

# MANAGEMENT REPORT FOR THE YEAR ENDING 31 DECEMBER 2004

## 1 PRINCIPAL ACTIVITIES

The Bank's activities in 2004 are described in detail in the relevant chapters of the Annual Report.

## 2 FINANCIAL ACCOUNTS

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

## 3 FINANCIAL RESULTS

The ECB's Annual Accounts for the year ending 31 December 2004, as set out on pages 180 to 197, show a net loss of €1,636 million, following a net loss of €477 million in 2003. As was the case last year, the loss was mainly due to the continued strengthening of the external value of the euro, which resulted in write-downs in the euro value of the ECB's holdings of US dollar-denominated assets. The net loss is stated after taking into account all income earned by the ECB, including €733 million of income earned on its banknotes in circulation. The ECB's interest income continued to be affected in 2004 by historically low levels of domestic and foreign interest rates.

Since most of the ECB's assets and liabilities are periodically revalued at current market exchange rates and security prices, the ECB's profitability is very dependent on exchange rate movements and, to a lesser extent, interest rate exposures. These exposures stem mainly from its large official holdings of the Eurosystem's foreign reserve assets, which are invested in interest-bearing instruments.

The harmonised accounting policies for the ECB and the Eurosystem, which are described in the notes to the Annual Accounts, have been

developed to take these substantial risks into account and are based primarily on the principle of prudence. In particular, they aim to ensure that unrealised gains arising from the revaluation of assets and liabilities are not recognised as income and are therefore not distributable as profit. Conversely, unrealised losses resulting from revaluations are expensed in the profit and loss account at the end of the year.

The bulk of the ECB's foreign reserve assets is held in US dollars, but they also include holdings of Japanese yen, gold and SDRs. The euro appreciated against the US dollar, from USD 1.2630 on 31 December 2003 to USD 1.3621 on 31 December 2004 (some 8%) and to a lesser extent against the Japanese yen. Consequently, the revaluation of the net holdings of these currencies resulted in a decline of €2.1 billion in their euro value.

At the end of 2004, the ECB employed 1,309 staff (including 131 at managerial levels) compared with 1,213 one year earlier. The increase in 2004 was primarily due to the consequences of EU enlargement. For further details, please refer to Chapter 8 of the Annual Report, Section 2 "Organisational Developments" and the Annual Accounts – "Notes on the Profit and Loss Account".

Total administrative expenses of the ECB, including depreciation, rose by 18% from €316 million in 2003 to €374 million in 2004. The main single factor in this increase was the rise in the ECB's pension fund obligations, as calculated by the actuary, which contributed substantially to an increase in staff costs from €130 million to €161 million. In 2004, the emoluments of the Executive Board of the ECB amounted in total to €2.1 million (2003: €2.0 million).

Some €90 million were invested in fixed assets. The principal item (some €61 million) was the capitalisation of the cost of the site of the ECB's new premises, following the final payment.

#### ***Funding of the ECB's 2004 reported loss***

On 11 March 2005, the Governing Council decided to offset the loss for 2004 by (a) using the entire remaining general reserve fund of some €296 million, and (b) using the NCBs' monetary income of some €1,340 million, in accordance with the provisions of Article 33.2 of the ESCB Statute. The amount of the NCBs' monetary income used came to some 15% of the total monetary income of the Eurosystem. The way in which the loss was to be allocated was authorised, in principle, by the Governing Council before the NCBs had closed their Annual Accounts for 2004, with the result that it affected their profits for that year too. Each NCB contributed a share of its monetary income in accordance with its weighting in the capital key of the ECB.

#### **4 CHANGES IN THE ECB'S CAPITAL STRUCTURE IN 2004**

Under Article 29.3 of the ESCB Statute, the capital key for the NCBs' subscriptions to the ECB's capital must be adjusted every five years. The first such adjustment following the establishment of the ECB took place on 1 January 2004. On 1 May 2004, a second change of the ECB's capital key followed as a result of the accession of ten new Member States. Taken together, these two steps had the following effects:

- (a) a reduction in the overall weighting of the euro area NCBs in the ECB's capital key;
- (b) a concomitant reduction in the euro area NCBs' claims on the ECB that arose from the transfer of foreign reserve assets to the ECB on entry into the euro area; and
- (c) an increase in the paid-up capital contributions of the non-euro area NCBs following the accession of ten new Member States, which also reflects an increase from 5% to 7% in the minimal percentage of subscribed capital paid by the 13 non-euro area NCBs.

Details of these changes are contained in note 15 of the Annual Accounts.

#### **5 INVESTMENT ACTIVITIES AND RISK MANAGEMENT**

The ECB's foreign reserve portfolio is composed of foreign reserve assets transferred to it by the Eurosystem NCBs in accordance with the provisions of Article 30 of the ESCB Statute and income thereon. Its purpose is to fund the ECB's operations in the foreign exchange market for the purposes set out in the Treaty.

The ECB's own funds portfolio reflects the investment of its paid-up capital, the general reserve fund and income accumulated on the portfolio in the past. Its purpose is to provide the ECB with a reserve to meet possible losses.

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

#### **6 GOVERNANCE OF THE ECB**

Information relating to the governance of the ECB is outlined in Chapter 8 of the Annual Report.

#### **7 EMPLOYEES**

The ECB's human resources strategy, together with further information on the number of staff employed, is described in Chapter 8 of the Annual Report.

## BALANCE SHEET AS AT 31 DECEMBER 2004

ASSETS	NOTE NUMBER	2004 €	2003 €
<b>Gold and gold receivables</b>	<b>1</b>	<b>7,928,308,842</b>	<b>8,145,320,117</b>
<b>Claims on non-euro area residents denominated in foreign currency</b>	<b>2</b>		
Receivables from the IMF		163,794,845	211,651,948
Balances with banks and security investments, external loans and other external assets		26,938,993,980	28,593,384,857
		<b>27,102,788,825</b>	<b>28,805,036,805</b>
<b>Claims on euro area residents denominated in foreign currency</b>	<b>2</b>	<b>2,552,016,565</b>	<b>2,799,472,504</b>
<b>Claims on non-euro area residents denominated in euro</b>	<b>3</b>		
Balances with banks, security investments and loans		<b>87,660,507</b>	<b>474,743,402</b>
<b>Other claims on euro area credit institutions denominated in euro</b>	<b>4</b>	<b>25,000</b>	<b>25,000</b>
<b>Intra-Eurosystem claims</b>	<b>5</b>		
Claims related to the allocation of euro banknotes within the Eurosystem		40,100,852,165	34,899,471,205
Other claims within the Eurosystem (net)		3,410,918,324	4,599,894,403
		<b>43,511,770,489</b>	<b>39,499,365,608</b>
<b>Other assets</b>	<b>6</b>		
Tangible fixed assets		187,318,304	128,911,950
Other financial assets		6,428,319,567	5,573,756,258
Accruals and prepaid expenses		770,894,480	590,646,023
Sundry		6,933,022	37,791,421
		<b>7,393,465,373</b>	<b>6,331,105,652</b>
<b>Loss for the year</b>		<b>1,636,028,702</b>	<b>476,688,785</b>
<b>Total assets</b>		<b>90,212,064,303</b>	<b>86,531,757,873</b>

LIABILITIES	NOTE NUMBER	2004 €	2003 €
<b>Banknotes in circulation</b>	7	40,100,852,165	34,899,471,205
<b>Liabilities to other euro area residents denominated in euro</b>	8	1,050,000,000	1,065,000,000
<b>Liabilities to non-euro area residents denominated in euro</b>	9	137,462,706	146,867,501
<b>Liabilities to euro area residents denominated in foreign currency</b>	10	4,967,080	0
<b>Liabilities to non-euro area residents denominated in foreign currency</b>	10		
Deposits, balances and other liabilities		1,254,905,957	1,452,432,822
<b>Intra-Eurosystem liabilities</b>	11		
Liabilities equivalent to the transfer of foreign reserves		39,782,265,622	40,497,150,000
<b>Other liabilities</b>	12		
Accruals and income collected in advance		1,136,708,542	1,162,299,071
Sundry		327,802,782	174,890,973
		<b>1,464,511,324</b>	<b>1,337,190,044</b>
<b>Provisions</b>	13	110,636,285	87,195,777
<b>Revaluation accounts</b>	14	1,921,117,190	2,176,464,065
<b>Capital and reserves</b>	15		
Capital		4,089,277,550	4,097,229,250
Reserves		296,068,424	772,757,209
		<b>4,385,345,974</b>	<b>4,869,986,459</b>
<b>Total liabilities</b>		<b>90,212,064,303</b>	<b>86,531,757,873</b>

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31 DECEMBER 2004

	NOTE NUMBER	2004 €	2003 €
Interest income on foreign reserve assets		422,418,698	541,294,375
Interest income arising from the allocation of euro banknotes within the Eurosystem		733,134,472	698,245,187
Other interest income		1,456,650,188	1,449,963,923
<i>Interest income</i>		<i>2,612,203,358</i>	<i>2,689,503,485</i>
Remuneration of NCBs' claims in respect of foreign reserves transferred		(693,060,433)	(807,683,148)
Other interest expense		(1,229,369,015)	(1,166,693,660)
<i>Interest expense</i>		<i>(1,922,429,448)</i>	<i>(1,974,376,808)</i>
<b>Net interest income</b>	<b>18</b>	<b>689,773,910</b>	<b>715,126,677</b>
Realised gains/losses arising from financial operations	<b>19</b>	136,045,810	525,260,622
Write-downs on financial assets and positions	<b>20</b>	(2,093,285,109)	(3,972,689,560)
Transfer to/from provisions for foreign exchange rate and price risks		0	2,568,708,838
<b>Net result of financial operations, write-downs and risk provisions</b>		<b>(1,957,239,299)</b>	<b>(878,720,100)</b>
<b>Net expense from fees and commissions</b>	<b>21</b>	<b>(261,517)</b>	<b>(63,466)</b>
<b>Other income</b>	<b>22</b>	<b>5,956,577</b>	<b>2,911,280</b>
<b>Total net income</b>		<b>(1,261,770,329)</b>	<b>(160,745,609)</b>
Staff costs	<b>23 &amp; 24</b>	(161,192,939)	(129,886,988)
Administrative expenses	<b>25</b>	(176,287,651)	(153,549,282)
Depreciation of tangible fixed assets		(33,655,824)	(30,410,140)
Banknote production services	<b>26</b>	(3,121,959)	(2,096,766)
<b>Loss for the year</b>		<b>(1,636,028,702)</b>	<b>(476,688,785)</b>

Frankfurt am Main, 4 March 2005

EUROPEAN CENTRAL BANK

Jean-Claude Trichet  
President

# ACCOUNTING POLICIES<sup>1</sup>

## 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<sup>2</sup>, 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, 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 2004.

## SECURITIES

All marketable 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 2004, mid-market prices on 30 December 2004 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.

<sup>1</sup> 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.

<sup>2</sup> 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 2004 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. Daily changes in the variation margin are 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 (Denmarks 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 before the ECB moves to its final premises.

## THE ECB'S RETIREMENT PLAN

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.<sup>3</sup> 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.<sup>4</sup> The ECB has been allocated a share of 8% of the total value of euro banknotes

in circulation, which is disclosed under the balance sheet liability item "Banknotes in circulation". The ECB's share of the total euro banknote issue is backed by claims on the NCBs. These claims, which bear interest<sup>5</sup>, 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 quarter.<sup>6</sup> 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

<sup>3</sup> ECB Decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15), OJ L 337, 20.12.2001, pp. 52-54 as amended by ECB/2003/23, OJ L 9, 15.01.2004, pp. 40-41 and ECB/2004/9, OJ L 205, 9.06.2004, pp. 17-18.

<sup>4</sup> "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.

<sup>5</sup> 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, as amended by ECB/2003/22, OJ L 9, 15.01.2004, p. 39.

<sup>6</sup> 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.



has approved the appointment of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the external auditors of the ECB for a five-year period up to the end of the financial year 2007.

## NOTES ON THE BALANCE SHEET

### 1 GOLD AND GOLD RECEIVABLES

The ECB holds 24.7 million ounces of fine gold (2003: 24.7 million ounces). No transactions in gold took place in 2004. The balance sheet movement compared with 2003 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 2004. 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, as follows:

<i>Claims on non-euro area residents</i>	2004 €	2003 €	Change €
Current accounts	2,682,171,017	1,365,187,080	1,316,983,937
Money market deposits	848,227,002	1,197,220,582	(348,993,580)
Reverse repurchase agreements	2,408,046,989	3,834,025,154	(1,425,978,165)
Security investments	21,000,548,972	22,196,952,041	(1,196,403,069)
<b>Total</b>	<b>26,938,993,980</b>	<b>28,593,384,857</b>	<b>(1,654,390,877)</b>

<i>Claims on euro area residents</i>	2004 €	2003 €	Change €
Current accounts	26,506	26,740	(234)
Money market deposits	2,547,022,979	2,799,445,764	(252,422,785)
Reverse repurchase agreements	4,967,080	0	4,967,080
<b>Total</b>	<b>2,552,016,565</b>	<b>2,799,472,504</b>	<b>(247,455,939)</b>

The reduction in these positions in 2004 is primarily due to the year-end revaluation of the ECB’s US dollar-denominated assets. The depreciation of the US dollar and, to a lesser extent, the Japanese yen vis-à-vis the euro 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 2004, 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 2004, 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 2004, an amount of €536 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 18 in the “Notes on the Profit and Loss Account”).

	2004 €	2003 €
Due from euro area NCBs in respect of TARGET	64,024,554,579	49,646,309,854
Due to euro area NCBs in respect of TARGET	(61,149,859,140)	(45,579,175,620)
Net TARGET position	2,874,695,439	4,067,134,234
Due from/(to) euro area NCBs in respect of the interim distribution of the ECB’s income derived from banknotes	536,222,885	532,760,169
Other claims within the Eurosystem (net)	3,410,918,324	4,599,894,403

#### 6 OTHER ASSETS

##### *Tangible fixed assets*

These assets comprised the following main items on 31 December 2004:

	Net book value as at 31 Dec. 2004 €	Net book value as at 31 Dec. 2003 €	Change €
Land and buildings	135,997,016	54,929,962	81,067,054
Computers	43,089,388	45,407,622	(2,318,234)
Equipment, furniture, plant in building and motor vehicles	3,809,292	2,149,813	1,659,479
Assets under construction	3,215,050	23,259,861	(20,044,811)
Other fixed assets	1,207,558	3,164,692	(1,957,134)
Total	187,318,304	128,911,950	58,406,354

The principal increase, under the heading “Land and buildings”, relates to:

- the acquisition of the land for the ECB’s final premises. Based on a predefined area of construction floor space, the minimum purchase price was set at €61.4 million, payable in instalments by 31 December 2004 at the latest, when legal title would pass to the ECB. This amount has now been paid in full and is consequently included under “Land and buildings”; and
- transfers from the category “Assets under construction” of capitalised refurbishment costs at the ECB’s third site, following commencement of use of the assets.

### Other financial assets

The main components of this item are as follows:

	2004 €	2003 €	Change €
Securities denominated in euro	5,399,222,333	5,276,052,927	123,169,406
Reverse repurchase agreements in euro	869,977,933	167,100,400	702,877,533
Claims relating to the ECB pension fund	120,243,662	91,727,194	28,516,468
Other financial assets	38,875,639	38,875,737	(98)
Total	6,428,319,567	5,573,756,258	854,563,309

- (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 €120.2 million (2003: €91.7 million). The assets held represent the investments of accumulated pension contributions by the ECB and the staff of the ECB as at 31 December 2004, 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 2004, this position included accrued interest receivable of €197 million (2003: €165 million) on the ECB's claims related to the allocation of euro banknotes within the Eurosystem for the final quarter (see "Banknotes in circulation" in the notes on accounting policies).

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

### Sundry

In 2004 the main component of this item is 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.

## 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 EURO AREA AND NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

The liabilities arising 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 are as follows:

<i>Liabilities to euro area residents</i>	2004 €	2003 €	Change €
Repurchase agreements	4,967,080	0	4,967,080

  

<i>Liabilities to non-euro area residents</i>	2004 €	2003 €	Change €
Repurchase agreements	1,254,905,957	1,452,432,822	(197,526,865)

## 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 18 in the “Notes on the Profit and Loss Account”).

Given the decrease in the weighting in the ECB capital key of the euro area NCBs on 1 January 2004 and the subsequent change to the ECB capital key on 1 May 2004 (see note 15), the initial total liability of €40,497,150,000 was reduced in two stages to €39,782,265,622 by Decisions of the Governing Council pursuant to Article 30.3 of the ESCB Statute. This

adjustment was made in order to provide the necessary headroom to allow NCBs joining the Eurosystem at a future date to make full transfers of foreign reserve assets in proportion to their prevailing shares in the ECB’s capital key. The reduction of the euro-denominated liability did not require re-transfers of foreign reserve assets between the ECB and the NCBs.

	Until 31 December 2003 €	From 1 January to 30 April 2004 €	From 1 May 2004 €
Nationale Bank van België/ Banque Nationale de Belgique	1,432,900,000	1,414,850,000	1,419,101,951
Deutsche Bundesbank	12,246,750,000	11,702,000,000	11,761,707,508
Bank of Greece	1,028,200,000	1,080,700,000	1,055,840,343
Banco de España	4,446,750,000	4,390,050,000	4,326,975,513
Banque de France	8,416,850,000	8,258,750,000	8,275,330,931
Central Bank and Financial Services Authority of Ireland	424,800,000	512,700,000	513,006,858
Banca d’Italia	7,447,500,000	7,286,300,000	7,262,783,715
Banque centrale du Luxembourg	74,600,000	85,400,000	87,254,014
De Nederlandsche Bank	2,139,000,000	2,216,150,000	2,223,363,598
Oesterreichische Nationalbank	1,179,700,000	1,150,950,000	1,157,451,203
Banco de Portugal	961,600,000	1,006,450,000	982,331,062
Suomen Pankki – Finlands Bank	698,500,000	714,900,000	717,118,926
<b>Total</b>	<b>40,497,150,000</b>	<b>39,819,200,000</b>	<b>39,782,265,622</b>

## 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 (see note 13), amount to €148.8 million (2003: €100.6 million). Also included within this balance are other accruals and outstanding repurchase transactions of €200 million conducted in connection with the management of the ECB's own funds (see note 6).

## 13 PROVISIONS

This position 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.

	2004 €	2003 €	Change €
Gold	1,853,957,106	2,070,968,381	(217,011,275)
Foreign currency	0	1,901	(1,901)
Securities	67,160,084	105,493,783	(38,333,699)
Total	1,921,117,190	2,176,464,065	(255,346,875)

## 15 CAPITAL AND RESERVES

### Capital

#### (a) Changes to the ECB's capital key

Under Article 29.3 of the ESCB Statute, 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 in the ECB's capital key followed as a result of the accession of ten 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 as follows on 1 January 2004 and 1 May 2004:

	Until 31 December 2003 %	From 1 January to 30 April 2004 %	From 1 May 2004 %
Nationale Bank van België/ Banque Nationale de Belgique	2.8658	2.8297	2.5502
Deutsche Bundesbank	24.4935	23.4040	21.1364
Bank of Greece	2.0564	2.1614	1.8974
Banco de España	8.8935	8.7801	7.7758
Banque de France	16.8337	16.5175	14.8712
Central Bank and Financial Services Authority of Ireland	0.8496	1.0254	0.9219
Banca d'Italia	14.8950	14.5726	13.0516
Banque centrale du Luxembourg	0.1492	0.1708	0.1568
De Nederlandsche Bank	4.2780	4.4323	3.9955
Oesterreichische Nationalbank	2.3594	2.3019	2.0800
Banco de Portugal	1.9232	2.0129	1.7653
Suomen Pankki – Finlands Bank	1.3970	1.4298	1.2887
<b>Total euro area NCBs</b>	<b>80.9943</b>	<b>79.6384</b>	<b>71.4908</b>

	Until 31 December 2003 %	From 1 January to 30 April 2004 %	From 1 May 2004 %
Česká národní banka	0.0000	0.0000	1.4584
Danmarks Nationalbank	1.6709	1.7216	1.5663
Eesti Pank	0.0000	0.0000	0.1784
Central Bank of Cyprus	0.0000	0.0000	0.1300
Latvijas Banka	0.0000	0.0000	0.2978
Lietuvos bankas	0.0000	0.0000	0.4425
Magyar Nemzeti Bank	0.0000	0.0000	1.3884
Central Bank of Malta/ Bank Centrali ta' Malta	0.0000	0.0000	0.0647
Narodowy Bank Polski	0.0000	0.0000	5.1380
Banka Slovenije	0.0000	0.0000	0.3345
Národná banka Slovenska	0.0000	0.0000	0.7147
Sveriges Riksbank	2.6537	2.6636	2.4133
Bank of England	14.6811	15.9764	14.3822
<b>Total non-euro area NCBs</b>	<b>19.0057</b>	<b>20.3616</b>	<b>28.5092</b>
<b>Total euro area and non-euro area NCBs</b>	<b>100.0000</b>	<b>100.0000</b>	<b>100.0000</b>

#### *(b) 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 of €5 billion, their share in the ECB's subscribed capital decreased from €4,049,715,000 to a total of €3,981,920,000 on 1 January 2004. It was further reduced to €3,978,226,562 on

1 May 2004 as a result of the accession of the ten new Member States.

In accordance with Article 49.3 of the Statute of the ESCB, which was added to the Statute by the Treaty of Accession, the ECB's subscribed capital will in future be automatically increased when a new member joins the EU and its NCB joins the ESCB. The increase is determined by multiplying the prevailing amount of the subscribed capital (i.e. €5 billion) by the ratio, within the expanded capital key, between the weighting of the entering NCB(s) and the weighting of those NCBs that are already members of the ESCB. Therefore, on 1 May 2004, the subscribed capital of the ECB was increased to €5.565 billion.

The 13 non-euro area NCBs are required to pay up a minimal percentage of their subscribed capital as a contribution to the operational costs of the ECB. On 1 May 2004 this percentage was increased from 5% to 7%. Including the amounts received from the ten new non-euro area NCBs, this contribution amounted to a total of €111,050,988 at that date. 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.

The combined effect of the above three developments was that the paid-up capital decreased from €4,097,229,250 on 31 December 2003 to €4,032,824,000 on 1 January 2004 and then increased to €4,089,277,550 on 1 May 2004, as shown in the table below:

	Subscribed capital until 31 December 2003 €	Paid-up capital until 31 December 2003 €	Subscribed capital from 1 January to 30 April 2004 €	Paid-up capital from 1 January to 30 April 2004 €	Subscribed capital from 1 May 2004 <sup>1)</sup> €	Paid-up capital from 1 May 2004 €
Nationale Bank van België/Banque Nationale de Belgique	143,290,000	143,290,000	141,485,000	141,485,000	141,910,195	141,910,195
Deutsche Bundesbank	1,224,675,000	1,224,675,000	1,170,200,000	1,170,200,000	1,176,170,751	1,176,170,751
Bank of Greece	102,820,000	102,820,000	108,070,000	108,070,000	105,584,034	105,584,034
Banco de España	444,675,000	444,675,000	439,005,000	439,005,000	432,697,551	432,697,551
Banque de France	841,685,000	841,685,000	825,875,000	825,875,000	827,533,093	827,533,093
Central Bank and Financial Services Authority of Ireland	42,480,000	42,480,000	51,270,000	51,270,000	51,300,686	51,300,686
Banca d'Italia	744,750,000	744,750,000	728,630,000	728,630,000	726,278,371	726,278,371
Banque centrale du Luxembourg	7,460,000	7,460,000	8,540,000	8,540,000	8,725,401	8,725,401
De Nederlandsche Bank	213,900,000	213,900,000	221,615,000	221,615,000	222,336,360	222,336,360
Oesterreichische Nationalbank	117,970,000	117,970,000	115,095,000	115,095,000	115,745,120	115,745,120
Banco de Portugal	96,160,000	96,160,000	100,645,000	100,645,000	98,233,106	98,233,106
Suomen Pankki – Finlands Bank	69,850,000	69,850,000	71,490,000	71,490,000	71,711,893	71,711,893
<b>Total euro area NCBs</b>	<b>4,049,715,000</b>	<b>4,049,715,000</b>	<b>3,981,920,000</b>	<b>3,981,920,000</b>	<b>3,978,226,562</b>	<b>3,978,226,562</b>
Česká národní banka	0	0	0	0	81,155,136	5,680,860
Danmarks Nationalbank	83,545,000	4,177,250	86,080,000	4,304,000	87,159,414	6,101,159
Eesti Pank	0	0	0	0	9,927,370	694,916
Central Bank of Cyprus	0	0	0	0	7,234,070	506,385
Latvijas Banka	0	0	0	0	16,571,585	1,160,011
Lietuvos bankas	0	0	0	0	24,623,661	1,723,656
Magyar Nemzeti Bank	0	0	0	0	77,259,868	5,408,191
Central Bank of Malta / Bank Ċentrali ta' Malta	0	0	0	0	3,600,341	252,024
Narodowy Bank Polski	0	0	0	0	285,912,706	20,013,889
Banka Slovenije	0	0	0	0	18,613,819	1,302,967
Národná banka Slovenska	0	0	0	0	39,770,691	2,783,948
Sveriges Riksbank	132,685,000	6,634,250	133,180,000	6,659,000	134,292,163	9,400,451
Bank of England	734,055,000	36,702,750	798,820,000	39,941,000	800,321,860	56,022,530
<b>Total non-euro area NCBs</b>	<b>950,285,000</b>	<b>47,514,250</b>	<b>1,018,080,000</b>	<b>50,904,000</b>	<b>1,586,442,685</b>	<b>111,050,988</b>
<b>Total euro area and non-euro area NCBs</b>	<b>5,000,000,000</b>	<b>4,097,229,250</b>	<b>5,000,000,000</b>	<b>4,032,824,000</b>	<b>5,564,669,247</b>	<b>4,089,277,550</b>

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



### **Reserves**

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

## **OFF-BALANCE-SHEET INSTRUMENTS**

### **16 AUTOMATIC SECURITY LENDING PROGRAMME**

As part of the management of the ECB's own funds, the ECB has concluded an automatic security lending programme agreement, whereby an appointed agent enters into security lending transactions on behalf of the ECB with a number of counterparties, designated by the ECB as eligible counterparties. Under this agreement, reverse transactions with a value of €1 billion (2003: €0.4 billion) were outstanding as at 31 December 2004 (see "Reverse transactions" in the notes on accounting policies).

### **17 INTEREST RATE FUTURES**

In 2004 foreign currency interest rate futures were used within the management of the ECB's foreign reserves. As at 31 December 2004, the following transactions were outstanding, stated at nominal value:

Foreign currency interest rate futures	Contract value €
Purchases	1,077,349,366
Sales	91,770,061

## NOTES ON THE PROFIT AND LOSS ACCOUNT

### 18 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:

	2004 €	2003 €	Change €
Interest on current accounts	3,744,188	3,679,287	64,901
Money market deposit income	49,854,512	45,699,455	4,155,057
Reverse repurchase agreements	63,759,141	66,206,740	(2,447,599)
Net income on securities	317,073,827	445,357,205	(128,283,378)
<b>Total interest income on foreign reserve assets</b>	<b>434,431,668</b>	<b>560,942,687</b>	<b>(126,511,019)</b>
Interest expense on current accounts	(32,020)	(73,292)	41,272
Repurchase agreements	(11,947,990)	(19,575,020)	7,627,030
Other interest expense (net)	(32,960)	0	(32,960)
<b>Interest income on foreign reserve assets (net)</b>	<b>422,418,698</b>	<b>541,294,375</b>	<b>(118,875,677)</b>

#### *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 2004, the Governing Council decided in December 2004:

(a) to recall the three interim quarterly distributions already paid to the NCBs during the year, amounting to €536 million in total;

(b) to withhold the final quarterly interim distribution of €197 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 expense*

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

In 2004, net interest income continued to be affected by low levels of domestic and foreign interest rates.

### 19 REALISED GAINS/LOSSES ARISING FROM FINANCIAL OPERATIONS

Net realised gains arising from financial operations in 2004 were as follows:

	2004 €	2003 €	Change €
Net realised price gains on securities	94,643,135	528,606,147	(433,963,012)
Net realised exchange rate gains/(losses)	41,402,675	(3,345,525)	44,748,200
Realised gains arising from financial operations	136,045,810	525,260,622	(389,214,812)

## 20 WRITE-DOWNS ON FINANCIAL ASSETS AND POSITIONS

	2004 €	2003 €	Change €
Unrealised price losses on securities	(28,485,006)	(10,349,709)	(18,135,297)
Unrealised exchange rate losses	(2,064,800,103)	(3,962,339,851)	1,897,539,748
Total	(2,093,285,109)	(3,972,689,560)	1,879,404,451

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 2004, following the depreciation of this currency against the euro over the year.

## 21 NET EXPENSE FROM FEES AND COMMISSIONS

	2004 €	2003 €	Change €
Income from fees and commissions	297,964	700,271	(402,307)
Expenses relating to fees and commissions	(559,481)	(763,737)	204,256
Net expense from fees and commissions	(261,517)	(63,466)	(198,051)

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 17 in the "Notes on the Balance Sheet").

## 22 OTHER INCOME

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

administrative provisions to the profit and loss account. As from 2004, this item also includes the contribution by the NCBs of the ten new Member States to the local annual service fees, resulting from their local connection, on their accession, to the secure ESCB IT infrastructure. In the first instance, these costs are borne centrally by the ECB.

NCBs' contributions will cease on the respective Member States' entry into the euro area.

## 23 STAFF COSTS

Salaries, allowances and staff insurance costs of €120.0 million (2003: €108.2 million) and employer's contributions to the ECB's pension fund are included under this heading. The emoluments of the Executive Board of the ECB amounted to a total of €2.1 million (2003: €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.

The increase in this item in 2004 is primarily due to an increase in the ECB's obligation in respect of the pension fund, as calculated by the actuary (see also note 24).

At the end of 2004 the ECB employed 1,309 staff, of whom 131 held managerial positions. The change in the number of staff during 2004 was as follows:

	2004	2003
As at 1 January	1,213	1,105
New staff	137	149
Resignations	41	41
As at 31 December	1,309	1,213
Average number of staff employed	1,261	1,160

## **24 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 2003, 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 €41.1 million (2003: €21.7 million). This cost includes a provision for pensions to members of the Executive Board of €1.8 million (2003: €1.9 million) and any supplementary contributions. The required rate of future service contributions by the ECB is 16.5% of pensionable earnings of all staff.

## **25 ADMINISTRATIVE EXPENSES**

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

## **26 BANKNOTE PRODUCTION SERVICES**

In 2004, as 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.

## NOTE ON THE ALLOCATION OF LOSSES

*This note is not part of the financial statements of the ECB for the year 2004. 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 €733 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 represents the full income relating to the ECB's share of total euro banknotes in circulation for 2004.

### 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.<sup>1</sup>

On 11 March 2005, the Governing Council of the ECB decided to cover the loss for the year ending 31 December 2004 as follows:

	2004 €	2003 €
Loss for the year	(1,636,028,702)	(476,688,785)
Withdrawals from general reserve fund	296,068,424	476,688,785
Transfer from monetary income pooled	1,339,960,278	0
Total	0	0

<sup>1</sup> 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 2004 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 2004 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, 4 March 2005

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

(Wohlmannstetter)  
Wirtschaftsprüfer

(Dr. Lemnitzer)  
Wirtschaftsprüfer

Aufsichtsratsvorsitzender:  
WP StB Dipl.-Kfm.  
Gerhard Brackert

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Zertifiziert nach  
DIN EN ISO 9001

Sitz: Berlin und  
Frankfurt am Main

Handelsregister:  
Charlottenburg (HRB 1077)  
und Frankfurt am Main  
(HRB 14345)

Bankverbindung:  
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BLZ 500 700 10

USt.-IdNr.: DE 136 751 547



KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft  
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