover any loss for the year.

Earmarked ERP capital funded with net interest income from loans represents the cumulative interest income accruing to the OeNB from lending out of the ERP loan portfolio managed by the OeNB. Appropriation of this ERP capital is subject to international law; this item is earmarked exclusively for ERP loans. ERP capital must not be used to cover any loss for the year.

Notes on Transactions Not Disclosed in the Balance Sheet

The following financial assets and liabilities of the OeNB were recorded off the balance sheet on December 31, 2010 (table 31).

At the current juncture, the possible material impact on the OeNB of the lawsuit pending against the Republic of Austria in a bankruptcy case cannot be quantified accurately.

Table 32 shows *holdings of derivatives* on December 31, 2010.

Table 32

	Underlying value	Market value gains	Market value losses
	EUR million	*EUR million*	*EUR million*
Gold interest rate swaps			
Sales	168.867	0.443	–

Table 31

	EUR million
Obligation under the IMF's Articles of Agreement to expand SDR holdings to up to three times the amount of SDRs received gratuitously	4,005.538
Contingent liabilities to the IMF under the New Arrangements to Borrow (NAB)	472.138
Contingent liabilities to the IMF under bilateral agreements	2,106.612
Obligation to make supplementary contributions to the stake in the capital of the BIS in Basel consisting of 8,564 shares of SDR 5,000 each	37.163
Forward purchases (euro and foreign currency-denominated swaps)	7.682
Forward sales (euro and foreign currency-denominated swaps)	7.700
Liabilities from foreign currency investments effected in the OeNB's name for third account	10.477
Repayment obligation arising from the interest share on pension contributions paid by OeNB staff members; this obligation becomes effective on termination of employment contracts	9.493
Contingent liability equivalent to the OeNB's share of the maximum of EUR 50 billion of reserve assets that the ECB may require the euro area NCBs to transfer under article 30.1 of the Statute of the ESCB and of the ECB	970.850
Liability with respect to the remaining installments to be paid in 2011 and 2012 and representing the contribution to the increase in the ECB's capital with effect from December 29, 2010	64.723
Contingent liabilities arising from bank guarantees and other guarantees given	111.000
Contingent assets arising from bank guarantees received	6.164
Contingent asset from a guarantee of the OeKB in respect of payment transactions	1,000.000
Contingent assets from warranties and guarantees given	33.740

The market values represent the valuation of December 31, 2010, with gains of EUR 0.464 million (entered in the *revaluation accounts*, liability item 14) less a depreciation of EUR 0.021 million effected in previous years.

Notes to the Profit and Loss Account

Table 33

	2010 EUR million	2009 EUR million	Change[1] EUR million	%
1 Net interest income	718.597	625.901	+92.696	+14.8
2 Net result of financial operations, writedowns and risk provisions	–276.125	–223.343	+52.782	+23.6
3 Net income from fees and commissions	0.904	0.815	+0.089	+11.0
4 Income from equity shares and participating interests	74.653	67.240	+7.413	+11.0
5 Net result of pooling of monetary income	22.833	74.579	–51.746	–69.4
6 Other income	22.795	16.077	+6.718	+41.8
Total net income	**563.657**	**561.269**	**+2.388**	**+0.4**
7 Staff costs	–119.512	–119.262	+0.250	+0.2
8 Expenses for retirement	–38.129	–4.089	+34.040	n.a.
9 Administrative expenses[2]	–77.718	–80.420	–2.702	–3.4
10 Depreciation of tangible and intangible fixed assets	–11.739	–11.751	–0.012	–0.1
11 Banknote production services	–14.851	–25.205	–10.354	–41.1
12 Other expenses[2]	–10.653	–2.978	+7.675	+257.8
Total expenses	**–272.602**	**–243.705**	**+28.897**	**+11.9**
Operating profit	**291.055**	**317.564**	**–26.509**	**–8.3**
13 Corporate income tax	–72.764	–79.391	–6.627	–8.3
	218.291	238.173	–19.882	–8.3
14 Transfers to the pension reserve and central government's share of profit[3]	–196.462	–216.737	–20.275	–9.4
15 Profit for the year	**21.829**	**21.436**	**+0.393**	**+1.8**

[1] *Absolute increase (+) or decrease (–) in the respective item.*
[2] *"Support for the JVI" was transferred from profit and loss item 9 administrative expenses to profit and loss item 12 other expenses in 2010 and the 2009 values (–EUR 2.234 million) were adjusted accordingly.*
[3] *In 2010 exclusively central government's share of profit.*

1 Net Interest Income

Net interest income represents the balance of *interest income* and *interest expense* (table 34).

2 Net Result of Financial Operations, Writedowns and Risk Provisions

Table 35 shows *realized gains/losses arising from financial operations* (profit and loss account item 2.1).

Table 36 shows *writedowns on financial assets and positions* (profit and loss account item 2.2).

Transfers to *risk provisions* had an impact of EUR 300 million (EUR 250 million less than on December 31, 2009) on the item *transfer to/from provisions for foreign exchange, interest rate, credit and gold price risks* (profit and loss account item 2.3).

4 Income from Equity Shares and Participating Interests

The Governing Council of the ECB decided that the full amount of the ECB's 2010 income of EUR 654 million on euro banknotes in circulation (seigniorage income) and the ECB's income of EUR 439 million on SMP securities should be retained and to be transferred the ECB's *provision for foreign exchange rate, interest rate, credit and gold price risks*.

5 Net Result of Pooling of Monetary Income

This item represents the OeNB's net claims due to the difference between

Table 34

	2010	2009	Change	
	EUR million	*EUR million*	*EUR million*	%
Net interest income from				
foreign currency investments	103.965	162.094	–58.129	–35.9
euro investments	437.181	381.834	+55.347	+14.5
monetary policy operations	250.710	247.099	+3.611	+1.5
intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem	207.735	186.285	+21.450	+11.5
the transfer of foreign reserve assets to the ECB	9.640	12.327	–2.687	–21.8
minimum reserves	–62.932	–84.614	–21.682	–25.6
TARGET2 transactions	–266.403	–279.564	–13.161	–4.7
Other	38.701	0.440	+38.261	n.a.
Total	**718.597**	**625.901**	**+92.696**	**+14.8**

Table 35

	2010	2009	Change	
	EUR million	*EUR million*	*EUR million*	%
Foreign currency transactions	23.528	215.923	–192.395	–89.1
Securities transactions	73.695	145.015	–71.320	–49.2
Total	**97.223**	**360.938**	**–263.715**	**–73.1**

Table 36

	2010	2009	Change	
	EUR million	*EUR million*	*EUR million*	%
Foreign currency	–0	–9.644	–9.644	–100.0
Securities	–73.348	–24.743	+48.605	+196.4
Total	**–73.348**	**–34.387**	**+38.961**	**+113.3**

Table 37

	2010 EUR million	2009 EUR million	Change EUR million	%
BIS	6.969	2.492	+4.477	+179.6
Münze Österreich AG	18.000	18.000	–	–
Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS)	7.900	9.000	–1.100	–12.2
Austria Card Plastikkarten und Ausweissysteme GmbH	0.945	0.848	+0.097	+11.4
Geldservice Austria Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (GSA)	0.052	–	+0.052	×
Reallocation of shares in SWIFT	–	0.032	–0.032	–100.0
Redistribution of ECB seigniorage income	–	21.900	–21.900	–100.0
Distribution of ECB profit	40.787	3.372	+37.415	n.a.
Adjustment of the subscribed capital of the ECB	–	11.596	–11.596	–100.0
Total	**74.653**	**67.240**	**+7.413**	**+11.0**

monetary income to be pooled and redistributed as well as transfers to/from provisions in respect of monetary policy operations of the Eurosystem.

The calculation of monetary income every year is made in accordance with Article 32 of the Statute of the ESCB and of the ECB.

The amount of the OeNB's monetary income is determined by measuring the actual annual income that it derives from the earmarkable assets held against its liability base. The liability base consists of banknotes in circulation, liabilities to credit institutions related to monetary policy operations denominated in euro, net intra-Eurosystem liabilities resulting from TARGET2 transactions and net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. Any interest on these liabilities is deducted from the monetary income to be pooled.

The earmarkable assets consist of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro, net intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB, net intra-Eurosystem claims resulting from TARGET2 transactions, and net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; moreover, a limited amount of the OeNB's gold holdings in proportion to its capital key share (gold is considered to generate no income).

Securities acquired by the OeNB within the scope of the Covered Bond Purchase Programme[15] are considered to generate income at the latest available marginal rate for the Eurosystem's main refinancing operations. Where the value of the OeNB's earmarkable assets exceeds, or falls short of, the value of its liability base, the difference is offset by applying to the value of the difference the latest available marginal rate for the Eurosystem's main refinancing operations.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed ECB capital key. Table 38 shows the net result for the OeNB arising from the calculation of monetary income in the Eurosystem.

[15] *Decision of the ECB of 2 July 2009 (ECB/2009/16).*

Table 38

	2010
	EUR million
Net monetary income to be pooled	–318.225
Net redistribution of monetary income	+291.027
Net expenditure (–) from the redistribution of monetary income in the review year	**–27.198**
Net expenditure from the revision of monetary income of the previous years	–2.148
Transfers from provisions in respect of monetary policy operations of the Eurosystem	+52.179
Total	**+22.833**

7 Staff Costs

The expenses for current employees fall under the heading *staff costs*. These expenses are reduced by recoveries of salaries.

Salaries rose by EUR 0.446 million (+0.5%) net to EUR 100.095 million against the previous year. The OeNB's outlays were reduced by recoveries of salaries totaling EUR 7.053 million for staff members on secondment to subsidiaries and foreign institutions.

The four members of the Governing Board received emoluments totaling EUR 1.067 million, unchanged from 2009. Table 39 shows a breakdown of these items.

Table 39

	Emoluments
	EUR million
Governor Ewald Nowotny	0.2856
Vice Governor Wolfgang Duchatczek	0.2692
Executive Director Peter Zöllner	0.2619
Executive Director Andreas Ittner	0.2500

With regard to the remuneration of Governing Board members, the Federal Constitutional Act on the Limitation of Remunerations for Public Officials stipulates that the emoluments of the central bank governor must not exceed those of the Austrian Federal Chancellor. The emoluments of the other members of the Governing Board, in turn, must not exceed the emoluments of the Governor of the OeNB. In line with the stipulations of the Federal Constitutional Act on the Limitation of Remunerations for Public Officials, the emoluments were not increased until December 31, 2010, and will not be increased until December 31, 2011. Remuneration in kind (tax value of the private use of company cars, subsidies to health and accident insurance) and other benefits totaled EUR 0.037 million in 2010. The emoluments of the OeNB's President and Vice President amounted to EUR 0.114 million in 2010 (2009: EUR 0.114 million).

Table 40 shows the development of staff in full-time equivalents (FTEs).

Statutory or contractual social charges totaling EUR 16.046 million (+EUR 0.408 million) contain social security contributions of EUR 8.594 million (+EUR 0.436 million), contributions of EUR 4.370 million (–EUR 0.037 million) to the Family Burden Equalization Fund and municipal tax payments of EUR 2.966 million (–EUR 0.009 million).

Table 40

	December 31[1]			Annual average[1]		
	2010	2009	Change	2010	2009	Change
Staff employed in core business areas[2]	986.2	984.1	+2.1	984.3	984.9	–0.6
Total	1,145.4	1,151.7	–6.3	1,144.7	1,156.0	–11.3

[1] *Including part-time employees on a pro rata basis.*
[2] *Excluding employees on secondment or leave (such as maternity and parental leave).*

8 Expenses for Retirement
This item includes pension plan contributions of EUR 4.164 million (2009: EUR 4.089 million) and part of retirement benefit payments amounting to EUR 33.965 million.

9 Administrative Expenses

Administrative expenses include rent, operating expenses, maintenance and repair costs of EUR 28.805 million (–EUR 1.192 million) as well as banknote processing expenses of EUR 9.469 million (–EUR 0.720 million). Moreover, expenses in particular for public relations activities and for external staff fell by EUR 1.152 million. Administrative expenses for auditing the financial statements came to EUR 0.216 million (2009: EUR 0.216 million) and to EUR 0.109 million (2009: EUR 0.092 million) for certification services.

11 Banknote Production Services

Expenses for *banknote production services* result above all from the purchase of euro banknotes from Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS).

12 Other Expenses
Other expenses includes support for the Joint Vienna Institute (JVI) at EUR 2.349 million.[16] It also includes the Austrian contribution of EUR 4.493 million to the IMF's concessional financing facilities for low-income countries.

14 Transfers to the Pension Reserve and Central Government's Share of Profit

Table 41

	2010	2009	Change	
	EUR million	*EUR million*	*EUR million*	%
Transfers to the pension reserve under Article 69 paragraph 2 Nationalbank Act	–	23.817	–23.817	–100.0
Central government's share of profit of 90% under Article 69 paragraph 3 Nationalbank Act	196.462	192.920	+3.542	+1.8
	196.462	**216.737**	**–20.275**	**–9.4**

[16] *The support for the JVI was shown in profit and loss item 9 administrative expenses in the 2009 financial statements and in earlier statements. Consequently, the 2009 financial statements have been adjusted accordingly to facilitate comparisons with the figures for 2010.*

Post-Balance Sheet Events

Eurosystem Entry

After Estonia had fulfilled the conditions for euro introduction, Eesti Pank acceded to the Eurosystem on January 1, 2011. As a result of its membership in the Eurosystem pursuant to Article 48.1 of the Statute of the ESCB and of the ECB, Eesti Pank was required to fully pay up its share in the ECB's subscribed capital, and pursuant to Article 30.1 of the Statute of the ESCB and of the ECB, it was obligated to transfer foreign reserve assets to the ECB in an amount corresponding to its subscribed capital share.

As a result of the capital key change following the decision of Eesti Bank to join the Eurosystem, the OeNB's share of the paid up capital of the ECB (capital key share) declined from 2.7821% to 2.7750%. The OeNB's share in the ECB's subscribed capital comes to 1.9417%.

Vienna, March 14, 2011

Univ.-Prof. Dr. Nowotny

Mag. Dr. Duchatczek

Mag. Dr. Zöllner

Mag. Ittner

Audit Opinion

MOORE STEPHENS AUSTRIA / TPA HORWATH

Facsimile

Bestätigungsvermerk

Bericht zum Jahresabschluss

Wir haben den beigefügten Jahresabschluss der **Oesterreichischen Nationalbank, Wien,** für das Geschäftsjahr vom 1. Jänner 2010 bis zum 31. Dezember 2010 unter Einbeziehung der Buchführung geprüft. Dieser Jahresabschluss umfasst die Bilanz zum 31. Dezember 2010, die Gewinn- und Verlustrechnung für das am 31. Dezember 2010 endende Geschäftsjahr sowie den Anhang.

Verantwortung der gesetzlichen Vertreter für den Jahresabschluss und für die Buchführung

Die gesetzlichen Vertreter der Gesellschaft sind für die Buchführung sowie für die Aufstellung eines Jahresabschlusses verantwortlich, der ein möglichst getreues Bild der Vermögens-, Finanz- und Ertragslage der Gesellschaft in Übereinstimmung mit den österreichischen unternehmensrechtlichen Vorschriften und den Bestimmungen des Nationalbankgesetzes 1984 in der geltenden Fassung und den ergänzenden Bestimmungen der vom Rat der Europäischen Zentralbank gemäß Artikel 26 Abs. 4 des „Protokolls über die Satzung des Europäischen Systems der Zentralbanken und der Europäischen Zentralbank" mittels der „Guideline of the European Central Bank of 10 November 2006 on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks (ECB/2006/16)" in der Fassung vom 9. Februar 2011 (ECB/2010/20) erlassenen Vorschriften, vermittelt. Diese Verantwortung beinhaltet: Gestaltung, Umsetzung und Aufrechterhaltung eines internen Kontrollsystems, soweit dieses für die Aufstellung des Jahresabschlusses und die Vermittlung eines möglichst getreuen Bildes der Vermögens-, Finanz- und Ertragslage der Gesellschaft von Bedeutung ist, damit dieser frei von wesentlichen Fehldarstellungen ist, sei es auf Grund von beabsichtigten oder unbeabsichtigten Fehlern; die Auswahl und Anwendung geeigneter Bilanzierungs- und Bewertungsmethoden; die Vornahme von Schätzungen, die unter Berücksichtigung der gegebenen Rahmenbedingungen angemessen erscheinen.

Verantwortung des Abschlussprüfers und Beschreibung von Art und Umfang der gesetzlichen Abschlussprüfung

Unsere Verantwortung besteht in der Abgabe eines Prüfungsurteils zu diesem Jahresabschluss auf der Grundlage unserer Prüfung. Wir haben unsere Prüfung unter Beachtung der in Österreich geltenden gesetzlichen Vorschriften durchgeführt. Diese Grundsätze erfordern, dass wir die Standesregeln einhalten und die Prüfung so planen und durchführen, dass wir uns mit

Facsimile

MOORE STEPHENS AUSTRIA / TPA HORWATH

hinreichender Sicherheit ein Urteil darüber bilden können, ob der Jahresabschluss frei von wesentlichen Fehldarstellungen ist.

Eine Prüfung beinhaltet die Durchführung von Prüfungshandlungen zur Erlangung von Prüfungsnachweisen hinsichtlich der Beträge und sonstigen Angaben im Jahresabschluss. Die Auswahl der Prüfungshandlungen liegt im pflichtgemäßen Ermessen des Abschlussprüfers unter Berücksichtigung seiner Einschätzung des Risikos eines Auftretens wesentlicher Fehldarstellungen, sei es auf Grund von beabsichtigten oder unbeabsichtigten Fehlern. Bei der Vornahme dieser Risikoeinschätzung berücksichtigt der Abschlussprüfer das interne Kontrollsystem, soweit es für die Aufstellung des Jahresabschlusses und die Vermittlung eines möglichst getreuen Bildes der Vermögens-, Finanz- und Ertragslage der Gesellschaft von Bedeutung ist, um unter Berücksichtigung der Rahmenbedingungen geeignete Prüfungshandlungen festzulegen, nicht jedoch um ein Prüfungsurteil über die Wirksamkeit der internen Kontrollen der Gesellschaft abzugeben. Die Prüfung umfasst ferner die Beurteilung der Angemessenheit der angewandten Bilanzierungs- und Bewertungsmethoden und der von den gesetzlichen Vertretern vorgenommenen wesentlichen Schätzungen sowie eine Würdigung der Gesamtaussage des Jahresabschlusses.

Wir sind der Auffassung, dass wir ausreichende und geeignete Prüfungsnachweise erlangt haben, sodass unsere Prüfung eine hinreichend sichere Grundlage für unser Prüfungsurteil darstellt.

Prüfungsurteil

Unsere Prüfung hat zu keinen Einwendungen geführt. Auf Grund der bei der Prüfung gewonnenen Erkenntnisse entspricht der Jahresabschluss nach unserer Beurteilung den gesetzlichen Vorschriften und vermittelt ein möglichst getreues Bild der Vermögens- und Finanzlage der Gesellschaft zum 31. Dezember 2010 sowie der Ertragslage der Gesellschaft für das Geschäftsjahr vom 1. Jänner 2010 bis zum 31. Dezember 2010 in Übereinstimmung mit den österreichischen Grundsätzen ordnungsmäßiger Buchführung.

Facsimile

MOORE STEPHENS AUSTRIA / TPA HORWATH

Aussagen zum Geschäftsbericht

Der gemäß § 68 Abs. 1 NBG zu erstellende Geschäftsbericht ersetzt den Lagebericht gemäß § 243 UGB.

Der Geschäftsbericht ist auf Grund der gesetzlichen Vorschriften darauf zu prüfen, ob er mit dem Jahresabschluss in Einklang steht und ob die sonstigen Angaben im Geschäftsbericht nicht eine falsche Vorstellung von der Lage der Gesellschaft erwecken. Der Bestätigungsvermerk hat auch eine Aussage darüber zu enthalten, ob der Geschäftsbericht mit dem Jahresabschluss in Einklang steht.

Der Geschäftsbericht steht nach unserer Beurteilung in Einklang mit dem Jahresabschluss.

Wien, am 14. März 2011

TPA Horwath
Wirtschaftsprüfung GmbH

Mag. Thomas Schaffer, CPA
Wirtschaftsprüfer

MOORE STEPHENS AUSTRIA
Wirtschaftsprüfungsgesellschaft mbH

Dr. Peter Wundsam
Wirtschaftsprüfer

Mag. Michael Dessulemoustier-Bovekercke
Wirtschaftsprüfer

Die Veröffentlichung oder Weitergabe des Jahresabschlusses mit unserem Bestätigungsvermerk darf nur in der von uns bestätigten Fassung erfolgen. Für abweichende Fassungen (zB Verkürzungen) gelten die Bestimmungen des § 281 UGB.

OeNB translation of the external auditors' report from German into English for information purposes. In case of discrepancies, the German text signed by TPA Horwath Wirtschaftsprüfung GmbH and MOORE STEPHENS AUSTRIA Wirtschaftsprüfungsgesellschaft mbH shall prevail.

Audit Opinion

Report on the Financial Statements

We have audited the accompanying financial statements of the Oesterreichische Nationalbank in Vienna for the fiscal year from January 1, 2010, to December 31, 2010, including the accounting system. These financial statements comprise the balance sheet as of December 31, 2010, the profit and loss account for the fiscal year ended December 31, 2010, and the notes.

Management's Responsibility for the Financial Statements and for the Accounting System

The management of the company is responsible for the accounting system and for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Principles, and under the Nationalbank Act 1984, as amended, as well as the supplementary regulations established by the Governing Council of the ECB under Article 26.4 of the Statute of the European System of Central Banks and of the European Central Bank, as set forth in the Guideline of the European Central Bank of 10 November 2006 on the legal framework for accounting and reporting in the European System of Central Banks (ECB/2006/16), as amended by the ECB's Guideline of 9 February 2011 (ECB/2010/20). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements 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 and Description of the Type and Scope of the Statutory Audit

Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit so as to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Company'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 financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as of December 31, 2010, and of its financial performance for the fiscal year from January 1, 2010, to December 31, 2010, in accordance with Austrian Generally Accepted Accounting Principles.

Statement on the Annual Report

The Annual Report to be prepared under Article 68 paragraph 1 Nationalbank Act replaces the report of the Management Board to be drawn up pursuant to Article 243 Commercial Code.
Pursuant to statutory provisions, the management report is to be audited as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the Annual Report is consistent with the financial statements.
In our opinion, the Annual Report is consistent with the financial statements.

Vienna, March 14, 2011

TPA Horwath
Wirtschaftsprüfung GmbH

Thomas Schaffer, CPA
external auditor

MOORE STEPHENS AUSTRIA
Wirtschaftsprüfungsgesellschaft mbH

Peter Wundsam
external auditor

Michael Dessulemoustier-Bovekercke
external auditor

The Financial Statements including our audit opinion may be published or distributed only as audited by us. Summaries or excerpts etc. are subject to Article 281 Commercial Code.

Profit for the Year and Proposed Profit Appropriation

With the statutory allocations of the OeNB's profit including the central government's share of EUR 196.462 million having been made in conformity with Article 69 paragraph 3 Nationalbank Act (item 14 of the profit and loss account), the balance sheet and the profit and loss account show a profit for the year 2010 of EUR 21,829,130.53.

On March 30, 2011, the Governing Board endorsed the following profit appropriation proposal to the General Council:

	EUR
to pay a 10% dividend on the OeNB's capital stock of EUR 12 million	1,200,000.00
to allocate to the OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching for promotion by the OeNB	9,000,000.00
to transfer to the profit-smoothing reserve	11,629,130.53
	21,829,130.53

Report of the General Council on the Annual Report and the Financial Statements for 2010

The General Council (Generalrat) fulfilled the duties incumbent on it under the Nationalbank Act 1984 by holding regular meetings, by convening subcommittees to examine specific issues and by making informed decisions.

The Governing Board (Direktorium) periodically reported to the General Council on the Oesterreichische Nationalbank's operations and results, on the conditions on the money, capital and foreign exchange markets, on important day-to-day management issues, on all developments of significance for an appraisal of monetary and economic developments, on the arrangements made for auditing the OeNB's finances, and on any other significant dispositions and events affecting the OeNB's operations.

The Financial Statements for the year 2010 were given an unqualified auditor's opinion after examination by the auditors elected at the General Meeting of May 27, 2010, TPA Horwath Wirtschaftsprüfung GmbH and MOORE STEPHENS AUSTRIA Wirtschaftsprüfungsgesellschaft mbH, on the basis of the books and records of the Oesterreichische Nationalbank as well as the information and evidence provided by the Governing Board.

In its meeting of April 28, 2011, the General Council approved the Annual Report of the Governing Board and the Financial Statements for the business year 2010. The General Council submits the Annual Report and moves that the General Meeting approve the Financial Statements of the Oesterreichische Nationalbank for the year 2010 and discharge the General Council and the Governing Board of its responsibilities regarding the preceding business year. Moreover, the General Council requests that the General Meeting approve the allocation of the profit for the year in accordance with the proposal made in the notes to the Financial Statements 2010 (as mentioned above).

Notes

Abbreviations, Legend

AIFM	Alternative Investment Fund Manager
ASC	Advisory Scientific Committee
ATC	Advisory Technical Committee
ATX	Austrian Traded Index
ATM	automated teller machine
Basel Committee	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CBPP	Covered Bond Purchase Programme
CCB	capital conservation buffer
CDS	credit default swap
CEBS	Committee of European Banking Supervisors
CEEI	Conference on European Economic Integration
CESEE	Central, Eastern and Southeastern Europe
CHF	Swiss franc
CIS	Commonwealth of Independent States
CRD	capital requirements directive
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ESCB	European System of Central Banks
Ecofin	Council Economic and Financial Affairs Council
EEK	Estonian kroon
EFSF	European Financial Stability Facility
EFSM	European Financial Stability Mechanism
EIOPA	European Insurance and Occupational Pensions Authority
EISC	Eurosystem IT Steering Committee
EMAS	Eco Management and Audit Scheme
EONIA	Euro OverNight Index Average
EPCO	European Procurement Coordination Office
ERP	European Recovery Program
ESA	European Supervisory Authority
ESFS	European System of Financial Supervision
ESM	European Stability Mechanism
ESMA	European Securities and Markets Agency
ESRB	European Systemic Risk Board
EMU	Economic and Monetary Union
EPT	Environmental protection team
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
Eurostat	Statistical Office of the European Commission
FMA	Financial Market Authority
FSB	Financial Stability Board
FTE	full-time equivalent
G-20	Group of Twenty
GDP	gross domestic product
GRI	Global Reporting Initiative
GSA	GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination GmbH
HICP	Hamonised Index of Consumer Prices
IMF	International Monetary Fund
ISIN	International Securities Identification Number
ITC	Information Technology Committee
JVI	Joint Vienna Institute
LIBOR	London Interbank Offered Rate
kWh	kilowatt hour
LCR	liquidity coverage ratio
LTRO	longer-term refinancing operation
MoU	memorandum of understanding
MWh	megawatt hour
NAB	New Arrangements to Borrow
NCB	national central bank
NSFR	net stable funding ratio
OECD	Organisation for Economic Co-operation and Development
OeBS	Oesterreichische Banknoten- und Sicherheitsdruck GmbH
OeKB	Oesterreichische Kontrollbank
OeNB	Oesterreichische Nationalbank
OTC	over the counter
POS	point of sale
RMC	Eurosystem Risk Management Committee
SDR	Special Drawing Rights
SEPA	Single Euro Payments Area
SIFI	systemically important financial institution
SMP	Securities Markets Programme
TARGET	Trans-European Automated Real-time Gross settlement Express Transfer
T2S	TARGET2-Securities
USD	U.S. dollar
VAT	value added tax
WIFO	Austrian Institute of Economic Research

x	=	No data can be indicated for technical reasons
. .	=	Data not available
0	=	The numerical value is zero or smaller than half of the unit indicated
–	=	The numerical value is zero (legend entry in the Financial Statements only)
n.a.	=	not applicable (legend entry in the Financial Statements only)

Discrepancies may arise from rounding.

Periodical Publications

See *www.oenb.at* for further details.

Geschäftsbericht (Nachhaltigkeitsbericht) — German
Annual Report (Sustainability Report) — English

This report reviews the OeNB's mandate, responsibilities and organization as well as the monetary policy of the Eurosystem, economic conditions and developments both in the financial markets and in financial market supervision during the reporting year. Furthermore, it contains the OeNB's financial statements, Intellectual Capital Report and Environmental Statement.

Geldpolitik & Wirtschaft — German
Monetary Policy & the Economy — English

This quarterly publication analyzes current cyclical developments, provides medium-term macroeconomic forecasts and presents studies on central banking and economic policy topics. It also provides summaries of macroeconomic workshops and conferences organized by the OeNB.

Finanzmarktstabilitätsbericht — German
Financial Stability Report — English

This semiannual report contains analyses of Austrian and international developments with an impact on financial stability and studies designed to offer in-depth insights into specific financial stability-related topics.

Focus on European Economic Integration — English

This quarterly publication provides analyses on the Central, Eastern and Southeastern European (CESEE) region. Contributions include studies dealing with macrofinancial and monetary integration as well as economic country analyses and cross-regional comparisons.

Statistiken – Daten & Analysen — German, English summaries

This quarterly publication contains analyses of Austrian financial institutions, cross-border transactions and positions as well as financial flows. Some 200 tables provide information about macroeconomic, financial and monetary indicators. On the OeNB's website, these tables are also available in English.

Research Update — English

This quarterly newsletter is published online (*www.oenb.at/research.update*) and informs readers about selected findings, research topics and activities of the OeNB's Economic Analysis and Research Department.

Proceedings of OeNB Workshops — German, English

These proceedings contain papers presented at OeNB workshops at which national and international experts discuss monetary and economic policy issues.

Working Papers — English

This series provides a platform for the publication of studies by OeNB or other economists on particular monetary policy topics.

Conference Proceedings of the OeNB's Economics Conference — English

These proceedings contain contributions to the OeNB's annual Economics Conference, an international platform for exchanging views and information on monetary and economic policy as well as financial market issues.

Conference Proceedings of the OeNB's Conference on European Economic Integration — English

These proceedings contain contributions to the OeNB's annual Conference on European Economic Integration (CEEI), which focuses on Central, Eastern and Southeastern European issues and the ongoing EU enlargement process.

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[1] Closed down on March 15, 2011.

The *Annual Report* of the OeNB provides information about the monetary policy of the Eurosystem and reviews economic developments and developments in financial markets, including payment systems. Furthermore, it details the OeNB's national and international responsibilities and role as well as the broad range of services the OeNB offers. The OeNB's Financial Statements and the Notes to the Financial Statements are an integral part of the Annual Report. Since 2006, the OeNB's Annual Report, *Intellectual Capital Report* and *Environmental Statement* have been combined to form the *OeNB's Sustainability Report*.

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This Sustainability Report of the OeNB has been validated and has been found to meet the requirements of the current G3 Sustainability Reporting Guidelines of the Global Reporting Initiative. Quality Austria has confirmed the organization's self-assessment at an application level of B+.

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