

Balance Sheet as at 31 December 2002

Assets	Note number	2002 €	2001 €
Gold and gold receivables	1	8,058,187,254	7,766,265,040
Claims on non-euro area residents denominated in foreign currency	2		
Receivables from the IMF		164,788,323	72,074,161
Balances with banks and security investments, external loans and other external assets		37,151,511,287	41,162,620,238
		37,316,299,610	41,234,694,399
Claims on euro area residents denominated in foreign currency	2	3,047,976,497	3,636,568,460
Claims on non-euro area residents denominated in euro	3		
Balances with banks, security investments and loans		183,237,923	391,170,869
Securities of euro area residents denominated in euro	4	0	0
Intra-Eurosystem claims	5		
Claims related to the allocation of euro banknotes within the Eurosystem		28,681,074,010	0
Other claims within the Eurosystem (net)		5,468,478,796	9,697,303,920
		34,149,552,806	9,697,303,920
Other assets	6		
Tangible and intangible fixed assets		112,624,758	100,585,654
Other financial assets		5,529,030,465	4,516,504,313
Accruals and prepaid expenses		1,260,718,561	620,508,777
Sundry		609,968,394	97,569,394
		7,512,342,178	5,335,168,138
Total assets		90,267,596,268	68,061,170,826

Liabilities	Note number	2002 €	2001 €
Banknotes in circulation	7	28,681,074,010	0
Liabilities to other euro area residents denominated in euro	8	1,036,000,000	1,022,000,000
Liabilities to non-euro area residents denominated in euro	9	227,805,777	271,375,580
Liabilities to euro area residents denominated in foreign currency	10	0	17,192,783
Liabilities to non-euro area residents denominated in foreign currency	10		
Deposits, balances and other liabilities		5,192,380,656	5,840,349,099
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		1,417,939,194	1,759,319,678
Sundry		75,191,137	94,122,190
		1,493,130,331	1,853,441,868
Provisions	13	2,644,780,685	2,803,216,269
Revaluation accounts	14	4,404,834,096	9,429,002,830
Capital and reserves	15		
Capital		4,097,229,250	4,097,229,250
Reserves		772,757,209	408,393,225
		4,869,986,459	4,505,622,475
Profit for the year		1,220,454,254	1,821,819,922
Total liabilities		90,267,596,268	68,061,170,826

Profit and Loss Account for the year ending 31 December 2002

	Note number	2002 €	2001 €
Interest income on foreign reserve assets		990,618,897	1,707,431,459
Interest income arising from the allocation of euro banknotes within the Eurosystem		726,917,226	0
Other interest income		1,965,003,344	2,271,293,068
<i>Interest income</i>		3,682,539,467	3,978,724,527
Remuneration of NCBs' claims in respect of foreign reserves transferred		(1,140,963,789)	(1,509,312,118)
Other interest expense		(1,547,042,623)	(1,698,022,587)
<i>Interest expense</i>		(2,688,006,412)	(3,207,334,705)
Net interest income	19	994,533,055	771,389,822
Realised gains/losses arising from financial operations	20	735,425,388	1,351,881,733
Write-downs on financial assets and positions	21	(276,955,036)	(109,023,392)
Transfer to/from provisions for foreign exchange rate and price risks		154,000,000	109,023,392
Net result of financial operations, write-downs and risk provisions		612,470,352	1,351,881,733
Net (expense)/income from fees and commissions	22	(227,158)	298,120
Other income	23	3,744,153	1,393,851
Total net income		1,610,520,402	2,124,963,526
Staff costs	24 & 25	(120,003,344)	(97,288,818)
Administrative expenses	26	(133,966,576)	(185,712,394)
Depreciation of tangible and intangible fixed assets		(17,738,206)	(20,142,392)
Banknote production services	27	(118,358,022)	0
Profit for the year		1,220,454,254	1,821,819,922

Frankfurt am Main, 11 March 2003

EUROPEAN CENTRAL BANK

Willem F. Duisenberg
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 policies, which the Governing Council of the ECB considers to be appropriate to the function of a central bank. These policies are consistent with the provisions of Article 26.4 of the Statute of the ESCB, which require a standardised approach to the rules governing the accounting and reporting of operations of the Eurosystem.

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.

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 2002.

Securities

All marketable debt securities and similar assets are valued at the mid-market prices prevailing at the balance sheet date. For the year ending 31 December 2002, mid-market prices on 30 December 2002 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 are taken to the profit and loss account. An average cost method is used on a daily basis to calculate the acquisition cost of individual items. In the event of an unrealised loss on any item at the year-end, the average cost of that item is

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. The Decision entered into force on 1 January 2003 but also applies to the drawing-up of the annual balance sheet and profit and loss account of the ECB for the year ending 31 December 2002. The revisions to the accounting policies of previous years are not significant.

reduced to the end-of-year exchange rate and/or market price.

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 or currency or in gold are not netted against unrealised gains in other securities, currencies or gold.

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

Reverse transactions

Reverse transactions conducted under repurchase agreements are recorded in the balance sheet as collateralised inward deposits. The balance sheet shows the deposits and the value of the securities used as collateral. Securities sold under this type of agreement remain on the balance sheet of the ECB and are treated as if they had remained part of the portfolio from which they were sold. Agreements involving securities denominated in foreign currency have no effect on the average cost of the currency position.

Reverse transactions conducted under reverse repurchase agreements are recorded as collateralised loans on the assets side of the balance sheet, for the value of the loan. Securities acquired under this type of agreement are not revalued.

Reverse transactions (including security lending transactions) conducted under an automated security lending programme are recorded with effect on the balance sheet for such transactions only where collateral is provided by the borrower in the form of

cash over the maturity of the operation. In 2002, the ECB did not receive any collateral in the form of cash over the maturity of such an operation.

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. Interest rate futures are recorded on the trade date in off-balance-sheet accounts. Daily changes in the variation margin are recorded on balance sheet. Unrealised losses taken to the profit and loss account at the year-end are not reversed in subsequent years against unrealised profits, unless the instrument is closed out or terminated.

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-ESCB transactions are cross-border transactions that occur between two EU central banks. These transactions are primarily processed via TARGET² and give rise to bilateral balances in accounts held between those EU central banks connected to TARGET. These bilateral balances are novated to the ECB daily, leaving each NCB

² TARGET is the Trans-European Automated Real-time Gross settlement Express Transfer system (see also Chapter VIII).

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-ESCB 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 with the ECB are disclosed under "Liabilities to non-euro area residents denominated in euro".

Treatment of tangible and intangible fixed assets

Tangible 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: four years;
- Equipment, furniture and plant in building: ten years;
- Building and capitalised refurbishment expenditure: twenty-five years.

In the case of building and capitalised refurbishment expenditure relating to the ECB's existing premises, the depreciation period has been reduced in order to ensure that these assets are completely written off

by the end of 2008, at which date the ECB is expected to have moved to its final location. This change will affect the annual accounts mainly from 2003 onwards.

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

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. 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, have issued euro banknotes as from 1 January 2002.³ The total value of euro banknotes in circulation is allocated 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

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.

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” 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.⁶ 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. For 2002, one interim distribution was made on the second working day of 2003. From 2003 onwards, interim distributions will be made after the end of each quarter.

Other issues

Having regard to the role of the ECB as a central bank, the Executive Board of the ECB is of the opinion 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 PricewaterhouseCoopers GmbH as the external auditors of the ECB for the financial year ending 31 December 2002.

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/2001/116), 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

1 Gold and gold receivables

The ECB holds 24.7 million ounces of fine gold (2001: 24.7 million ounces). No transactions in gold took place in 2002. The balance sheet movement is due to the quarterly revaluation process (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 2002. 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 asset (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 foreign banks, loans denominated in foreign currency and investments in securities, denominated in US dollar and Japanese yen.

3 Claims on non-euro area residents denominated in euro

As at 31 December 2002, this claim consisted of bank deposits with non-euro area residents.

4 Securities of euro area residents denominated in euro

All securities of euro area residents denominated in euro held by the ECB are a direct counterpart to the capital and reserves of the ECB. The ECB has decided to reclassify these holdings as a dedicated portfolio, which is now included under the heading “Other financial assets”. The comparable balance as at 31 December 2001 has been adjusted accordingly.

5 Intra-Eurosystem 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 includes interim distributions of the ECB’s income derived from banknotes (see “Banknotes in circulation” and “Intra-ESCB balances” in the notes on accounting policies).

	2002 €	2001 €
Due from euro area NCBs in respect of TARGET	56,546,091,330	66,908,187,928
Due to euro area NCBs in respect of TARGET	(50,471,612,534)	(57,210,884,008)
Due to euro area NCBs in respect of the interim distribution of the ECB’s income derived from banknotes	(606,000,000)	0
Net position	5,468,478,796	9,697,303,920

6 Other assets

Tangible and intangible fixed assets

These assets comprised the following main items on 31 December 2002:

	Net book value as at 31 Dec. 2002 €	Net book value as at 31 Dec. 2001 €
Land and buildings	51,496,140	39,288,068
Computers	33,522,388	28,703,744
Equipment, furniture, plant in building and motor vehicles	2,575,083	4,492,005
Assets under construction	9,092,185	8,077,125
Other fixed assets	15,938,962	20,024,712
Total	112,624,758	100,585,654

The principal increase, under the heading “Land and buildings”, relates to capitalised costs of the ECB’s installations at both its sites, the Eurotower and Eurotheum.

Other financial assets

The main components of this item are as follows:

- Securities of euro area residents denominated in euro, valued at €5.4 billion (2001: €4.4 billion – see note 4).
- The investment portfolios relating to the ECB pension fund, which are valued at €61.9 million (2001: €53.9 million). The assets held represent the investments of accumulated pension contributions by the ECB and the staff of the ECB as at 31 December 2002, 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 value

of the assets held by the plan is based on a valuation by the external fund manager, using year-end market prices.

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

Accruals and prepaid expenses

This position includes accrued interest of €727 million on the ECB’s claims related to the allocation of euro banknotes within the Eurosystem (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

The increase in this position in 2002 is primarily due to the accrued interim distribution of the ECB’s income derived from banknotes (see “Banknotes in circulation” in the notes on accounting policies, and note 5 above).

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” in the notes on accounting policies).

10 Liabilities to euro area and non-euro area residents denominated in foreign currency

These liabilities arise from repurchase agreements conducted with euro area and non-euro area residents in connection with the management of the foreign currency reserves of the ECB.

11 Intra-Eurosystem liabilities

These represent the liabilities to euro area NCBs that arose from the transfer of foreign reserve assets to the ECB. The original liabilities were denominated in euro on a fixed basis determined by the value of the assets at the time of their transfer, and 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 the “Notes on the Profit and Loss Account”, note 19).

	Capital key %	€
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 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 liabilities in respect of the pension fund of €61.9 million (2001: €53.9 million) and other accruals are also shown under this item.

13 Provisions

Taking into account the ECB’s large exposure to exchange rate and interest rate risk, and the size of its revaluation reserves, a general provision against these risks was made. The size and continuing requirement for this provision is reviewed annually, based on the ECB’s assessment of its future exposure to exchange rate and interest rate risk.

This position also includes administrative provisions relating to 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. The reduction in these balances is primarily due to the depreciation of the US dollar vis-à-vis the euro (see “Gold and foreign currency assets and liabilities” in the notes on accounting policies).

	2002 €	2001 €
Gold	1,983,835,491	1,691,913,278
Foreign currency	1,682,723,875	7,428,130,700
Securities	738,274,730	308,958,852
Total	4,404,834,096	9,429,002,830

15 Capital and reserves

Capital

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

	Capital key %	€
Nationale Bank van België/ Banque Nationale de Belgique	2.8658	143,290,000
Deutsche Bundesbank	24.4935	1,224,675,000
Bank of Greece	2.0564	102,820,000
Banco de España	8.8935	444,675,000
Banque de France	16.8337	841,685,000
Central Bank of Ireland	0.8496	42,480,000
Banca d'Italia	14.8950	744,750,000
Banque centrale du Luxembourg	0.1492	7,460,000
De Nederlandsche Bank	4.2780	213,900,000
Oesterreichische Nationalbank	2.3594	117,970,000
Banco de Portugal	1.9232	96,160,000
Suomen Pankki – Finlands Bank	1.3970	69,850,000
Total	80.9943	4,049,715,000

The non-euro area NCBs' contributions, which represent 5% of the amount which would be payable if these countries were to participate in Monetary Union, amount to a total of €47,514,250 as shown below:

	Capital key %	€
Danmarks Nationalbank	1.6709	4,177,250
Sveriges Riksbank	2.6537	6,634,250
Bank of England	14.6811	36,702,750
Total	19.0057	47,514,250

These amounts represent contributions to cover the operational costs incurred by the ECB in connection with tasks performed for the non-euro area NCBs. These non-euro area NCBs are not required to pay up any capital subscriptions beyond the amounts already decided until such time as they join

the Eurosystem. They 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 losses of the ECB.

Reserves

In accordance with Article 33 of the Statute of the ESCB and the Governing Council Decision of 21 March 2002, an amount of €364 million of the net profit for the year ending 31 December 2001 was transferred to the general reserve fund.

16 Automatic security lending programme

As part of the management of the ECB's own funds, the ECB is party to an automatic security lending programme agreement whereby an appointed security lending 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 €1.4 billion (2001: €1.6 billion), were outstanding as at 31 December 2002 (see "Reverse transactions" in the notes on accounting policies).

17 Interest rate futures

In 2002 foreign currency interest rate futures were used within the management of the ECB's foreign reserves. As at 31 December 2002, the following transactions were outstanding, stated at nominal value:

Foreign currency interest rate futures	Contract value €
Purchases	1,130,775,475
Sales	682,464,004

18 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 has 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.

Notes on the Profit and Loss Account

19 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:

	2002 €	2001 €
Gross interest income on foreign reserve assets	1,060,990,318	1,851,694,324
Interest expense on foreign reserve liabilities	(70,371,421)	(144,262,865)
Interest income on foreign reserve assets (net)	990,618,897	1,707,431,459

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 (see “Banknotes in circulation” in the notes on accounting policies). 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.

Remuneration of NCBs’ claims in respect of foreign reserves transferred

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

Other interest income and Other interest expense

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

Excluding “Interest income arising from the allocation of euro banknotes within the Eurosystem”, net interest income has decreased

compared with 2001, primarily due to the decline in US dollar and euro interest rates during the year.

20 Realised gains/losses arising from financial operations

Net realised gains arose on sales of securities as a result of normal portfolio management transactions. In 2002, there were no major outflows of foreign currencies.

21 Write-downs on financial assets and positions

This expense is due almost entirely to the write-down of the acquisition cost of the ECB’s Japanese yen and SDR holdings to their end-of-year exchange rate as at 31 December 2002, following the depreciation of these currencies against the euro over the year (see “Income recognition” in the notes on accounting policies).

22 Net (expense)/income from fees and commissions

This item consists of the following income and expenses. Income arose from penalties imposed on credit institutions for non-compliance with the minimum reserve requirements.

	2002 €	2001 €
Income from fees and commissions	634,241	931,206
Expenses relating to fees and commissions	(861,399)	(633,086)
Net (expense)/income from fees and commissions	(227,158)	298,120

23 Other income

Other miscellaneous income during the year arose principally from the transfer of unused

administrative provisions to the profit and loss account.

24 Staff costs

Salaries and allowances of €92.6 million (2001: €82.4 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 million (2001: €1.9 million). No pensions were paid to former members of the Executive Board or their dependants during the year. 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 2002, the ECB employed 1,105 staff, of whom 79 held managerial positions. The average number of staff employed by the ECB in 2002 was 1,080, compared with 997 in 2001. 113 additional staff were employed during the period, and 51 members of staff left the service of the ECB.

25 The ECB's retirement plan

In accordance with the rules of the ECB's plan, a triennial full actuarial valuation is required. The latest actuarial valuation was carried out as at 31 December 2001, using the Projected Unit Credit Method, subject to minimum liabilities equal to cash lump sums that would be payable to members on termination of service.

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 €27.4 million (2001: €14.9 million). This cost includes a provision for pensions to members of the Executive Board of €2.1 million

(2001: €0.7 million) and any supplementary contributions. Based on the actuary's findings, the ECB made a supplementary contribution of €10.5 million in 2002. The required rate of future service contributions by the ECB is 16.5% of pensionable earnings of all staff.

26 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.

The net decrease in administrative expenditure compared with 2001 is primarily due to the fact that in that year additional consultancy fees were incurred in connection with the Euro 2002 Information Campaign.

27 Banknote production services

In 2001, costs relating to the production of a contingency stock of euro banknotes for the Eurosystem in connection with the changeover process were capitalised pending the allocation of that stock to the NCBs at cost as required. Following a decision of the Governing Council of the ECB after the changeover that the remaining stock of banknotes should constitute the nucleus of a strategic stock of the Eurosystem, these costs, together with similar costs incurred in 2002, have now been expensed. The remaining costs of establishing the Eurosystem strategic stock were borne directly by the NCBs.

The Governing Council decided that the ECB's interim distribution of income arising from the allocation of euro banknotes within the Eurosystem should be reduced by the amount of this expense.

President and Governing Council
of the European Central Bank

Frankfurt am Main

We have audited the accompanying annual accounts of the European Central Bank as of 31 December 2002. 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 annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached annual accounts, which have been prepared under accounting policies set out in the first part of the notes on the accounts of the European Central Bank, give a true and fair view of the financial position of the European Central Bank as of 31 December 2002 and of the results of its operations for the year then ended.

Frankfurt am Main, 12 March 2003

PricewaterhouseCoopers

GmbH
Wirtschaftsprüfungsgesellschaft

[signed]
(Wagener)
Wirtschaftsprüfer

[signed]
(Roennberg)
Wirtschaftsprüfer

Note on profit distribution

This note is not part of the financial statements of the ECB for the year 2002. It is published in the Annual Report for information purposes only.

Profit distribution

Income related to the ECB's banknote issue

Following a decision of the Governing Council on 19 December 2002, an amount of €606 million, comprising part of the income related to the ECB's share of total euro banknotes in circulation, was distributed to the NCBs on 3 January 2003, in accordance with their respective shares in the ECB's capital.

Allocations to the general reserve fund

Article 33 of the Statute of the ESCB states that the net profit of the ECB shall be transferred in the following order:

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

In accordance with this Article, the Governing Council decided on 20 March 2003 to make no transfer to the general reserve fund and to distribute the remaining balance of €614 million to the euro area NCBs in proportion to their paid-up capital.

Non-euro area NCBs are not entitled to receive any share of the ECB's profit.

	2002 €	2001 €
Profit for the year	1,220,454,254	1,821,819,922
Income on the ECB's banknote issue distributed to NCBs	(606,000,000)	0
Profit for the year after distribution of income on the ECB's banknote issue	614,454,254	1,821,819,922
Allocations to general reserve fund	0	(364,363,984)
Distributable profits	614,454,254	1,457,455,938
Distribution to NCBs	(614,454,254)	(1,457,455,938)
Total	0	0