

## 4. THE BCL AS AN ORGANISATION

### 4.1 Organisation of the BCL

#### 4.1.1 The Council

##### 4.1.1.1 The Council

Article 6 of the law of 23 December 1998 defines the powers of the Council of the Bank. In 2003, the members of the Council were.

- President: Yves Mersch
- Members: Andrée Billon  
Jean Hamilius  
Pit Hentgen  
Mathias Hinterscheid  
Serge Kolb  
Patrice Pieretti  
Nico Reyland  
Michel Wurth



From left to right and from above to below: *Pit Hentgen, Jean Hamilius, Nico Reyland, Patrice Pieretti, Michel Wurth, Mathias Hinterscheid, Andrée Billon, Serge Kolb, Yves Mersch*

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During 2003, the Council held 5 meetings.

- Within the framework of monitoring the financial situation of the Bank, the Council has approved the financial accounts as of 31 December 2002, the budgetary trends and subsequently, the budget for the 2004 financial exercise. At its meeting of 9 May 2003, the Government in council has decided to give its discharge to the organs of the Bank for the financial exercise of 2002. The Council has proposed the appointment of the external auditor to the Government and has appointed the members of the Audit Committee for 2004. The Council has assisted in the drafting of this Central Bank annual report.
- Having regard to the business policy of the Bank, the Council has decided that the BCL shall take over the minting of euro coins, an activity assured previously by the State Treasury. The pre-existing convention signed by the BCL and the Treasury has therefore been amended on 10 April 2003, the amendment entering into force on 1 May 2003. The Council has mandated the BCL Board to set up and develop a commercial policy in order to promote the marketing of numismatic products. The Council has also decided to develop the management of the BCL's own funds as well as the provision of asset management services to third parties. The Council agreed on the BCL participating in the future TARGET 2 shared platform (successor of TARGET 1), the trans-European automated real-time gross settlement express transfer system.
- Within the framework of monitoring the general organisation of the Bank, the Council has approved the organisation chart of Bank staff and has agreed with a training strategy based on national and international cooperation, in order to allow the BCL to offer, *inter alia*, its skills and knowledge of monetary policy operations and payment systems to the Financial Sector, developing thereby the corporate image of the BCL.
- In its role as an observer of ESCB missions, the Council regularly observed and commented on the economic and financial evolution at the national and international levels and has been kept informed of the decisions made by the Governing Council of the ECB.

### 4.1.1.2 The Audit Committee

The Audit Committee was created by the Council at its meeting of 13 December 2001. Its objective is to assist the Council in the performance of its missions related to the approval of the financial accounts<sup>1</sup> and to the work of the statutory auditors of the BCL<sup>2</sup>.

The Committee has a preparatory role and has no power of decision. It reports to the Council. It counts 3 non-executive members of the Council and the President of the Council. Members are appointed by the Council for a renewable mandate of one year. It may invite the internal audit manager and the statutory auditor of the Bank to participate in its work. Each member of the Council has the right to request to be invited to its meetings.

Being chaired by one of its non-executive members, the Committee has several missions:

- It assists the Council in its choice of the statutory auditor to be proposed to the Government;
- In addition to the legal mandate of the statutory auditor, the Committee assists the Council in specifying the scope of the potential specific controls to be performed by the statutory auditor<sup>3</sup>;
- In order to assist the Council in the analysis of the reports issued by the statutory auditor, the Committee is kept informed of the audit programme of the statutory auditor;
- It is kept informed of the internal audit plan in order to assist the Council in the analysis of the internal audit activity report;
- It is kept informed of the follow-up of the statutory auditor's and internal audit's recommendations.

The Committee holds at least three meetings a year. The logistical support necessary to the tasks of the Committee is provided by the BCL.

In 2003, the Audit Committee held four meetings. During its meeting of 11 December 2003, the Council renewed the mandates of the non-executive members of the Audit Committee Mr. Jean Hamilius, Mr. Pit Hentgen and Mr. Nico Reyland for 2004. Mr. Mersch is an *ex officio* member in his function as President of the Council.

In the framework of its missions, the Committee was involved in the selection process of the new statutory auditor appointed for 2004.

<sup>1</sup> Articles 6 (c) and 29 (1) of the law of 23 December 1998 concerning the monetary status and the Central Bank of Luxembourg

<sup>2</sup> Articles 6 (f) and 16 of the Law.

<sup>3</sup> Article 16 of the Law.

#### 4.1.2 The Board of Directors

The Board of Directors is the superior executive authority of the Central Bank. It shall draw up the measures and take the decisions required for the fulfilment of the tasks of the Central Bank.

The Board of directors shall comprise the Director-General and two Directors. The three members of the Board are appointed by the Grand Duke, on a proposal from the Government for a term of office of 6 years and their appointments shall be renewable (art 11). The salaries of the members of the Board are determined on the basis of degree 18 of the category "I. General Administration" of annex A "classification of functions" for the directors and on the basis of degree S1 of category VI "Functions with fixed index", for the Director-General. Besides the basic salaries, the two directors are entitled to receiving an allowance for representation purposes of 131 index points (employee value) and the Director-General is entitled to receiving an allowance of 122 index points.

Director-General: Yves Mersch

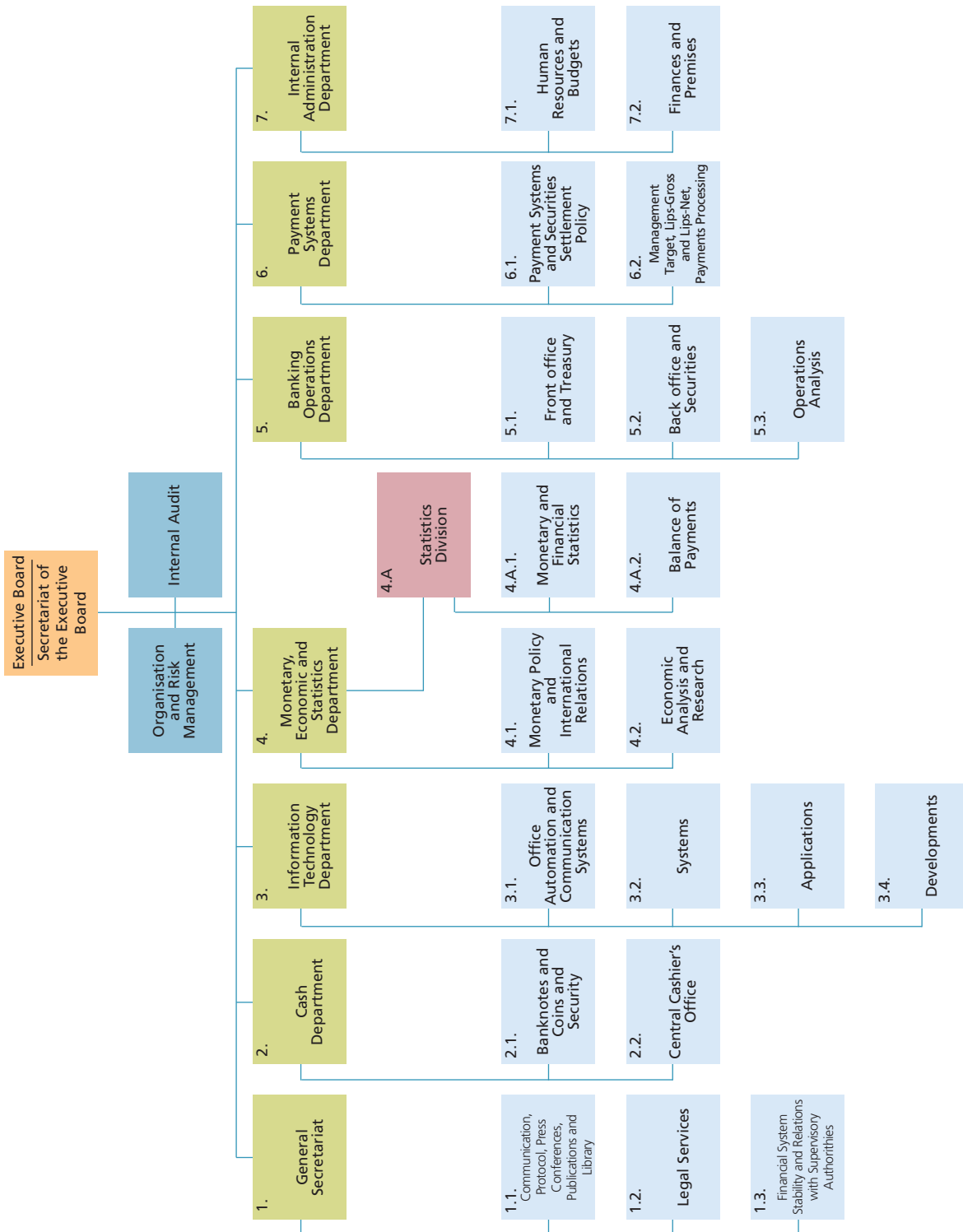
Directors: Andrée Billon et Serge Kolb



From the left to the right: *Yves Mersch, Andrée Billon, Serge Kolb*

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### 4.1.3 Organisation chart of the Banque centrale du Luxembourg 2004



## 4.2 The BCL staff

### 4.2.1 Quantitative evolution

During 2003, the BCL staff decreased by 1.9 % to reach a total of 203 agents on 31 December 2003 (including Executive Board members), equivalent to 196.5 full time positions. On 31 December, nine agents worked part-time and two agents were on part-time parental leave. The BCL has recruited two new agents, while six agents left, of whom one has been granted three years leave of absence without pay.

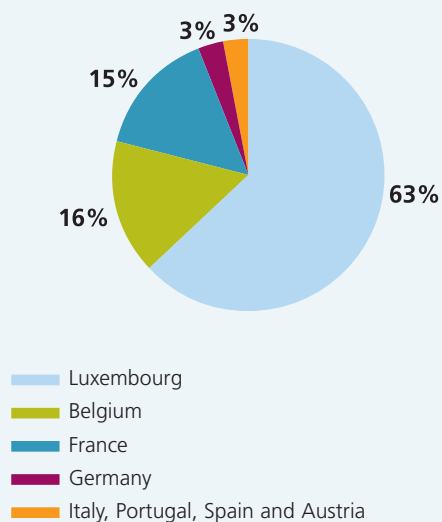
There has been no increase in positions in the organizational chart for 2003 in comparison with the previous year. In a difficult economic context with cost reduction being a major objective, recruitment has been restricted to replacements.

A competitive entrance examination was organised on 16 and 17 October 2003 for which a total of 271 candidates applied. Moreover, the BCL received approximately 520 spontaneous job applications and around 250 applications for internships.

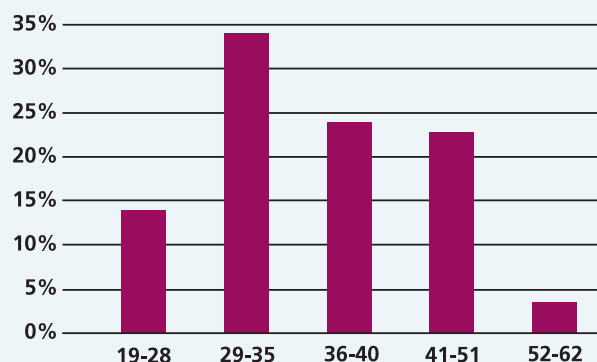
Staff members are of eight different nationalities, thus contributing to cultural enrichment and to the diversity of human capital.

The average age of BCL staff members has slightly increased from 35.63 in 2002 to 36.45 on 31 December 2003. On this date, the staff counted 33% female and 67% male agents, the same proportion as the previous year.

GRAPH 1: AGENTS BY NATIONALITY

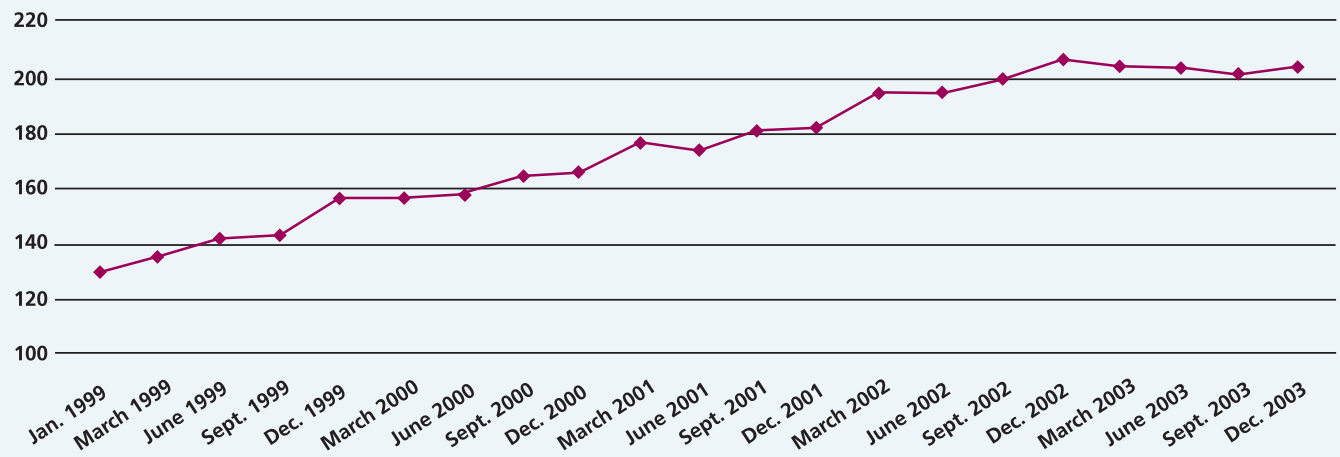


GRAPH 2: DISTRIBUTION OF AGENTS PER AGE GROUP

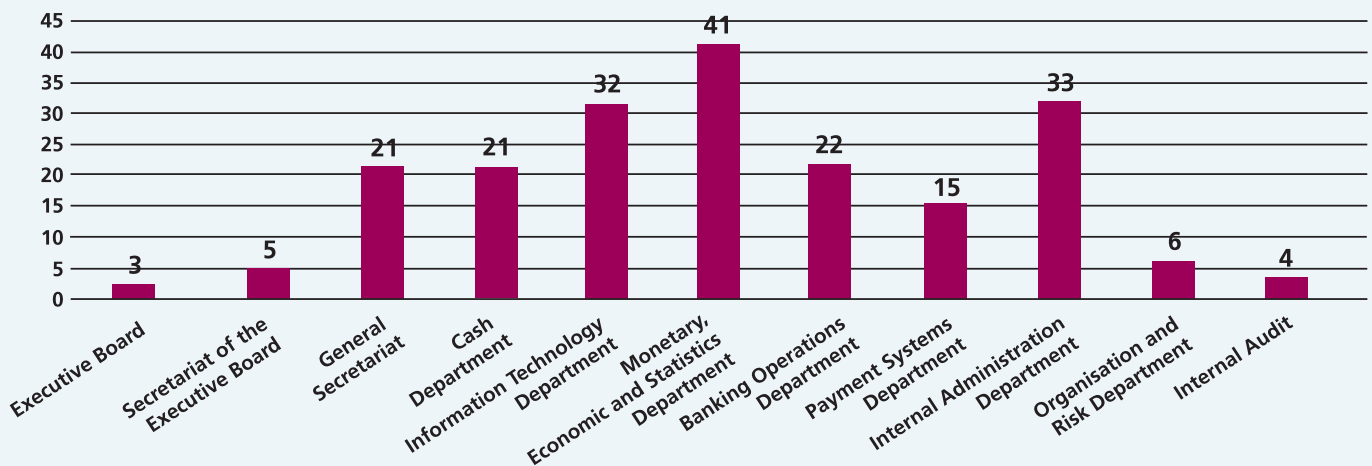


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GRAPH 3: EVOLUTION IN NUMBERS PER QUARTER SINCE THE 1<sup>ST</sup> JANUARY 1999



GRAPH 4: NUMBERS PER ENTITY ON 31 DECEMBER 2003



### 4.2.2 Human resources management

The year 2003 has been marked by progress in a certain number of important areas related to human resources management.

First of all, the annual assessment, further to the conceptual phase concerning their introduction in 2002, has been realised for the first time during 2003. This exercise has permitted the establishment of objectives for every staff member, in line with the corporate objectives of the Bank defined in the framework of the *Corporate Balanced Scorecard*.

As regards to a law (19 May 2003) modifying the altered law of 16 April 1979 fixing the general status of civil servants, detailed analyses concerning the effects of the changes on the BCL staff members have been realised.

With the aim of standardising the treatment of all staff members of the Bank regardless of their status, a certain number of guidelines have been worked out in 2003 and in particular:

- the criteria underlying the setting up of the promotions roster (admission criteria, promotion criteria, on secondment criteria etc.);

- the trainers' remuneration for internal training classes;
- the conditions according to which an agent will be granted a supplementary income for the holding of a diploma higher than the minimum required for the corresponding career;
- the conditions regulating the distribution of a part-time job; and
- the components of the income to be contributed to the BCL pension fund.

Finally, the implementation of an integrated system in relation with human resources management has been initiated in 2003. According to the needs specified by the users, an opportunity study has been set up allowing the Bank to choose the appropriate system. Its implementation will take place at the beginning of the year 2004.

#### 4.2.3 Staff training

In order to be able to reach the objective of excellence stated in the Bank's positioning, a particular weight has been put on the training policy at the Bank during the year 2003. This framework is about the role and the place of training in three different segments, namely the basic training programme, the management training and continuing education:

- a particular emphasis has been placed on internal training. The internal training courses organised by the Bank have been considerably enlarged to reach 14 classes at the end of the year. The setting-up of the all these classes (basic training programme and continuing education) has requested extensive efforts;
- the possibilities to offer the Bank's specific know-how to third parties have been examined. The objective is to share this know-how with a maximum number of Luxembourg's finance specialists. These courses being already available for internal needs, the training made available to third-parties benefits from considerable economies of scale. It should be noticed that the courses offered at the BCL are restricted to central bank activities so as to avoid competition with other training centres. From this point of view, and besides an existing co-operation with the "Agence de transfert de technologie financière" (ATTF), negotiations in order to establish a collaboration with the "Institut de formation bancaire, Luxembourg" (IFBL) have been conducted;

- a detailed analysis regarding the existing management structure has been realised in 2003. According to this analysis, a change management programme has been initiated whose completion will cover a period of 18 months, essentially in the course of the year 2004.

The effects of this training policy will only become fully apparent during the year 2004. Nevertheless, it should be noticed that during 2003 a total number of approximately 5 250 training hours have been registered, representing an average of 3.3 training days per agent.

#### 4.2.4 The Pension Fund

The statute<sup>4</sup> of the BCL provides that legal pension entitlements of BCL agents are determined by their status (*i.e.*, civil servant, State employee, private employee or worker). The costs and financing of pensions are also governed by this statute, which reads as follows:

"Costs of pensions of BCL agents are incurred by the BCL. These costs are financed by the BCL pension fund. Legal withholdings on agents' compensations, according to the rules governing the pension system corresponding to their status, on the one hand, and payments made by the BCL itself on the other hand, finance the pension fund."

The statute<sup>5</sup> also organises the transitory regime applicable to BCL agents, who contributed previously to another pension fund, as follows: "Luxembourg pension funds, which received contributions from people who are or become BCL agents as of the date of entry into force of the present statute, transfer these contributions to the BCL pension fund". In addition, "the periods within which these agents contributed to these pension funds are automatically validated as contribution periods with the BCL." With regard to the default of the Pension and Insurance fund of private employees<sup>6</sup>, the BCL sued these two bodies before the Luxembourg court<sup>7</sup>, in order to obtain the payment of the contributions owed. At the time of the drafting of this report, the trial is still in progress.

Operational as of 2001, the BCL pension fund adopted internal rules. In addition, it created both a decision-making Executive Committee (*Comité directeur*), composed of the BCL Executive Board members, two elected representatives of BCL agents and two co-opted members, acting as delegated managers, and a consultative Tactical Benchmark Committee.

<sup>4</sup> Article 14, indent (4) (b) of the statute of 23 December 1998 relating to the monetary status of the BCL.

<sup>5</sup> Article 35, indent (4) (a).

<sup>6</sup> *Caisse de Pensions des Employés Privés et Etablissement d'Assurance contre la Vieillesse et l'Invalidité*.

<sup>7</sup> *Tribunal d'arrondissement de Luxembourg*.



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The Bank manages the assets of its pension fund in accordance with the rules of the latter. The pension fund's guidance is set by the Executive Committee. The asset manager is appointed by the Executive Committee and this mandate is carried out in-house.

The Tactical Benchmark Committee determines the investment policy in strict compliance with parameters specified by the Executive Committee, especially with regard to the strategic composition of the global portfolio of the pension fund by currency and by asset class. It is a mixed pension fund, mainly holding bonds, liquidities and shares. It can also contain other financial tools. The pension fund's management is done in order to generate a minimal performance such as set up by a long-term actuarial calculation. The fund's assets have been put in the care of an external bank assuming the function of custodian. The actual transfer of the fund's assets, equalling an amount of 44.4 million euros, has been completed on 27 July 2001. The fund has the benefit of monthly capital inflows.

With regard to the default of the Pension and Insurance fund of private employees and the legal duty imposed by article 14 upon the BCL, the latter withheld an amount of 33.8 million euros, in addition to the withdrawal from its reserve fund<sup>8</sup>.

During 2003, for the first time an agent of the bank retired. As from 1 May, he was the first agent to benefit from the allowances of the pension fund.

### 4.3 Buildings / Facilities

During 2003 the main objectives were cost reduction and achieving improvements in administrative workflows and maintenance efforts. The information gathered in 2003 allowed the drawing up of detailed statistics needed to set up an efficient management of the existing facilities.

In order to better manage the important flow of visitors to its public counters, the Bank started transformation works in 2003 that resulted in the creation of a separate personnel entrance. This allowed to greatly reduce delays at the main entry of the old building, thus contributing to an improved customer reception.

## 4.4 Accounting and budget

### 4.4.1 Accounting and Finance

The BCL participates in the daily reporting of the Eurosystem members' balance sheet data according to harmonised rules. In 2003, BCL continued to strengthen its accounting system and its procedures in order to meet its internal quality standards and those of the Eurosystem. The monthly balance sheet of the Bank is published on its Internet site. During the year, the control systems in place have shown to be efficient.

The Bank regularly checks the development of balance sheet, off-balance-sheet and profit & loss items. Investments, revenues and expenses are particularly closely monitored, notably in terms of compliance with the internal procedures of authorised signatures.

The implementation of a cost accounting system started in 2003. For the moment, the methodology consists of allocating BCL's operational expenses according to their destination, e.g. on the respective sections and entities. In the course of 2004, an activity-based costing system will be developed.

The management information system meets the need to follow the Bank's activities. It is based on a set of indicators, which are calculated daily, weekly, monthly, quarterly or annually. These tables include all activities of the Bank. The analysis of the profit & loss items is completed by a result analysis of the various activities. The Bank strictly controls the development of the interest margin and compares the profitability of its investments to benchmarks.

BCL regularly checks its risk exposure and controls the appropriateness of own funds and of short-, middle- and long-term provisions. The Bank has adopted a prudent policy of constituting and maintaining provisions for general and specific bank risks.

The Bank performs static and dynamic assessments of its long-term financial situation. It carries out prospective analyses of external factors like interest rates, exchange rates and other variables of the Eurosystem.

The Council and the management of the Bank are regularly informed of the provisional and estimated results in order to be in a position to decide on future orientations and the actions to undertake.

The asset/liability committee that was set up in 2002 monitors closely the risk exposure and the financial situation during the year, and in particular the risk related to the adequacy of assets and liabilities.

<sup>8</sup> According to article 35 (a) (c) of the law.

#### 4.4.2 Budget

Every year in December, the BCL's Council approves the budget for the coming year. The elaboration of the 2003 budget was done in accordance with the budgetary procedure aiming at managing the Bank's resources in a rational manner.

The budgetary procedure ensures that the limit set beforehand will not be exceeded. Within this limit, expenses can be engaged only as far as they are abiding by the Bank's rules regarding profitability and economic efficiency. It should be mentioned that operational costs for 2003 have stayed within the budgetary limit approved by the Council.

The implementation during 2003 of a software for electronic data processing in relation with budget management was very successful. The elaboration of the 2004 budget was completely done with this software, which has allowed to reduce considerably the reaction time regarding all last-minute changes and to produce an updated version of the amended budget enabling the decision-makers to take the measures required.

Furthermore, the access for users to the budgetary data via their computer represents a simplification as regards to budget monitoring. In fact, the software allows a daily monitoring in real time. The data listed in the accounting system are injected on a daily basis in the software, which allows an immediate charging of the invoices to a budgetary item, thus shortening considerably the margin for possible overspending.

After having succeeded its introduction within the ESCB during the first five years of its existence, the BCL now enters a period of consolidation. Especially in this context the *Balanced Scorecard* has been developed. It defines the main task of the BCL and the ensuing objectives. These objectives entitle to define more precisely the major budgetary directives that have underlain and will underlie the elaboration of the BCL's budget.

#### 4.5 The internal audit activities

The BCL's internal control system is based on generally accepted standards prevailing in the financial sector. The principles of the internal control as well as the various responsibilities resulting thereof are described in the internal Manual of Procedures.

The main activity of the internal audit function is to assess the internal control system. This task is ensured by an independent Internal Audit Unit that reports directly to the President of the Bank. The definition of the internal audit function is based on the rules and regulations prevailing in the Luxembourg financial centre, as well as on the standards promoted by the Institute of Internal Auditors (IIA) and the ESCB Audit Policy.

The annual audit plan comprises audit engagements on the level of the ESCB, which are coordinated by the Internal Auditor's Committee, as well as audit engagements defined and performed at a national level. During 2003, the Internal Audit Unit performed various engagements in the field of payment systems, monetary policy operations, banknotes and coins, accounting and information systems.

The Internal Audit Unit is in charge of the follow-up of the recommendations issued during its audit activities.

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### 4.6 Financial statements as at 31 December 2003

#### Preamble

"Only the French version of the present financial statements has been reviewed by the Independent Auditor. Consequently, the financial statements only refer to the French version of the financial statements; other versions result from a conscientious translation prepared under the responsibility of the Directors. In case of differences between the French version and this translation, the French version should be retained."

#### 4.6.1 Key figures as at year-end (in euros unless otherwise indicated)

	2002	2003	Change in % 2003/2002
<b>Total assets</b>	24 990 130 072	27 856 509 647	11%
<b>Banks' current accounts</b>	4 638 044 452	6 765 571 187	46%
<b>Claims on credit institutions</b>	23 370 585 585	23 402 735 897	0%
<b>Own funds (1), revaluation accounts, administrative provisions and specific banking risks</b>	362 808 977	416 004 599	15%
<b>Net result of banking activities (2)</b>	86 224 016	99 947 756	16%
<b>Administrative expenses</b>	26 483 970	27 282 863	3%
<b>Gross operating profit (3)</b>	69 745 992	67 628 599	-3%
<b>Net profit</b>	4 970 236	3 105 175	-38%
<b>Cash Flow (4)</b>	74 701 802	74 171 100	-1%
<b>Personnel</b>	204	200	-2%
<b>BCL's part in the capital of the ECB</b>	0.1492%	0.1492%	
<b>BCL's part in the Eurosystem's monetary policy operations</b>	<b>9.852%</b>	<b>7.850%</b>	

(1) Capital, reserves, provisions for general banking risks and net profit to be affected to the reserves.

(2) Net interest income, net result from fees and commissions, net result on financial operations.

The adjusted net result of banking activities including the net result of pooling of monetary income rises from EUR 76 558 848 to EUR 81 305 886, equivalent to an increase of 6%.

(3) Total revenues less total costs (excluding transfers to and from depreciations and provisions).

(4) Net profit plus depreciation of tangible / intangible assets and write-downs on financial assets, as well as net transfers to administrative provisions and provisions for banking risks.

#### **4.6.2 Report of the Independent Auditor**

To the Council of the Banque centrale du Luxembourg

To the Government

To the Chamber of Representatives

We have audited the attached financial statements of the Banque centrale du Luxembourg for the year ended 31 December 2003. The financial statements are the responsibility of the Directors and are approved by the Council. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached financial statements give, in conformity with the generally accepted accounting principles and those defined by the European System of Central Banks, a true and fair view of the financial position of the Banque centrale du Luxembourg as at 31 December 2003 and of the results of its operations for the year then ended.

PricewaterhouseCoopers S.à r.l.  
Réviseur d'entreprises  
Represented by

Luxembourg, March 9, 2004

Pierre Krier

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### 4.6.3 Balance sheet as at 31 December 2003

(IN EUROS)

	Note	2003 EUR	2002 EUR
<b>ASSETS</b>			
Gold and gold receivables	3	24 880 800	24 958 618
Claims on non-euro area residents denominated in foreign currency	4	221 599 940	144 650 120
- Receivables from the IMF		151 431 221	144 481 474
- Balances with banks, security investments, external loans and other external assets		70 168 719	168 646
Claims on euro area residents denominated in foreign currency	5	19 794 150	-
Claims on non-euro area residents denominated in euros	6	290 550 224	301 182
- Balances with banks, security investments and loans		290 550 224	301 182
Lending to euro area credit institutions related to monetary policy operations denominated in euros	7	23 402 139 150	23 307 712 900
- Main refinancing operations	7.1	20 368 177 200	19 591 455 200
- Long-term refinancing operations	7.2	3 033 961 950	3 716 257 700
Other claims on euro area credit institutions denominated in euros	8	596 747	62 872 685
Securities of euro area residents denominated in euros	9	828 959 524	204 171 319
Intra-Eurosystem claims	10	2 408 352 832	83 176 316
- Participating interest in ECB	10.1	7 460 000	7 460 000
- Claims related to the transfer of foreign reserves	10.2	74 600 000	74 600 000
- Other claims within the Eurosystem	10.3	2 326 292 832	1 116 316
Items in course of settlement		42	250
Other assets	11	659 636 238	1 162 286 682
- Tangible and intangible fixed assets	11.1	58 701 026	61 693 547
- Other financial assets	11.2	530 602 520	1 028 411 411
- Off-balance sheet instruments revaluation differences		-	1 996 500
- Accruals and prepaid expenses	11.3	44 790 875	49 019 675
- Sundry	11.4	25 541 817	21 165 549
<b>Total assets</b>		<b>27 856 509 647</b>	<b>24 990 130 072</b>

The accompanying notes form an integral part of the financial statements.

## Balance sheet as at 31 December 2003

(IN EUROS)

	Note	2003 EUR	2002 EUR
<b>LIABILITIES</b>			
Banknotes in circulation	12	739 426 800	614 169 272
Liabilities to euro area credit institutions related to monetary policy operations denominated in euros	13	6 765 571 187	4 638 044 452
- Current accounts (covering the minimum reserve system)		6 765 571 187	4 637 844 452
- Deposit facility		-	200 000
Liabilities to other euro area residents denominated in euros	14	592 064 411	525 914 231
- General government	14.1	592 064 411	525 909 890
- Other liabilities		-	4 341
Liabilities to non-euro area residents denominated in euros	15	51 907 491	53 947 531
Liabilities to non-euro area residents denominated in foreign currency	16	19 796 162	-
Counterpart of special drawing rights allocated by the IMF	17	19 972 990	21 978 716
Intra-Eurosystem liabilities	18	19 077 543 570	18 568 559 665
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	18.1	19 077 543 570	9 254 574 795
- Other liabilities within the Eurosystem	10.3	-	9 313 984 870
Items in course of settlement	19	6 812 500	14 515 834
Other liabilities	20	104 097 466	132 622 382
- Off-balance sheet instruments revaluation differences		346 300	1 816 500
- Accruals and income collected in advance		89 766 149	114 444 118
- Sundry		13 985 017	16 361 764
Provisions	21	305 678 333	243 363 505
Revaluation accounts	22	30 821 436	37 302 358
Capital and reserves	23	139 712 126	134 741 890
- Capital	23.1	25 000 000	25 000 000
- Reserves	23.2	114 712 126	109 741 890
<b>Profit for the year</b>		<b>3 105 175</b>	<b>4 970 236</b>
<b>Total liabilities</b>		<b>27 856 509 647</b>	<b>24 990 130 072</b>

The accompanying notes form an integral part of the financial statements.

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### 4.6.4 Off-balance sheet as at 31 December 2003

(IN EUROS)

	Note	2003 EUR	2002 EUR
Custody deposits	24	106 433 616 407	87 077 073 455
Commitments and similar instruments	25	1 400 000 000	1 000 000 000
Foreign currency reserve assets administrated on behalf of the ECB	26	69 213 290	78 565 861
Forward transactions	27	43 355 000	410 582 250
Numismatic collection		107 972	107 972
		<b>107 946 292 669</b>	<b>88 566 329 538</b>

### 4.6.5 Profit and loss account for the year 2003

(IN EUROS)

	Note	2003 EUR	2002 EUR
Interest income		610 386 573	708 247 980
Interest expense		(512 430 452)	(606 739 095)
<b>Net interest income</b>	<b>28</b>	<b>97 956 121</b>	<b>101 508 885</b>
Realised (losses) / gains arising from financial operations		9 072 330	(9 751 967)
Write-downs on financial assets and positions	29	(6 542 502)	(4 955 810)
Transfer to / from provisions for foreign exchange rate and price risks	30	(55 865 813)	(61 377 778)
<b>Net result of financial operations, write-downs and risk provisions</b>		<b>(53 335 985)</b>	<b>(76 085 555)</b>
Fees and commissions income		6 524 275	5 533 284
Fees and commissions expense		(7 062 469)	(6 110 375)
<b>Net result from fees and commissions</b>	<b>31</b>	<b>(538 194)</b>	<b>(577 091)</b>
Income from participating interest	32	1 131 889	3 801 103
Net result of pooling of monetary income	33	(18 641 870)	(9 665 168)
Other income	34	12 547 655	24 750 115
<b>Total net income</b>		<b>39 119 616</b>	<b>43 732 289</b>
Staff costs	35	(16 524 525)	(15 366 065)
Other administrative expenses	36	(7 777 336)	(8 416 991)
Depreciation of tangible and intangible fixed assets	37	(6 984 340)	(4 858 986)
Banknote production services	38	(316 697)	(2 462 941)
Other expenses	39	(4 411 543)	(7 657 070)
<b>Profit for the year</b>		<b>3 105 175</b>	<b>4 970 236</b>

The accompanying notes form an integral part of the financial statements.

#### 4.6.6 Notes to the financial statements as at 31 December 2003

##### Note 1 - General

The Banque centrale du Luxembourg (BCL) was incorporated in accordance with the law of 22 April 1998. The law of 23 December 1998 provides that the main task of the BCL shall be to take part in the accomplishment of the tasks of the European System of Central Banks (ESCB) so as to achieve the objectives of the ESCB. The BCL is a public institution, endowed with legal personality and financial independence.

##### Note 2 - Accounting policies

The accounting policies applied in preparing the financial statements are described below:

###### 2.1 Layout of the financial statements

The financial statements of the BCL have been prepared and drawn up in accordance with the generally accepted accounting principles and the rules adopted by the ESCB.

###### 2.2 Accounting principles

The following accounting principles have been applied:

- economic reality and transparency;
- prudence;
- recognition of post-balance sheet events;
- accruals principle;
- consistency and comparability.

###### 2.3 Basic principles

The financial statements are based on historical cost and are adjusted to take account of the valuation at market prices of securities, financial instruments, gold and of all the elements, both on-balance-sheet and off-balance-sheet denominated in foreign currencies.

Transactions in financial assets and liabilities are reflected in the accounts of BCL on their settlement date.

###### 2.4 Assets and liabilities in gold and foreign currencies

Assets and liabilities denominated in foreign currencies (including gold) are converted into euros at the exchange rate in force on the balance sheet closing date. Proceeds and costs are converted at the exchange rate prevailing on the date of the transaction.

Foreign currencies are revalued on a currency-by-currency basis including on-balance-sheet and off-balance-sheet items.

Securities are revalued at market prices separately from the revaluation of foreign exchange for securities denominated in foreign currencies.

Gold is revalued on the basis of the euro price per fine ounce as derived from the quotation in US dollars established at the time of the London fixing on the last working day of the year.

###### 2.5 Securities

Negotiable securities denominated in foreign currencies and in euros are valued at the market price prevailing on the balance sheet date. The revaluation took place item-by-item on the basis of their ISIN code.

###### 2.6 Recognition of gains and losses

Income and expenses are assigned to the financial year during which they are earned or incurred.

Realised gains and losses on foreign exchange transactions, securities and financial instruments linked to interest rates and market prices are taken to the profit and loss account.

At the end of the year, unrealised revaluation gains on foreign currencies, securities and financial instruments were not considered in the profit and loss account, but transferred to a revaluation account on the liabilities side of the balance sheet.

Unrealised losses were recognized in the profit and loss account when they exceeded previous revaluation gains registered in the corresponding revaluation account. They may not be reversed against new unrealised gains in subsequent years. Unrealised losses regarding a specific security, financial instrument, currency or in gold holdings were not netted with unrealised gains in other securities, financial instruments, currencies or gold holdings.



## 4. THE BCL AS AN ORGANISATION

In order to calculate the acquisition cost of securities or currencies that are sold, the average cost method is used on a daily basis. If any negative revaluation differences are taken to the profit and loss account, the average cost of the asset in question is adjusted downwards to the level of the current exchange rate or market price thereof.

For fixed-income securities, the premiums or discounts arising from the difference between the average acquisition cost and the redemption price were calculated and presented on a pro rata basis as part of interest income and amortised over the remaining life of the securities.

### 2.7 *Post balance sheet events*

Assets and liabilities are adjusted to take account of events occurring between the balance sheet date and the date on which the BCL's Council approves the annual accounts if such events have a material effect on the assets and liabilities on the balance sheet date.

### 2.8 *Banknotes in circulation*

The European Central Bank (ECB) and the 12 participating National Central Banks (NCBs), which together comprise the Eurosystem, have issued euro banknotes as from 1 January 2002. The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with the banknote allocation key.

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation from 2002, whereas the remaining 92% has been allocated to NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to each NCB is disclosed under the balance sheet liability item "Banknotes in circulation".

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest, are disclosed under the sub-item "Intra-Eurosystem: Net claim/liability related to the allocation of euro banknotes within the Eurosystem".

From 2002 until 2007 the intra-system balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in NCBs' relative income positions as compared to previous years. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the period from July 1999 to June 2001 and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments will be reduced in annual stages until the end of 2007 after which income on banknotes will be allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital.

The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under "Net interest income."

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, shall be distributed separately to the NCBs in the form of an interim distribution of profit. It shall be so 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. With respect to 2003, the Governing Council decided in the light of their estimate that the full amount of such income should be retained by the ECB.

### 2.9 *Intra-Eurosystem claims and liabilities*

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a net single asset or liability under "Net claim/liability related to the allocation of euro banknotes within the Eurosystem".

Intra-Eurosystem claims and liabilities arising from TARGET balances and counterparties accounts are shown as a single net asset or liability on the balance sheet.

## 2.10 Treatment of tangible and intangible assets

The tangible and intangible assets are recorded at their acquisition cost less depreciation. Depreciation was calculated on a straight-line basis over the expected economic lifetime of the assets:

	Years
Buildings	25
Renovation of buildings	10
Furniture and equipment	3-5
Computer hardware and software	4

## 2.11 Pension fund

As at 1<sup>st</sup> January 1999, after the introduction of the law of 23 December 1998, the pension claims of its agents are fully supported by the BCL. A pension fund, whose aim it is to cover the risks related to aging, infirmity or survival, has been created in 2000. The actuarial method for determining the BCL's liabilities towards its agents has been approved by the pension fund's board as at 12 February 2001.

The actuarial method determines the pension fund's liability related to aging, infirmity or survival for each agent. The model is based on each agent's personal and career data, on the level of inflation for the next sixty years as well as an average rate of return generated by the fund's assets.

The BCL's liabilities related to pensions are shown in the account "Provisions for pensions". The increase of the provision results from the regular transfer of the employee's part and the BCL's employer's part. In addition, if necessary, periodic transfers from the account "Booking reserve of the pension fund", equivalent to the revenues generated by the fund's assets, to adjust the account "Provision for pensions" to its actuarial value are booked. In the case of insufficient transfers in order to cover the BCL's pension liabilities, the difference between the existing provision and the real claim is covered by a special transfer to be supported by the BCL.

## Note 3 - Gold and gold receivables

As at 31 December 2003, BCL holds 3 313.29 ounces of fine gold amounting to 1.1 million euros (365.75 ounces of fine gold amounting to 0.1 million euros as at 31 December 2002) and a first rated gold bond issued by the International Bank for Reconstruction and Development purchased in 2002 and valued at 23.8 million euros (24.8 million euros as at 31 December 2002).

## Note 4 - Claims on non-euro area residents denominated in foreign currency

Under this item are recorded the BCL's foreign exchange reserve holdings with counterparties situated outside the euro area (including international and supranational institutions and central banks that are not members of the Eurosystem).

This item is broken down into two sub-items:

- receivables from the International Monetary Fund (IMF);
- balances held on accounts with banks which do not belong to the euro area as well as securities, loans and other foreign currency assets issued by non-residents of the euro area. This sub-item includes in particular the BCL's US Dollar securities portfolio built in 2003 which could be used, if needed, for monetary policy operations.

This portfolio only contains government bonds and first rated bonds issued by international and supranational institutions denominated in US Dollars. Securities are valued at market prices. As at 31 December 2003, their value at market prices included an unrealised loss amounting to 0.4 million euros.

## Note 5 - Claims on euro area residents denominated in foreign currency

This item comprises BCL's balances denominated in foreign currency with counterparties which belong to the euro area.

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### Note 6 - Claims on non-euro area residents denominated in euros

This item contains balances held on accounts with banks which do not belong to the euro area as well as securities, loans and other euro-denominated assets issued by non-residents of the euro area.

Since 2003, this item comprises in particular the securities portfolio denominated in euros and issued by non-residents of the euro area, in accordance with the ECB's instructions. This portfolio could be used, if needed, for monetary policy operations.

This portfolio only contains government bonds and first rated bonds issued by companies which do not belong to the euro area denominated in euros. Securities are valued at market prices. As at 31 December 2003, their value at market prices included an unrealised gain amounting to 0.6 million euros.

### Note 7 - Lending to euro area credit institutions related to monetary policy operations denominated in euros

This balance sheet item represents the liquidity-providing transactions executed by the BCL with Luxembourg credit institutions.

The item is divided into various sub-items depending on the type of instrument used to provide liquidity to the financial sector:

#### 7.1 Main refinancing operations

This sub-item records the amount of liquidity provided to credit institutions by way of weekly 14-day tenders.

#### 7.2 Long-term refinancing operations

This sub-item records the amount of credit extended to credit institutions by way of monthly 3-month tenders.

### Note 8 - Other claims on euro area credit institutions denominated in euros

This item includes the BCL's current accounts and fixed-term deposits with credit institutions which belong to the euro area.

### Note 9 - Securities of euro area residents denominated in euros

This item covers the BCL's portfolio in euros issued by residents of the euro area which could be used, if needed, for monetary policy operations.

This portfolio only contains government bonds in euros issued by member states of the European Union and first rated bonds issued by companies of the euro area. Securities are valued at market prices. As at 31 December 2003, their value at market prices included an unrealised gain amounting to 0.3 million euros (unrealised loss amounting to 0.1 million euros as at 31 December 2002).

### Note 10 - Intra-Eurosystem claims

#### 10.1 Participating interest in ECB

This sub-item represents the BCL's contribution to the capital of the ECB. It corresponded to 0.1492 % in the subscribed capital of the ECB (5 billion euros). A decision allowing for an increase of the authorized capital up to 10 billion euros has been taken, in May 2000, by the Council of the European Union based on the ESCB/ECB statutes.

#### 10.2 Claims equivalent to the transfer of foreign reserves

This sub-item represents the euro-denominated claims on the ECB in respect of the transfer of part of BCL's foreign reserves.

This claim is remunerated at 85 % of the interest rate on the main refinancing operations, which means 1.7 % on the balance sheet date.

A decision, allowing the ECB to ask for the transfer of supplementary foreign reserves in order to reconstitute the initial transfer of foreign reserves, has been taken, in May 2000, by the Council of the European Union based on the ESCB/ECB statutes.

### 10.3 Other claims within the Eurosystem

This sub-item represents the BCL's net claims towards the Eurosystem, mostly from transactions resulting from cross-border payments initiated for monetary or financial operations, made via the TARGET system, between BCL and the other NCBs as well as the ECB. This claim amounts to 2.3 billion euros as at 31 December 2003 (liability amounting to 9.3 billion euros as at 31 December 2002).

### Note 11 - Other assets

#### 11.1 Tangible and intangible assets

Tangible and intangible fixed assets evolved as follows:

	<b>Buildings</b>	<b>Furniture and equipment</b>	<b>Software</b>	<b>Total</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Cost as at 01.01.2003	67 533 060	7 945 561	3 318 810	78 797 431
Acquisitions	2 728 300	1 022 100	241 419	3 991 819
Disposals	-	(58 007)	-	(58 007)
<b>Cost as at 31.12.2003</b>	<b>70 261 360</b>	<b>8 909 654</b>	<b>3 560 229</b>	<b>82 731 243</b>
Accumulated depreciation as at 01.01.2003	(11 095 472)	(4 227 417)	(1 780 995)	(17 103 884)
Depreciation	(4 846 894)	(1 518 571)	(618 875)	(6 984 340)
Reversal	-	58 007	-	58 007
Accumulated depreciation as at 31.12.2003	(15 942 366)	(5 687 981)	(2 399 870)	(24 030 217)
<b>Net book value as at 31.12.2003</b>	<b>54 318 994</b>	<b>3 221 673</b>	<b>1 160 359</b>	<b>58 701 026</b>

The sub-item "Buildings" comprises the acquisition cost of the premises located 2 boulevard Royal, the costs incurred in relation to the reconstruction and transformation of the new site ("Pierre Werner" building) and the renovations made on the main building ("Siège Royal"). The building located on the boulevard Prince Henri has been completely amortised in 2003 because of its destruction in order to construct a new one.

The "Pierre Werner" is considered as a new building and is amortised over a period of 25 years while the costs incurred in relation to the transformation of the "Siège Royal" are considered as renovations and are amortised over 10 years.

## 4. THE BCL AS AN ORGANISATION

### 11.2 Other financial assets

The components of this item are as follows:

	2003 EUR	2002 EUR
Other participating interests	153 657	231 344
Pension fund	56 828 975	47 066 258
Securities portfolio	473 619 888	981 113 809
	<b>530 602 520</b>	<b>1 028 411 411</b>

The other participating interests comprise the entry fees in LIPS-Net together with the BCL's participations in RTGS-L GIE, Swift and ATTF.

The assets of the pension fund are recorded in the accounts under "Pension fund BCL". The balance of this account corresponds to the net asset value of the fund as it was calculated by the depositary bank as at 31 December 2003.

The securities portfolio recorded under this heading corresponds to the securities held by the BCL for the purpose of the investment of its own funds and third parties funds amounting to a total of 473.6 million euros (981.1 million euros as at 31 December 2002). Securities are valued at market prices. As at 31 December 2003, their value at market prices included an unrealised gain amounting to 13.3 million euros (unrealised loss amounting to 0.2 million euros as at 31 December 2002).

### 11.3 Accruals and prepaid expenses

Most of this item consists of the accrued interests on monetary policy operations, securities and receivables from the IMF.

Are also included under this item the receivable commissions receivable, prepaid expenses of which salaries for January 2004 and other income receivable.

### 11.4 Sundry

	2003 EUR	2002 EUR
Withdrawals in advance	6 812 500	14 515 000
Others	18 729 317	6 650 549
	<b>25 541 817</b>	<b>21 165 549</b>

The sub-item "Withdrawals in advance" corresponds to the amount of euro banknotes ordered by the credit institutions as at 31 December 2003 and which were not yet put into circulation on that date.

The sub-item "Others" consists mainly of the counterpart of the unrealised loss on SDR recorded in the financial statements of the BCL which is guaranteed by the State according to the agreement signed in May 1999 establishing the financial relationship between the State of Luxembourg and the BCL.

### Note 12 - Banknotes in circulation

This caption includes the BCL's share of the total euro banknotes put into circulation by the 12 central banks of the Eurosystem according to their weightings in the capital of the ECB, which totalled 739.4 million euros (607.7 million euros as at 31 December 2002).

As at 31 December 2002, this item also included the amount of Luxembourg banknotes not yet returned for 6.5 million euros. These banknotes are recorded under "Other liabilities" for an amount of 6.0 million euros as at 31 December 2003.

### Note 13 - Liabilities to euro area credit institutions related to monetary policy operations denominated in euros

This item primarily comprises credit institutions' accounts held within the framework of the requirements of the minimum reserve system.

## Note 14 - Liabilities to other euro area residents denominated in euros

### 14.1 Liabilities to general government

This caption records the amounts owed to the Luxembourg Treasury including the following items:

	2003 EUR	2002 EUR
Current account	291 581	909 890
Account related to euro coins issued by the Treasury	81 772 830	-
Fixed-term deposit	510 000 000	525 000 000
	<b>592 064 411</b>	<b>525 909 890</b>

In accordance with the amendment of 10 April 2003 to the agreement between the State of Luxembourg and the BCL on their financial relations, the "Account related to euro coins issued by the Treasury" corresponds to the amount of coins issued by the BCL in the name and for the account of the Treasury.

The fixed-term deposit relates to the agreement between the State of Luxembourg and the BCL which originally specified that the State should maintain at the BCL a deposit equivalent to the BCL's claim on BNB in relation to Belgian banknotes circulating in Luxembourg. The fixed-term deposit matured on 1 March 2002 and was replaced, following agreement between parties, by a term deposit renewed on a monthly basis.

Interest expense in relation with these liabilities to the Luxembourg Treasury for the financial year 2003 amounts to 5.1 million euros (10.5 million euros as at 31 December 2002) and is recorded under the caption "Interest expense".

In accordance with the articles of the agreement which foresee this possibility, the State renounced on the remuneration of its term deposit for the financial year 2003. An equivalent income amounting to 4.9 million euros (10.5 million euros as at 31 December 2002) is recorded under "Other income" in order to reinforce BCL's own funds.

## Note 15 - Liabilities to non-euro area residents denominated in euros

This item includes current accounts held by central banks, international and supranational institutions and other account holders outside the euro area.

## Note 16 - Liabilities to non-euro area residents denominated in foreign currency

This item includes current accounts in foreign currency held by central banks outside the euro area.

## Note 17 - Counterpart of special drawing rights allocated by the IMF

The amount shown under this caption represents the counter value of SDR, converted to euro at the same rate as applied to the SDR assets, which should be returned to the IMF if SDR are cancelled, if the SDR Department established by the IMF would be closed or if Luxembourg would decide to withdraw from it. This liability, of unlimited duration, amounts to SDR 17.0 million, or 20.0 million euros (SDR 17.0 million, or 22.0 million euros as at 31 December 2002).

## Note 18 - Intra-Eurosystem liabilities

### 18.1 Net liabilities related to the allocation of euro banknotes within the Eurosystem

This item consists of the liabilities of the BCL towards the Eurosystem in relation to the allocation of euro banknotes within the Eurosystem.

## Note 19 - Items in course of settlement

This item contains mainly the counterpart of the euro banknotes ordered by credit institutions as at 31 December which were not yet put into circulation on that date.

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### Note 20 - Other liabilities

This item comprises mainly the negative revaluation differences on financial instruments linked to interest rates and market prices, accrued interest, of which accrued interest on intra-Eurosystem liabilities, as well as miscellaneous expenses payable, of which suppliers, and the Luxembourg banknotes not yet returned.

### Note 21 - Provisions

Provisions developed as follows:

	2003 EUR	2002 EUR
Provisions for banking risks	239 651 570	183 785 756
Provisions for pensions	65 342 291	59 045 736
Other provisions	684 472	532 013
	<b>305 678 333</b>	<b>243 363 505</b>

#### 21.1 Provisions for banking risks

Provisions for banking risks include the following items:

	2003 EUR	2002 EUR
<b>Provisions for specific banking risks</b>		
Provision covering credit risk	87 236 373	63 990 305
Provision covering operational risk	14 000 000	14 400 000
Provision covering liquidity risk	9 826 033	7 907 276
Provision covering interest rate risk	200 000	200 000
	<b>111 262 406</b>	<b>86 497 581</b>

	2003 EUR	2002 EUR
<b>Provisions for general banking risks</b>		
Provision for liabilities resulting from monetary agreements	35 324 827	35 324 827
Other provision for general banking risks	93 064 337	61 963 348
	<b>128 389 164</b>	<b>97 288 175</b>
	<b>239 651 570</b>	<b>183 785 756</b>

#### 21.1.1 Provision covering credit risk

The provision for 87.2 million euros (64.0 million euros as at 31 December 2002) corresponds to:

- 4% of the BCL's own securities portfolio valued at market price as at 31 December 2003 (portfolio affected to monetary policy operations if necessary and structural portfolio) and participations other than the participating interest in the ECB;
- 4% of the total amount lent by the Eurosystem as at year-end for monetary policy reasons multiplied by the capital key corresponding to BCL (0.1842%).

#### 21.1.2 Provision covering operational risk

This provision is intended to cover the risk of losses resulting from the inadequacy or the default of procedures and processes, and relating to human factor or external causes. Because of a lack of relevant statistics on the measure of risk, the transfer to this provision is based on the Basic Indicator Approach described by the consultative working-paper of the Basle Committee as being 15% of the net banking product.

### 21.1.3 Provision for liabilities resulting from monetary agreements

The provision for liabilities resulting from monetary treaties was initially created in 1984 by the Institut Monétaire Luxembourgeois (IML) together with the Ministry of Treasury to be able to face any future monetary liabilities.

### 21.1.4 Other provision for general banking risks

For prudence's sake and to safeguard its assets, BCL has transferred 31.1 million euros (58.9 million euros for the financial year 2002) to the provision for general banking risks to cover any inherent risks related to central bank activities.

## 21.2 *Provisions for pensions*

Provisions for pensions include the following items:

	2003 EUR	2002 EUR
Provision for pensions	62 678 000	57 087 000
Provision for equalisation and financial risks	850 252	850 252
Provision for increase of PBO	1 814 039	1 108 484
	<b>65 342 291</b>	<b>59 045 736</b>

### 21.2.1 Provision for pensions

The pensions claims of its agents are fully supported by the BCL. The corresponding liability is calculated on the basis of the actuarial method described in note 2.11 in consideration of current factors and amounts to 62.7 million euros as at 31 December 2003 (57.1 million euros as at 31 December 2002).

The increase of the provision during the year results from:

- monthly withdrawals on the gross salaries of BCL employees (employee's part) and the employer's part;
- periodic transfers from the account "Booking reserve of the pension fund" to adjust the account "Provision for pensions" to its actuarial value;
- a transfer for the year 2003 to adjust the account "Provision for pensions" to its actuarial value.

During the year 2001 and according to article 35 paragraph 4(c) of its institutional law, BCL operated a unique transfer from its reserves in order to adjust the pension fund to the required amount as at 31 December 2001. In addition, article 35 paragraph 4(a) of the same law indicates that "the Luxembourg pension offices that received contributions from persons that are or become BCL agents, pay these amounts to BCL's pension fund".

As of today, the Luxembourg pension funds did not fulfil their obligations mentioned in article 35 paragraph 4(a). Consequently, the unique transfer from the reserves in 2001 for 33.8 million euros was determined without considering the claim on the pension funds, which will be used for the reconstitution of the reserves.

### 21.2.2 Provision for equalisation and financial risks

A provision of 3 million euros for equalisation and financial risks has been created in 2001 to cover fluctuations in the pension fund's liabilities in the beginning years and/or to compensate for a lower return on assets. During the year 2002, an amount of 2.1 million euros has been used. The provision did not change in 2003.



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### 21.2.3 Provision for increase of PBO

The provision of 1.8 million euros is based on the average expense in relation with pensions, infirmity and death for agents already being part of BCL personnel or included in the budgeted figures of 2003 but not included in the pension fund's liabilities calculation as at 31 December 2003. The liability ("Projected Benefit Obligation" or "PBO") equals the potential payments at their present value considering individual parameters and the actuarial method used. During the year 2003, an amount of 0.7 million euros has been transferred to cover BCL's increased pension liabilities resulting from the recruitment of 6 new agents.

### Note 22 - Revaluation accounts

This item includes positive revaluation differences related to the spread between the exchange rate as at year-end and the average exchange rate of BCL's currency and gold positions, as well as positive revaluation differences related to the spread between the market value as at year-end and the amortised cost for securities positions.

### Note 23 - Capital and reserves

#### 23.1 Capital

The State of Luxembourg is the unique shareholder of the BCL's capital which is fixed at 25 million euros (25 million euros as at 31 December 2002).

#### 23.2 Reserves

The reserves amount to 114.7 million euros (109.7 million euros as at 31 December 2002). This amount has been increased by 5.0 million euros during the year following the allocation of profit of the year 2002 according to the decision of the BCL's Council and its institutional law (article 31).

### Note 24 - Custody deposits

This item includes the securities given into custody by Luxembourg financial institutions to cover their liabilities related to refinancing operations, marginal lending facilities and intra-day credits.

This caption also includes the securities given into custody in Luxembourg and used as a guarantee by commercial banks incorporated in other member states according to the agreement "Correspondent Central Banking Model" ("CCBM"). This agreement allows commercial banks to obtain funding with their country of residence's central bank by using the securities held in another member state as a guarantee.

As at 31 December 2003, the market value of these securities amounts to 106.4 billion euros (87.1 billion euros as at 31 December 2002).

### Note 25 - Commitments and similar instruments

This item corresponds to the guarantee issued by BCL for the project "Night Time Link". This liability is guaranteed by assets received in custody for the same amount.

### Note 26 - Foreign currency reserve assets administrated on behalf of the ECB

This caption includes the foreign currency reserves at market value that have been transferred to the ECB in January 1999 and are managed by BCL on behalf of the ECB. These reserves are shown under asset item "Claims related to the transfer of foreign reserves".

### Note 27 - Forward contracts

BCL is engaged in bond and stock index futures. These instruments are mainly held for hedging purposes of interest rate risks related to the securities portfolio.

As at 31 December 2003, the total liabilities related to these forward contracts amount to 43.4 million euros (410.6 million euros as at 31 December 2002). One security has been given as a guarantee in order to cover the initial margin deposit. This security remains on the balance sheet of BCL for an amount of 5.3 million euros as at 31 December 2003 (3.5 million euros as at 31 December 2002).

## Note 28 - Net interest income

This item includes interest income, after deduction of interest expense, on assets and liabilities in currency and in euros. Interest income and expense are detailed as follows:

### Composition of interest income

	Amounts in foreign currency EUR		Amounts in euros EUR	
	2003	2002	2003	2002
IMF	2 262 546	2 928 216	-	-
Monetary policy	-	-	542 844 349	658 390 717
Claims related to the reallocation of euro banknotes in the Eurosystem	-	-	-	3 601 306
Intra-Eurosystem claims	-	-	6 870 656	3 662 707
Securities	331 513	-	57 424 382	39 092 983
Gold	402 602	393 544	-	-
Other	100 226	23	150 299	178 484
<b>Total</b>	<b>3 096 887</b>	<b>3 321 783</b>	<b>607 289 686</b>	<b>704 926 197</b>

### Composition of interest expense

	Amounts in foreign currency EUR		Amounts in euros EUR	
	2003	2002	2003	2002
IMF	343 789	514 552	-	-
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	-	159 682 971	240 169 924
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	-	281 518 341	102 062 893
Other Intra-Eurosystem liabilities	-	-	65 299 502	252 290 832
Interests on term deposits	-	-	4 863 958	10 530 938
Other liabilities	7 930	-	713 961	1 169 956
<b>Total</b>	<b>351 719</b>	<b>514 552</b>	<b>512 078 733</b>	<b>606 224 543</b>

## 4. THE BCL AS AN ORGANISATION

### Note 29 - Write-downs on financial assets and positions

This item includes revaluation losses on foreign currencies for 5.5 million euros, on securities for 0.9 million euros and on financial instruments linked to interest rates and market prices for 0.1 million euros (0 euros, 3.1 million euros and 1.8 million euros respectively in 2002).

### Note 30 - Transfer to/from provisions for foreign exchange rate and price risks

This caption includes the transfers to and from provisions for banking risks.

### Note 31 - Net result from fees and commissions

Fees and commissions income and expense are detailed as follows:

	Fees and commissions income		Fees and commissions expense	
	EUR		EUR	
	2003	2002	2003	2002
Securities	6 262 926	5 351 425	6 870 605	5 846 379
Others	261 349	181 859	191 864	263 996
<b>Total</b>	<b>6 524 275</b>	<b>5 533 284</b>	<b>7 062 469</b>	<b>6 110 375</b>

### Note 32 - Income from participating interest

This item includes the dividend of 1.1 million euros distributed by the European Central Bank for the year 2002 (2.7 million euros for the year 2001).

In 2003, the ECB's income on euro banknotes in circulation amounting to 698 million euros (606 million euros in 2002) was fully retained by the ECB in accordance with a decision of the Governing Council and in view of the ECB 2003 result (in 2002, 1.1 million euros had been retro ceded to the BCL).

### Note 33 - Net result of pooling of monetary income

From 2003 onwards, the amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income that derives from the earmarkable assets held against its liability base. The liability base consists of the following items:

- banknotes in circulation;
- liabilities to credit institutions related to monetary policy operations denominated in euros;
- net intra-Eurosystem liabilities resulting from TARGET transactions;
- net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem.

Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

The earmarkable assets consist of the following items:

- lending to euro area credit institutions related to monetary policy operations denominated in euros;
- intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB;
- net intra-Eurosystem claims resulting from TARGET transactions;
- net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem;
- a limited amount of each NCBs' gold holdings in proportion to each NCB's capital key.

Gold is considered to generate no income.

Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying to the value of the difference the average rate of return on the earmarkable assets of all NCBs taken together.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed capital key (0.1842% for the BCL).

Calculation of net monetary income allocated to the BCL for the financial year 2003:

(in million euros)	
- Monetary income pooled by BCL	32.9
- Monetary income reallocated to BCL	14.3
Net result arising from the calculation of monetary income	18.6

#### Note 34 - Other income

Other income includes revenues for 4.9 million euros (10.5 million euros for 2002) that reflect the renunciation by the State of Luxembourg on the interests due for 2003 on its term deposit with BCL (see also note 14.1). This item also includes revenues for services rendered to third parties, transfers from administrative provisions and income from numismatic activities.

#### Note 35 - Staff costs

This item includes the salaries and compensations as well as the employer's part of the contributions to the pension and social security regimes. The compensations paid to the Directors amount to 440 366 euros for the year 2003 (424 389 euros for the year 2002).

As at 31 December 2003, BCL's personnel amounts to 200 agents (204 as at 31 December 2002). The average number of persons working for BCL from 1 January to 31 December 2003 amounted to 201 agents (194 for the year 2002).

#### Note 36 - Administrative expenses

This caption includes all general and recurring expenses, meaning rents, cleaning and reparations of buildings and equipment, small goods and materials, fees paid and other services and furniture as well as recruitment expenses. The compensations paid to the members of the Council amount to 66 147 euros in 2003 (58 397 euros in 2002).

#### Note 37 - Depreciation of tangible and intangible fixed assets

This item shows the depreciation applied on buildings, renovations on buildings, furniture and office equipment, computer hardware and software.

#### Note 38 - Banknote production services

This caption shows mainly the costs related to the production and issue of banknotes denominated in euros.

#### Note 39 - Other expenses

The bulk of other expenses are related to the transfer to the administrative provisions.

## 4. THE BCL AS AN ORGANISATION

### Note 40 - Post balance sheet events

In accordance with Article 29.3 of the ESCB Statute, the key of NCBs for subscription of the ECB's capital shall be adjusted every five years. The first quinquennial change took effect on 1 January 2004.

On 1 May 2004 a second change of the ECB's capital key will occur, as a result of the accession of 10 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 ECB, the capital keys of NCBs were adjusted as follows:

	Key for subscription of the ECB's capital (in %)	
	from 1 January 1999 until 31 December 2003	from 1 January 2004 until 30 April 2004
Banque nationale de Belgique	2.8658	2.8297
Deutsche Bundesbank	24.4935	23.4040
Bank of Greece	2.0564	2.1614
Banco de España	8.8935	8.7801
Banque de France	16.8337	16.5175
Central Bank and Financial Services Authority of Ireland	0.8496	1.0254
Banca d'Italia	14.8950	14.5726
Banque centrale du Luxembourg	0.1492	0.1708
De Nederlandsche Bank	4.2780	4.4323
Oesterreichische Nationalbank	2.3594	2.3019
Banco de Portugal	1.9232	2.0129
Suomen Pankki - Banque de Finlande	1.3970	1.4298
<b>Subtotal Eurosystem</b>	<b>80.9943</b>	<b>79.6384</b>
Danmarks Nationalbank	1.6709	1.7216
Sveriges Riksbank	2.6537	2.6636
Bank of England	14.6811	15.9764
<b>Subtotal non-euro area NCBs</b>	<b>19.0057</b>	<b>20.3616</b>
<b>Total</b>	<b>100.0000</b>	<b>100.0000</b>

On 1 January 2004, the capital key share of BCL increased by 0.0216% to 0.1708%. Consequently, asset item "Participating interest in the ECB" increased by 1.1 million euros to 8.5 million euros as a result of the additional capital contribution that was transferred to the ECB.

The adjustments to the capital key weightings and the resulting changes in the euro area NCBs' shares in the ECB's subscribed capital also make it necessary to adjust the claims which the ECB has credited to the euro area NCBs and which are equivalent to those NCBs' respective contributions of foreign reserve assets to the ECB. In order to reflect its increased capital key share, the euro-denominated claim of BCL with respect to the foreign reserve assets transferred to the ECB increased by 10.8 million euros to 85.4 million euros as at 1 January 2004.

From 1 May 2004 onwards, the subscribed capital of the ECB and the limit on the amount of foreign reserve assets that may be transferred to the ECB shall be automatically increased upon one or more countries becoming Member States and their respective national central banks becoming part of the ESCB.

