

BALANCE SHEET AS AT 31 DECEMBER 2003

ASSETS	NOTE NUMBER	2003 €	2002 €
Gold and gold receivables	1	8,145,320,117	8,058,187,254
Claims on non-euro area residents denominated in foreign currency	2		
Receivables from the IMF		211,651,948	164,788,323
Balances with banks and security investments, external loans and other external assets		28,593,384,857	37,151,511,287
		28,805,036,805	37,316,299,610
Claims on euro area residents denominated in foreign currency	2	2,799,472,504	3,047,976,497
Claims on non-euro area residents denominated in euro	3		
Balances with banks, security investments and loans		474,743,402	183,237,923
Other claims on euro area credit institutions denominated in euro	4	25,000	0
Intra-Eurosystem claims	5		
Claims related to the allocation of euro banknotes within the Eurosystem		34,899,471,205	28,681,074,010
Other claims within the Eurosystem (net)		4,599,894,403	5,468,478,796
		39,499,365,608	34,149,552,806
Other assets	6		
Tangible fixed assets		128,911,950	112,624,758
Other financial assets		5,573,756,258	5,529,030,465
Accruals and prepaid expenses		590,646,023	1,260,718,561
Sundry		37,791,421	609,968,394
		6,331,105,652	7,512,342,178
Loss for the year		476,688,785	0
Total assets		86,531,757,873	90,267,596,268

LIABILITIES	NOTE NUMBER	2003 €	2002 €
Banknotes in circulation	7	34,899,471,205	28,681,074,010
Liabilities to other euro area residents denominated in euro	8	1,065,000,000	1,036,000,000
Liabilities to non-euro area residents denominated in euro	9	146,867,501	227,805,777
Liabilities to non-euro area residents denominated in foreign currency	10		
Deposits, balances and other liabilities		1,452,432,822	5,192,380,656
Intra-Eurosystem liabilities	11		
Liabilities equivalent to the transfer of foreign reserves		40,497,150,000	40,497,150,000
Other liabilities	12		
Accruals and income collected in advance		1,162,299,071	1,417,939,194
Sundry		174,890,973	75,191,137
		1,337,190,044	1,493,130,331
Provisions	13	87,195,777	2,644,780,685
Revaluation accounts	14	2,176,464,065	4,404,834,096
Capital and reserves	15		
Capital		4,097,229,250	4,097,229,250
Reserves		772,757,209	772,757,209
		4,869,986,459	4,869,986,459
Profit for the year		0	1,220,454,254
Total liabilities		86,531,757,873	90,267,596,268

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31 DECEMBER 2003

	NOTE NUMBER	2003 €	2002 €
Interest income on foreign reserve assets		541,294,375	990,618,897
Interest income arising from the allocation of euro banknotes within the Eurosystem		698,245,187	726,917,226
Other interest income		1,449,963,923	1,965,003,344
<i>Interest income</i>		<i>2,689,503,485</i>	<i>3,682,539,467</i>
Remuneration of NCBs' claims in respect of foreign reserves transferred		(807,683,148)	(1,140,963,789)
Other interest expense		(1,166,693,660)	(1,547,042,623)
<i>Interest expense</i>		<i>(1,974,376,808)</i>	<i>(2,688,006,412)</i>
Net interest income	20	715,126,677	994,533,055
Realised gains/losses arising from financial operations	21	525,260,622	735,425,388
Write-downs on financial assets and positions	22	(3,972,689,560)	(276,955,036)
Transfer to/from provisions for foreign exchange rate and price risks		2,568,708,838	154,000,000
Net result of financial operations, write-downs and risk provisions		(878,720,100)	612,470,352
Net (expense)/income from fees and commissions	23	(63,466)	(227,158)
Other income	24	2,911,280	3,744,153
Total net income		(160,745,609)	1,610,520,402
Staff costs	25 & 26	(129,886,988)	(120,003,344)
Administrative expenses	27	(153,549,282)	(133,966,576)
Depreciation of tangible fixed assets	28	(30,410,140)	(17,738,206)
Banknote production services	29	(2,096,766)	(118,358,022)
(Loss)/Profit for the year		(476,688,785)	1,220,454,254

Frankfurt am Main, 9 March 2004

EUROPEAN CENTRAL BANK

Jean-Claude Trichet
President

ACCOUNTING POLICIES¹

FORM AND PRESENTATION OF THE FINANCIAL STATEMENTS

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

ACCOUNTING PRINCIPLES

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

BASIS OF ACCOUNTING

The accounts have been prepared on a historical cost basis, modified to include market valuation of marketable securities, gold and all other on-balance-sheet and off-balance-sheet assets and liabilities denominated in foreign currency. Transactions in financial assets and liabilities are reflected in the accounts on the basis of the date on which they are settled.

GOLD AND FOREIGN CURRENCY ASSETS AND LIABILITIES

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

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

Gold is valued at the market price prevailing at the year-end. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold valuation is

accounted for on the basis of the price in euro per fine ounce of gold, which is derived from the exchange rate of the euro against the US dollar on 31 December 2003.

SECURITIES

All marketable debt securities and similar assets are valued at the mid-market prices prevailing at the balance sheet date on a security-by-security basis. For the year ending 31 December 2003, mid-market prices on 30 December 2003 were used. Non-marketable securities are valued at cost.

INCOME RECOGNITION

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

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

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

¹ The detailed accounting policies of the ECB are laid down in a Decision of the Governing Council of the ECB of 5 December 2002 (ECB/2002/11), OJ L 58, 3.3.2003, pp. 38-59.

² These policies are consistent with the provisions of Article 26.4 of the Statute of the ESCB, which require a harmonised approach to the rules governing the accounting and financial reporting of Eurosystem operations.

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

REVERSE TRANSACTIONS

Under a repurchase agreement, securities are sold for cash with a simultaneous agreement to repurchase them at an agreed price on a set future date. These agreements to repurchase are reflected on the liability side of the balance sheet and also lead to an interest expense in the profit and loss account. Securities sold under such an agreement remain on the balance sheet of the ECB.

Under a reverse repurchase agreement securities are bought for cash with a simultaneous agreement to sell them back to the counterparty at an agreed price on a set future date. These agreements to sell are recorded on the asset side of the balance sheet, but are not included in the ECB's security holding and give rise to interest income in the profit and loss account.

Reverse transactions (including security lending transactions) conducted under an automated security lending programme are recorded on the balance sheet only where collateral is provided to the ECB in the form of cash over the maturity of the transaction. In 2003 the ECB did not receive any collateral in the form of cash over the maturity of such transactions.

OFF-BALANCE-SHEET INSTRUMENTS

Currency instruments, namely foreign exchange forward transactions, forward legs of foreign exchange swaps and other currency instruments involving an exchange of one currency for another at a future date, are included in the net foreign currency position for the purpose of calculating foreign exchange gains and losses. Interest rate instruments are revalued on an item-by-item basis. Outstanding interest rate futures positions are recorded in off-balance-sheet accounts. Since 2003 daily changes in the variation margin have been recorded in the profit and loss account.

POST-BALANCE-SHEET EVENTS

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

INTRA-ESCB BALANCES/INTRA-EUROSYSTEM BALANCES

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

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

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

Intra-ESCB balances of the non-euro area NCBs (Danmarks Nationalbank, Sveriges Riksbank and the Bank of England) with the ECB are disclosed under "Liabilities to non-euro area residents denominated in euro".

TREATMENT OF FIXED ASSETS

Fixed assets, with the exception of land, are valued at cost less depreciation. Land is valued

at cost. Depreciation is calculated on a straight-line basis, beginning in the quarter after acquisition and continuing over the expected economic lifetime of the asset, namely:

Computers, related hardware and software, and motor vehicles	4 years
Equipment, furniture and plant in building	10 years
Capitalised building and refurbishment expenditure	25 years
Fixed assets costing less than €10,000	Written off in the year of acquisition

The depreciation period for capitalised building and refurbishment expenditure relating to the ECB's existing premises has been reduced in order to ensure that these assets are completely written off by the end of 2008, by which time the ECB is expected to have moved to its final location.

THE ECB'S RETIREMENT PLAN

The ECB operates a defined contribution pension scheme. The assets of the plan, which exist solely for the purpose of providing benefits for members of the plan and their dependants, are included in the other assets of the ECB and are identified separately in the notes on the balance sheet. Valuation gains and losses arising on the assets of the pension fund are recognised as income and expenditure of the retirement plan in the year in which they arise. The benefits payable from the core benefit account, resulting from the contributions of the ECB, have minimum guarantees underpinning the defined contribution benefits.

BANKNOTES IN CIRCULATION

The ECB and the 12 euro area NCBs, which together comprise the Eurosystem, issue euro banknotes.³ The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with the banknote allocation key.⁴ The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, which is disclosed under the balance sheet liability item

"Banknotes in circulation". The ECB's share of the total euro banknote issue is backed by claims on the NCBs. These claims, which bear interest⁵, are disclosed under the sub-item "Intra-Eurosystem claims: claims related to the allocation of euro banknotes within the Eurosystem" (see "Intra-ESCB balances/intra-Eurosystem balances" in the notes on accounting policies). Interest income on these claims is included within the item "Net interest income". The Governing Council has decided that this income shall be distributed separately to the NCBs in the form of an interim distribution after the end of each quarter⁶. It will be distributed in full unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation, and subject to any decision by the Governing Council to reduce this income in respect of costs incurred by the ECB in connection with the issue and handling of euro banknotes.

OTHER ISSUES

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

In accordance with Article 27 of the Statute of the ESCB, and on the basis of a recommendation of the Governing Council of the ECB, the Council of the European Union has approved the appointment of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the external auditors of the ECB for a five-year period starting from the financial year 2003.

3 ECB Decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15), OJ L 337, 20.12.2001, pp. 52-54.

4 "Banknote allocation key" means the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share in that total.

5 ECB Decision of 6 December 2001 on the allocation of monetary income of the national central banks of participating Member States from the financial year 2002 (ECB/2001/16), OJ L 337, 20.12.2001, pp. 55-61.

6 ECB Decision of 21 November 2002 on the distribution of the income of the European Central Bank on euro banknotes in circulation to the national central banks of the participating Member States (ECB/2002/9), OJ L 323, 28.11.2002, pp. 49-50.

NOTES ON THE BALANCE SHEET

I GOLD AND GOLD RECEIVABLES

The ECB holds 24.7 million ounces of fine gold (2002: 24.7 million ounces). No transactions in gold took place in 2003. The balance sheet movement compared with 2002 is due to the year-end revaluation of these holdings (see “Gold and foreign currency assets and liabilities” in the notes on accounting policies).

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

Receivables from the IMF

This asset represents the ECB’s holdings of Special Drawing Rights (SDRs) as at 31 December 2003. It arises as the result of a two-way SDR buying and selling arrangement with the International Monetary Fund (IMF) whereby the IMF is authorised to arrange sales or purchases of SDRs against euro, on behalf of the ECB, within minimum and maximum holding levels. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of exchange rates of the four major currencies (euro, Japanese yen, pound sterling and US dollar). For accounting purposes, SDRs are treated as a foreign currency (see “Gold and foreign currency assets and liabilities” in the notes on accounting policies).

Balances with banks and security investments, external loans and other external assets Claims on euro area residents denominated in foreign currency

These claims consist of balances with banks, loans denominated in foreign currency and investments in securities, denominated in US dollar and Japanese yen. They can be broken down as follows:

<i>Claims on non-euro area residents</i>	2003 €	2002 €	Change €
Current accounts	1,365,187,080	1,249,268,747	115,918,333
Money market deposits	1,197,220,582	1,665,333,388	(468,112,806)
Reverse repurchase agreements	3,834,025,154	8,252,807,861	(4,418,782,707)
Security investments	22,196,952,041	25,984,101,291	(3,787,149,250)
Total	28,593,384,857	37,151,511,287	(8,558,126,430)

<i>Claims on euro area residents</i>	2003 €	2002 €	Change €
Current accounts	26,740	78,898	(52,158)
Money market deposits	2,799,445,764	3,047,897,599	(248,451,835)
Total	2,799,472,504	3,047,976,497	(248,503,993)

The reduction in these positions in 2003 is primarily due to the year-end revaluation of the ECB’s US dollar denominated assets. The depreciation of the US dollar vis-à-vis the euro has resulted in a significant decline in their euro equivalent value (see “Gold and foreign currency assets and liabilities” and “Income recognition” in the notes on accounting policies).

3 CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO

As at 31 December 2003, this claim consisted of bank deposits with non-euro area residents.

4 OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

As at 31 December 2003, this claim consisted of a bank deposit with a euro area resident.

5 INTRA-EUROSISTEM CLAIMS

Claims related to the allocation of euro banknotes within the Eurosystem

This item consists of the claims of the ECB vis-à-vis the euro area NCBs relating to the allocation of euro banknotes within the Eurosystem (see “Banknotes in circulation” in the notes on accounting policies).

Other claims within the Eurosystem (net)

This item consists of the TARGET balances of the euro area NCBs vis-à-vis the ECB and amounts due in respect of the interim distributions of the ECB’s income derived from banknotes. As at 31 December 2003, an amount of €533 million was due from the euro area NCBs in respect of interim distributions of the ECB’s income derived from banknotes. This represents the interim distributions of such income to the euro area NCBs for the first three quarters of the year, which were subsequently recalled (see “Banknotes in circulation” in the notes on accounting policies and note 20 in the “Notes on the Profit and Loss Account”).

	2003 €	2002 €
Due from euro area NCBs in respect of TARGET	49,646,309,854	56,546,091,330
Due to euro area NCBs in respect of TARGET	(45,579,175,620)	(50,471,612,534)
Net TARGET position	4,067,134,234	6,074,478,796
Due from/(to) euro area NCBs in respect of the interim distribution of the ECB’s income derived from banknotes	532,760,169	(606,000,000)
Other claims within the Eurosystem (net)	4,599,894,403	5,468,478,796

6 OTHER ASSETS

Tangible fixed assets

These assets comprised the following main items on 31 December 2003:

	Net book value as at 31 Dec. 2003 €	Net book value as at 31 Dec. 2002 €	Change €
Land and buildings	54,929,962	51,496,140	3,433,822
Computers	45,407,622	33,522,388	11,885,234
Equipment, furniture, plant in building and motor vehicles	2,149,813	2,575,083	(425,270)
Assets under construction	23,259,861	9,092,185	14,167,676
Other fixed assets	3,164,692	15,938,962	(12,774,270)
Total	128,911,950	112,624,758	16,287,192

The main increase in this item relates to capitalised costs of the ECB’s installations at the ECB’s third site and the purchase of additional information systems equipment.

Other financial assets

The main components of this item are as follows:

	2003 €	2002 €	Change €
Securities denominated in euro	5,276,052,927	5,428,324,673	(152,271,746)
Reverse repurchase agreements in euro	167,100,400	0	167,100,400
Claims relating to the ECB pension fund	91,727,194	61,852,580	29,874,614
Other financial assets	38,875,737	38,853,212	22,525
Total	5,573,756,258	5,529,030,465	44,725,793

(a) Securities denominated in euro and reverse repurchase agreements in euro constitute the investment of the ECB's own funds (see also note 12).

(b) The investment portfolios relating to the ECB pension fund are valued at €91.7 million (2002: €61.9 million). The assets held represent the investments of accumulated pension contributions by the ECB and the staff of the ECB as at 31 December 2003, and are managed by an external fund manager. The regular contributions of the ECB and members of the plan have been invested on a monthly basis. The assets of the plan are not fungible with other financial assets of the ECB, and net income thereon does not constitute income of the ECB, but is reinvested in the funds concerned, pending payment of benefits. The external fund manager values the assets of the pension fund using year-end market prices.

(c) The ECB holds 3,000 shares in the Bank for International Settlements (BIS) which are included at the acquisition cost of €38.5 million.

Accruals and prepaid expenses

In 2002 this position included accrued interest receivable of €727 million on the ECB's claims related to the allocation of euro banknotes within the Eurosystem for the whole year. As from 2003, this interest is received after the end of each quarter. Consequently this position now includes only the final quarterly accrued interest due to the ECB of €165 million (see "Banknotes in circulation" in the notes on accounting policies).

The remainder of this balance consists principally of accrued interest on securities and other financial assets.

Sundry

In 2002 this position included the accrued interim distribution of the ECB's income derived from banknotes of €606 million. In

2003, all such income was retained by the ECB (see note 20 in the "Notes on the Profit and Loss Account").

7 BANKNOTES IN CIRCULATION

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

8 LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

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

9 LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

These liabilities principally represent balances held at the ECB by non-euro area NCBs arising from transactions processed via the TARGET system (see "Intra-ESCB balances/intra-Eurosystem balances" in the notes on accounting policies).

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

The liabilities arising from repurchase agreements conducted with non-euro area residents in connection with the management of the foreign currency reserves of the ECB are as follows:

	2003 €	2002 €	Change €
Repurchase agreements	1,452,432,822	5,192,380,656	(3,739,947,834)

11 INTRA-EUROSYSTEM LIABILITIES

These represent the liabilities to euro area NCBs that arose from the transfer of foreign reserve assets to the ECB. The liabilities are denominated in euro at a value fixed at the time of their transfer. They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component (see note 20 in the "Notes on the Profit and Loss Account").

	%	€
Nationale Bank van België/ Banque Nationale de Belgique	2.8658	1,432,900,000
Deutsche Bundesbank	24.4935	12,246,750,000
Bank of Greece	2.0564	1,028,200,000
Banco de España	8.8935	4,446,750,000
Banque de France	16.8337	8,416,850,000
Central Bank & Financial Services Authority of Ireland	0.8496	424,800,000
Banca d'Italia	14.8950	7,447,500,000
Banque centrale du Luxembourg	0.1492	74,600,000
De Nederlandsche Bank	4.2780	2,139,000,000
Oesterreichische Nationalbank	2.3594	1,179,700,000
Banco de Portugal	1.9232	961,600,000
Suomen Pankki – Finlands Bank	1.3970	698,500,000
Total	80.9943	40,497,150,000

12 OTHER LIABILITIES

This item consists mainly of interest due to the NCBs in respect of their claims relating to the foreign reserves transferred (see note 11). The ECB's obligations in respect of the pension fund, including a provision based on the actuary's report, amount to €100.6 million (2002: €72.4 million). Also included within this balance are other accruals and outstanding repurchase transactions of €64 million, conducted in connection with the management of the ECB's own funds (see note 6).

13 PROVISIONS

In 2000, a general provision against the ECB's large exposure to exchange rate and interest rate risk was made. The size and continuing requirement for this provision was reviewed annually, based on the ECB's assessment of its future exposure to exchange rate and interest rate risk. Given the significant depreciation of the US dollar vis-à-vis the euro in 2003, this provision was used in full to cover unrealised losses expensed at year-end arising principally from the revaluation of the ECB's holding of US dollar denominated assets (see "Income recognition" in the notes on accounting policies and note 22 in the "Notes on the Profit and Loss Account")⁷.

This position also includes provisions relating to pensions and expenditure on goods and services, together with an appropriate provision against the contractual obligation of the ECB to restore its current premises to their original condition when they are vacated and the ECB moves to its final site.

14 REVALUATION ACCOUNTS

These accounts represent revaluation reserves arising from unrealised gains on assets and liabilities.

	2003 €	2002 €	Change €
Gold	2,070,968,381	1,983,835,491	87,132,890
Foreign currency	1,901	1,682,723,875	(1,682,721,974)
Securities	105,493,783	738,274,730	(632,780,947)
Total	2,176,464,065	4,404,834,096	(2,228,370,031)

⁷ ECB Decision of 21 November 2002 on the distribution of the income of the European Central Bank on euro banknotes in circulation to the national central banks of the participating Member States (ECB/2002/9), OJ L 323, 28.11.2002, pp. 49-50.

15 CAPITAL AND RESERVES

Capital

The fully paid-up subscriptions of the euro area NCBs to the ECB's capital of €5 billion amount to a total of €4,049,715,000 as shown below:

	%	Subscribed capital €	Paid-up capital €
Nationale Bank van België/Banque Nationale de Belgique	2.8658	143,290,000	143,290,000
Deutsche Bundesbank	24.4935	1,224,675,000	1,224,675,000
Bank of Greece	2.0564	102,820,000	102,820,000
Banco de España	8.8935	444,675,000	444,675,000
Banque de France	16.8337	841,685,000	841,685,000
Central Bank & Financial Services Authority of Ireland	0.8496	42,480,000	42,480,000
Banca d'Italia	14.8950	744,750,000	744,750,000
Banque centrale du Luxembourg	0.1492	7,460,000	7,460,000
De Nederlandsche Bank	4.2780	213,900,000	213,900,000
Oesterreichische Nationalbank	2.3594	117,970,000	117,970,000
Banco de Portugal	1.9232	96,160,000	96,160,000
Suomen Pankki – Finlands Bank	1.3970	69,850,000	69,850,000
Total euro area NCBs	80.9943	4,049,715,000	4,049,715,000
Danmarks Nationalbank	1.6709	83,545,000	4,177,250
Sveriges Riksbank	2.6537	132,685,000	6,634,250
Bank of England	14.6811	734,055,000	36,702,750
Total non-euro area NCBs	19.0057	950,285,000	47,514,250
Total euro area and non-euro area NCBs	100.0000	5,000,000,000	4,097,229,250

The non-euro area NCBs' contributions represent 5% of their share in the ECB's subscribed capital and amount to a total of €47,514,250. The amounts paid up by these NCBs are contributions to the operational costs of the ECB. Unlike the euro area NCBs, the non-euro area NCBs are not entitled to receive any share of the distributable

profits of the ECB, including income arising from the allocation of euro banknotes within the Eurosystem, nor are they liable to fund any loss of the ECB.

Reserves

This position represents the general reserve fund of the ECB, established under Article 33 of the Statute of the ESCB.

16 POST-BALANCE-SHEET EVENTS

CHANGES TO THE ECB'S CAPITAL KEY

Background

Under Article 29.3 of the Statute of the ESCB, the key of NCBs for subscription of the ECB's capital must be adjusted every five years. The first such adjustment following the establishment of the ECB was made on 1 January 2004. On 1 May 2004 a second change of the ECB's capital key will follow as a result of the accession of ten new Member States. Based on the Council Decision of 15 July 2003 on the statistical data to be used for the determination of the key for subscription of the capital of the European Central Bank, the capital keys of NCBs were adjusted on 1 January 2004 as follows:

	From 1 January 1999 to 31 December 2003 %	From 1 January 2004 to 1 May 2004 %
Nationale Bank van België/ Banque Nationale de Belgique	2.8658	2.8297
Deutsche Bundesbank	24.4935	23.4040
Bank of Greece	2.0564	2.1614
Banco de España	8.8935	8.7801
Banque de France	16.8337	16.5175
Central Bank & Financial Services Authority of Ireland	0.8496	1.0254
Banca d'Italia	14.8950	14.5726
Banque centrale du Luxembourg	0.1492	0.1708
De Nederlandsche Bank	4.2780	4.4323
Oesterreichische Nationalbank	2.3594	2.3019
Banco de Portugal	1.9232	2.0129
Suomen Pankki – Finlands Bank	1.3970	1.4298
Subtotal for euro area NCBs	80.9943	79.6384

Danmarks Nationalbank	1.6709	1.7216
Sveriges Riksbank	2.6537	2.6636
Bank of England	14.6811	15.9764
<i>Subtotal for non-euro area NCBs</i>	<i>19.0057</i>	<i>20.3616</i>
Total	100.0000	100.0000

IMPACT OF CHANGES

Capital of the ECB

Due to the overall reduction of 1.3559% in the weighting of the euro area NCBs (with fully paid-up subscriptions) in the ECB's capital, and the increase in that of the non-euro area NCBs (who only paid up 5% of their subscription), the ECB's capital decreased by a total of €64 million on 1 January 2004.

NCBs' claims equivalent to the foreign reserve assets transferred to the ECB

Given the decrease in the weighting in the ECB capital key of the euro area NCBs (which transferred foreign reserve assets to the ECB according to their prevailing subscribed shares in the ECB's capital), the initial claim of €40,497 million equivalent to this transfer was also adjusted accordingly. This resulted in a reduction of €678 million, which was repaid to the euro area NCBs.

Changes as at 1 May 2004

When the new countries join the European Union and their respective NCBs become part of the ESCB, the subscribed capital of the ECB and the limit on the amount of foreign reserve assets that may be transferred to the ECB will be increased automatically.

OFF-BALANCE-SHEET INSTRUMENTS

17 AUTOMATIC SECURITY LENDING PROGRAMME

As part of the management of the ECB's own funds, the ECB has concluded an automatic security lending programme agreement whereby an appointed agent enters into security lending transactions on behalf of the ECB with a

number of counterparties, designated by the ECB as eligible counterparties. Under this agreement, reverse transactions conducted under repurchase and reverse repurchase agreements, each with a value of €0.4 billion (2002: €1.4 billion), were outstanding as at 31 December 2003 (see "Reverse transactions" in the notes on accounting policies).

18 INTEREST RATE FUTURES

In 2003 foreign currency interest rate futures were used within the management of the ECB's foreign reserves. As at 31 December 2003, the following transactions were outstanding, stated at nominal value:

Foreign currency interest rate futures	Contract value €
Purchases	1,928,169,982
Sales	610,966,084

19 CAPITAL COMMITMENTS

On 5 March 2002 the ECB and the City of Frankfurt am Main signed a purchase agreement for the site of the ECB's final premises. Based on a predefined area of construction floor space, the minimum purchase price had been set at €61.4 million, payable in instalments by 31 December 2004 at the latest, when legal title to the site will pass to the ECB. A first instalment was paid to the City of Frankfurt in 2003.

NOTES ON THE PROFIT AND LOSS ACCOUNT

20 NET INTEREST INCOME

Interest income on foreign reserve assets

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

	2003 €	2002 €	Change €
Interest on current accounts	3,679,287	6,076,316	(2,397,029)
Money market deposit income	45,699,455	76,811,025	(31,111,570)
Reverse repurchase agreements	66,206,740	120,729,765	(54,523,025)
Net income on securities	445,357,205	857,373,212	(412,016,007)
Total interest income on foreign reserve assets	560,942,687	1,060,990,318	(500,047,631)
Interest expense on current accounts	(73,292)	(263,018)	189,726
Repurchase agreements	(19,575,020)	(70,108,403)	50,533,383
Interest income on foreign reserve assets (net)	541,294,375	990,618,897	(449,324,522)

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

This item consists of the interest income of the ECB relating to its 8% share in the total euro banknote issue. Interest on the claims of the ECB in respect of its share of banknotes is earned at the latest available marginal rate for the Eurosystem's main refinancing operations. This income is distributed to the NCBs as outlined in "Banknotes in circulation" in the notes on accounting policies.

Based on the ECB's estimated financial result for the year ending 31 December 2003, the Governing Council decided in December 2003:

(a) to recall the three interim quarterly distributions already paid to the NCBs during the year amounting to €533 million in total;

(b) to withhold the final quarterly interim distribution of €165 million.

Remuneration of NCBs' claims in respect of foreign reserves transferred

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

Other interest income and Other interest expenses

These positions include interest income and expenses on balances arising from TARGET and in respect of other assets and liabilities denominated in euro.

Net interest income has decreased compared with 2002, primarily due to the further decline in both US dollar and euro interest rates during the year.

21 REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

	2003 €	2002 €	Change €
Net realised price gains on securities	528,606,147	734,191,562	(205,585,415)
Net realised exchange rate (losses)/gains	(3,345,525)	1,233,826	(4,579,351)
Realised gains arising from financial operations	525,260,622	735,425,388	(210,164,766)

Net realised gains arose on sales of securities as a result of normal portfolio management transactions. In 2003 there were no material outflows of foreign currencies.

22 WRITE-DOWNS ON FINANCIAL ASSETS AND POSITIONS

	2003 €	2002 €	Change €
Unrealised price losses on securities	(10,349,709)	0	(10,349,709)
Unrealised exchange rate losses	(3,962,339,851)	(276,955,036)	(3,685,384,815)
Total	(3,972,689,560)	(276,955,036)	(3,695,734,524)

This expense is primarily due to the write-down of the average acquisition cost of the ECB's US dollar holding to its end-of-year exchange rate as at 31 December 2003, following the depreciation of this currency against the euro over the year. It was partially covered by the release of the remaining general provision against foreign exchange and interest rate risks (see "Income recognition" in the notes on accounting policies and note 2 in the "Notes on the Balance Sheet" respectively).

23 NET (EXPENSE)/INCOME FROM FEES AND COMMISSIONS

	2003 €	2002 €	Change €
Income from fees and commissions	700,271	634,241	66,030
Expenses relating to fees and commissions	(763,737)	(861,399)	97,662
Net (expense)/income from fees and commissions	(63,466)	(227,158)	163,692

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

24 OTHER INCOME

Other miscellaneous income during the year arose principally from the transfer of unused administrative provisions to the profit and loss account.

25 STAFF COSTS

Salaries and allowances of €108.2 million (2002: €92.6 million) and employer's contributions to the ECB's pension fund and to health and accident insurance are included under this heading. The emoluments of the Executive Board of the ECB amounted to a total of €2.0 million (2002: €2.0 million). No pensions were paid to former members of the Executive Board or their dependants during the year. Transitional payments were made to departing members of the Executive Board. Salaries and allowances, including the emoluments of holders of senior management positions, are modelled in essence on, and are comparable with, the remuneration scheme of the European Communities.

At the end of 2003 the ECB employed 1,213 staff, of whom 84 held managerial positions. The movement of staff during 2003 was as follows:

	2003	2002
As at 1 January	1,105	1,043
New staff	149	113
Resignations	41	51
As at 31 December	1,213	1,105
Average number employed	1,160	1,080

26 THE ECB'S RETIREMENT PLAN

In accordance with the rules of the ECB's retirement plan, a triennial full actuarial valuation is required. The latest full actuarial valuation was carried out as at 31 December 2002, assuming all members left service, and pensionable service ceased, on that date.

The pension cost relating to the plan is assessed in accordance with the advice of a qualified actuary. The total pension cost to the ECB including a provision for disability and post-retirement benefits was €21.7 million (2002: €27.4 million). This cost includes a provision for pensions to members of the Executive Board of €1.9 million (2002: €2.1 million) and any supplementary contributions. The required rate of future service contributions by the ECB is 16.5% of pensionable earnings of all staff.

27 ADMINISTRATIVE EXPENSES

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

28 DEPRECIATION OF TANGIBLE FIXED ASSETS

The rise in the level of the depreciation charges in 2003 reflects for the first time the effect of reducing the depreciation period for capital expenditure on buildings and refurbishment (see “Treatment of fixed assets” in the notes on accounting policies).

29 BANKNOTE PRODUCTION SERVICES

In 2003 this expense related to cross-border transportation costs of euro banknotes between NCBs to meet unexpected fluctuations in demand. These costs are borne centrally by the ECB. The figure for 2002 related to the expensing of a contingency stock of euro banknotes acquired for the Eurosystem in 2001.

NOTE ON THE ALLOCATION OF LOSSES

This note is not part of the financial statements of the ECB for the year 2003. It is published in the Annual Report for information purposes only.

INCOME RELATED TO THE ECB'S BANKNOTE ISSUE

Following a decision by the Governing Council of the ECB, the amount of €698 million was retained by the ECB to ensure that the total profit distribution for the year did not exceed the ECB's net profit for the year. This amount is all of the income relating to the ECB's share of total euro banknotes in circulation for 2003.

COVERAGE OF ECB LOSSES

Under Article 33.2 of the Statute of the ESCB, in the event of a loss incurred by the ECB, the shortfall may be offset against the general reserve fund of the ECB and, if necessary, following a decision by the Governing Council, against the monetary income of the relevant financial year in proportion and up to the amounts allocated to the national central banks in accordance with Article 32.5 of the Statute.⁸

At its meeting on 18 March 2004, the Governing Council of the ECB decided to cover the loss for the year ending 31 December 2003 as follows:

	2003 €	2002 €
(Loss)/Profit for the year	(476,688,785)	1,220,454,254
Income on the ECB's banknote issue distributed to NCBs	0	(606,000,000)
(Loss)/Profit for the year after distribution of income on the ECB's banknote issue	(476,688,785)	614,454,254
(Transfers to)/withdrawals from general reserve fund	476,688,785	0
Distributable profits	0	614,454,254
Distribution to NCBs	0	(614,454,254)
Total	0	0

⁸ Under Article 32.5 of the Statute of the ESCB, the sum of the national central banks' monetary income is to be allocated to the national central banks in proportion to their paid-up shares in the capital of the ECB.



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Auditor's report

President and Governing Council
of the European Central Bank

Frankfurt am Main

We have audited the accompanying balance sheet of the European Central Bank as of 31 December 2003 and the related profit and loss account for the year then ended as well as the notes. These annual accounts are the responsibility of the European Central Bank's Executive Board. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual accounts give a true and fair view of the financial position of the European Central Bank as of 31 December 2003 and of the results of its operations for the year then ended in accordance with the accounting policies as described in the first part of the notes.

Frankfurt am Main, 9 March 2004

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Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Wohlmannstetter)
Wirtschaftsprüfer

(Dr. Lemnitzer)
Wirtschaftsprüfer

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