

Chapter 4	THE BCL AS AN ORGANISATION	97
4.1	Structure of the BCL	97
4.1.1	The Council and the Audit Committee	97
4.1.2	The Board of Directors	97
4.1.3	Supervisory mechanisms	97
4.1.4	Financial reports, annual accounts and annual budget	98
4.1.5	Corporate governance	98
4.2	The BCL staff	99
4.2.1	Quantitative evolution	99
4.2.2	Human resources management	100
4.2.3	Staff training	100
4.2.4	The Pension Fund	100
4.3	Facilities	102
4.4	Accounting and the Budget	102
4.4.1	Accounting and Finance	102
4.4.2	Budget	103
4.5	The internal audit activities	104
4.6	Financial statements as at 31 December 2006	104
4.6.1	Key figures as at year-end (in euro unless otherwise indicated)	104
4.6.2	Report of the Independent Auditor	105
4.6.3	Balance sheet as at 31 December 2006	106
4.6.4	Off-balance sheet as at 31 December 2006	108
4.6.5	Profit and loss account for the year 2006	108
4.6.6	Notes to the financial statements as at 31 December 2006	109
Chapter 5	ANNEXES	123
5.1	List of BCL circulars published in 2006	123
5.2	BCL Publications	123
5.3	Statistics series of the BCL	124
5.4	List of abbreviations	126
5.5	Glossary	127



Artist: Lucien Wercollier
Title: Fraternité
Material: marble
Format : height 136 cm
BCL Collection

4. THE BCL AS AN ORGANISATION

4.1 STRUCTURE OF THE BCL

4.1.1 The Council and the Audit Committee

The Council

Article 6 of the Founding Law of 23 December 1998 defines the powers of the Council of the Bank. In 2005, the Council consisted of the following members:

- Governor: Yves Mersch
- Members: Andrée Billon
Jean Hamilius
Pit Hentgen
Mathias Hinterscheid
Serge Kolb
Patrice Pieretti
Jacques F. Poos (as from 6 July 2006)
Nico Reyland (until 1 June 2006)
Michel Wurth

The government appointed Mr Jacques F. Poos as a new member replacing Mr Nico Reyland at the term of his mandate. The mandate of Mr Michel Wurth was renewed for a another six-year period.

During 2006, the Council held five meetings. Within the framework of monitoring the financial situation of the Bank, the Council approved the financial accounts as per 31 December 2005, the budgetary trends and subsequently, the budget and the organisation chart of the Bank for the 2007 financial exercise.

The Council also observed and commented on economic and financial developments on a national and international basis and was kept informed of the decisions taken by the Governing Council of the ECB, concerning for instance the future of the national payment systems.

Within the framework of the state budget procedure, the BCL has given an opinion to the Financial Commission of the Chamber of Deputies. The draft opinion was previously presented to the members of the Council for their comments.

The Audit Committee

Created by the Council in 2001, the Audit Committee's objective is to assist the Council in its choice of the statutory auditor to be proposed to the Government, in specifying the scope of the potential specific controls to be performed by the statutory auditor and in the approval of the financial accounts by the Council. It is kept informed on the internal audit plan. It may invite the head of the internal audit unit and the statutory auditor of the Bank to participate in its work.

At its meeting on 14 December 2006, the Council renewed the mandates of the non-executive members of the Audit Committee for 2006: Messrs Pit Hentgen, Mathias Hinterscheid and Jacques F. Poos. Mr Yves Mersch is an *ex officio* member in his function as Governor of the Council. The Audit Committee is chaired by Mr Pit Hentgen.

The Audit Committee held three meetings in 2006.

4.1.2 The Board of Directors

The Board of Directors is the superior executive authority of the BCL. It takes the decisions and draws up the measures necessary for the Banque centrale du Luxembourg to carry out its tasks.

Without prejudice to the independence of the Director-General with regard to all instructions in his capacity as a member of the Governing Council of the ECB, the decisions of the Board of Directors shall be taken collectively.

The Board of Directors consists of a Director-General and two Directors:

Director-General: Yves Mersch
Directors: Andrée Billon et Serge Kolb

4.1.3 Supervisory mechanisms

Various supervisory mechanisms have been set up by the BCL in order to ensure the efficient functioning of its operations in a secure environment and while respecting its budget allocations.

Internal supervisory mechanisms

The BCL's internal supervisory system is based on general rules and regulations, which are widely accepted as standards by the financial sector, and it also takes the BCL's specific needs as a central bank into consideration. The principles of internal supervision and the assignment of various responsibilities in this area are laid down in internal circulars and in the Bank's handbook of procedures.

An initial internal supervisory system concerning the general management of the BCL has been put in place by the Board of Directors. The senior management of the BCL and their staff are responsible for the proper functioning of this supervision. Some functional checks are carried out by specific administrative units, ensuring a separation of the tasks to be carried out by the BCL.

The management of financial risks is performed by the organisation and risk unit, which tracks all the portfolio

4. THE BCL AS AN ORGANISATION

positions of the BCL on a daily basis, independently of the front office. Daily reports on movements in portfolio positions that affect performance and risk exposure are sent to staff specialists and heads of unit.

The BCL's strategic orientations are defined on the basis of performance measurement according to the Balanced Scorecard method and of the principles laid out in the *Positionnement de la Banque*, a document describing the Bank's positioning which has been approved by the Council and published on the BCL's website.

In order to obviate any risk of money laundering, a compliance officer has been supervising the BCL's banknote and coin transactions in the interest of the general public and of professionals of the financial sector since 2005.

A second level of internal supervision is provided by the internal audit unit, which analyses and evaluates on the basis of predefined objectives and a precise methodology the appropriateness and efficiency of the existing supervision. Internal audit is a supervisory unit independent of the BCL's other administrative units and it reports directly to the Governor.

The head of internal audit may also be involved in the work of the Audit Committee. Generally speaking, the internal audit unit pursues the objectives and follows the reporting procedure of the ESCB.

External supervisory mechanisms

An initial external supervision of the BCL's activities, namely the checking of its accounts, is carried out by the Bank's independent external Auditor, who is nominated yearly in a proposal sent by the Council of the Bank to the government. At the request of the Council, the independent Auditor carries out specific complementary checks and analyses during the year. At the European level, the Auditor of the Bank is approved by the Council of Ministers upon the recommendation of the Governing Council of the ECB. In this context, the Auditor is given responsibility for particular tasks with regard to the Eurosystem.

The Statute of the ESCB and of the ECB states that the central banks shall act in accordance with the guidelines and instructions of the ECB. The Governing Council of the ECB monitors the compliance with those provisions at the European level and may also request additional information.

4.1.4 Financial reports, annual accounts and annual budget

A copy of the Bank's financial reports, annual accounts and annual budget, as approved by the Council of the Bank, are presented to the government and the Chamber of Deputies. The government in Council has to decide whether to grant discharge to the BCL's decision-making bodies. This decision does not call into question the duties of the Bank within the ESCB and is taken without prejudice to the independence of the BCL vis-à-vis the government. The annual accounts and the decision granting discharge to the BCL's decision-makers are published in the *Mémorial*.

4.1.5 Corporate governance

The BCL has established a code of conduct, which defines internal and external rules of conduct applicable to all its staff. Without prejudice to public service law, social legislation or pre-existing contractual obligations, the code of conduct provides for ethical standards based on nondiscrimination, solidarity, efficiency and independence which are to be strictly observed by all staff members. Moreover, certain staff members with special responsibilities are subject to particular provisions of the code of conduct.

The ECB has required, since 2002, that all members of the Governing Council observe a code of conduct which lays down the highest standards of professional ethics. The members are expected to act honestly, independently, impartially, with discretion and without regard to self-interest and to avoid any situation liable to give rise to a personal conflict of interests. They must continue to abide by these standards for one year after leaving office.

The code has been revised at the end of 2006. With regard to the principle of independence, Governors may no longer accept benefits exceeding 200 € outside the scope of the ESCB. Participation in conferences, receptions or other events are subject to clear conditions. Governors should carefully handle personal invitations and their spouses or partners behave according to accepted standards in international relations.

4.2 The BCL staff

4.2.1 Quantitative evolution

During 2006, the BCL staff slightly increased by 2.46 % to reach a total of 208 members of staff on 31 December 2006 (including Executive Board members), equivalent to 193 full time positions and representing a 0.26 % increase compared to 2005. Staff members are of nine different nationalities, thus contributing to the diversity of the human capital and to its cultural enrichment.

On December 31, 2006, twenty-three staff members worked part-time:

- Part-time work (50%): 7 staff members
- Part-time work (75%): 6 staff members
- Leave for part-time work: 10 staff members

Finally, three staff members were on part-time parental leave and two staff members were on special leave.

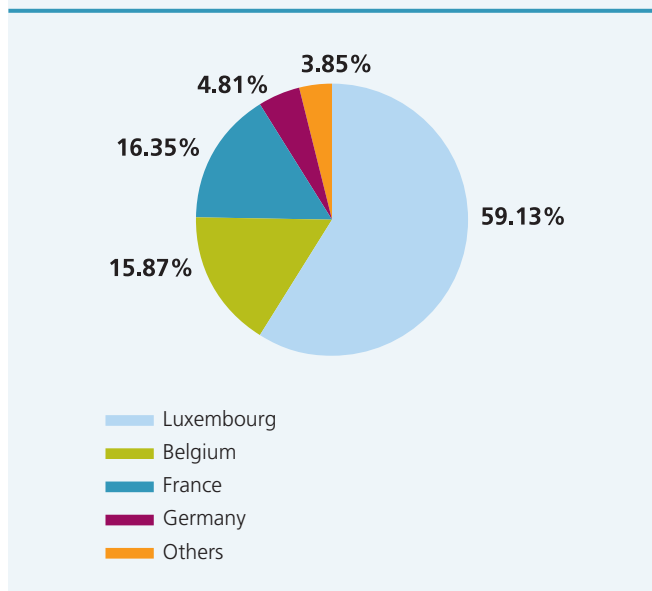
The average number of staff members working at the BCL in 2006 was of 206.5, compared to 205.5 in 2005.

The overall approved headcount ceiling for the year 2006 was of 214 full time equivalent positions. This ceiling was put up to 217 full time equivalent positions for the year 2007.

During 2006, nine staff members have left the bank; one of them enjoying his pensioning off. On the other hand, there have been fourteen new staff members joining the bank during 2006. The BCL received 294 spontaneous job applications and 193 applications for internships or student jobs.

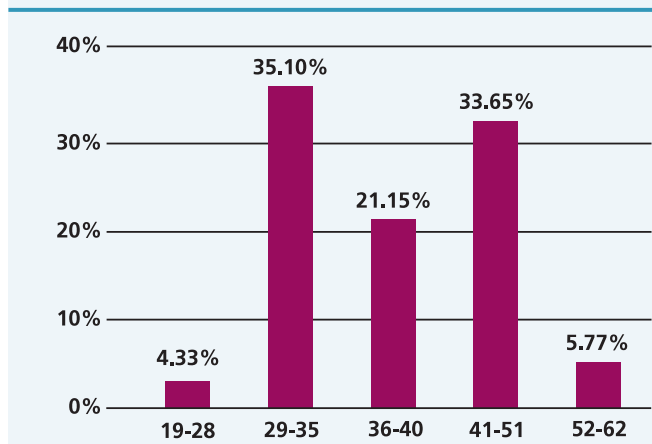
The BCL offered internships for a period from six weeks to two months to eleven students attending university studies in relation with the bank's activities and furthermore, an internship of one year within the Monetary, Economic and Statistics Department to one PhD registered student.

CHART 1: STAFF MEMBERS BY NATIONALITY



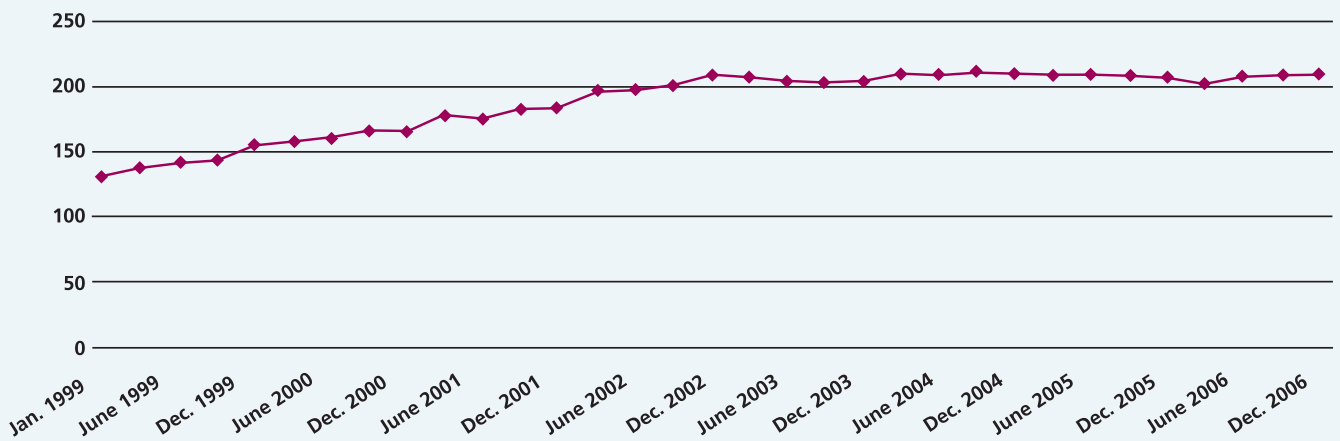
The average age of BCL staff members has slightly increased from 38,47 years in 2005 to 38,76 years on December 31, 2006. On that date, the staff counted 34% females and 66% males.

CHART 2: DISTRIBUTION OF STAFF MEMBERS PER AGE GROUP



4. THE BCL AS AN ORGANISATION

CHART 3: EVOLUTION IN STAFF NUMBERS SINCE 1 JANUARY 1999



4.2.2 Human resources management

In the framework of the human resources management tasks which had been identified in the action plan elaborated by the end of 2005, the year 2006 has focused on the elaboration of a new organizational structure for the bank and a provisional table of the resources allocated to every operational unit, deriving from the reorganization. In this context, and in accordance with the objectives to be reached within the scope of the development opportunities for staff members, staff members had been encouraged to express either their interest for a job vacancy or their wish for internal mobility to another administrative unit within the bank. The applications received had been carefully analyzed and the final allocation of human resources regarding the organizational structure will be decided at the beginning of the year 2007.

At the same time as this new organizational structure was elaborated, concrete considerations have been conducted in the context of a much more active human resources management. Actually, several opportunities potentially exploitable leading to such an active management have been identified. So, a special importance was laid on the notion of performance measurement of staff members in the context of career development. During 2007, these opportunities will be subjected to a critical examination in order to lead to a human resources management policy.

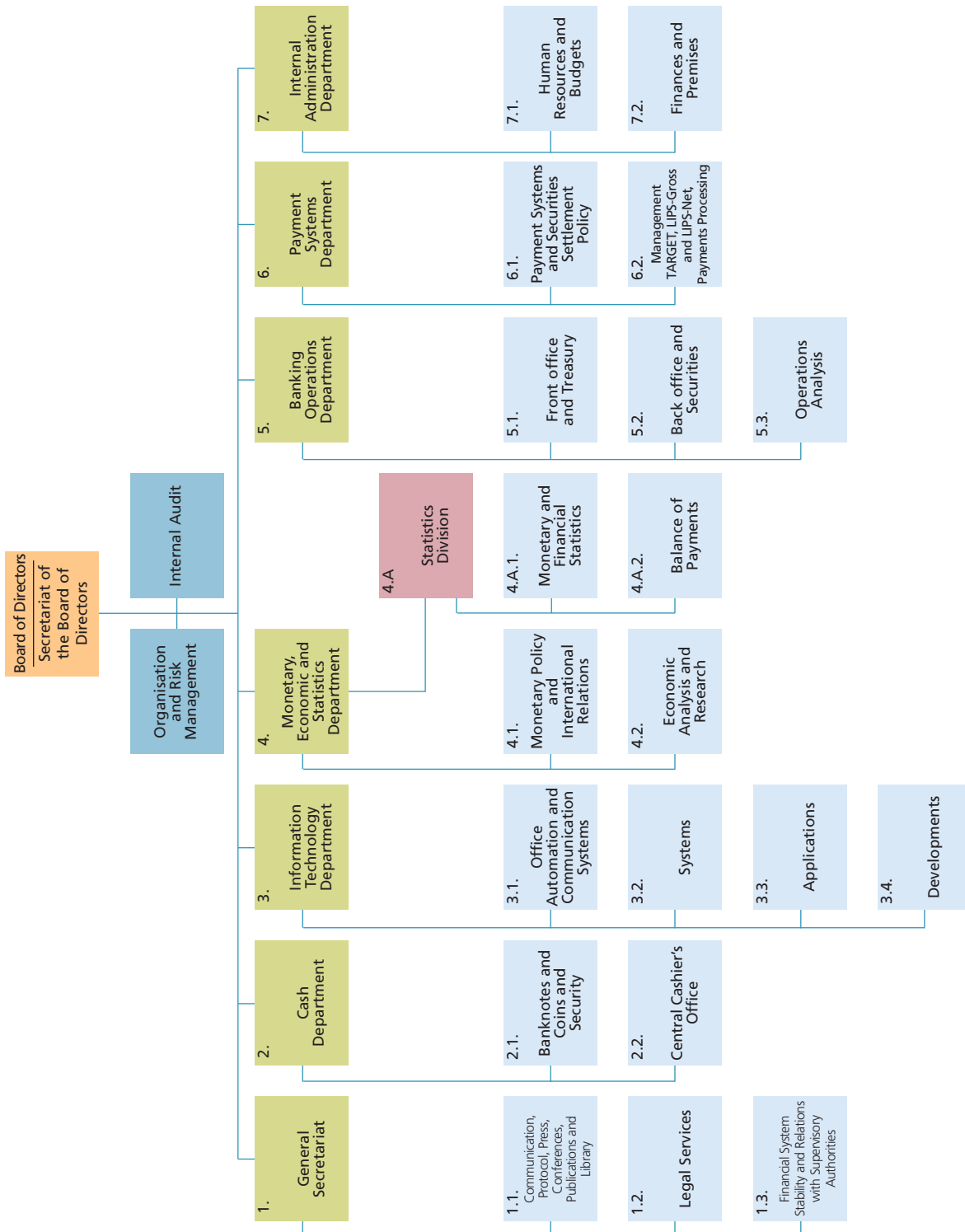
4.2.3 Staff training

Conscious of the importance of training for the staff members' personal development, as well as of its priority granted within the Banque centrale du Luxembourg, the BCL is willing to pursue its efforts in this context:

- In the framework of a more and more complex professional environment, training represents an essential part in all policy aiming at developing the knowledge and the competence of staff members. The BCL's training policy enables them to keep a high level of professional competence by ensuring the appropriateness between the staff members' competences and the bank's requirements. In order to consolidate these professional competences, all staff members are encouraged, beside a basic training program that all newly recruited staff members have to attend, to take part in external training sessions, especially those organized by other national central banks within the ESCB.

- Moreover, an attractive training policy can also play an important part as regards maintaining and attraction of high potential staff members. For this reason, training is considered as an investment in the future of the bank which intends to place itself as a centre of competence, or even excellence, whose performance generates the public's confidence.

The BCL's organisation chart



4. THE BCL AS AN ORGANISATION

4.2.4 The Pension Fund

Article 14 of Founding Law of 23 December 1998 relating to the monetary status and the Banque centrale du Luxembourg provides that legal pension entitlements of BCL agents are determined by their status (i.e., civil servant, State employee, private employee or worker).

Paragraph 4(b) of this article provides that:

"The pensions of the Bank's agents shall be paid by the Bank. These costs shall be financed by a pension fund of the Bank. The pension fund shall be financed on the one hand by statutory deductions from agents' salaries in accordance with the rules governing the pension scheme corresponding to their status, on the other hand by contributions made by the Bank itself."

The BCL's pension fund, which started operating in 2001, is governed by a set of internal rules and two committees, one executive and one consultative. The executive committee is the Comité directeur composed of the BCL's Board of Directors, two elected representatives from the staff, two co-opted members acting as delegated managers and one member designated by the Staff Committee. The consultative committee is the Tactical Benchmark Committee.

Following the judgment of The Luxembourg Supreme Court of Justice, dated 20 April 2005, the Luxembourg pension funds have paid in the course of the first semester 2006 to the BCL's pension fund, in accordance with Article 35 of the Founding Law of 23 December 1998, the contributions they had received for all the agents in function as at 31 December 2005.

The Bank has met the representatives of social security bodies as well as civil servants and administrative coordination Administration. The aim is to reconcile the need for workers' mobility with the principles of financial independence of the Bank and its functional autonomy.

It has been agreed that a draft law amending the law of 28 July 2000 coordinating the different national pension schemes and any other texts dealing with individual pension rights and beneficiaries of the BCL's pension fund be prepared by the government department responsible for monitoring social security and submitted to the national legislator in order to insure the recognition of the BCL's pension fund as social security body.

Until now, the draft law is not yet available as articles not related to BCL's pension fund are still in debate.

4.3 Facilities

Works at the new premises located at 43, avenue Monterey, have been accomplished, at the end of 2006, in accordance with its budgetary and planning concept. The new building is operational since 1st of January 2007.

Concerning the bank's main building on boulevard Royal, the functioning of certain technical installations, notably the cogeneration, was upgraded to guarantee a satisfactory ratio of "return/consumption".

Preliminary works for the implementation of the waste management concept "SuperdrecksKëscht fir Betriiber" have been undertaken.

4.4 Accounting and the Budget

4.4.1 Accounting and Finance

BCL continued to strengthen its accounting system and its procedures in order to meet its internal quality standards and those of the Eurosystem. In 2006, booking of foreign currency operations were modified in the BCL's systems.

The Eurosystem requires the daily reporting of balance sheet data, according to harmonised rules.

The controlling systems in place proved to be effective during the year.

The accounting systems were adapted to take into account modifications related to banknotes and numismatic activities.

The Bank regularly checks the development of balance sheet, off-balance-sheet and profit and loss items. Investments, revenues and expenses are, in particular, closely monitored, with special attention paid to signing powers.

The cost accounting system gives an indication concerning costs and invoicing of services. The methodology follows the rules recommended by the Eurosystem. It consists of allocating BCL's operational expenses according to their destination, e.g. according to the respective sections and units, and it permits the costs of each of the Bank's activities to be determined. In 2006, projects on harmonising techniques with the Eurosystem were continued.

The monthly balance sheet of the Bank is published on its internet site.

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 and annually. These tables include all activities of the Bank.

The analysis of the profit and loss items is complemented by an analysis concerning the net profit 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 monitors within this framework 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 and of the economic situation.

The Bank's decision-making bodies are regularly informed of the results in order to be in a position to decide on the future directions and actions to be taken.

The asset/liability committee closely follows the risk exposure and the financial situation during the year, and, in particular, the risk resulting from the appropriateness of assets and liabilities. It checks the investment limits imposed by the balance sheet positions of the NCB and the ECB.

As per 1 January 2007, Bulgaria and Romania have joined the European System of Central Banks, and Slovenia acceded to the Eurosystem. Consequently, the BCL's key in those systems changed. The key in the European System of Central Banks changed from 0.1568% to 0.1575% and the key in the Eurosystem changed from 0.21933% to 0.22659%.

4.4.2 Budget

Every year in December, the BCL's Council approves the budget for the coming year. The 2006 budget was drawn up in accordance with the budgetary procedure which aims to manage the Bank's resources in a rational manner.

The budgetary orientations for the year 2006, which were approved by the Council, foresee that the structural charges shall not exceed the structural profits in order to ensure the financial balance of the accounts of the bank on a long term horizon. On the other hand, the non structural profits are added to the capital of the bank in order to increase the own funds of the Bank. The budgetary orientations for 2006 have been respected during the year.

The budget of the year 2006 included in particular a financial envelope allocated to cover the fees involved by the construction of the new Monterey building.

The operational costs for 2006 have stayed within the budgetary limit fixed by the Council.

The budget of the BCL reflects the corporate values of the Bank, which are:

- professionalism
- quality in the services provided
- stability ensured by a long-term perspective
- objectivity resulting from an indiscriminating application of precise rules
- integrity resulting from the transparency of its internal operations and the respect for professional ethics

As regards the budget for 2007, it reflects the implications of the reorganisation currently set up in the Bank.

4. THE BCL AS AN ORGANISATION

4.5 The internal audit activities

The main activity of the internal audit function is to implement the internal control system. The Internal Audit unit reports directly to the President of the Bank. The scope of the internal audit is the rules and regulations prevailing in the Luxembourg financial center, as well as by the standards promoted by the Institute of Internal Auditors (IIA) and the ESCB Audit Policy.

The Internal Audit unit is charged to follow-up the recommendations issued during its audit activities. Based on the annual internal audit plan, comprising audit tasks that are coordinated by the Internal Auditor's Committee of the ESCB, as well as audit engagements on a national level, the Internal Audit unit performed, during the year 2006, various reviews of the production and storage of euro banknotes, own funds management, accounting, payments systems, information systems as well as in the context of different projects.

4.6 Financial statements as at 31 December 2006

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 made under the responsibility of the Board of Directors. In case of differences between the French version and the translation, the French version is binding.

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

	2005	2006	Change in % 2006/2005
Total assets	43,907,910,680	52,445,571,857	19%
Banks' current accounts	6,810,321,790	9,741,868,456	43%
Claims on credit institutions	31,797,051,656	41,511,620,450	31%
Own funds⁽¹⁾, revaluation accounts administrative provisions and specific banking risks	531,760,240	583,121,841	10%
Net result of banking activities⁽²⁾	84,434,406	89,252,485	6%
Total net revenues	42,335,991	42,659,591	1%
Administrative expenses	29,236,695	30,181,332	3%
Net profit	2,601,176	7,309,279	181%
Cash Flow⁽³⁾	74,824,801	80,517,799	8%
Personnel	203	208	2%
BCL's part in the capital of the ECB	0.1568%	0.1568%	
BCL's part in the Eurosystem's monetary policy operations	7.832%	9.214%	

(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

(3) 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 accompanying financial statements of Banque centrale du Luxembourg, which comprise the balance sheet as per December 31, 2006, and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial accounts

The financial statements are the responsibility of the Directors and are approved by the Council. The Directors are responsible for the preparation and fair presentation of these financial statements, in accordance with generally accepted accounting principles and those defined by the European System of central banks. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the réviseur d'entreprises

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 as adopted by the Institut des réviseurs d'entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial accounts. The procedures selected depend on the judgment of the réviseur d'entreprises, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banque centrale du Luxembourg as of December 31, 2006, and of the results of its operations for the year then ended in accordance with generally accepted accounting principles and those defined by the European System of central banks.

DELOITTE S.A.

March 2, 2007

Réviseur d'entreprises

Pascal Pincemin

Vafa Moayed

Partner

Partner

4. THE BCL AS AN ORGANISATION

4.6.3 Balance sheet as per 31 December 2006

	Note	2006 EUR	2005 EUR
ASSETS			
Gold and gold receivables	3	35,923,514	32,207,057
Claims on non-euro area residents denominated in foreign currency	4	164,244,740	203,694,972
- Receivables from the IMF		47,085,746	63,001,000
- Balances with banks, security investments, external loans and other external assets		117,158,994	140,693,972
Claims on euro area residents denominated in foreign currency	5	37,207,591	31,704,438
Claims on non-euro area residents denominated in euro	6	1,301,410,536	1,037,748,672
- Balances with banks, security investments and loans		1,301,410,536	1,037,748,672
Lending to euro area credit institutions related to monetary policy operation denominated in euro	7	41,510,822,665	31,796,282,172
- Main refinancing operations	7.1	32,668,047,500	24,611,000,000
- Long-term refinancing operations	7.2	8,842,774,865	7,185,139,250
- Marginal lending facility	7.5	300	142,922
Other claims on euro area credit institutions denominated in euro	8	797,785	769,484
Securities of euro area residents denominated in euro	9	2,349,504,488	1,678,903,325
Intra-Eurosystem claims	10	5,314,683,608	7,876,701,417
- Participating interest in ECB	10.1	9,660,235	9,660,235
- Claims related to the transfer of foreign reserves	10.2	87,254,014	87,254,014
- Other claims within the Eurosystem	10.3	5,217,769,359	7,779,787,168
Items in course of settlement		35	180
Other assets	11	1,730,976,895	1,249,898,963
- Tangible and intangible fixed assets	11.1	66,243,324	62,072,621
- Other financial assets	11.2	1,500,684,573	1,034,432,666
- Off-balance sheet instruments revaluation differences		2,426,000	0
- Accruals and prepaid expenses	11.3	130,924,829	108,605,281
- Sundry	11.4	30,698,169	44,788,395
Total assets		52,445,571,857	43,907,910,680

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

Balance sheet as per 31 December 2006

	Note	2006 EUR	2005 EUR
LIABILITIES			
Banknotes in circulation	12	1,269,044,800	1.141,736,320
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	9,741,868,456	6,810,321,790
- Current accounts (covering the minimum reserve system)	13.1	9,741,868,456	6,810,321,790
Liabilities to other euro area residents denominated in euro	14	472,942,949	514,683,375
- General government	14.1	472,942,949	514,683,375
Liabilities to non-euro area residents denominated in euro	15	32,189,061	314,195,393
Liabilities to non-euro area residents denominated in foreign currency	16	37,757,173	47,455,312
Counterpart of special drawing rights allocated by the IMF	17	19,355,828	20,513,855
Intra-Eurosystem liabilities	18	39,811,803,645	34,202,831,350
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	18.1	39,811,803,645	34,202,831,350
Items in course of settlement	19	12,605,068	9,735,110
Other liabilities	20	387,451,120	237,388,936
- Off-balance sheet instruments revaluation differences		2,940,000	1,205,990
- Accruals and income collected in advance		343,796,110	190,360,110
- Sundry		40,715,010	45,822,836
Provisions	21	461,392,192	412,064,679
Revaluation accounts	22	31,241,667	48,960,115
Capital and reserves	23	160,610,619	145,423,269
-Capital	23.1	25,000,000	25,000,000
- Reserves	23.2	135,610,619	120,423,269
Profit for the year		7,309,279	2,601,176
Total liabilities		52,445,571,857	43,907,910,680

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

4. THE BCL AS AN ORGANISATION

4.6.4 Off-balance sheet as per 31 December 2006

	Note	2006 EUR	2005 EUR
Custody deposits	24	189,738,667,501	145,773,541,714
Commitments and similar instruments	25	1,700,000,000	1,900,000,000
Foreign currency reserve assets managed on behalf of the ECB	26	117,520,445	92,352,754
Forward transactions	27	274,612,652	101,625,000
Numismatic collection		180,767	125,249
		191,830,981,365	147,867,644,717

4.6.5 Profit and loss account for the year 2006

	Note	2006 EUR	2005 EUR
Interest income	28	1,378,860,061	868,636,311
Interest expense	28	(1,276,252,841)	(779,311,460)
Net interest income	28	102,607,220	89,324,851
Realised gains / (losses) arising from financial operations	29	4,954,221	10,643,464
Write-downs on financial assets and positions	30	(18,874,943)	(15,693,001)
Transfer to/from provisions for foreign exchange rate and price risks	21, 31	(54,336,253)	(46,032,505)
Net result of financial operations, write-downs and risk provisions		(68,256,975)	(51,082,042)
Fees and commissions income	32	11,605,170	9,723,673
Fees and commissions expense	32	(11,039,183)	(9,564,581)
Net result from fees and commissions	32	565,987	159,092
Income from participating interest	33	-	-
Net result of pooling of monetary income	34	(12,450,016)	(10,394,032)
Other income	14.1, 21.3, 35	20,193,375	14,328,122
Total net income		42,659,591	42,335,991
Staff costs	36	(19,751,606)	(18,753,866)
Other administrative expenses	37	(7,295,424)	(8,233,361)
Depreciation of tangible and intangible fixed assets	11.1, 38	(5,118,980)	(5,296,464)
Banknote production services	39	(840,406)	(714,270)
Other expenses	40	(2,343,896)	(6,736,854)
Profit for the year		7,309,279	2,601,176

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

4.6.6 Notes to the financial statements as per 31 December 2006

Note 1 - General

The Banque centrale du Luxembourg ("BCL") was founded in accordance with the law of 22 April 1998. The Founding Law of 23 December 1998 stipulates that the main task of the BCL shall be to contribute to 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 Gold, assets and liabilities in foreign currencies

Assets and liabilities denominated in foreign currencies (including gold) are converted into euro at the exchange rate in force on the balance sheet closing date. Income and expenses 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 euro 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 are not considered in the profit and loss account, but transferred to a revaluation account on the liabilities side of the balance sheet.

Unrealised losses are recognised in the profit and loss account when they exceed 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 are 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 are calculated and presented on a prorata basis as part of the interest positions 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 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".

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 during a reference period 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 to finally result in an allocation of income on banknotes 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 not be distributed in 2006. This income has been allocated, in the ECB's accounts, to a provision for foreign exchange rate, interest rate and gold price risks.

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 from 1 January 1999, after the entry into force of the Founding Law of 23 December 1998, the pension claims of the BCL's staff members are fully supported by the BCL. The pension fund aims to cover the risks related to ageing, infirmity and survival, was set up in 2000. The actuarial method for determining the BCL's liabilities towards its agents was approved by the pension fund's Management Committee as at 12 February 2001.

The actuarial method determines the pension fund's liability related to ageing, 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 60 years as well as on 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 provision increases as a result of regular transfers by the agents and by the BCL, as employer. 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 cases where transfers are insufficient to cover the BCL's pension liabilities, the difference between the existing provision and the effective claim is covered by a special transfer to be supported by the BCL.

2.12 Provision for banking risks

The BCL's provision policy is intended to cover specific and general risks resulting from the Bank's activities.

Note 3 - Gold and gold receivables

As of 31 December 2006, BCL held 2,423.88 ounces of fine gold amounting to 1.2 million euro (2,063.73 ounces of fine gold amounting to 0.9 million euro as at 31 December 2005) and a top-rated gold bond issued by the International Bank for Reconstruction and Development purchased in 2002 and valued at 34.7 million euro (31.3 million euro as at 31 December 2005).

On the balance sheet date, gold is valued on the basis of the euro price per fine ounce derived from the quotation in US-dollars established at the London fixing on 29 December 2006.

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

	2006 EUR	2005 EUR
Receivables from the IMF	47,085,746	63,001,000
Balances with banks, security investments, external loans and other external assets	117,158,994	140,693,972
	164,244,740	203,694,972

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) are made up of reserve tranche position and SDR holdings. SDR are reserve assets created ex nihilo by the IMF and allocated by it to its members. A country's SDR holdings initially amount to the SDR allocated. Afterwards, SDR holdings are subject to fluctuations as a result of encashments and transactions with others SDR holders. The reserve tranche position corresponds to the net amount of the quota and the IMF's currency holding and takes into account the re-evaluation of the general account.

4. THE BCL AS AN ORGANISATION

- balances held on accounts with banks outside 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 US-dollar securities portfolio which could be used, if needed, for monetary policy operations.

This portfolio, which is valued at 115.3 million euro as per 31 December 2006 (71.7 million euro as at 31 December 2005), only contains government bonds and top-rated bonds issued by international and supranational institutions denominated in US-dollars. Securities are valued at market prices. As per 31 December 2006, their value at market prices included an unrealised gain amounting to 0.3 million euro (unrealised loss amounting to 0.4 million euro as per 31 December 2005).

Balances with banks amounted to 1.9 million euro as per 31 December 2006 (68.9 million euro as per 31 December 2005).

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

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

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

	2006 EUR	2005 EUR
Balances with banks	10,959,298	6,711,897
Security investments	1,290,451,238	1,031,036,775
	1,301,410,536	1,037,748,672

This item contains balances held on accounts with banks outside the euro area as well as securities, loans and other euro-denominated assets issued by non-residents of the euro area.

This portfolio only contains government bonds and first rated bonds issued by companies outside the euro area denominated in euro. Securities are valued at market prices. As per 31 December 2006, their value at market prices included an unrealised loss amounting to 15.5 million euro (unrealised loss amounting to 14.2 million euro as per 31 December 2005).

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

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:

	2006 EUR	2005 EUR
Main refinancing operations	32,668,047,500	24,611,000,000
Longer-term refinancing operations	8,842,774,865	7,185,139,250
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	300	142,922
Credits related to margin calls	-	-
	41,510,822,665	31,796,282,172

7.1 Main refinancing operations

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

7.2 Long-term refinancing operations

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

7.3 Fine-tuning reverse operations

This sub-item records open market operations carried out on a non-regular basis, intended primarily to meet unexpected fluctuations in market liquidity.

7.4 Structural reverse operations

These are open market operations carried out with the primary intention of bringing about a lasting change in the structural liquidity position of the

financial sector vis-à-vis the Eurosystem.
No such transactions were made during the year under review.

7.5 Marginal lending facility

This sub-item records a standing facility enabling counterparties to obtain 24-hour credit from the Bank at a pre-specified interest rate, against eligible collateral.

7.6 Credits related to margin calls

This sub-item records additional credit extended to credit institutions and resulting from the increase in the value of the securities pledged as collateral for other credits extended to these same institutions.

No such operation took place during the year just ended.

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

This item includes the BCL's current accounts and fixed-term deposits not related to monetary policy operation with credit institutions inside the euro area.

Note 9 - Securities of euro area residents denominated in euro

This item covers the BCL's portfolio in euro issued by residents of the euro area which could be used, if needed, for monetary policy operations. This amounted to 2,349.5 million euro as per 31 December 2006 (1,679 million euro as per 31 December 2005).

This portfolio only contains government bonds in euro 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 per 31 December 2006, their value at market prices included an unrealised loss amounting to 14.7 million euro (unrealised loss amounting to 16.2 million euro as per 31 December 2005).

Note 10 - Intra-Eurosystem claims

10.1 Participating interest in ECB

Pursuant to Article 28 of the ESCB Statute, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which are subject to adjustment

every five years. The first such adjustment following the establishment of the ECB took effect on 1 January 2004. On 1 May 2004 a second change of the ECB's capital key followed as a result of the accession of ten Member States.

As per 31 December 2006, the share that the BCL held in the capital of the ECB is 0.1568%, which amounts to 9,660,235 euro, on a total of subscribed capital of the ECB of 5.565 billion euro (no change compared to 31 December 2005).

The share that the BCL held in the accumulated net profits of the ECB reflects the repayment of 0.9 million euro by the ECB.

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. The claims are denominated in euro at a value fixed at the time of their transfer.

They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component.

As per 31 December 2006, the claim of the BCL amounts to 87,254,014 euro (no change compared to 31 December 2005).

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 the BCL and the other NCBs as well as the ECB. This claim amounts to 5.2 billion euro as at 31 December 2006 (7.8 billion euro as at 31 December 2005).

The net position vis-à-vis the ECB bears interest at the marginal interest rate applying to the main refinancing operations.

Note 11 - Other assets

11.1 Tangible and intangible assets

Tangible and intangible fixed assets developed as follows:

The sub-item "Buildings" comprises the acquisition cost of the premises located on the 2, boulevard Royal, the costs incurred in relation to the reconstruction

4. THE BCL AS AN ORGANISATION

	Buildings	Furniture and equipment	Software	Total
	EUR	EUR	EUR	EUR
Cost as per 1 January 2006	81,327,173	10,864,548	4,154,601	96,346,322
Disposals	-	(909,539)	-	(909,539)
Acquisitions	6,368,508	1,492,318	1,428,857	9,289,683
Cost as per 31 December 2006	87,695,681	11,447,327	5,583,458	104,726,466
Accumulated depreciation as per 1 January 2006	22,457,175	8,285,256	3,531,270	34,273,701
Disposals	-	(909,539)	-	(909,539)
Depreciation	3,689,882	1,059,993	369,105	5,118,980
Accumulated depreciation as per 31 December 2006	26,147,057	8,435,710	3,900,375	38,483,142
Net book value as per 31 December 2006	61,548,624	3,011,617	1,683,083	66,243,324

and transformation of the Pierre Werner building and the renovations made to the Siège Royal (main building). The building located on the avenue Monterey was completely written off in 2003, having been demolished in order to construct a new one. Construction of this new building was finished in 2006, as expected.

The Pierre Werner building and the avenue Monterey building are considered as new buildings and are being 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 being amortised over 10 years.

11.2 Other financial assets

The components of this item are as follows:

	2006	2005
	EUR	EUR
Other participating interests	216,994	216,994
Pension fund	83,271,152	78,219,526
Securities portfolio	1,417,196,427	955,996,146
	1,500,684,573	1,034,432,666

The other participating interests comprise the entry fees in LIPS-Net, in liquidation, and the BCL's investments 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 calculated by the depositary bank as per 31 December 2006.

The securities portfolio recorded under this heading corresponds to the securities held by the BCL for the purpose of the investment of own funds and amounts owed to third parties amounting to a total of 1,417.2 million euro (956.0 million euro as per 31 December 2005). Securities are valued at market prices. As per 31 December 2006, their value at market prices included an unrealised loss amounting to 12.8 million euro (unrealised gain amounting to 5.4 million euro as per 31 December 2005).

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 commissions receivables, prepaid expenses (including salaries paid for January 2007) and other income receivable.

11.4 Sundry

	2006 EUR	2005 EUR
Withdrawals in advance	12,605,000	9,735,000
Others	18,093,169	35,053,395
	30,698,169	44,788,395

The sub-item "Withdrawals in advance" corresponds to the amount of euro banknotes ordered by the credit institutions as per 31 December 2006 and which were not put into circulation by 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 as well as a claim in relation to the pension fund.

Note 12 - Banknotes in circulation

This item includes the BCL's share of the total euro banknotes put into circulation by the central banks of the Eurosystem according to their weightings in the capital of the ECB, which totalled 1,269.0 million euro (1,141.7 million euro as per 31 December 2005).

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

	2006 EUR	2005 EUR
Current accounts (covering the minimum reserves)	9,741,868,456	6,810,321,790
Deposit facility	-	-
Fixed-term deposits	-	-
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	9,741,868,456	6,810,321,790

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

13.1 Current accounts (covering the minimum reserves)

This sub-item records accounts denominated in euro of credit institutions which mainly serve to meet minimum reserve requirements. These requirements have to be respected over an average unsettled period starting the Wednesday following the Governing Council's meeting to set the interest rate.

13.2 Deposit facility

This sub-item records the standing facility allowing credit institutions to make 24-hour deposits with the bank at a pre-specified interest rate.

13.3 Fixed-term deposits

This sub-item records deposits made at the Bank for the purpose of absorbing market liquidity in connection with fine-tuning operation in the Eurosystem.

13.4 Fine-tuning reverse operations

This sub-item records other monetary policy operations aimed at tightening liquidity.

No such operation took place in 2006.

13.5 Deposits related to margin calls

This sub-item records deposits made by credit to compensate for the decrease in the value of securities pledged as collateral for other credits granted to these same institutions.

No such operation took place in 2006.

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

14.1 Liabilities to general government

This item records the amounts owed to the Luxembourg Treasury, as follows:

	2006 EUR	2005 EUR
Current account	84,691	567,560
Account related to euro coins issued by the Treasury	142,858,258	124,115,815
Fixed-term deposit	330,000,000	390,000,000
	472,942,949	514,683,375

4. THE BCL AS AN ORGANISATION

In accordance with the amendment of 10 April 2003 to the agreement between the State of Luxembourg and the BCL establishing their financial relationship, 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 the National Bank of Belgium 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.

In order to strengthen the BCL's own funds and in accordance with the articles of the agreement which foresee this possibility, the State waived the remuneration of its term deposit. The related income, amounting to 6.2 million euro (4.3 million euro as per 31 December 2005), is recorded under "Other income".

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

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 item represents the countervalue 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 is closed or if Luxembourg decides to withdraw from it. This liability, of unlimited duration, amounts to SDR 17.0 million, or 19.4 million euro as per 31 December 2006 (SDR 17.0 million, or 20.5 million euro as per 31 December 2005).

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 vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem.

The net position bears interest at the marginal interest rate applying to the main refinancing operation.

Note 19 - Items in course of settlement

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

Note 20 - Other liabilities

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

The Luxembourg banknotes still circulating as per 31 December 2006 amount to 5.4 million euro (5.6 million euro as per 31 December 2005).

Note 21 - Provisions

Provisions developed as follows:

	2006 EUR	2005 EUR
Provisions for banking risks	381,518,406	327,182,153
Provisions for pensions	7,823,786	7,680,870
Other provisions.	50,000	5,201,656
	461,392,192	412,064,679

21.1 Provisions for banking risks

Provisions for banking risks include the following items:

	2006 EUR	2005 EUR
Provision covering credit risk	178,365,669	141,982,925
Provision covering operational risk	10,925,000	11,150,000
Provision covering liquidity risk	14,318,659	13,523,377
Provision covering interest rate risk	200,000	200,000
	203,809,328	166,856,302
Provisions for general banking risks		
Provision for liabilities resulting from monetary agreements	32,341,954	32,341,954
Other provision for general banking risks	145,367,124	127,983,897
	177,709,078	160,325,851
	381,518,406	327,182,153

21.1.1 Provision covering credit risk

The provision for 178.4 million euro (142.0 million euro as per 31 December 2005) corresponds to:

- 4% of the BCL's own securities portfolio existing as per 31 December 2003 and still kept as at 31 December 2006 (portfolio allocated to monetary policy operations, if necessary, and structural portfolio) and participations other than the participating interest in the ECB;
- 2% of the increase, between 31 December 2003 and 31 December 2006, of the BCL's own securities portfolio and participations other than the participating interest in the ECB;
- 2% of firm commitments on stock exchange indexes existing as per 31 December 2006;
- 4% of the total amount lent by the Eurosystem as per year-end for monetary policy reasons multiplied by the capital key corresponding to the BCL.

Provision on stock exchange index was created in 2006. The BCL's aim is to attain a rate of 4% on all items in the medium term.

21.1.2 Provision covering operational risk

This provision is intended to cover the risk of losses resulting from the inadequacy or fault attributable to procedures, to the human factor or to the BCL's systems or to external causes. Because of a lack of relevant statistics on the dimension of risk, the transfer to the provision is based on the Basic Indicator Approach described in the consultative working paper of the Basel Committee as being 15% of the average for the last three years of the net banking product (including payments allocated on monetary income).

21.1.3 Provision for liabilities resulting from monetary agreements

The provision for liabilities resulting from monetary treaties created in order to face any future monetary liabilities has not change in 2006.

21.1.4 Other provision for general banking risks

In 2006, for prudence's sake and to safeguard its assets, the BCL transferred 17.4 million euro (17.0 million euro for the financial year 2005) 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:

	2006 EUR	2005 EUR
Provision for pensions	77,431,916	77,289,000
Provision for equalisation and financial risks	850,252	850,252
Provision for increase of PBO	1,541,618	1,541,618
	79,823,786	79,680,870

4. THE BCL AS AN ORGANISATION

21.2.1 Provision for pensions

The pension 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 amounted to 77.4 million euro as per 31 December 2006 (77.3 million euro as per 31 December 2005).

The increase of the provision during the year results from:

- monthly deductions from the gross salaries of BCL agents (employee's part) as well as the employer's share;
- periodic transfers from the account "Booking reserve of the pension fund" to adjust the account "Provision for pensions" to its actuarial value;
- a transfer, if needed, to adjust the account "Provision for pensions" to its actuarial value.

21.2.2 Provision for equalisation and financial risks

This provision for equalisation and financial risks was intended to cover fluctuations in the pension fund's liabilities in its early years and/or to compensate for a lower return on assets. The provision was partially used but did not change in 2006.

21.2.3 Provision for increase of Projected Benefit Obligation

This provision was intended to cover the liability (Projected Benefit Obligation or PBO) for new agents or the changes of present value of potential payments taking into account individual parameters and the actuarial method used. The provision has not change in 2006.

21.3 *Other provisions*

A provision of 5.2 million euro has been created as per 31 December 2005, in relation to the difference between the amount of a claim of the BCL's pension fund against the Luxembourg pension funds as decided by the Cour d'Appel (following the BCL's judicial proceedings). The Cour d'Appel's decision was adopted. The amount booked has been determined according to the rules which govern the future financial relationship between the BCL and the Luxembourg pension funds (see Note 35).

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 sole shareholder of the BCL's capital, which is fixed at 25 million euro.

23.2 *Reserves*

The reserves amount to 135.6 million euro (120.4 million euro as per 31 December 2005). This amount was increased by 2.6 million euro in 2006 following the allocation of profit for 2005 according to the decision of the BCL's Council and its Founding Law (Article 31).

The reserves were also increased by 12.6 million euro in 2006 by transfer of contributions from the Luxembourg pension funds. This received amount is made up of contributions and interests which should have been paid in 2001, according to the BCL's Founding Law (Article 35). In 2001, the BCL made an exceptional transfer from its reserves. This transfer was determined without considering the claim on the pension funds, which is used for the reconstitution of the reserves.

Note 24 - Custody deposits

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

This item 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 Correspondent Central Banking Model (CCBM). This agreement allows commercial banks to obtain funding from their country of residence's central bank by using the securities held in another Member State as a guarantee.

As per 31 December 2006, the market value of these securities amounts to 189.7 billion euro (145.8 billion euro as per 31 December 2005).

Note 25 - Commitments and similar instruments

	2006 EUR	2005 EUR
Commitments and similar instruments	1,700,000,000	1,900,000,000

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

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

This item includes the foreign currency reserves at market value managed by BCL on behalf of the ECB.

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 and for the purpose of adjusting the duration of the existing portfolio depending on market conditions.

As per 31 December 2006, the total liabilities related to these forward contracts amount to 274.6 million euro (101.6 million euro as at 31 December 2005). One security has been given as a guarantee in order to cover the initial margin deposit. This security remains on the BCL's balance sheet for an amount of 10.0 million euro as per 31 December 2006 (5.0 million euro as per 31 December 2005).

Note 28 - Net interest income

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

Composition of interest income

	Amounts in foreign currency		Amounts in euro	
	EUR		EUR	
	2006	2005	2006	2005
IMF	1,521,372	2,394,911	-	-
Monetary policy	-	-	1,062,362,643	622,542,527
Intra-Eurosystem claims	-	-	173,380,646	148,403,622
Securities	4,460,338	2,762,511	134,366,145	89,498,935
Gold	366,298	406,745	-	-
Other	2,127,297	2,537,122	275,322	89,938
Total	8,475,305	8,101,289	1,370,384,756	860,535,022

Composition of interest expense

	Amounts in foreign currency		Amounts in euro	
	EUR		EUR	
	2006	2005	2006	2005
IMF	(726,090)	(529,901)	-	-
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	-	(226,747,634)	(146,465,831)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	-	(1,039,347,699)	(625,344,817)
Other intra-Eurosystem liabilities	-	-	(35,255)	(26,768)
Interests on term deposits	-	-	(6,150,833)	(4,284,514)
Other liabilities	(1,573,198)	(1,707,550)	(1,672,132)	(952,079)
Total	(2,299,288)	(2,237,451)	(1,273,953,553)	(777,074,009)

The increase in interest results from an increase in amounts outstanding and from a change in the interest rates.

4. THE BCL AS AN ORGANISATION

Note 29 - Realised gains / (losses) arising from financial operations

This item includes the result from transactions in foreign currencies, from securities and from financial instruments linked to interest rates and market prices, i.e. gains realised minus loss realised on these transactions. In 2006, they amounted to 23.6 million euro (17.4 million euro as per 31 December 2005) and to 18.6 million euro (6.8 million euro as per 31 December 2005) respectively, making a net income of 5.0 million euro (10.6 million euro as per 31 December 2005).

Note 30 - Write-downs on financial assets and positions

This item includes revaluation losses on securities for 15.9 million euro and on financial instruments linked to interest rates and market prices for 2.9 million euro in 2006 (15.5 and 0.2 million euro respectively in 2005).

Note 31 - Transfer to/from provisions for foreign exchange rate and price risks

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

Note 32 - Net result from fees and commissions

Fees and commissions income and expense are as follows:

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 euro;
- 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 euro;
- 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 its capital key.

Gold is considered as generating no income.

	Fees and commissions income		Fees and commissions expense	
	EUR		EUR	
	2006	2005	2006	2005
Securities	10,812,837	9,119,748	(10,932,676)	(9,488,128)
Others	792,333	603,925	(106,507)	(76,453)
Total	11,605,170	9,723,673	(11,039,183)	(9,564,581)

Note 33 - Income from participating interest

This item may include the dividend distributed by the European Central Bank.

No dividend was distributed in 2006.

In 2006, the ECB's income on euro banknotes in circulation amounting to 1,319 million euro was used in full by the ECB in accordance with a decision of the Governing Council with respect to the establishment of a provision for foreign exchange rate, interest rate and gold price risks.

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 that 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 (0.21933% for the BCL in 2006).

Note 34 - Net result of pooling of monetary income

Since 2003, the monetary income of each Eurosystem NCB has been determined by measuring the actual annual income

Calculation of net monetary income allocated to the BCL:

	(EUR millions)	
	2006	2005
Monetary income pooled by BCL	(45.2)	(31.9)
Monetary income reallocated to BCL	32.7	21.5
Retained monetary income by the ECB	0.0	0.0
Net result arising from the calculation of monetary income	(12.5)	(10.4)

Note 35 - Other income

Other income includes revenues of 6.2 million euro (4.3 million euro for 2005) that reflect the waiving by the State of Luxembourg of the interests due for 2006 on its term deposit with the BCL (see also Note 14.1) and the reimbursement of the claim on the Luxembourg pension funds for 0.2 million euro.

This item also includes the transfer from provision set up by the BCL in 2005 for 5.2 million euro. This provision was intended to cover the reimbursement of the claim on the Luxembourg pension funds and reimbursement of amounts taken into account by the BCL for the Luxembourg pension funds for the years 2001 to 2005. The Luxembourg pension funds paid these amounts in the first half-year of 2006.

Further included is the transfer from provision for pensions for 3.6 million euro after PBO's calculation as per 31 December 2006. This calculation took into account the cooperation agreement between the BCL's pension funds and other national organisations.

This item also includes revenues for services rendered to third parties, transfers from administrative provisions and income from numismatic activities.

Note 36 - Staff costs

This item includes the salaries and compensations as well as the employer's share of contributions to the pension and social security schemes. The compensations paid to the Board of Directors amounted to 486,737 euro for the year 2006 (472,927 euro for the year 2005).

As per 31 December 2006, the BCL employed 208 persons (203 as per 31 December 2005). The average number of persons working for the BCL from 1 January to 31 December 2006 was 206 (206 for the year 2005).

Note 37 - Administrative expenses

This item includes all general and recurring expenses, meaning rents, cleaning and repair of buildings and equipment, small goods and materials, fees paid and other services and supplies as well as training expenses. The compensations paid to the members of the Council amounted to 72,289 euro in 2006 (71,082 euro in 2005).

Note 38 - 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 39 - Banknote production services

This item shows mainly the costs related to the production and issue of banknotes denominated in euro.

Note 40 - Other expenses

This item shows mainly the transfer to the administrative provisions (see Note 21.3 for 2006/2005 variation) and costs related to numismatic activities.

