



- 1 Gold commemorative Coin "10th anniversary of the BCL"
- 2 Commemorative stamp "10 years BCL-BCE- Euro-system"
- 3 + 4 June 2008: Open doors at the BCL
- 5 Handover of the 1st stamp "10 years BCL-BCE- Eurosystem" to the President of the BCL by Mr. Marcel Gross, general Director of P&T
- 6 December 2008: Inauguration of the numismatic exhibition: "A walk trough the history of the Maltese currency", in presence of Mr. Michael Bonello, Governor of the Bank of Malta

## 4. THE BCL AS AN ORGANISATION



Row 1, from l. to r.: Mr Jacques F. Poos, Mr Yves Mersch, Mr Serge Kolb, Mr Romain Schintgen

Row 2, from l. to r.: Mr Patrice Pieretti, Mr Pit Hentgen, Mr Michel Wurth, Mr Claude Zimmer, Mr Pierre Beck

### 4.1 THE STRUCTURE OF THE BCL

#### 4.1.1 The Council

Article 6 of the Founding Law of 23 December 1998 defines the powers of the Council of the Bank. In 2008, the Council consisted of the following members:

**Governor:** Yves Mersch

**Members:** Pierre Beck (as from 1 June 2009)

Andrée Billon (until 30 April 2009)

Jean Hamilius (until 1 August 2008)

Pit Hentgen

Mathias Hinterscheid (until 1 August 2008)

Serge Kolb

Patrice Pieretti

Jacques F. Poos

Romain Schintgen (as from 1 August 2008)

Michel Wurth

Claude Zimmer (as from 1 August 2008)

During 2008, the Council held six meetings. Within the framework of monitoring the financial situation of the Bank, the Council approved the financial accounts as per 31 December 2007, the budgetary trends and subsequently, the budget for the 2009 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.

#### The Audit Committee

Since 2001, the Audit Committee, composed of members of the Council, assists 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 11 December 2008, the Council nominated the non-executive members of the Audit Committee for 2009: Mr. Pit Hentgen, Mr. Patrice Pieretti and Mr. Jacques F. Poos. Mr. Yves Mersch is an ex officio member in his function as President of the Council. The Audit Committee is chaired by one of its non-executive members, Mr. Pit Hentgen. In 2008, the Audit Committee held five meetings.

#### 4.1.2 The Executive Board

The Executive Board 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 Executive Board shall be taken collectively.

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

#### The organisation chart of the BCL (as from 1 January 2009)

Executive Board		
Internal audit AI - Internal audit	General secretariat SG - General secretariat	Financial stability and risk control SR - Financial stability and risk control
Eurosystem procurement co-ordination office EPCO - Eurosystem procurement co-ordination office	2 Board members' secretaries	
	Sections	Sections
	SG1 Governor's office	SR1 Market and operation analysis
	SG2 Legal services	SR2 Financial and operational risks
	SG3 External relations and communication	
	General departments	
General department A	General department B	General department C
Department A1 Economics and research	Department B1 Human resources	Department C1 Information technology
Sections		Sections
A1.1 Research		C1.1 Infrastructure
A1.2 Business cycle		C1.2 Software and development
		C1.3 IT security, planning and support
Department A2 Currency	Department B2 Internal finance	Department C2 Statistics
Sections		Sections
A2.1 Currency operations		C2.1 Banking and monetary statistics
A2.2 Banking documentation		C2.2 External statistics
		C2.3 Economic and financial statistics
Department A3 Operations	Department B3 Numismatics and logistics	Department C3 Prudential surveillance
Sections	Sections	Sections
A3.1 Front office: monetary policy operations	B3.1 Numismatics	C3.1 Liquidity surveillance
A3.2 Front office: asset management	B3.2 Administration and supply	C3.2 Oversight
A3.3 Back office - securities	B3.3 Security	C3.3 Infrastructures and payment systems
A3.4 Payments		
	Section	
	B4.1 Procurement	



Mr Serge Kolb, Mr Yves Mersch, Mr Pierre Beck

**Director-General:** Yves Mersch

**Directors:** Serge Kolb

Pierre Beck (as from 1 June 2009)

Andrée Billon (until 30 April 2009)

The members of the Executive Board receive a salary according to the wage scale in the public sector as well as different allowances. They receive, in accordance with the legal provisions of the law of 22 June 1963 determining the salary scheme for civil servants, a family allowance depending on their domestic situation and a thirteenth month's allowance.

The salary components are subject to the current legal tax rates in Luxembourg. Contributions to the pension system are neither due with regard to the thirteenth month's allowance nor with the representation and BCL's Council allowances.

The basic salary paid to the board members is as follows:

	2008 €	2007 €
Yves Mersch (Director-General)	155 004	151 788
Andrée Billon (Director)	144 108	141 118
Serge Kolb (Director)	144 108	141 118
<b>Total</b>	<b>443 220</b>	<b>434 024</b>

## 4. THE BCL AS AN ORGANISATION

Besides, in relation to their function within the Bank, Executive Board members are entitled to the payment of a representation allowance (for a total amount of 68 350 euro in 2008) and to a BCL's Council allowance (for a total amount of 32 044 euro in 2008).

### 4.2 The Corporate Governance

#### 4.2.1 The internal supervisory mechanisms

The BCL's internal control system is based on general rules and regulations, which are widely accepted as standards by the financial sector, and also takes into consideration the BCL's specific needs as a central bank.

The first layer of the internal control system has been put in place by the Executive Board at the level of the general management of the BCL. The senior management of the BCL and their staff are responsible for the proper functioning of this supervision. Functional checks are carried out by specific administrative units, ensuring a separation of the tasks to be carried out by the BCL.

Until 31 December 2008, the Risk management function was entrusted with the Organisation and Controlling unit, and thereafter with a new unit named Financial stability and risk management. Whereas the senior supervisors from the general departments are responsible for identifying the risks linked to their fields of activities and for taking appropriate actions to mitigate these risks, the risk manager had the following responsibilities:

- Establish a common methodology for risk analysis;
- Evaluate (quantify) the risks taken;
- Check whether risks are sufficiently mitigated;
- Deliver periodic reports to the Executive Board concerning the general situation.

On a regular basis, the risk management function evaluated different types of risks (credit, liquidity, solvency, funds, operational risk, IT risks) to which the Bank was exposed and checked the mitigation measures. In this regard, the unit set up a periodical management and reporting system addressed to the Board on the Bank's risk situation. Moreover, the function was in charge of

controlling financial risks linked to investment operations. It monitored on a daily basis and independently of the Investment unit the various investment positions within the portfolios of the Bank. Reports were established and addressed to relevant business areas and hierarchical management providing the daily evolution of all of the Bank's portfolio positions regarding performance and the evolution of its risk exposure.

The Controlling function, which was also entrusted with the Organisation and Controlling unit until 2008, and which task was then taken over by the Internal Finance department, performed the following tasks:

- Ensure the good execution of the budgetary procedures
- Supervise the execution of the budget
- Authorise certain expenditure and accounting
- Evaluate new activities
- Provide budgetary and financial follow-up of projects
- Provide operational performance follow-up

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 Official Stance, a document describing the Bank's positioning which has been approved by the Council and published on the BCL's website.

The purpose of the Compliance function is to ensure that the BCL's activities are conforming to laws, rules and professional ethical norms. It is about preventing the risk that the Bank is not conforming.

Since 2007, the Compliance Officer role covers the overall risk of the bank being nonconforming (Compliance Risk).

In addition to questions related to preventing money laundering and terrorist financing, the Compliance Officer was certified in 2007 by the Commission Nationale pour la Protection des Données (CNPD) and is from then on in charge of the protection of personal data. The Compliance Officer also intervenes in questions related to the professional code of ethics, the prevention of insider trading and market abuse, in conflicts of interest, professional secrecy and confidentiality as well as in the regulation of the public market.

An additional layer of control is performed 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 reports directly to the President of the Council. The Head of Internal Audit may also be involved in the work of the Audit Committee. Generally speaking, the Internal Audit pursues the objectives and follows the reporting procedure of the ESCB.

#### 4.2.2 The Eurosystem Procurement Coordination Office

Following the decision of the Governing Council of the ECB in December 2007 to designate the Banque centrale du Luxembourg to host a new coordination function, the "Eurosystem Procurement Coordination Office", the office started operating on 1 January 2008. This first mandate is for a period of five years.

The objective of EPCO is to ensure a better coordination of the procurement of goods and services by the European Central Bank and the national Central Banks of the Eurosystem.

The new tasks of this office are as follows:

- to coordinate joint public procurement procedures;
- to facilitate the adoption of best practices;
- to develop the infrastructure to enable synergies to be exploited and economies of scale to be realised

A network of procurement experts from the participating Central Banks was created as a priority and seven meetings were held during the course of the year.

EPCO is under the direct responsibility of an Executive Director of the BCL and the EPCO team, comprising four staff, was recruited by 1 October 2008. Mr Thomas L. Cranfield, former Director-General of the Publications Office of the EU, acted as Chairman of the meetings of experts until Mr Stephen Kaiser took up the position of Head of EPCO.

Initially, the work focussed on the preparation of best practices in public procurement procedures. Three groups were created and, at the end of the year, a first set of best practices had been finalised. This work will be continued and developed in 2009. With respect to infrastructure, the work consisted of the integration of the network of procurement experts into the document management and administration system of the ECB "DARWIN". Work was also initiated on the preparation of models for framework and specific contracts to be used later in joint procurement procedures. For the coordination of the procurement agenda, an inventory was established of all current and foreseen procurement procedures in the participating Central Banks. On this basis, an "EPCO Procurement Plan 2009" was proposed by the network of experts and, following approval by the "EPCO Steering Committee" and the "Executive Board" was approved by the Governing Council of the ECB in December 2008. This programme is much more ambitious than originally foreseen when EPCO was launched and consists of four specific areas which were identified for joint procurement and four other areas which must be studied in order to identify specific joint procurement projects and set priorities.

In November 2008, the Governing Council of the ECB adopted a Decision (ECB/2008/17) laying down the framework for joint Eurosystem procurement, with the objective of fostering the participation of the ECB and the national Central Banks that have adopted the euro in joint procurement actions. The Decision came into force on 1 December 2008.

In December 2008, the Governing Council of the ECB approved 1.12 € Mio as the Budget for 2009 for EPCO.

### 4.3 The BCL staff

#### 4.3.1 Quantitative evolution

During 2008, the BCL staff increased by 8.68 % to reach a total of 238 members of staff on 31 December 2008, equivalent to 220.75 full time positions and representing a 7.95 % increase compared to 2007. Staff members belong to twelve different nations, thus

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contributing to the diversity of the human capital and to the cultural enrichment of the BCL.

On December 31, 2008, twenty-nine staff members worked part-time:

- Part-time work (50%) : 11 staff members
- Part-time work (75%) : 7 staff members
- Leave for part-time work : 11 staff members

Three staff members were on full-time parental leave and three staff members were on part-time parental leave.

Finally, two staff members were on unpaid leave and three staff members were on special leave.

The average number of staff members working at the BCL in 2008 was 229, compared to 211 in 2007.

The overall approved headcount ceiling for the year 2008 was 226 full time equivalent positions. This ceiling has been increased to 238 full time equivalent positions for the year 2009.

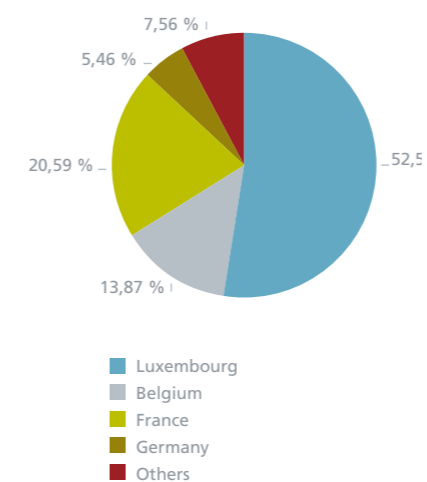
During 2008, five staff members left the bank. On the other hand, twenty-four new staff members joined the bank. There were some 300 applications to job advertisements. Furthermore, the BCL received 300 spontaneous job applications and 210 applications for internships or student jobs.

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

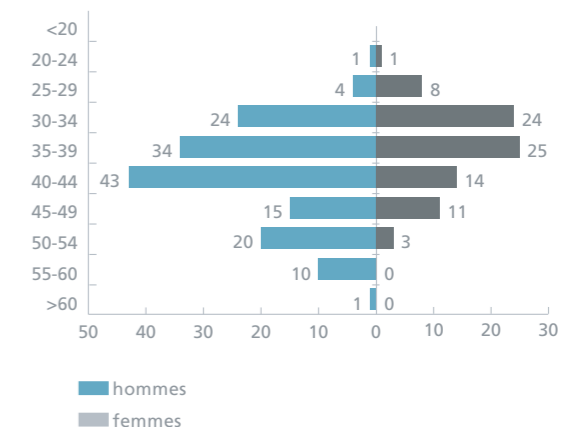
The staff evolution in full time equivalent during 2008 appears as follows:

	2008	2007
On 1st of January	207,50	196,00
Recruitments	23,50	17,25
Resignations <sup>1</sup>	7,25	5,75
On 31 December	223,75	207,50
Average head-count	214,19	197,96

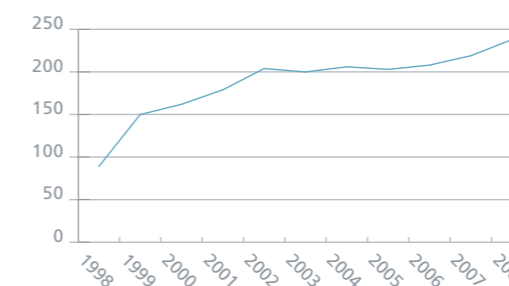
**FIGURE 1 :  
STAFF MEMBERS BY NATIONALITY**



**FIGURE 2 :  
DISTRIBUTION OF STAFF MEMBERS  
PER AGE GROUP**



**FIGURE 3 :  
EVOLUTION IN STAFF MEMBERS SINCE 1998**



The average age of BCL staff members has increased from 39.31 years in 2007 to 40.05 years on December 31, 2008. Staff comprised 36 % of women and 64 % of men.

<sup>1</sup> This item also takes into account the effects in relation to changes from full time work to part-time work.

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### 4.3.2 Human resource management

During the year 2008 we focused on the elaboration of several human resource management tools. First of all, stress was laid on the establishment of a professional mobility protocol applicable to managers, which is in line with the competences management – considered to be the central tool of human capital management. Mobility not only improves the bank's performance, but also increases staff versatility and therefore also limits the risks to loose skills.

Moreover, it improves the staff's adaptability and flexibility. Mobility offers development perspectives to staff members inside the bank.

A second tool for staff management elaborated during 2008 concerns the reform of the existing framework for additional remuneration related to qualified skills. In the framework of the fundamental restructuring of the European Higher Education Area initiated by the Bologna process, it became necessary to adapt the existing system for additional remuneration to the new structure of Higher Education (degree course) based on a three cycle system and applying the European Credit Transfer and Accumulation System (ECTS).

Finally, during 2008, much emphasis was laid on the recruitment process as it became necessary to recruit highly specialized staff members enabling the bank to assert its position among the Luxembourgish institutions and permitting the bank to fully satisfy its national, European and international obligations, as formulated in the official stance of the BCL. It should be pointed out as well that, following the decision of the Governing Council of the European Central Bank to award the Eurosystem Procurement Coordination Office (EPCO) to BCL, it was essential to recruit specialized staff members in this very specific area. The recently revised recruitment process had the opportunity to be tested. Nevertheless, to check whether the expected results were met, the process will be subject to a critical evaluation during 2009.

### 4.3.3 Staff training

BCL's internal training program is focused on its competences area, namely monetary policy and its implementation, payment systems, financial stability (instruments and strategy), as well as the European institutional aspects. On demand the training courses can also be provided externally, depending on the speakers' availability.

Beside life-long training programs, which are consistently offered to staff members during their professional career, the first measures of the training policy were implemented, more specifically in the field of qualified training. In this context, the conditions enabling staff members to attend a qualified training at the Luxembourg School of Finance (LSF) have been established. BCL will give financial and organisational assistance to staff members eager to attend a two years part time Master studies program at the LSF.

BCL intends to go further in this field. In fact, in case of a positive feedback to the facilities made available, it will be studied to extend them to other qualified training programs.

Finally, it should be noted that the internal training program was further developed during 2008. It aims at helping new staff members to integrate more easily the bank's structure and to make them more familiar with the bank's activities.

### 4.3.4 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, has two committees, one executive and one consultative and is ruled by a bylaw. 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.

The Bank has been involved in the preparatory works, in particular amending the law of 28 July 2000 coordinating the different national pension schemes, which led to the recognition of the BCL' pension fund as social security body within the law of 19 December 2008.

The Bank meets the representatives of social security bodies as well as civil servants and administrative coordination Administration in order to determine the modalities of the cooperation agreements.

### 4.4 Facilities

A study of space occupation was realized in 2008 in order to allow an average term planning of the usage and the needs of office space.

Besides, the 3rd floor of the Monterey building was set up in order to host the staff of EPCO (European Procurement Coordination Office).

The BCL received the quality label of the "Superdrecks-këscht fir Betriber" regarding prevention and recycling of waste.

The electronic treatment of documents was facilitated by setting up the most recent generation of multifunctional printers grouping copy, scanner, email and fax functions. This project was realized in collaboration with the IT department.

The efforts to reduce the energy consumption were continued in 2008, while trying to find the right

balance between the personnel requirements, the technical requirements as well as the budget constraints.

### 4.5 Internal Finance

BCL continued to update its accounting system and its procedures in order to meet its internal quality standards and those of the Eurosystem. In 2008, BCL continued to take part in the working groups relating to the accounting framework of the Eurosystem and adopted these accounting techniques in the BCL's systems.

The Eurosystem requires the daily reporting of balance sheet data according to harmonised rules. The control mechanisms in place proved to be effective during the year.

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

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, i.e. according to the respective sections and units, and it permits to allocate the costs of each of the Bank's activities. In 2009, harmonised techniques relative to project costs will continue to be developed in the Eurosystem.

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

The management information system meets the need to monitor the Bank's activities. It is based on a set of indicators, which are calculated daily, weekly, monthly, quarterly and annually. 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.

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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 take.

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 NCBs and the ECB.

In 2008, research to select a new software of follow-up portfolio of securities started.

As at 1 January 2009, following the five-year revision of the capital key and the entry of Slovakia into the Eurosystem, the BCL's key in this system changed from 0.22598% to 0.25032%.

### 4.6 The budget

The setting-up of the annual budget of the BCL is part of a long term planning exercise to ensure the financial balance of the accounts of the bank over a long term horizon. 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 impartial application of precise rules;
- integrity resulting from the transparency of its internal operations and the respect of professional ethics.

The 2008 budget of the bank has been drawn up according to the orientations established by the Council on 12th July 2007. The 2008 budget has been approved by the Council on 14th December 2007.

Main orientations for 2008:

- An optimal output of the portfolio is targeted through diversified and high quality investments managed by a reinforced team of portfolio and risk managers;
- The development of new activities, generating revenues for the bank, is emphasized. In this context, BCL was candidate to host EPCO in Luxembourg. At the end of 2007, the decision taken by the Governing Council of the ECB was in favor of BCL. The costs generated by EPCO are charged to the members of the Eurosystem;
- The recruitment of new staff is linked to the development of new activities generating revenues for the bank. An absolute priority is given to the missions relating to the activities of the ESCB;
- The increase of operational charges, excluding staff costs, has to stay below the inflation rate, which is measured by the general consumer price index (CPI) estimated at +2,1% for 2008. However, increases which are directly linked to approved projects are not affected by this orientation.

During 2008, BCL complied to the orientations set up by the Council and the figures of the profit and loss account confirm that the operational costs have stayed well within the budgetary limits. The department 'Internal Finance' establishes annually an analysis of the deviations observed between the approved budget and the actual expenditure. This analysis is submitted to the Management and the Council for information and approval and the outcome is used to establish the following budgets.

### 4.7 The Internal Audit activities

In accordance with the internationally accepted professional standards, the internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.

The Internal Audit helps the Bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and management processes.

The Internal Audit unit reports directly to the President of the Bank.

The annual internal audit plan comprises audit engagements on a national level, as well as audit objects that are coordinated by the Internal Auditors Committee of the ESCB in compliance with the ESCB audit policy.

During the year 2008, the Internal Audit unit performed various reviews in the areas of foreign exchange reserve management and portfolio management services, euro banknotes, statistics, payment systems and information systems, as well as in the context of various projects.

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### 4.8 Financial statements as at 31 December 2008

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

The Internal Audit unit is in charge of following-up on the recommendations issued during its audit activities.

Furthermore, an external assessment of the internal audit activity against the professional standards set out by the 'The Institute of Internal Auditors (IIA)' was performed in June/July 2008.

	2007	2008	Change in % 2008/2007
Total assets	59 009 304 594	100 645 076 227	71%
Banks' current accounts	10 779 720 531	45 531 698 234	322%
Claims on credit institutions	32 914 774 230	40 080 417 423	22%
Own funds (1), revaluation accounts, administrative provisions and specific banking risks	586 004 467	407 930 091	-30%
Net result of banking activities (2)	54 540 273	-147 779 763	-371%
Total net revenues	42 366 352	47 153 802	11%
Administrative expenses	32 504 561	39 286 085	21%
Net profit	4 421 374	2 830 126	-36%
Cash Flow (3)	93 670 323	139 262 942	49%
Staff	219	238	9%
BCL's part in the capital of the ECB	0.1575%	0.1575%	
<b>BCL's part in the Eurosystem's monetary policy opérations</b>	<b>5.166%</b>	<b>4.674%</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

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

#### 4.8.2. Report of the Independent Auditor

To the Council of the Banque centrale du Luxembourg / To the Government / To the Chamber of Representatives

March 6, 2009

We have audited the accompanying financial statements of Banque centrale du Luxembourg, which comprise the balance sheet as at December 31, 2008 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 statements. 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, 2008, 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.**  
**Réviseur d'entreprises**  
**Pascal Pincemin**  
**Partner**

**Vafa Moayed**  
**Partner**

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### 4.8.3 Balance sheet as at 31 December 2008

ASSET	Note	2008 EUR	2007 EUR
Gold and gold receivables	3	45 352 938	42 228 333
Claims on non-euro area residents denominated in foreign currency	4	239 317 662	97 132 215
- Receivables from the IMF		54 694 836	33 809 923
- Balances with banks, security investments, external loans and other external assets		184 622 826	63 322 292
Claims on euro area residents denominated in foreign currency	5	10 825 738 929	1 305 521 707
Claims on non-euro area residents denominated in euro	6	2 235 151 662	1 888 162 621
- Balances with banks, security investments and loans		2 235 151 662	1 888 162 621
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	40 080 417 423	32 914 774 230
- Main refinancing operations	7.1	23 465 778 885	24 125 912 740
- Long-term refinancing operations	7.2	16 614 638 538	8 788 861 490
Other claims on euro area credit institutions denominated in euro	8	579 866 874	730 661 572
Securities of euro area residents denominated in euro	9	3 727 912 441	3 180 754 060
Intra-Eurosystem claims	10	42 167 907 000	18 399 192 673
- Participating interest in ECB	10.1	10 668 158	10 668 158
- Claims related to the transfer of foreign reserves	10.2	90 730 275	90 730 275
- Other claims within the Eurosystem	10.3	42 066 508 567	18 297 794 240
Items in course of settlement		43 666	-
Other assets	11	743 367 631	450 877 183
- Tangible and intangible fixed assets	11.1	61 835 471	65 289 790
- Other financial assets	11.2	88 117 397	89 157 972
- Off-balance sheet instruments revaluation differences		303 493 840	21 010 787
- Accruals and prepaid expenses	11.3	269 921 336	255 827 288
- Sundry	11.4	19 999 587	19 591 346
<b>Total assets</b>		<b>100 645 076 226</b>	<b>59 009 304 594</b>

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

LIABILITIES	Note	2008 EUR	2007 EUR
Banknotes in circulation	12	1 586 572 000	1 414 171 330
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	45 531 698 234	10 779 720 531
- Current accounts (covering the minimum reserve system)	13.1	16 513 643 449	10 779 720 531
- Deposit facility	13.2.	29 018 054 785	-
Liabilities to other euro area residents denominated in euro	14	386 914 979	433 531 161
- General government	14.1	386 914 979	433 531 161
Liabilities to non-euro area residents denominated in euro	15	1 011 538 123	81 828 278
Liabilities to non-euro area residents denominated in foreign currency	16	58 164 107	296 404 985
Counterpart of special drawing rights allocated by the IMF	17	18 731 884	18 209 670
Intra-Eurosystem liabilities	18	51 035 405 545	44 786 358 600
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	18.1	51 035 405 545	44 786 358 600
Items in course of settlement	19	11	23
Other liabilities	20	514 129 564	524 643 538
- Accruals and income collected in advance		480 965 514	492 407 914
- Sundry	-	33 164 050	32 235 624
Provisions	21	242 276 198	470 849 312
Revaluation accounts	22	84 474 183	31 245 895
Capital and reserves	23	172 341 272	167 919 897
- capitaC	23.1	25 000 000	25 000 000
- Reserves	23.2	147 341 272	142 919 897
<b>Profit for the year</b>		<b>2 830 126</b>	<b>4 421 374</b>
<b>Total liabilities</b>		<b>100 645 076 226</b>	<b>59 009 304 594</b>

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



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### 4.8.4 Off-balance sheet as at 31 December 2008

	Note	2008 EUR	2007 EUR
Foreign exchange swap	24	15 002 234 740	944 569 699
Custody deposits	25	265 077 244 845	219 720 485 682
Foreign currency reserve assets managed on behalf of the ECB	26	255 797 786	236 640 755
Forward transactions	27	83 248 000	-
Numismatic collection		205 012	181 470
		<b>280 418 730 383</b>	<b>220 901 877 606</b>

### 4.8.5 Profit and loss account for the year 2008

	Note	2008 EUR	2007 EUR
Interest income	28	2 786 935 844	2 165 460 459
Interest expense	28	(2 555 941 232)	(2 028 764 753)
<b>Net interest income</b>	<b>28</b>	<b>230 994 612</b>	<b>136 695 706</b>
Realised gains / (losses) arising from financial operations	29	(2 584 464)	2 059 326
Write-downs on financial assets and positions	30	(377 639 979)	(85 351 506)
Transfer to/from provisions for foreign exchange rate and price risks	31	246 244 754	1 542 974
<b>Net result of financial operations, write-downs and risk provisions</b>		<b>(133 979 689)</b>	<b>(81 749 206)</b>
Fees and commissions incomes	32	16 879 833	14 820 860
Fees and commissions expense	32	(15 429 765)	(13 684 113)
<b>Net result from fees and commissions</b>	<b>32</b>	<b>1 450 068</b>	<b>1 136 747</b>
Income from participating interest	33	2 724 591	-
Net result of pooling of monetary income	34	(70 197 318)	(28 534 340)
Other income	35	16 161 538	14 817 445
<b>Total net income</b>		<b>47 153 803</b>	<b>42 366 352</b>
Staff costs	36	(23 226 084)	(20 965 916)
Other administrative expenses	37	(8 861 201)	(8 348 065)
Depreciation of tangible and intangible fixed assets	11.1., 38	(5 037 591)	(5 440 417)
Banknote production services	39	(722 786)	(901 044)
Other expenses	40	(6 476 015)	(2 289 536)
<b>PROFIT FOR THE YEAR</b>		<b>2 830 126</b>	<b>4 421 374</b>

The accompanying notes form an integral part of the financial statements

### 4.8.6 Notes to the financial statements as at 31 December 2008

#### 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 as modified on 24 October 2008 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 now also responsible for the oversight of the general market liquidity situation and the evaluation of the market operators in this respect. The BCL is authorised to take and sell participating as well as, in exceptional circumstances, to make short-term lending to counterparties with appropriate guarantees. 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 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. Securities held to maturity are valued at purchase or transfer price adjusted by premiums and discounts. Write-downs are done on securities held to maturity in case of impairment.

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

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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.

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 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 partly distributed in 2008. The non-distributed part has been transferred, in the ECB's accounts, to the provision for foreign exchange rate, interest rate and gold price risks. The distributed amount is shown under the caption "Income from participating interest" in the profit and loss account.

### 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 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 agent 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 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 at 31 December 2008, BCL held 968.42 ounces of fine gold amounting to 0.6 million euro (2,314.78 ounces of fine gold amounting to 1.3 million euro as at 31 December 2007) and a top-rated gold bond issued by the International Bank for Reconstruction and Development purchased in 2002 and valued at 44.8 million euro (40.9 million euro as at 31 December 2007).

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 31 December 2008.

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

	2008 EUR	2007 EUR
Receivables from the IMF	54 694 836	33 809 923
Balances with banks, security investments, external loans and other external assets	184 622 826	63 322 292
	<b>239 317 662</b>	<b>97 132 215</b>

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).

- 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 amounts to 167.5 million euro as at 31 December 2008 (59.8 million euro as at 31 December 2007), 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 at 31 December 2008, their value at market prices included an unrealised gain amounting to 4.0 million euro (unrealised gain amounting to 1.2 million euro as at 31 December 2007).

Balances with banks amounted to 2.4 million euro as at 31 December 2008 (3.5 million euro as at 31 December 2007) and deposits amounted to 14.7 million euro (no deposits as at 31 December 2007).

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

This item includes mainly a claim arising from reverse operations with Eurosystem counterparties amounting to 10,769.0 million euro (940.8 million euro as at 31 December 2007), in connection with the US dollar Term Auction Facility. Under this program, USD were provided by the Federal Reserve to the ECB by means of temporary reciprocal currency arrangement (swap line) with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct liquidity-providing operations with the Eurosystem counterparties. These back-to-back swap transactions resulted in non-remunerated inter-Eurosystem balances between the ECB and the NCBs reported under "Other claims within the Eurosystem(net)".

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

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

	2008 EUR	2007 EUR
Balances with banks	3 981 408	10 143 289
Securities	1 852 747 679	1 878 019 332
marketable securities	1 703 986 030	1 670 786 028
held-to-maturity securities	148 761 649	207 233 304
Deposits	378 422 575	-
	<b>2 235 151 662</b>	<b>1 888 162 621</b>

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

The securities portfolio recorded under this heading includes:

- 1) The marketable securities portfolio contains government bonds and first rated bonds issued by companies outside the euro area denominated in euro. Securities are valued at market prices. As at 31 December 2008, their value at market prices included an unrealised loss amounting to 261.7 million euro (unrealised loss amounting to 51.3 million euro as at 31 December 2007).
- 2) The "Held-to-maturity" portfolio was created in 2007. These securities are meant to be held until maturity.

This portfolio is valued at amortised cost, purchase or transfer price adjusted by premiums, discounts and impairment. There were no purchases in 2008. Securities already in portfolios as at 31 December 2006 were transferred at accounting value as at 1 January 2007. Securities bought in 2007 were transferred at acquisition value. Securities held to maturity are valued as described and not at market price.

As at 31 December 2008 these securities amount to 148.8 million euro. The unrealised loss amounts to 63.1 million euro as at 31 December 2008. One security was impaired and resulted in a write-down amounting to 56.0 million euro as at 31 December

2008. Other unrealised losses are not booked as at 31 December 2008 as they do not relate to impairments.

Pursuant to Eurosystem rules, reclassifying of securities was done from "other financial assets" to this item as at 31 December 2008. Comparative balances for 2007 have been adjusted to reflect the change of disclosure policy.

### 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: :

	2008 EUR	2007 EUR
Main refinancing operations	23 465 778 885	24 125 912 740
Longer-term refinancing operations	16 614 638 538	8 788 861 490
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	-
Credits related to margin calls	-	-
	<b>40 080 417 423</b>	<b>32 914 774 230</b>

#### 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 tenders with one, three or six month maturities.

#### 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

Securities	2008 EUR	2007 EUR
marketable securities	3 569 101 117	3 021 362 156
held-to-maturity securities	158 811 324	159 391 904
	<b>3 727 912 441</b>	<b>3 180 754 060</b>

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The securities portfolio recorded under this heading includes:

- 1) The marketable securities portfolio 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 3,569.1 million euro as at 31 December 2008 (3,021.36 million euro as at 31 December 2007).
  - 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 at 31 December 2008, their value at market prices included an unrealised loss amounting to 81.1 million euro (unrealised loss amounting to 48.8 million euro as at 31 December 2007).
- 2) The "Held-to-maturity" portfolio was created in 2007. These securities are meant to be held until maturity.
  - This portfolio is valued at amortised cost, purchase or transfer price adjusted by premiums, discounts and impairment. There were no purchases in 2008. Securities already in portfolios as at 31 December 2006 were transferred at accounting value as at 1 January 2007. Securities bought in 2007 were transferred at acquisition value. Securities held to maturity are valued as described and not at market price. As at 31 December 2008 these securities amount to 158.8 million euro. The unrealised loss amounts to 0.6 million euro as at 31 December 2008. No unrealised losses have been booked as at 31 December 2008 as none relate to impairments.

Pursuant to Eurosystem rules, reclassifying of securities was done from "other financial assets" to this item as at 31 December 2008. Comparatives balances for 2007 have been adjusted to reflect the change of disclosure policy.

### 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. On 31 December 2008, the share that the BCL holds in the capital of the ECB is 0.1575%, which amounts to 10,668,158 euro, on a total of subscribed capital of the ECB of 5.761 billion euro (no change compared to 2007).

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 at 31 December 2008, the claim of the BCL amounts to 90,730,275 euro (no change compared to 2007).

#### 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 42.1 billion euro as at 31 December 2008 (18.3 billion euro as at 31 December 2007) and includes seigniorage income amounting to 2.7 million euro (no seigniorage income as at 31 December 2007).

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

	Buildings EUR	Furniture and equipment EUR	Software EUR	Other EUR	Total EUR
Cost as at 1 January 2008	91 304 750	12 148 472	5 760 127	-	109 213 349
Disposals	-	4 900	-	-	4 900
Acquisitions	597 724	788 536	165 066	36 846	1 588 172
<b>Cost as at 31 December 2008</b>	<b>91 902 474</b>	<b>12 932 108</b>	<b>5 925 193</b>	<b>36 846</b>	<b>110 796 621</b>
Accumulated depreciation as at 1 January 2008	30 070 498	9 411 312	4 441 749	-	43 923 559
Disposals	-	-	-	-	-
Depreciation	3 545 103	951 192	541 296	-	5,037 591
Accumulated depreciation as at 31 December 2008	33 615 601	10 362 504	4 983 045	-	48 961 150
<b>Net book value as at 31 December 2008</b>	<b>58 286 873</b>	<b>2 569 604</b>	<b>942 148</b>	<b>36 846</b>	<b>61 835 471</b>

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 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.

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:

	2008 EUR	2007 EUR
Other participating interests	161 850	170 226
Pension fund	87 955 547	88 987 746
	<b>88 117 397</b>	<b>89 157 972</b>

The other participating interests comprise the BCL's investments in 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 at 31 December 2008.

#### 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 2009) and other income receivable.

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### 11.4 Sundry

	2008 EUR	2007 EUR
Others	19 999 587	19 591 346
	<b>19 999 587</b>	<b>19 591 346</b>

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 (17.9 million euro as at 31 December 2008).

### 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 1,586.6 million euro (1,414.2 million euro as at 31 December 2007).

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

	2008 EUR	2007 EUR
Current accounts (covering the minimum reserve reserves)	16 513 643 449	10 779 720 531
Deposit facility	29 018 054 785	-
Fixed-term deposits	-	-
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	<b>45 531 698 234</b>	<b>10 779 720 531</b>

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

### 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 2008.

### 13.5 Deposits related to margin calls

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

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

#### 14.1 Liabilities to general government

This item records the amounts as follows:

	2008 EUR	2007 EUR
Current accounts	14 306	2 204 291
Account related to euro coins issued by the Treasury	176 900 673	161 326 870
Fixed-term deposit	210 000 000	270 000 000
	<b>386 914 979</b>	<b>433 531 161</b>

The item current accounts records an amount of 14,281 euro owed to the Luxembourg Treasury and an amount of 25 euro owed to the CCPL.

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 renewed on a monthly basis relates to the above-mentioned agreement.

### 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 - Contrepartie des droits de tirage spéciaux alloués par le FMI

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 18.7 million euro as at 31 December 2008 (SDR 17.0 million, or 18.2 million euro as at 31 December 2007).

### 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 cash desk's differences as at 31 December 2008.

### 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 at 31 December 2008 amount to 5.2 million euro (5.3 million euro as at 31 December 2007).

### Note 21 - Provisions

Provisions developed as follows :

	2008 EUR	2007 EUR
Provisions for banking risks	146 692 892	379 975 432
Provisions for pensions	95 533 306	90 823 880
Other provisions	50 000	50 000
	<b>242 276 198</b>	<b>470 849 312</b>

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### 21.1 Provisions for banking risks

Provisions for banking risks include the following items:

	2008 EUR	2007 EUR
Provision covering credit and market risk	27 757 214	176 811 696
Buffer against counterparty risks in Eurosystem	12 962 213	-
Provision covering operational risk	7 710 000	8 840 000
Provision covering liquidity risk	15 141 461	14 829 513
Provision covering interest rate risk	-	200 000
Provision for doubtful debts	42 827 781	-
	<b>106 398 669</b>	<b>200 681 209</b>

### Provisions for general banking risks

	2008 EUR	2007 EUR
Provision for liabilities resulting from monetary agreement	32 341 954	32 341 954
Other provision for general banking risks	7 952 269	146 952 269
	<b>40 294 223</b>	<b>179 294 223</b>
	<b>146 692 892</b>	<b>379 975 432</b>

Due to market evolution in 2008, a part of the provisions previously created had to be used to offset the inherent risk on monetary policy operations as well as write-downs related to the application of the prudent Eurosystem accounting rules.

#### 21.1.1 Provision covering credit and market risk

As at 31 December 2008, the provision amounts to 27.8 million euro (176.8 million euro as at 31 December 2007).

In 2008, the BCL did not pursue its existing provision policy. However, the BCL's aim is to target a rate of 4% on all items in the medium term.

#### 21.1.2 Buffer against counterparty risks in Eurosystem

In accordance with the general accounting principle of prudence, the Governing Council has deemed it appropriate to establish a buffer totaling 5,736,000,000 euro against counterparty risks in monetary policy operations. In accordance with Article 32.4 of the ESCB Statute, this buffer will be funded among all national central banks of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in 2008. As a result, the BCL created, as at 31 December 2008, a provision amounting to 12,962,213 euro equivalent to 0.22598% of the total provision.

#### 21.1.3 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).

In 2008, the average has been based on previous years in accordance with the rules.

#### 21.1.4 Provision for doubtful debts

The provision for doubtful debts was created as at 31 December 2008 to cover non paid interests amounting to 41.0 million euro and non paid coupons amounting to 1.8 million euro.

#### 21.1.5 Provision for liabilities resulting from monetary agreements

The provision for liabilities resulting from monetary treaties created in order to face any future monetary liabilities monetary liabilities did not changed in 2008.

#### 21.1.6 Other provision for general banking risks

As described in note 21.1, for prudence's sake and to safeguard its assets, the BCL reversed a part of its pro-

vision for general banking risks in 2008 for an amount of 139 million euro.

### 21.2 Provisions for pensions

Provisions for pensions include the following items:

	2008 EUR	2007 EUR
Provision for pensions	93 991 688	88 432 010
Provision for equalisation and financial risks	-	850 252
Provision for increase of PBO	1 541 618	1 541 618
	<b>95 533 306</b>	<b>90 823 880</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 amounted to 94.0 million euro as at 31 December 2008 (88.4 million euro as at 31 December 2007).

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 ;
- pension payments to retirees
- 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 totally used in 2008.

#### 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 did not changed in 2008.

#### 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 Réserves

The reserves amount to 147.3 million euro (142.9 million euro as at 31 December 2007). This amount was increased by 4.4 million euro in 2008 following the allocation of profit for 2007 according to the decision of the BCL's Council and its Founding Law (Article 31).

#### Note 24 - Foreign exchange swap

This item includes forward liabilities to the ECB as at 31 December 2008 which arose in connection with the US dollar Term Auction Facility established by the Federal Reserve (see also note 5 "Claims on euro area residents denominated in foreign currency").

## 4. THE BCL AS AN ORGANISATION

In connection with the same programme, forward claims arising from the swap transactions with Eurosystem counterparties for the provision of US dollar liquidity against euro cash, were also outstanding. In addition, off-balance-sheet items include forward liabilities to the ECB and forward claims against Eurosystem counterparties outstanding as at 31 December 2008, which arose in connection with the provision of Swiss franc funding to Eurosystem counterparties. Swiss francs were provided by the Swiss National Bank to the ECB by means of swap arrangement. The ECB simultaneously entered into swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct Swiss franc liquidity-providing operations with the Eurosystem counterparties against euro cash in the form of swap transactions. The swap transactions between the ECB and NCBs resulted in intra-Eurosystem balances reported under "Other claims within the Eurosystem(net)".

### Note 25 - 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 at 31 December 2008, the market value of these securities amounts to 265.1 billion euro (219.7 billion euro as at 31 December 2007).

### Note 26 - Foreign currency reserve assets administered 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 can be 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 at 31 December 2008, the total liabilities related to these forward contracts amount to 83.2 million euro (no such liabilities existed in 2007). 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 at 31 December 2008, no change compared to 2007.

### 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 EUR		Amounts in euro EUR	
	2008	2007	2008	2007
IMF	788 239	1 273 454	-	-
Monetary policy	-	-	1 362 854 926	1 468 637 585
Intra-Eurosystem claims	-	-	988 580 261	456 897 715
Securities	4 722 149	4 899 994	266 088 544	221 992 931
Gold	315 713	331 612	-	-
Other	137 756 418	7 550 781	25 829 595	3 876 387
<b>Total</b>	<b>143 582 519</b>	<b>14 055 841</b>	<b>2 643 353 326</b>	<b>2 151 404 618</b>

### Composition of interest expense

	Amounts in foreign currency EUR		Amounts in euro EUR	
	2008	2007	2008	2007
IMF	(476 292)	(762 600)	-	-
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	-	(470 702 816)	(341 757 536)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	-	(1 937 193 702)	(1 667 852 566)
Other intra-Eurosystem liabilities	-	-	(99 331)	(41 847)
Interests on term deposits	-	-	(7 532 465)	(8 597 639)
Other liabilities	(12 120 431)	(5 755 533)	(3 433 167)	(3 042 037)
Interest on swap operation	(124 383 028)	(954 995)	-	-
<b>Total</b>	<b>(136 979 751)</b>	<b>(7 473 128)</b>	<b>(2 418 961 481)</b>	<b>(2 021 291 625)</b>

The increase in net interest income is due to the increase of "spreads" and of average volumes during the year.

## 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 2008, they amounted to 18.4 million euro (26.0 million euro as at 31 December 2007) and to 21.0 million euro (23.9 million euro as at 31 December 2007) respectively, making a net loss of 2.6 million euro (a net income of 2.1 million euro as at 31 December 2007).

### Note 30 - Write-downs on financial assets and positions

This item includes revaluation losses on securities for 377.5 million euro, on currency for 0.002 million euro and on futures for 0.2 million euro (revaluation losses on securities for 74.6 million and on currency for 10.7 million euro in 2007).

### 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 excluding the buffer against counterparty risks in Eurosystem (see note 34).

### Note 32 - Net result from fees and commissions

Fees and commissions income and expense are as follows :

	Fees and commissions income		Fees and commissions expense	
	EUR		EUR	
	2008	2007	2008	2007
Securities	15 543 097	13 705 964	(15 374 090)	(13 556 025)
Other	1 336 736	1 114 896	(55 675)	(128 088)
<b>Total</b>	<b>16 879 833</b>	<b>14 820 860</b>	<b>(15 429 765)</b>	<b>(13 684 113)</b>

### Note 33 - Income from participating interest

This item includes the dividend distributed by the European Central Bank.

In 2008, the ECB's income on euro banknotes in circulation was partly distributed (no distribution in 2007). BCL's part amounted to 2.7 million euro as at 31 December 2008.

### Note 34 - Net result of pooling of monetary income

The monetary income of each Eurosystem NCB 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 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.

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 (0.22598% for the BCL in 2008).

### Calculation of net monetary income allocated to the BCL:

	2008	2007
Monetary income pooled by BCL	(119.4)	(81.0)
Monetary income reallocated to BCL	62.2	52.5
Net result arising from the calculation of monetary income	(57.2)	(28.5)

As at 31 December 2008, this item also includes the transfer to the buffer against counterparty risks in Eurosystem amounting to 12.9 million euro, as described in note 21.1.2.

### Note 35 - Other income

Other income includes revenue for services rendered to third parties, transfers from administrative provisions, income from "Monterey building" renting and income from numismatic activities.

Other income includes also BCL's revenue from financial agreement between the State of Luxembourg and BCL.

Since 2008, this item also includes the recovered functioning costs of EPCO (Eurosystem Procurement Co-ordination Office).

### 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 511,570 euro for the year 2008 (500,980 euro for the year 2007).

As at 31 December 2008, the BCL employed 238 persons (219 as at 31 December 2007). The average number

of persons working for the BCL from 1 January to 31 December 2008 was 226 (211 for the year 2007).

### Note 37 - Administrative expenses

This item includes all general and recurring expenses, meaning leasing, 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 76,019 euro in 2008 (74,493 euro in 2007).

### 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 and costs related to numismatic activities.

### Note 41 - Post-balance-sheet events

On 1 January 2009 due to quinquennial changes in Eurosystem and the entry of national central bank of Slovakia in Eurosystem, the BCL's Eurosystem participation key changed from 0.22598% to 0.25032%. BCL's key in ESCB changed from 0.1575% to 0.1747%.



## 4. THE BCL AS AN ORGANISATION

BCNs participations are as follows:

Country	Capital key	Capital key	Eurosystem key	Eurosystem key
	1 January 2009	1 January 2008	1 January 2009	1 January 2008
	%	%	%	%
Belgium	2.4256	2.708	3.47549487	3.54509493
Danmark	1.4835	1.5138		
Germany	18.9373	20.5211	27.13410659	29.44360031
Greece	1.9649	1.8168	2.81538583	2.60673809
Spain	8.3040	7.5498	11.89829707	10.83242582
France	14.2212	14.3875	20.37669344	20.64313314
Ireland	1.1107	0.8885	1.59145455	1.27481660
Italy	12.4966	12.5297	17.90561888	17.97756839
Luxembourg	0.1747	0.1575	0.25031702	0.22598043
Netherlands	3.9882	3.8937	5.71444947	5.58666672
Austria	1.9417	2.0159	2.78214396	2.89240605
Portugal	1.7504	1.7137	2.50804181	2.45881058
Finland	1.2539	1.2448	1.79663713	1.78603455
Sweden	2.2582	2.3313		
United Kingdom	14.5172	13.9337		
Czech Republic	1.4472	1.3880		
Estonia	0.1790	0.1703		
Cyprus	0.1369	0.1249	0.19615569	0.17920607
Latvia	0.2837	0.2813		
Lituania	0.4256	0.4178		
Hungary	1.3856	1.3141		
Malta	0.0632	0.0622	0.09055544	0.08924434
Poland	4.8954	4.8748		
Slovenia	0.3288	0.3194	0.47111754	0.45827397
Slovak Republic	0.6934	0.6765	0.99353073	
Bulgaria	0.8686	0.8833		
Romania	2.4645	2.5188		
<b>Total</b>	<b>100.0000</b>	<b>100.0000</b>	<b>100.00000000</b>	<b>100.00000000</b>