

Balance Sheet as at 31 December 1999

Assets	Note number	1999 €	1998 €
1 Gold and gold receivables	1	6,956,995,273	0
2 Claims on non-euro area residents denominated in foreign currency	2		
Balances with banks and security investments, external loans and other external assets		41,923,041,208	343,047,341
3 Claims on euro area residents denominated in foreign currency	2		
Claims on financial sector counterparties		2,595,090,860	0
4 Claims on non-euro area residents denominated in euro	3		
Balances with banks, security investments and loans		3,002,567,659	3,739,796,108
5 Securities of euro area residents denominated in euro	4	3,537,141,285	0
6 Other assets			
6.1 Tangible and intangible fixed assets	5.1	42,589,467	30,112,071
6.2 Other financial assets	5.2	641,807,406	25,276,953
6.3 Accruals and deferred expenditure	5.3	777,032,332	553,582
6.4 Sundry items	5.4	6,774,149	3,458,140
		1,468,203,354	59,400,746
7 Loss for the year		247,281,223	0
Total assets		59,730,320,862	4,142,244,195

Liabilities	Note number	1999 €	1998 €
1 Liabilities to other euro area residents denominated in euro	6	1,080,000,000	0
2 Liabilities to non-euro area residents denominated in euro	7	301,656,911	0
3 Liabilities to non-euro area residents denominated in foreign currency	8		
Deposits, balances and other liabilities		4,708,950,946	0
4 Intra-Eurosystem liabilities			
4.1 Liabilities due to the transfer of foreign reserves	9.1	39,468,950,000	0
4.2 Other liabilities within the Eurosystem (net)	9.2	1,720,937,646	0
		41,189,887,646	0
5 Other liabilities	10		
5.1 Off-balance-sheet instruments: revaluation differences		0	725,321
5.2 Accruals and deferred income		1,237,727,166	4,172,760
5.3 Sundry items		302,605,481	78,550,581
		1,540,332,647	83,448,662
6 Provisions	11	21,862,239	31,006,791
7 Revaluation accounts	12	6,860,539,710	697,979
8 Capital and reserves	13		
8.1 Capital		3,999,550,250	3,999,550,250
8.2 Reserves		27,540,513	0
		4,027,090,763	3,999,550,250
9 Profit for the year		0	27,540,513
Total liabilities		59,730,320,862	4,142,244,195

Profit and Loss Account for the year ending 31 December 1999

	Note number	1999 €	1998 (7 months) €
<i>Interest income</i>		4,872,234,880	97,851,703
<i>Interest expenses</i>		(4,118,082,387)	(2,683,980)
Net interest income	1	754,152,493	95,167,723
Realised gains/losses arising from financial operations	2	(264,942,584)	22,182,536
Write-downs on financial assets and positions	3	(604,920,383)	(22,249,604)
Net result of financial operations, write-downs and risk provisions		(115,710,474)	95,100,655
<i>Income from fees and commissions</i>		593,902	0
<i>Expenses relating to fees and commissions</i>		(361,702)	0
Net income from fees and commissions	4	232,200	0
Other income	5	436,898	490,101
Total net income		(115,041,376)	95,590,756
Staff costs	6 & 7	(61,022,091)	(29,744,540)
Administrative expenses	8	(60,748,855)	(30,229,686)
Depreciation of tangible and intangible fixed assets		(10,468,901)	(8,076,017)
(Loss)/Profit for the year		(247,281,223)	27,540,513

Frankfurt am Main, 29 February 2000

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 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;
- a going concern basis;
- 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, 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 30 December 1999.

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 on 31 December 1999, mid-market prices on 29 December 1999 were used. Non-marketable securities are valued at cost.

Repurchase agreements

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.

¹ The detailed accounting policies of the ECB are laid down in a Decision of the Governing Council of the ECB of 1 December 1998 (ECB/1998/NP23), which is available on request.

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.

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 reduced in line with 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 or currencies.

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.

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 and treated in a similar manner to securities. Profits and losses arising from off-balance-sheet instruments are recognised and treated in a similar manner to profits and losses relating to on-balance-sheet instruments.

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-Eurosystem balances

Intra-Eurosystem balances (except for the capital of the ECB and positions resulting from the transfer of foreign reserve assets to the ECB) are presented in the balance sheet of the ECB as a net position.

Treatment of tangible and intangible fixed assets

Tangible and intangible fixed assets are valued at cost less depreciation. 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.

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

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.

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 will 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 approved the appointment of PricewaterhouseCoopers GmbH as the external auditors of the ECB.

Notes on the Balance Sheet

1 Gold and gold receivables

The ECB holds 24 million ounces of fine gold. This gold was transferred to the ECB at the beginning of 1999 at its then current market value of €246.368 per fine ounce, as part of the foreign reserve assets transferred to the ECB by the NCBs, and represented 15% of the initial value of these assets.

2 Claims on non-euro area and 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 mainly in US dollars and Japanese yen.

3 Claims on non-euro area residents denominated in euro

These claims principally represent balances with non-participating NCBs arising from transactions processed via the TARGET system.

4 Securities of euro area residents denominated in euro

These securities comprise marketable debt issued by specific euro area issuers with a high level of credit quality.

5 Other assets

5.1 Tangible and intangible fixed assets

Net of cumulative depreciation totalling €29.1 million (including depreciation during the lifetime of the EMI), tangible fixed assets comprised the following main items on 31 December 1999:

	Net book value at 31 December 1999 €	Net book value at 31 December 1998 €
Computers	15,865,660	12,510,812
Equipment, furniture, plant in building and motor vehicles	5,955,720	3,329,884
Assets under construction	12,989,835	11,864,257
Other fixed assets	7,778,252	2,407,118
Total	42,589,467	30,112,071

5.2 Other financial assets

The principal components of this item are as follows:

- The counterpart of repurchase operations made in connection with the investment of the ECB's own funds. As at 31 December 1999 repurchase contracts of €565.7 million were outstanding.
- The investment portfolios relating to the ECB pension fund, which are valued at €32.2 million. The assets held represent the investments of accumulated pension contributions by the ECB and the staff of the ECB as at 31 December 1999, 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.
- Following an invitation by the Board of Directors of the Bank for International Settlements for the ECB to become a member, on 9 December 1999 the ECB purchased 3,000 shares in the Bank for International Settlements at a cost of €38.5 million.

5.3 Accruals and deferred expenditure

The principal component of this item is accrued interest on securities and other financial assets.

5.4 Sundry items

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

6 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 payments settled through the TARGET system.

7 Liabilities to non-euro area residents denominated in euro

These liabilities principally represent the balance with one non-participating NCB arising from transactions via the TARGET system.

8 Liabilities to non-euro area residents denominated in foreign currency

Liabilities arising from repurchase agreements in connection with the management of the foreign currency reserves of the ECB are shown under this heading.

9 Intra-Eurosystem liabilities

9.1 Liabilities equivalent to the transfer of foreign reserves

At the start of Stage Three of EMU, the NCBs of the participating countries transferred foreign reserve assets to the ECB in accordance with Article 30 of the Statute of the ESCB and a decision of the Governing Council of the ECB which gave effect to that Article. Amounts equivalent to €39.5 billion were transferred between 4 and 7 January 1999 in the form of gold, cash and securities. The currency component (which amounted to 85% of the total value of the transfer) comprised 90% US dollars and 10% Japanese yen.

	Capital key (%)	€
Nationale Bank van België/ Banque Nationale de Belgique	2.8658	1,432,900,000
Deutsche Bundesbank	24.4935	12,246,750,000
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	1.3970	698,500,000
Total	78.9379	39,468,950,000

The resulting claims of the NCBs are denominated in euro and remunerated at the short-term refinancing rates of the Eurosystem, adjusted to reflect a zero return on the gold component (see "Notes on the profit and loss account", Note 1). During the first three years of Stage Three of EMU, and following a decision of the Governing Council, these claims are subject to a waiver in the event that the ECB has insufficient net income and reserves to cover unrealised losses caused by falls in the exchange rates relating to the foreign reserve assets held. Any

amounts to be waived may not reduce the liability to below 80% of its original value.

9.2 Other liabilities within the Eurosystem (net)

This item consists mainly of the TARGET balances of the participating NCBs vis-à-vis the ECB, as follows:

	€
Due from participating central banks in respect of TARGET	7,697,803,922
Due to participating central banks in respect of TARGET	(9,418,628,635)
Net position	(1,720,824,713)

10 Other liabilities

The principal item under the sub-heading "sundry items" comprises repurchase operations made in connection with the investment of the ECB's own funds. The ECB's liabilities in respect of the pension fund (€32.2 million) are also shown under this sub-heading.

11 Provisions

This item consists mainly of administrative provisions relating to expenditure on goods and services.

12 Revaluation accounts

These accounts represent revaluation reserves arising from unrealised gains on assets and liabilities, primarily owing to increases in exchange rates against the euro during the course of 1999.

	1999 €	1998 €
Gold	1,036,876,277	0
Foreign currency	5,821,397,453	697,979
Securities	2,265,980	0
Total	6,860,539,710	697,979

13 Capital and reserves

The fully paid-up subscriptions of the euro area NCBs to the capital of the ECB of €5 billion amount to a total of €3,946,895,000, 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
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	1.3970	69,850,000
Total	78.9379	3,946,895,000

The non-euro area NCBs' contributions, which represent 5% of the amount which would have been payable had these countries participated in Monetary Union, amount to a total of €52,655,250 as shown below:

	Capital key (%)	€
Danmarks Nationalbank	1.6709	4,177,250
Bank of Greece	2.0564	5,141,000
Sveriges Riksbank	2.6537	6,634,250
Bank of England	14.6811	36,702,750
Total	21.0621	52,655,250

These amounts represent contributions to cover the operational costs incurred by the ECB in connection with tasks performed for the non-euro area NCBs. The 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. The non-participating NCBs are not entitled to receive any share of the

distributable profits of the ECB, nor are they liable to fund any losses of the ECB.

The reserves of the ECB are as follows:

	€ 1999
General reserve fund	5,508,000
Other reserves	0
Retained profit	22,032,513
Total	27,540,513

14 Off-balance-sheet items

No claims and liabilities remained outstanding on unmatured contracts or other open positions. No material contingent liabilities were outstanding as at 31 December 1999.

Notes on the Profit and Loss Account

1 Net interest income

This item includes interest income, net of interest expense, in respect of the assets and liabilities denominated in foreign currency and in euro. The bulk of interest income and expenses arose on balances resulting from TARGET transactions. Net interest income on the foreign reserve assets amounted to €1.5 billion. Remuneration of €913 million was paid to NCBs on their claims on the ECB in respect of the foreign reserve assets transferred at the beginning of 1999.

Composition of interest income

	Denominated in foreign exchange (%)		Denominated in euro (%)	
	1999 (7 months)	1998 (7 months)	1999 (7 months)	1998 (7 months)
Securities	84.5%	0.0%	5.1%	0.0%
Other assets	15.5%	100.0%	94.9%	0.0%
Total	100.0%	100.0%	100.0%	0.0%

Composition of interest expense

	Denominated in foreign exchange (%)		Denominated in euro (%)	
	1999 (7 months)	1998 (7 months)	1999 (7 months)	1998 (7 months)
Securities	99.6%	0.0%	0.9%	0.0%
Other liabilities	0.4%	0.0%	99.1%	100.0%
Total	100.0%	0.0%	100.0%	100.0%

2 Realised gains/losses arising from financial operations

A net realised loss resulted from normal portfolio management transactions in securities owing to significant falls in the prices of securities held during the course of 1999.

3 Write-downs in financial assets and positions

Falls in prices resulted in the write-down of the acquisition cost of securities shown in the balance sheet to their market value as at 31 December 1999 (see "Accounting policies: Income recognition").

4 Net income from fees and commissions

The sub-item "Income from fees and commissions" consists of penalties imposed on credit institutions for non-compliance with the minimum reserve requirement.

5 Other income

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

6 Staff costs

Salaries and allowances (€52.3 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 €1.8 million. No pensions were paid to former members of the Executive Board or their dependants during the year. Salaries and allowances of staff, 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.

On the last working day of 1999 the ECB employed 732 staff, of whom 55 held managerial positions. The average number of staff employed by the ECB in 1999 was 648, compared with 478 in 1998. 242 additional

staff were employed during the period, and 44 members of staff left the service of the ECB.

7 ECB's retirement plan

In accordance with the rules of the plan, a triennial full actuarial valuation is required. A full actuarial valuation will, however, be carried out annually as long as staff numbers increase significantly during the year. The latest actuarial valuation was carried out as at 31 December 1998, 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 valuation showed that the actuarial value of the fund's assets represented 110% of the benefits which had accrued to members at the balance sheet date, after providing for future increases in earnings and the pensions liability.

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 was €8.1 million. This includes a provision for pensions to members of the Executive Board of €1.8 million. The required future service contribution rate by the ECB is 16.5% of pensionable earnings of all staff.

8 Administrative expenses

These cover all other current expenses relating to rental of premises, 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.

President and Governing Council
of the European Central Bank

Frankfurt am Main

We have audited the accompanying financial statements of the European Central Bank as at 31 December 1999. The European Central Bank's Management is responsible for the preparation of the accounts. It is our responsibility to form an independent opinion on these accounts based on our audit, and to report our opinion to you.

We conducted our audit in accordance with International Standards of Auditing. An audit includes examinations, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made in the preparation of the accounts, and of whether the accounting policies are appropriate to the European Central Bank's circumstances and adequately disclosed.

In our opinion, the financial statements, which have been prepared under accounting policies set out in Section I 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 at 31 December 1999 and the results of its operations for the year then ended.

Frankfurt am Main, 1 March 2000

PricewaterhouseCoopers

Gesellschaft mit beschränkter Haftung
Wirtschaftsprüfungsgesellschaft

[signed]
(Wagener)
Wirtschaftsprüfer

[signed]
(Kern)
Wirtschaftsprüfer

Note on the allocation of losses

Note: this item does not form a part of the financial statements of the ECB. It is published in the Annual Report for information purposes.

Pursuant to Article 33.2 of the Statute of the ESCB, a loss incurred by the ECB shall be transferred in the following order:

- (a) the loss may be offset against the general reserve fund of the ECB;
- (b) following a decision by the Governing Council of the ECB, any remaining loss shall be offset against the monetary income for the relevant financial year in proportion to and up to the amounts allocated to the NCBs in accordance with Article 32.5;¹
- (c) in the event that such losses cannot be offset in accordance with Article 33.2, the Governing Council has agreed that any remaining loss should be funded as follows:
 - (i) any remaining loss may be offset in the first instance by waiving a part of the original value of the ECB's liabilities equivalent to the transfer of foreign reserves in the balance sheet of the ECB. The maximum waiver may not exceed:
 - the amount of unrealised losses which arise on the foreign currency and gold positions;
 - an amount which would reduce the aforesaid liability to below 80% of its original value.
 - (ii) any remaining loss may be offset against a direct charge on income, apportioned in accordance with the ECB's capital key, accruing to participating NCBs from national banknotes in circulation, subject to the limitation that no such direct charge on any one NCB may exceed that NCB's income from national banknotes.

At its meeting on 16 March 2000 the Governing Council of the ECB decided to allocate the loss of the ECB for the year ending on 31 December 1999 as follows:

	1999 €	1998 €
(Loss)/Profit for the year	(247,281,223)	27,540,513
Withdrawals from/allocated to general reserve funds	27,540,513	(5,508,000)
Transfer from monetary income pooled	35,160,676	0
Retained profit carried forward		(22,032,513)
Direct charge on NCBs	184,580,034	0

¹ In accordance with Article 32.5 of the Statute of the ESCB, the NCBs' monetary income shall be allocated to the NCBs in proportion to their paid-up shares in the capital of the ECB. The Governing Council of the ECB decided for the financial years 1999 to 2001 to calculate monetary income by the application of a reference rate to the liability base, which consists of all deposit liabilities to credit institutions, current accounts, the deposit facility, fixed-term deposits, deposits related to margin calls, liquidity-absorbing repurchase agreements and liabilities of participating NCBs arising from the issuance by the ECB of debt certificates. The reference rate used is the latest available two-week repo rate and is applied on a daily basis to the liability base of each NCB to calculate the pool of monetary income. Amounts of interest paid by an NCB on liabilities included within its liability base are to be deducted from the amount of monetary income to be pooled.