Balance sheet and profit and loss account

at 31 March 2003

Balance sheet at 31 March 2003

(in millions of gold francs – see note 2(a) to the accounts)

2002	Assets	2003
	Gold	
1 910.3	Held in bars	*1 990.0*
1 299.6	Time deposits and advances	*1 309.6*
3 209.9		3 299.6
3 292.3	Cash on hand and on sight account with banks	3 041.5
9 588.1	Treasury bills	14 027.3
	Time deposits and advances in currencies	
28 435.1	Not exceeding 3 months	*22 725.5*
17 102.9	Over 3 months	*17 483.6*
45 538.0		40 209.1
	Securities purchased under resale agreements	
1 660.7	Not exceeding 3 months	5 302.2
	Government and other securities at term	
3 753.3	Not exceeding 3 months	*4 625.1*
19 857.6	Over 3 months	*22 165.9*
23 610.9		26 791.0
115.4	Land, buildings and equipment	138.9
699.1	Miscellaneous assets	21.7
87 714.4		92 831.3

2002 as originally stated (After allocation of the year's net profit; Before allocation of prior year reserves adjustment)	2002 as restated (After allocation of the year's net profit; After allocation of prior year reserves adjustment)	Liabilities	2003 Before allocation of the year's net profit and prior year reserves adjustment	2003 After allocation of the year's net profit and prior year reserves adjustment
330.7	330.7	Capital	330.7	330.7
3 307.8	4 947.2	Reserves	3 307.8	5 240.5
		Prior year reserves adjustment	1 639.4	
		Profit and loss account	362.0	
(384.0)	(384.0)	Shares held in treasury	(522.7)	(522.7)
25.5	24.1	Valuation difference account	303.9	303.9
3 280.0	4 918.0	Equity	5 421.1	5 352.4
		Deposits (gold)		
1 909.8	*1 909.8*	Sight	*1 989.3*	*1 989.3*
266.4	*266.4*	Not exceeding 3 months	*245.8*	*245.8*
355.2	*355.2*	Over 3 months	*403.3*	*403.3*
2 531.4	2 531.4		2 638.4	2 638.4
		Deposits (currencies)		
2 510.3	*2 510.3*	Sight	*2 410.7*	*2 410.7*
36 369.5	*36 369.5*	Not exceeding 3 months	*32 970.2*	*32 970.2*
40 606.6	*40 606.6*	Over 3 months	*48 378.5*	*48 378.5*
79 486.4	79 486.4		83 759.4	83 759.4
		Securities sold under repurchase agreements		
660.0	660.0	Not exceeding 3 months	51.8	51.8
1 704.0	66.0	Miscellaneous liabilities	960.6	960.6
52.6	52.6	Dividend		68.7
87 714.4	87 714.4		92 831.3	92 831.3

Profit and loss account

for the financial year ended 31 March 2003
(in millions of gold francs)

	2002 as restated	2003
Interest and discount, and other operating income	6 015.7	4 999.6
Less: interest and discount expense	5 410.1	4 358.9
loss on repayment of liabilities at market value	346.0	288.6
Net interest and other operating income	259.6	352.1
Less: costs of administration		
Board of Directors	*0.9*	*1.2*
Management and staff	*47.2*	*65.6*
Office and other expenses	*19.9*	*22.0*
Costs of administration before depreciation	68.0	88.8
Depreciation	*8.8*	*9.5*
	76.8	98.3
Operating profit	182.8	253.8
Profit on sales of investment securities	85.7	108.2
Net profit for the financial year	268.5	362.0

The Board of Directors recommends to the Annual General Meeting that the net profit for the year ended 31 March 2003 be allocated in accordance with Article 51 of the Statutes as follows:

	2002 as restated	2003
Dividend: 380 Swiss francs per share on 452 073 shares	*52.6*	
400 Swiss francs per share on 452 073 shares		*68.7*
	52.6	68.7
	215.9	293.3
Transfer to general reserve fund	31.2	29.3
	184.7	264.0
Transfer to special dividend reserve fund	3.0	3.0
	181.7	261.0
Transfer to free reserve fund	181.7	261.0
	–	–

Movements in the Bank's capital and reserves

during the financial year ended 31 March 2003
(in millions of gold francs)

I. Capital

	Number of shares	Gold francs (millions)
Shares of 2 500 gold francs, of which 25% has been paid up:		
Balance at 31 March 2002 as per balance sheet	529 125	330.7
Balance at 31 March 2003 as per balance sheet	529 125	330.7

Further information is given in note 9 to the accounts.

II. Development of the reserve funds

	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total of reserve funds
Balances at 31 March 2002 after allocation of net profit for the financial year 2001/02 – as previously stated	33.1	1 330.6	74.5	1 869.6	3 307.8
The Board of Directors recommends to the Annual General Meeting that the transfer to reserve funds resulting from the changes in accounting policies described in notes 2 and 3 be allocated in accordance with Article 51 of the Statutes as follows:		163.9		1 475.5	1 639.4
Balances at 31 March 2002 – as restated	33.1	1 494.5	74.5	3 345.1	4 947.2
Add: allocation of net profit for the financial year 2002/03	–	29.3	3.0	261.0	293.3
Balances at 31 March 2003 as per balance sheet	33.1	1 523.8	77.5	3 606.1	5 240.5

III. Capital and reserve funds at 31 March 2003 (after allocation) were represented by:

	Capital	Reserve funds	Total of capital and reserves
Net assets in			
Gold	330.7	330.5	661.2
Currencies	–	4 910.0	4 910.0
Balances at 31 March 2003 as per balance sheet	330.7	5 240.5	5 571.2

Notes to the accounts

for the financial year ended 31 March 2003
(in millions of gold francs)

1. Introduction

The Bank for International Settlements (BIS) is an international financial institution which was established pursuant to the Hague Agreements of 20 January 1930. The headquarters of the Bank are in Basel, Switzerland. The objects of the BIS, as laid down in Article 3 of its Statutes, are to promote the cooperation of central banks, to provide additional facilities for international financial operations and to act as trustee or agent for international financial settlements. Fifty central banks are currently members of the Bank and exercise the rights of representation and voting at General Meetings in proportion to the number of BIS shares issued in their respective countries. The Board of Directors of the Bank is composed of the Governors of the central banks of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States of America, as well as appointed directors from six of those countries.

The accounts for the financial year 2002/03 are presented in a form approved by the Board of Directors pursuant to Article 49 of the Bank's Statutes.

2. Significant accounting policies

Following a review of its accounting policies, the Bank has decided to amend its policies for recognising profit on the sales of own funds securities, and for accounting for provisions and retirement benefit obligations. These changes are described in detail in the relevant paragraphs under this heading below. The comparative figures in the balance sheet, profit and loss account and notes to the accounts for the financial year 2001/02 have accordingly been restated. The impact of these restatements on the reserves and net profit for that year is shown in note 3 to the accounts.

With effect from 1 April 2003, the Bank's unit of account is the Special Drawing Right (SDR) as defined by the International Monetary Fund. An unaudited reconciliation to a pro forma balance sheet in SDRs as at 31 March 2003 and a profit and loss account in that currency for the year then ended is presented on pages 201–5.

(a) Unit of account and currency translation

The unit of account used in these accounts is the gold franc, which is equivalent to US$ 1.94149… . Article 4 of the Bank's Statutes, prior to its amendment on 10 March 2003, defined the gold franc (abbreviated to GF) as representing 0.29032258... grams of fine gold. Items representing claims on gold are translated into gold francs on the basis of their fine weight. Items denominated in US dollars are translated into gold francs on the basis of a gold price of US$ 208 per ounce of fine gold (this price was established by the Bank's Board of Directors in 1979, resulting in the conversion factor of GF 1 = US$ 1.94149…). Items denominated in other currencies are translated into US dollars at the spot market rates of exchange prevailing at the balance sheet date, with the resulting US dollar balances converted into gold francs accordingly.

Exchange differences arising on the translation of currency assets and liabilities denominated in currencies other than the US dollar are taken to the valuation difference account.

The net balance resulting from exchange differences on the translation of forward currency contracts and swaps is included under miscellaneous assets or liabilities.

(b) Basis of valuation and determination of profit

Except as otherwise stated, the accounts of the Bank are drawn up on the historical cost basis and income and expense items are recorded on the accruals basis. Profits and losses are determined on a monthly basis, translated into US dollars at the spot market rate of exchange prevailing at each month-end and translated into gold francs as set forth above; the monthly profits thus calculated are accumulated for the year.

Profits and losses arising on the sale of investment securities designated by the Bank as belonging to its own funds are taken to the profit and loss account. Previously, such profits and losses were credited to the securities equalisation account, which was included under the heading "Miscellaneous liabilities" in the balance sheet, and amortised to the profit and loss account over a period corresponding to the average term to maturity of the Bank's investment portfolio. The impact of this change in accounting policy on reserves and net profit for the previous financial year is shown in note 3.

(c) Gold

Gold assets and liabilities are stated on the basis of their fine weight.

(d) Treasury bills; government and other securities at term

Treasury bills and government and other securities at term are stated at cost, plus accrued interest where applicable, adjusted for the amortisation of premiums or discounts over the period to maturity; interest and discount income includes such amortisation.

(e) Time deposits and advances in currencies

Time deposits and advances are stated at their principal value plus accrued interest.

(f) Securities purchased under resale agreements

Securities acquired in connection with purchase and resale agreements are stated at the amount advanced to the counterparty plus accrued interest.

(g) Land, buildings and equipment

The cost of the Bank's land, buildings and equipment is capitalised. The cost is depreciated on a straight line basis over the estimated useful lives of the assets concerned, as follows:

Land – not depreciated.
Buildings – 50 years.
Building installations and machinery – 15 years.
Information technology equipment – 4 years.
Other equipment – 4 to 10 years.

(h) Valuation difference account

The valuation difference account records the effect of exchange differences as described in item (a) above; these valuation changes relate essentially to that portion of the Bank's own funds held in currencies other than the US dollar.

(i) Deposits

Deposits are book claims on the Bank and are stated at their principal value plus accrued interest. Certain claims are issued at a discount to the value payable on the maturity of the deposit; in such cases the accounting treatment is analogous to that applied to dated securities held by the Bank (see item (d) above).

Gains and losses on the repayment of the transferable book entry claims described in note 12(c) at their market values are incorporated in the profit and loss account under the heading "Loss on repayment of liabilities at market value".

(j) Securities sold under repurchase agreements

Securities sold in connection with sale and repurchase agreements are stated at the amount received from the counterparty plus accrued interest.

(k) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that resources will be required to settle the obligation, provided that the amount of the obligation can be reasonably estimated.

In previous years, the Board of Directors reviewed the level of, and if necessary set aside an amount to, a provision for banking risks and other eventualities, which was included under the heading "Miscellaneous liabilities" on the balance sheet. As a result of this change in accounting policy, the Board of Directors recommends to the Annual General Meeting that the balances on this and other provisions be credited to the reserve funds. The impact of this change on reserves and profits for the previous financial year is shown in note 3.

(l) Retirement benefit obligations

The Bank operates defined benefit pension and health and accident schemes. The liability in respect of these defined benefit schemes is based on the present value of the defined benefit obligation at the balance sheet date, less the market value of the scheme assets (if the scheme is funded) at the balance sheet date, together with adjustments for unrecognised actuarial gains and losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using discount interest rates of highly rated corporate debt securities which have terms to maturity approximating the terms of the related liability. The impact of this change in accounting policy on reserves and net profit for the previous financial year is shown in note 3.

The amount charged to the profit and loss account represents the sum of the current service cost of the benefits accruing for the year under the scheme, and interest at the discount rate on the defined benefit obligation. In addition, actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to the schemes are charged to the profit and loss account over the service period of the staff concerned. The resulting assets or liabilities are included under the headings "Miscellaneous assets" or "Miscellaneous liabilities" in the balance sheet.

3. Restatements of reserves and net profit

Following the changes in accounting policy described in note 2 and in accordance with the recommendations made by the Board of Directors to the Annual General Meeting concerning allocations to the reserve funds, the Bank's reserves and net profit for the financial year 2001/02 have been restated as follows:

	Reserves	Net profit
As previously published	3 307.8	225.7
Changes in accounting policy:		
Sales of own funds investment securities – *note 2(b)*		
Transfer of the balance on the securities equalisation account	101.1	
Reversal of amortisation of accumulated profits on sales of investment securities		(33.5)
Profits on sales of own funds investment securities		85.7
Provisions		
Transfer of general provision for banking risks and other eventualities – *note 2(k)*	1 582.1	(1.2)
Other provisions – *note 2(k)*	9.5	(0.8)
Retirement benefit obligations – *note 2(l)*	(53.3)	(7.4)
Increase due to changes in accounting policies	1 639.4	42.8
As restated	4 947.2	268.5

The net increase in reserves from the change in accounting policy was offset by a corresponding reduction in "Miscellaneous liabilities". The proposed allocations are shown in Table II of "Movements in the Bank's capital and reserves".

4. Gold holdings

The following table shows the composition of the Bank's total gold holdings:

Assets	*2002*	2003
Gold bars held at central banks	*1 910.3*	1 990.0
Gold time deposits:		
Not exceeding 3 months	*328.4*	283.7
Over 3 months	*971.2*	1 025.9
	3 209.9	3 299.6

The Bank's own gold holdings at 31 March 2003 amounted to GF 661.2 million, equivalent to 192 tonnes of fine gold (2002: GF 661.4 million; 192 tonnes).

5. Treasury bills

The Bank's holdings were as follows:

	2002	2003
Book value	*9 588.1*	14 027.3
Market value	*9 587.0*	14 027.6

6. Government and other securities at term

The Bank's holdings were as follows:

	2002	2003
Book value	*23 610.9*	26 791.0
Market value	*23 649.6*	27 312.6

7. Land, buildings and equipment

	Land & buildings	IT & other equipment	Total
Cost:			
Opening balance at 1 April 2002	129.1	40.8	169.9
Capital expenditure		5.8	5.8
Disposals and retirements		(0.5)	(0.5)
Exchange adjustments	30.9	10.1	41.0
Cost at 31 March 2003	160.0	56.2	216.2
Depreciation:			
Accumulated depreciation at 1 April 2002	32.6	21.9	54.5
Depreciation charge for the current year	2.7	6.8	9.5
Disposals and retirements		(0.5)	(0.5)
Exchange adjustments	7.9	5.9	13.8
Accumulated depreciation at 31 March 2003	43.2	34.1	77.3
Net book value at 31 March 2003	116.8	22.1	138.9

The cost of the Bank's land at 31 March 2003 was GF 29.2 million (2002: GF 23.5 million).

8. Miscellaneous assets

These comprised:

	2002	2003
Net balances on forward operations and swaps	*691.6*	–
Other amounts recoverable	*7.5*	21.7
	699.1	21.7

9. Capital

The Bank's share capital consisted of:

	2002	2003
Authorised capital:		
600 000 shares,		
each of 2 500 gold francs	*1 500.0*	1 500.0
Issued capital: 529 125 shares		
(2002: 529 125)	*1 322.8*	1 322.8
of which 25% paid up	*330.7*	330.7

(a) The Extraordinary General Meeting on 8 January 2001 amended the Bank's Statutes to restrict the right to hold shares in the BIS exclusively to central banks, thereby effecting a mandatory repurchase of 72 648 shares from the American, Belgian and French issues held by private (ie non-central bank) shareholders against compensation of 16 000 Swiss francs per share. The Bank also repurchased at the same price 2 304 shares of these three issues held by other central banks. The Board will, in due course, redistribute these shares to the Bank's existing central bank shareholders in a manner which it considers appropriate. The voting rights attached to these shares remain unaffected; they continue to be exercisable by the American, Belgian and French central banks, respectively.

(b) Following the decision of the Arbitral Tribunal in The Hague in November 2002 the cost of repurchasing the total of 74 952 shares above, excluding interest thereon, is estimated to amount to GF 522.7 million (2002: GF 384.0 million). This amount is shown as a negative liability under the caption "Shares held in treasury" in the Bank's balance sheet.

(c) The number of outstanding shares on which the dividend for the financial year 2002/03 is payable is as follows:

Issued capital as at 31 March 2003	529 125
Less: shares held in treasury	
From private shareholders and central banks	74 952
Others	2 100
Total outstanding shares eligible for dividend	452 073

(d) The Extraordinary General Meeting on 10 March 2003 amended the Bank's Statutes to redenominate in SDRs the Bank's share capital and the nominal value of each share with effect from 1 April 2003. In order to obtain a round sum amount for the nominal value of each share (SDR 5 000, of which 25% is paid up), the total share capital was reduced. The resulting excess of SDR 92.1 million (GF 65.1 million) was transferred from paid-up capital to the free reserve fund at that date.

10. Reserves

The Bank's reserves, after the allocations proposed by the Board of Directors and the restatement of reserves for the financial year 2001/02 resulting from the changes in accounting policies (see note 3), consisted of:

	2002 as restated	2003
Legal reserve fund	*33.1*	33.1
General reserve fund	*1 494.5*	1 523.8
Special dividend reserve fund	*74.5*	77.5
Free reserve fund	*3 345.1*	3 606.1
	4 947.2	5 240.5

The yearly allocations to the various reserve funds are governed by Article 51 of the Bank's Statutes. The proposed allocations are shown in Table II of "Movements in the Bank's capital and reserves".

11. Valuation difference account

The movements on this account during the year were as follows:

	2002	2003
Opening balance	*56.0*	24.1
Currency translation gain/(loss)	*(31.9)*	279.8
Closing balance	*24.1*	303.9

12. Deposits

(a) Gold

Gold deposits placed with the Bank originate entirely from central banks.

(b) By maturity

The maturity breakdown of currency deposits placed with the Bank was as follows:

	2002	2003
Central banks		
Sight	*2 214.2*	2 035.2
Not exceeding 3 months	*34 372.8*	30 618.3
Over 3 months	*39 641.0*	47 309.5
Other depositors		
Sight	*296.1*	375.5
Not exceeding 3 months	*1 996.7*	2 351.9
Over 3 months	*965.6*	1 069.0
	79 486.4	83 759.4

(c) By instrument

The breakdown of currency deposits by type of instrument was as follows:

	2002	2003
Sight and Notice Accounts	*9 227.8*	8 461.7
Fixed-Term Deposits	*19 601.6*	21 239.4
Transferable book entry claims		
Floating rate (FRIBIS)	*3 200.1*	4 155.5
Fixed rate		
Issued at par (Coupon FIXBIS)	*14 227.1*	13 956.8
Issued at a discount (Discount FIXBIS)	*11 478.8*	7 491.3
Medium-Term Instruments	*21 751.0*	28 454.7
	79 486.4	83 759.4

Transferable book entry claims on the BIS are registered in the name of the subscriber. FRIBIS, Coupon FIXBIS and Discount FIXBIS mature within one year of issue. Medium-Term Instruments have fixed maturities, which are in principle not less than one year and not more than 10 years from the date of original issue of the claim. The Bank is required to repurchase at the prevailing market value these claims, in whole or in part, upon request by the subscribing counterparty of at least one business day's notice. The resulting gains and losses are incorporated in the profit and loss account under the heading "Loss on repayment of liabilities at market value".

13. Miscellaneous liabilities

These comprised:

	2002 as restated	2003
Net balances on forward operations and swaps	–	537.1
Administrative and banking payables	*7.4*	203.4
Retirement benefit obligations – *note 14*		
Directors' pensions	*2.3*	2.8
Health and accident benefits	*52.4*	68.7
Payable to former shareholders	*3.9*	148.6
	66.0	960.6

14. Retirement benefit obligations

(a) Directors' pensions

The Bank operates an unfunded defined benefit arrangement for its directors, whose entitlement is based on a minimum service period of four years. The movement in the accounts during the year was as follows:

	2002	2003
Opening liability	*2.2*	2.3
Exchange differences	*0.1*	0.5
Charged to the profit and loss account	*0.2*	0.2
Contributions paid	*(0.2)*	(0.2)
Closing liability	*2.3*	2.8

(b) Staff pensions

The Bank operates a final salary defined benefit Pensions System for its staff. The Pensions System is based on a fund which is similar in nature to a trust fund, having no separate legal personality. Its assets are administered by the Bank for the sole benefit of current and former members of staff who participate in the scheme. The scheme is valued annually by independent actuaries. The latest actuarial valuation was carried out at 30 September 2002.

	2002	2003
Present value of funded obligations	*258.6*	361.6
Fair value of scheme assets	*257.2*	340.1
	1.4	21.5
Unrecognised actuarial losses	*(1.4)*	(21.5)
Liability in the balance sheet	*–*	–

The movement in the accounts during the year was as follows:

	2002	2003
Opening (asset)/liability	*–*	–
Charged to the profit and loss account	*7.9*	21.6
Contributions paid	*(7.9)*	(21.6)
Closing (asset)/liability	*–*	–

The principal actuarial assumptions used in the calculations above were as follows:

	2002	2003
Discount rate – market rate of highly-rated corporate bond	*4.0%*	3.5%
Expected return on scheme assets	*5.0%*	5.0%
Future salary increases	*4.1%*	4.1%
Future pension increases	*4.1%*	4.1%

(c) *Health and accident benefits*

The Bank also provides unfunded post-retirement healthcare and accident benefits, based on a minimum service period of 10 years. The methodology used for the determination of the costs and obligations arising from this scheme and the actuarial assumptions used in calculating these benefits are identical to those for the Pensions System, except that there is an additional assumption for long-term medical inflation of 5.0% per annum.

The movement in the accounts during the year was as follows:

	2002	2003
Opening liability	*48.2*	52.4
Exchange differences	*1.3*	12.5
Charged to the profit and loss account	*5.2*	6.3
Contributions paid	*(2.3)*	(2.5)
Closing liability	*52.4*	68.7
Unrecognised actuarial loss	*–*	16.2
Present value of obligation	*52.4*	84.9

(d) *Savings Scheme*

Until 31 March 2003 the Bank operated a Savings Scheme for its staff. This was a separate fund similar in nature to the Pension Fund. The Bank's contributions to the scheme were charged to the profit and loss account and the liabilities under the scheme were off-balance sheet. On 1 April 2003 the scheme was wound up, and its outstanding obligations were settled on that date.

15. Off-balance sheet items

(a) Derivatives

In the normal course of business, the Bank engages in transactions involving derivative financial instruments, including forward exchange contracts, currency and interest rate swaps, forward rate agreements, futures and options, which are used to manage the Bank's interest rate and currency exposure on assets and liabilities. The Bank applies the same credit criteria in considering off-balance sheet commitments as it does for all other investments.

Notional principal amounts

	2002	2003
Exchange rate contracts:		
Foreign exchange swaps and forwards	*4 704.2*	17 859.6
Currency swaps	*5 438.0*	7 083.1
Options	*207.9*	462.8
Interest rate contracts:		
Interest rate swaps	*69 767.5*	85 813.8
Forward rate agreements and futures	*29 837.1*	36 554.4
Options	–	397.7

The notional or contracted principal amounts of the various derivatives reflect the degree to which the Bank is active in the respective markets but give no indication of the credit or market risk on the Bank's activities. The gross replacement cost of all contracts showing a profit at prevailing market prices on 31 March 2003 was GF 2 838.1 million (2002: GF 1 601.3 million).

(b) Fiduciary transactions

Fiduciary transactions are not included in the balance sheet, since they are effected on behalf of and at the risk of the Bank's customers, albeit in its own name.

	2002	2003
Nominal value of securities held under:		
safe custody arrangements	*4 351.0*	5 876.5
collateral pledge agreements	*2 555.0*	2 515.1
portfolio management mandates	*1 235.0*	1 526.8
	8 141.0	9 918.4
Gold held under earmark (in tonnes)	*170*	168

The financial instruments held under the above arrangements are deposited with external custodians, either central banks or commercial institutions.

16. Contingent liabilities

Certain former private shareholders have expressed their dissatisfaction with the amount of compensation paid to them by the Bank in connection with the mandatory repurchase of the shares not held by central banks (see note 9(a)).

In proceedings initiated by former shareholders before the Arbitral Tribunal in The Hague, that Tribunal issued a Partial Award on 22 November 2002 confirming the legality of the mandatory repurchase, but nevertheless concluding that the compensation should be increased. It ruled that the former private shareholders are entitled to receive a proportionate share of the net asset value of the Bank, subject, however, to a 30% discount. This formula is equivalent to that which the BIS has applied to new central bank subscriptions of shares. The Bank has confirmed its past declaration that it will voluntarily apply the decision of the Arbitral Tribunal to all registered former private shareholders in final settlement of all claims. The precise amount of additional compensation will be determined by the Arbitral Tribunal after further proceedings to be held in the course of 2003. The BIS estimates the additional compensation due at 4 868 Swiss francs per share, equivalent to a total of GF 138.7 million for the 74 952 repurchased shares, such total amount being reflected in the increased amount shown on the balance sheet under the heading "Shares held in treasury". The claimants contest the amount per share, arguing that the Tribunal should award additional compensation which in total would range up to approximately GF 100 million beyond the Bank's estimate.

In a proceeding brought by a separate group of former private shareholders, the Commercial Court in Paris made a preliminary determination (without addressing the substance of the matter) in March 2003 that it has jurisdiction over their claims seeking to increase the amount of compensation. The Bank has requested review of this procedural decision by the Paris Court of Appeals, arguing that the Arbitral Tribunal in The Hague has exclusive jurisdiction over the matter. Accordingly, the Bank has not made separate provisions for these claims.

Report of the auditors

Report of the auditors
to the Board of Directors and to the General Meeting
of the Bank for International Settlements, Basel

We have audited the accompanying balance sheet and profit and loss account, including the notes thereto, of the Bank for International Settlements. The balance sheet and profit and loss account have been prepared by the Management of the Bank in accordance with the Statutes and with the principles of valuation described under significant accounting policies in the notes. Our responsibility under the Statutes of the Bank is to form an independent opinion on the balance sheet and profit and loss account based on our audit and to report our opinion to you.

Our audit included examining, on a test basis, evidence supporting the amounts in the balance sheet and profit and loss account and related disclosures. We have received all the information and explanations which we have required to obtain assurance that the balance sheet and profit and loss account are free of material misstatement, and believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet and profit and loss account, including the notes thereto, have been properly drawn up and give a true and fair view of the financial position of the Bank for International Settlements at 31 March 2003 and the results of its operations for the year then ended so as to comply with the Statutes of the Bank.

PricewaterhouseCoopers AG

Ralph R Reinertsen | Anthony W Travis

Basel, 12 May 2003

Pro forma accounts (unaudited)

Introduction

At the Extraordinary General Meeting (EGM) of the Bank held on 10 March 2003, it was decided that the gold franc would be replaced as the Bank's unit of account by the Special Drawing Right (SDR) as defined by the International Monetary Fund with effect from 1 April 2003. This change has been made to assist in managing the Bank's operations and economic capital more efficiently and to enhance the transparency of its accounts.

Consequences of the change to the SDR

The replacement of the gold franc by the SDR[1] requires a conversion into SDRs of the gold franc amounts in which the capital of the Bank has been expressed. The EGM decided that the nominal value of the shares should be rounded down from its precise converted amount (SDR 5 696 at 31 March 2003) to SDR 5 000. Following the reduction of 12.2% in the share capital, the excess amount of SDR 92.1 million at 31 March 2003 has been transferred from the paid-up capital to the Bank's reserve funds. There is no impact on the Bank's equity from this change.

Changes in accounting policies

The Bank has taken the opportunity to review its accounting policies and align them more closely with its business operations. Certain accounting policy changes have been made in the audited gold franc accounts. The introduction of the SDR as the Bank's unit of account has facilitated a number of further changes which have been put into effect as from 1 April 2003. These changes better reflect the Bank's financial position and performance, and are described below.

In order to reflect the increasingly market-related nature of the Bank's operations, financial instruments and gold will be shown on the balance sheet on a trade date basis at their market or fair values, instead of at amortised historical cost on a value date basis. Derivative financial instruments will be reflected on both sides of the balance sheet at their gross fair values. Profits and losses on the Bank's trading operations will be recorded in the profit and loss account based on market values. The currency composition of the assets designated as being financed by the Bank's equity (own funds) has been

[1] One SDR is equivalent to the sum of US$ 0.577, €0.426, ¥21.0 and £0.0984 according to Rule O–1 as adopted by the Executive Board of the International Monetary Fund on 29 December 2000 and effective 1 January 2001; this decision is subject to revision every five years.

realigned since 31 March 2003 to approximate the composition of the SDR currency basket. Currency translation differences will be recorded in the profit and loss account. The resulting profits will provide a better picture of the economic performance of the banking book, which is managed with limited interest rate, currency and maturity transformation risk. In addition, reserves will be created to reflect the unrealised profits of the Bank's investment securities portfolio and its own gold.

Pro forma accounts reconciliations

These reconciliations link the figures in the audited gold franc balance sheet and profit and loss account with the values in the SDR accounts described above by:

(i) disclosing the gold franc equivalent figures translated into SDRs at the exchange rate of 31 March 2003 (SDR 1 = GF 0.7072146 or US$ 1.3730456);

(ii) making revaluation adjustments incorporating the change in the valuation of the Bank's assets and liabilities resulting from the accounting policy changes described above;

(iii) effecting transfers:

- (a) between share capital and the reserve funds resulting from the downward adjustment of the nominal value of the Bank's shares to SDR 5 000;
- (b) of the balance on the valuation difference account to reserves resulting from the change of accounting policy on currency translation differences referred to above; and
- (c) from reserves to the gold revaluation account to reflect the excess of the market value of the Bank's gold (US$ 335.18 per ounce) over its previous value, US$ 208 per ounce;

(iv) making other adjustments to reflect the change to accounting for the Bank's assets and liabilities on a trade date basis, instead of the value date basis previously used in the Bank's accounts, and to show the Bank's derivative instrument balances on a gross basis instead of net.

Pro forma balance sheet reconciliation (unaudited)

at 31 March 2003
(in millions of Special Drawing Rights)

	Balance sheet (GF)	Translated into SDRs	Revaluations	Reclassi-fications	Trade date adjustments	Balance sheet (SDRs)
Column/notes	1	2	3	4	5	6
Assets						
Gold	3 299.6	4 665.6	2 876.4	–	–	7 542.0
Cash on hand and on sight account with banks	3 041.5	4 300.7	–	–	–	4 300.7
Treasury bills	14 027.3	19 834.6	0.6	–	889.4	20 724.6
Time deposits and advances in currencies	40 209.1	56 855.6	48.3	–	1 824.2	58 728.1
Securities purchased under resale agreements	5 302.2	7 497.3	–	–	4 757.7	12 255.0
Government and other securities at term	26 791.0	37 882.4	737.5	–	112.7	38 732.6
Derivative financial instruments	–	–	3 966.1	–	–	3 966.1
Land, buildings and equipment	138.9	196.4	–	–	–	196.4
Miscellaneous assets	21.7	30.7	–	–	3 143.2	3 173.9
Total assets	92 831.3	131 263.3	7 628.9	–	10 727.2	149 619.4
Liabilities						
Paid-up capital	330.7	467.6	285.9	(92.1)	–	661.4
Reserves (after allocation of the net profit)	5 240.5	7 410.1	623.4	(49.8)	(2.5)	7 981.2
Shares held in treasury	(522.7)	(739.1)	–	–	–	(739.1)
Securities revaluation account	–	–	357.0	–	–	357.0
Gold revaluation account	–	–	–	571.6	–	571.6
Valuation difference account	303.9	429.7	–	(429.7)	–	–
Equity	5 352.4	7 568.3	1 266.3	–	(2.5)	8 832.1
Deposits						
Gold	*2 638.4*	*3 730.7*	*2 291.9*	–	–	*6 022.6*
Currencies	*83 759.4*	*118 435.6*	*1 595.8*	–	*2 487.4*	*122 518.8*
	86 397.8	122 166.3	3 887.7	–	2 487.4	128 541.4
Securities sold under repurchase agreements	51.8	73.2	–	–	–	73.2
Derivative financial instruments	–	–	3 234.4	–		3 234.4
Miscellaneous liabilities	960.6	1 358.4	(759.5)	–	8 242.3	8 841.2
Dividend	68.7	97.1	–	–	–	97.1
Total liabilities	92 831.3	131 263.3	7 628.9	–	10 727.2	149 619.4

Notes to the pro forma balance sheet reconciliation

1. The figures in this column contain the audited balance sheet figures in gold francs at 31 March 2003, and assume that the recommendations made by the Board concerning transfers to the reserve funds are adopted.

2. The figures in this column are translated from the gold franc figures in column 1 to SDRs at the exchange rate of the balance sheet date, SDR 1 = GF 0.7072146 (SDR 1 = US$ 1.3730456).

3. The adjustments in this column principally relate to the following revaluations:
   (a) gold from the equivalent of US$ 208 per ounce of gold to its market value of SDR 244.11 (US$ 335.18) at 31 March 2003.
   (b) financial instruments in currencies from amortised historical cost to market value, based on mid-market prices. The balance on the securities revaluation account represents the unrealised revaluation surplus of investment securities.
   (c) derivative financial instruments to fair value. From 1 April 2003, derivative assets and liabilities (principally on currency and interest rate contracts) are reflected separately at fair value on each side of the balance sheet. Under the Bank's accounting policy until 31 March 2003, they were netted off and their net value included either in miscellaneous assets or in miscellaneous liabilities.

4. The amounts in this column comprise:
   (a) the rounding down of the paid-up portion of the shares to SDR 1 250 per share resulting from the downward adjustment of the nominal value of the Bank's shares to SDR 5 000 per share, and the transfer of the resulting excess of SDR 92.1 million from share capital to reserves. The Bank's capital and reserves in total are not affected by this adjustment.
   (b) the transfer of the balance on the valuation difference account to reserves. From 1 April 2003, exchange differences on currency translation will be reflected in the profit and loss account.
   (c) the transfer from reserves to the gold revaluation account of the excess of the market value of the Bank's own gold over its previous value in the gold franc accounts, based on US$ 208 per ounce.

5. The figures in this column relate to the adjustment to reflect the Bank's assets and liabilities on a trade date basis instead of the previous value date basis.

6. The figures in this column are the final SDR pro forma balance sheet figures and are equal to the sum of the figures in columns 2 to 5.

Pro forma profit reconciliation (unaudited)

for the financial year ended 31 March 2003
(in millions of Special Drawing Rights)

	Profit and loss account (GF)	Translated into SDRs	Revaluations	Transfers	Trade date adjustments	Profit and loss account (SDRs)
Column/notes	1	2	3	4	5	6
Net interest and other operating income	352.1	497.9	66.0	–	(2.5)	561.4
Less: costs of administration	(98.3)	(139.1)	–	–		(139.1)
Operating profit	253.8	358.8	66.0	–	(2.5)	422.3
Profits on sales of investment securities	108.2	153.0	–	–	–	153.0
Net profit for the financial year	362.0	511.8	66.0	–	(2.5)	575.3
Dividend	(68.7)	(97.2)	–	–		(97.2)
Profit transferred to reserves	293.3	414.6	66.0	–	(2.5)	478.1

Notes to the pro forma profit reconciliation

1. The figures in this column are extracted from the audited profit and loss account in gold francs for the year ended 31 March 2003.

2. The SDR equivalent figures are translated from the gold franc figures in column 1 at the exchange rate of the balance sheet date, SDR 1 = GF 0.7072146 (SDR 1 = US$ 1.3730456).

3. The adjustment in this column represents the change in the net unrealised profits of the assets, liabilities and derivatives in the Bank's trading book. From 1 April 2003, changes in the market values of the Bank's trading assets, liabilities and derivatives will be reflected in the profit and loss account.

4. There are no transfers between profit and loss account items.

5. This represents the profit impact from the introduction of trade date accounting and the revaluation of assets purchased to their mid-market values.

6. The figures in this column are the final SDR pro forma profit and loss account figures and are equal to the sum of the figures in columns 2 to 5.

Five-year summary of the balance sheet

(in millions of gold francs)

Financial year ended 31 March	1999	2000	2001	2002	2003
Gold	3 878.7	3 505.8	3 521.1	3 209.9	3 299.6
Cash on hand and on sight account with banks	8.3	11.4	20.3	3 292.3	3 041.5
Treasury bills	7 314.0	7 853.9	4 597.8	9 588.1	14 027.3
Time deposits and advances in currencies	32 423.0	41 853.9	44 796.4	45 538.0	40 209.1
Securities purchased under resale agreements	276.0	1 268.1	3 882.0	1 660.7	5 302.2
Government and other securities at term	22 167.9	20 139.9	18 339.5	23 610.9	26 791.0
Land, buildings and equipment	124.7	120.7	113.2	115.4	138.9
Miscellaneous assets	44.5	82.0	783.7	699.1	21.7
Total assets	66 237.1	74 835.7	76 054.0	87 714.4	92 831.3
Paid-up capital	323.2	330.7	330.7	330.7	330.7
Reserves (after allocation of the net profit for the year)	4 305.0	4 526.6	4 731.3	4 947.2	5 240.5
Shares held in treasury	–	–	(384.0)	(384.0)	(522.7)
Valuation difference account	268.0	198.4	56.2	24.1	303.9
Equity	4 896.2	5 055.7	4 734.2	4 918.0	5 352.4
Deposits					
Gold	*3 192.6*	*2 820.2*	*2 842.3*	*2 531.4*	*2 638.4*
Currencies	*57 705.8*	*65 903.7*	*67 274.8*	*79 486.4*	*83 759.4*
	60 898.4	68 723.9	70 117.1	82 017.8	86 397.8
Securities sold under repurchase agreements	121.5	103.0	990.6	660.0	51.8
Miscellaneous liabilities	263.6	898.4	163.5	66.0	960.6
Dividend	57.4	54.7	48.6	52.6	68.7
Total liabilities	66 237.1	74 835.7	76 054.0	87 714.4	92 831.3

The figures for prior financial years have been restated to reflect the changes in accounting policies for sales of own funds investments, provisions and retirement benefit obligations.

Five-year summary of the profit and loss account

(in millions of gold francs)

Financial year ended 31 March	1999	2000	2001	2002	2003
Net interest and other operating income	365.2	380.6	322.4	259.6	352.1
Less: costs of administration					
Board of Directors	*1.3*	*1.2*	*1.1*	*0.9*	*1.2*
Management and staff	*46.0*	*47.4*	*40.4*	*47.2*	*65.6*
Office and other expenses	*18.6*	*19.4*	*21.6*	*19.9*	*22.0*
Costs of administration before depreciation	65.9	68.0	63.1	68.0	88.8
Depreciation	*6.0*	*7.6*	*8.1*	*8.8*	*9.5*
	71.9	75.6	71.2	76.8	98.3
Operating profit	293.3	305.0	251.2	182.8	253.8
Profit on sales of own funds investment securities	124.1	(81.4)	2.1	85.7	108.2
Net profit for the financial year	417.4	223.6	253.3	268.5	362.0
Dividend	57.4	54.7	48.6	52.6	68.7
Profit transferred to reserves	360.0	168.9	204.7	215.9	293.3

The figures for prior financial years have been restated to reflect the changes in accounting policies for sales of own funds investments, provisions and retirement benefit obligations.