



04

THE BCL
AS AN
ORGANISATION

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THE BCL AS AN ORGANISATION

4.1 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 2009, the Council consisted of the following members:

Governor: Yves Mersch
Members: Pierre Beck (as from 1 June 2009)
Andrée Billon (until 30 April 2009)
Pit Hentgen
Serge Kolb
Patrice Pieretti
Jacques F. Poos
Romain Schintgen
Michel Wurth
Claude Zimmer

During 2009, 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 2008, the budgetary trends and subsequently, the budget for the 2010 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.



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

The Audit Committee

Since 2001, the Audit Committee has assisted 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 2009, the Council nominated the non-executive members of the Audit Committee for 2010: Messrs Patrice Pieretti, Jacques F. Poos and Claude Zimmer. Mr Yves Mersch is an *ex officio* member in his function as President of the Council. In 2009, the Audit Committee was chaired by one of its non-executive members, Mr Pit Hentgen, and 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:

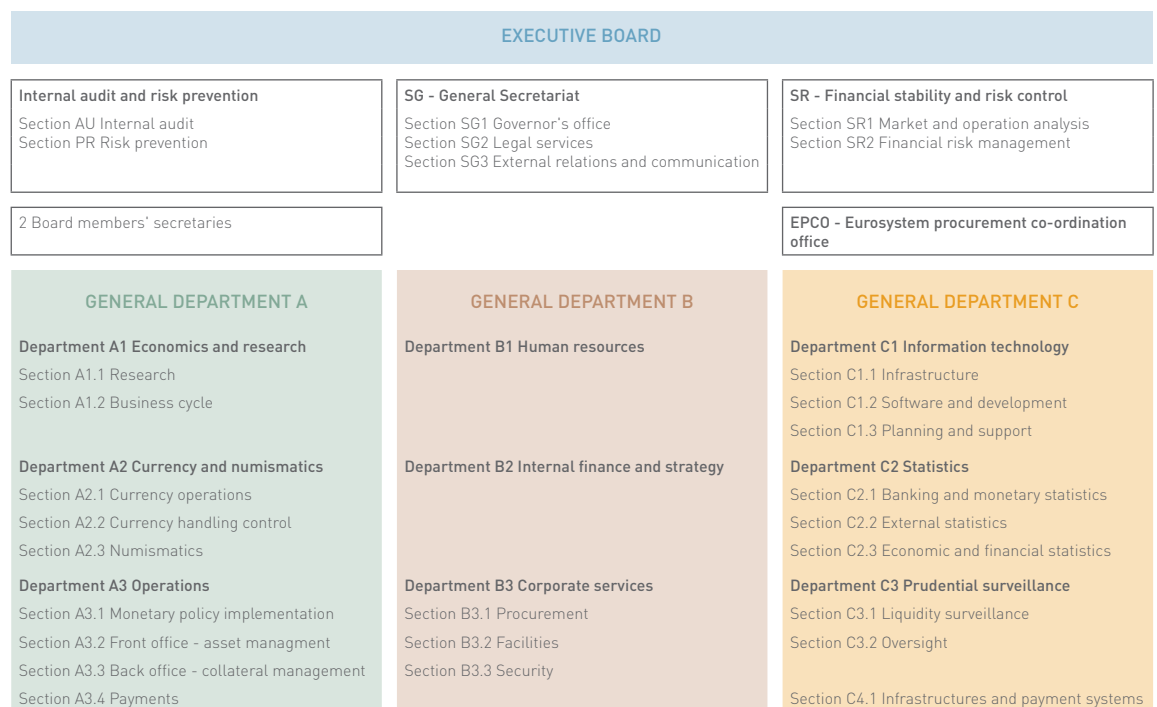
Director-General: Yves Mersch

Directors: Serge Kolb, Andrée Billon (until 30 April 2009) and Pierre Beck (as from 1 June 2009)



Mr Serge Kolb, Mr Yves Mersch, Mr Pierre Beck

The organisation chart of the BCL (as from 1 February 2010)



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:

	2009 €	2008 €
Yves Mersch (Director general)	159 816	155 004
Serge Kolb (Director)	148 582	144 108
Andrée Billon (Director, January - April 2009)	49 155	144 108
Pierre Beck (Director, June - December 2009)	91 780	-
Total	449 333	443 220

Besides, in relation to their function within the Bank, board members are entitled to the payment of a representation allowance (for a total amount of 69 078 euro in 2009) and to a BCL's Council allowance (for a total amount of 32 717 euro in 2009).

4.2 CORPORATE GOVERNANCE

4.2.1 The internal control system

The BCL's internal control system is based on generally accepted principles in the financial sector and the ESCB taking into consideration the BCL's specific needs as a central bank.

The Executive Board has defined the general framework and principles of the internal control system. 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 an adequate segregation of duties. These units are the Financial stability and Financial risk management unit, the Risk Prevention unit as well as the Controlling function within the Internal Finance and Strategy department.

The Financial stability and Financial risk management unit is in particular in charge of the analysis of markets and operations, as well as financial risk management. One of its sections concentrates on systemic risk management, whereas the other section is in charge of managing risks related to monetary policy and financial risks related to the management of own funds.

The Risk Prevention unit is in charge of the management of operational risks, of the management of risks related to information systems and of the Compliance function.

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 managers have the following responsibilities:

- Establish a common methodology for risk analysis;
- Provide assistance in the identification and evaluation of risks;
- Ensure a periodical reporting.

The purpose of the Compliance function is to ensure that the BCL's activities are conforming to laws, rules and professional ethical standards, thus preventing the Bank's risk of non-compliance.

The Compliance function covers in particular the following domains:

- anti-money laundering (AML) and financing of terrorist activities,
- professional code of ethics,
- prevention of insider trading and market abuse,
- conflict of interests,
- professional secrecy and confidentiality,
- privacy and protection of personal data,
- regulation of public markets.

The Controlling function is in charge of ensuring the good execution of the budgetary procedures in the frame of the annual budget, as well as supervising the execution of the budget in the course of the year by verifying its utilisation and by analysing the gaps in the budget versus actual expenses. Furthermore, it is in charge of the oversight of projects and of the operational performance.

The Internal Audit unit ensures a second layer of control with the independent and objective assessment of the internal control system and its functioning. This unit analyses and evaluates, on the basis of predefined objectives and a specified methodology, the adequacy and effectiveness of the existing internal control system. Internal Audit is a supervisory unit independent of the BCL's other administrative units and reports directly to the President of the Council.

Finally, the Audit Committee is informed on the organisation of internal controls and of the risk management as well as their functioning.

4.2.2 External control

A first level of external controls on the Bank's activities is performed by the external auditor, nominated by the Government, who verifies the Bank's financial accounts. Moreover, the external auditor is mandated by the Bank's Council to perform yearly additional verifications and specific controls. At the European level, the external auditor of the BCL is approved by the Council of Ministers upon recommendation of the Governing Council of the ECB. In this context, the external auditor is also entrusted with the performance of a certain number of specific engagements at Eurosystem level.

The statutes of the ESCB and of the ECB provide that National Central Banks act in accordance with ECB guidelines and instructions. The respect of these provisions is monitored at European level by the Governing Council of the ECB which may request any complementary information.

4.2.3 Code of Conduct

The Code of Conduct defining the internal and external rules of conduct applicable to all staff members was reviewed in 2009. The Code is valid without prejudice to the rules defined by the public services legislation, the social legislation as well as existing contractual commitments and prescribes ethical standards of non-discrimination, solidarity, efficiency, and independence, to which BCL's staff has to adhere strictly.

Since 2002, the Governing Council adopted a particular Code of Conduct introduced by the European Central Bank requiring particular strict professional adherence to ethical standards by its members individually. The members of the Governing Council shall prove honesty, independence, impartiality, and discretion. The members shall not consider their personal interests and shall avoid any situation that may lead to a conflict of interests.

These obligations extend one year after the termination of their function. The conditions to participate in conferences, receptions or cultural events are also specified in the Code of Conduct. The Governors are invited to be particularly careful regarding individual invitations. The same rules apply to their spouses or partners who are equally obliged to respect the generally accepted rules concerning international relations.

4.3 EUROSISTEM SERVICES

4.3.1 The Eurosystem Procurement Coordination Office (EPCO)

In December 2007, the Governing Council of the ECB designated the Banque centrale du Luxembourg to host a new coordination function, the "Eurosystem Procurement Coordination Office", from 1 January 2008 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 procurement experts of the participating Central Banks met six times during the course of 2009 and, in particular, the activity of exchange of best practices gave rise to the creation of a reference set of information regarding public procurement procedures for all the participating Central Banks. This activity will continue in 2010 with a view to making a complete reference set available in 2012.

In order to provide a framework for joint procurement procedures, documents for essential operational procedures were developed to define the roles and responsibilities of those involved and to record the results of the deliberations of the Expert Groups.

In 2009, the first joint procurement programme was launched and significant progress was made in a number of areas. Studies in areas identified in the 2009 programme have given rise to several specific proposals for joint procurement. In December 2009, the Governing Council of the ECB approved the EPCO Procurement Plan 2010 which is even more ambitious than the 2009 Plan. Six specific joint procurement proposals resulting from studies conducted in 2009 were approved, as well as a seventh specific proposal and a new area for study.

In May 2009, the Governing Council of the ECB also approved EPCO's Annual Activity Report for 2008. This report also included the execution of the 2008 budget and the distribution of EPCO's operational costs between the participating Central Banks. Preparatory work started in 2009 with the EPCO Steering Committee in order to present a review of the operation of EPCO during 2010. The intention is to analyse the experience acquired at the half-way stage of the 5-year mandate, to provide recommendations where appropriate and, if required, propose modifications to the way EPCO operates.

In December 2009, the Governing Council of the ECB approved 1.37 €Mio as the Budget for 2010 for EPCO.

4.4 THE BCL STAFF

4.4.1 Quantitative evolution

During 2009, the BCL staff increased by 3.78% to reach a total of 247 members of staff on 31 December 2009, equivalent to 230.25 full time positions and representing a 4.30% increase compared to 2008. Staff members are of 17 different nationalities, thus contributing to the diversity of the human capital and to its cultural enrichment.

On 31 December 2009, thirty-three staff members worked part-time:

- Part-time work (50%): 10 staff members
- Part-time work (75%): 9 staff members
- Leave for part-time work: 14 staff members

Seven staff members were on full-time parental leave and five staff members were on part-time parental leave.

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

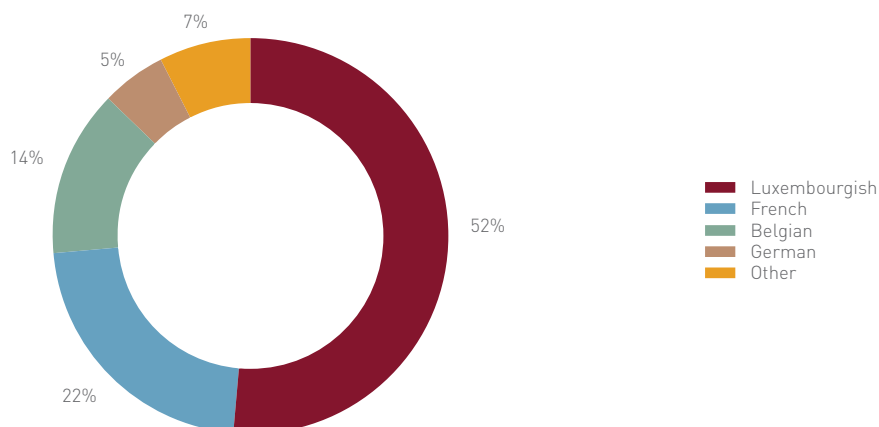
The average number of staff members working at the BCL in 2009 was of 245, compared to 229 in 2008.

The overall approved headcount ceiling for the year 2009 was 238 full time equivalent positions. This ceiling has been increased to 243 full time equivalent positions for the year 2010.

During 2009, twelve staff members left the bank. On the other hand, twenty-one new staff members joined the bank during 2009. There were some 352 applications to job advertisements at the bank. Furthermore, the BCL received 350 spontaneous job applications and 234 applications for internships or student jobs.

The BCL offered internships for a period from six weeks to two months to twelve students attending university studies related to the bank's activities and, furthermore, a subsidized internship to five students.

Chart 4.1:
Staff members by nationality



The average age of BCL staff members has increased from 40.05 years in 2008 to 40.69 years on 31 December 2009. On this date, the staff comprised 36% women and 64% men.

Chart 4.2:
Distribution of staff members per age group

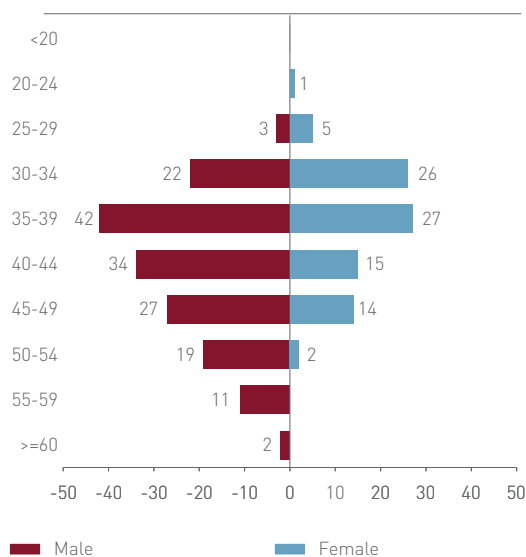
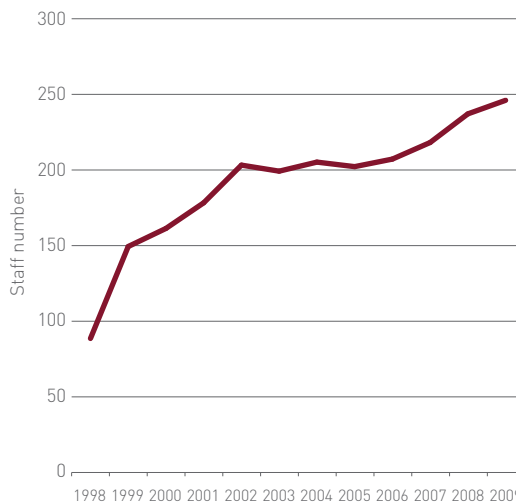


Chart 4.3:
Evolution in staff members since 1998



The staff evolution in full time equivalent during 2009 appears as follows:

	2009	2008
On 1 st of January	223.75	207.50
Recruitments	12.50	16.25
On December 31	236.25	223.75
Average head-count	228.52	214.19

4.4.2 Management of human resources and training

Recruitment has continued to request a special effort, and was mainly due to new powers conferred on the Bank and the strengthening of financial stability and risk management. The internal training effort focuses on the various fields of competence of the BCL. This is particularly important in the integration of new recruits. Depending on the availability of trainers, the courses in question may also be held outside the Bank for third parties.

4.4.3 The Pension Fund

Article 14 of the 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.

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.

4.5 FACILITIES

Work to upgrade several technical installations was carried out in 2009.

From a budgetary point of view, the project related to the new "Monterey building" was terminated in 2009.

The initial budget was €25.9 million, whereas final cost amounted to €25.3 million.

From an administrative point of view, 2 public tenders, for office furniture and for office equipment, were undertaken in close collaboration with the procurement office of the BCL.

It is also worth mentioning that during 2009 investigations were made in order to find additional office space.

Indeed, due to ongoing recruitment of staff, the "site Royal" of the BCL will reach its maximal capacity at the end of 2010.

4.6 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 2009, BCL continued to take part in the working group relating to the operations on Eurosystem's financial matter 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 controlling systems in place proved to be effective during the year.

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, i.e. according to the respective sections and units, and it permits to allocate the costs of each of the Bank's activities. In 2010, 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 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.

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.

In 2009, research to select a new software of follow-up portfolio of securities continued.

4.7 BUDGET

The setting-up of the annual budget is foreseen by the Organic Law of the BCL and forms part of a multi-year planning exercise whose primary aim is to ensure financial stability in the long term. The budget of the BCL reflects the corporate values of the Bank, which are:

- professionalism;
- quality in the provision of services;
- stability ensured by a long-term perspective;
- objectivity by precise rules applied equally to all addressees;
- integrity resulting from the transparency of operations and the respect of professional ethics.

The 2009 budget of the bank was drawn up under the terms of the budgetary procedure and the guidelines endorsed by the Council on 10 July 2008. The 2009 budget was approved by the Council on 11 December 2008.

The budget increase for 2009 was justified as follows:

- The international financial crisis prompted the Luxembourg legislator to enact new legislation in order to improve the financial sector's legal framework. This new law assigned additional tasks to the BCL in the field of surveillance and financial stability. In parallel, the BCL is currently implementing a multiyear programme to establish new statistics in the economic and financial sectors. These new tasks require a reinforcement of the staff of the Bank in both operational and support units.
- The financial crisis also increased the risks inherent to the securities portfolio of the Bank. These risks are to be phased out while retaining a high return. To this end, reinforcing the risk management team was foreseen as well as additional investments in IT and management related tools.
- The human resources budget includes automatic increases in grades and echelons, the increase of the index at 1 March 2009 and the wage agreement for public sector.

- The increase of operational expenditure excluding staff costs should not exceed the rate of inflation measured by the general index of national consumer prices index excluding energy (NCPI) which is projected at 2.2% for the year 2009 according to the latest general macroeconomic forecasts available. Increases which are linked to approved projects do not fall within the scope of this guidance.

The Internal Finance Department supervises the execution of the internal budget and prepares quarterly reports to the attention of the management. At the end of each fiscal year, a detailed analysis of the gaps observed between budget and actual expenditure is established. This analysis is submitted to the Executive Board and to the Council of the Bank for information and approval, and the lessons learned are taken into account for preparing future budgets.

The actual expenditure at 31 December 2009 of operating and investment cost remained within the limits set by the budget.

4.8 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 to 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 directly reports to the President of the Bank.

The internal annual 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 2009, the Internal Audit unit performed various reviews in the areas of accounting, reserve management services, banknotes, monetary and financial statistics, payment systems, pension fund management, information systems, wages and budget management, as well as in the context of various projects.

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

4.9 FINANCIAL STATEMENTS AS AT 31 DECEMBER 2009

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.

4.9.1 Key figures

	2008	2009	Change in% 2009/2008
Total assets	100 645 076 227	77 049 043 144	-23%
Banks' current accounts	45 531 698 234	13 488 516 285	-70%
Claims on credit institutions	40 080 417 423	15 156 000 000	-62%
Own funds ⁽¹⁾ , revaluation accounts, administrative provisions and specific banking risks	407 930 091	752 914 346	85%
Net result of banking activities ⁽²⁾	-147 779 763	233 429 734	-
Total net revenues	47 153 802	53 742 397	14%
Administrative expenses	39 286 085	42 223 811	7%
Net profit	2 830 126	6 804 200	140%
Cash Flow ⁽³⁾	139 262 942	191 721 401	38%
Staff	238	247	4%
BCL's part in the capital of the ECB	0.1575%	0.1747%	
BCL's part in the Eurosystem's monetary policy operations	4.674%	2.021%	

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

(2) Net adjusted 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

4.9.2 Report of the Independent Auditor

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

REPORT OF THE REVISEUR D'ENTREPRISES

We have audited the accompanying financial statements ("les comptes financiers") of Banque centrale du Luxembourg, which comprise the balance sheet as at December 31, 2009 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The financial statements are the responsibility of the Executive Board and are approved by the Council. The Executive Board is 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 judgement 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, 2009, 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.

Luxembourg, March 17, 2010

KPMG Audit S.à r.l.
Réviseurs d'Entreprises

K. Riehl

S. Chambourdon

4.9.3 Balance sheet as at 31 December 2009

ASSETS	Note	2009 EUR	2008 EUR
Gold and gold receivables	3	55 490 933	45 352 938
Claims on non-euro area residents denominated in foreign currency	4	505 915 151	239 317 662
– Receivables from the IMF		321 492 295	54 694 836
– Balances with banks, security investments, external loans and other external assets		184 422 856	184 622 826
Claims on euro area residents denominated in foreign currency	5	71 067 245	10 825 738 929
Claims on non-euro area residents denominated in euro	6	1 601 110 558	2 235 151 662
– Balances with banks, security investments and loans		1 601 110 558	2 235 151 662
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	15 156 000 000	40 080 417 423
– Main refinancing operations	7.1	1 953 000 000	23 465 778 885
– Long-term refinancing operations	7.2	13 203 000 000	16 614 638 538
Other claims on euro area credit institutions denominated in euro	8	1 010 269 125	579 866 874
Securities of euro area residents denominated in euro	9	3 910 225 687	3 727 912 441
– Securities held for monetary policy purposes	9.1	45 317 335	-
– Other securities	9.2	3 864 908 352	3 727 912 441
Intra-Eurosystem claims	10	52 572 646 254	42 167 907 000
– Participating interest in ECB	10.1	15 784 953	10 668 158
– Claims related to the transfer of foreign reserves	10.2	100 638 597	90 730 275
– Other claims within the Eurosystem	10.3	52 456 222 704	42 066 508 567
Items in course of settlement		1 476	43 666
Other assets	11	2 166 316 715	743 367 631
– Tangible and intangible fixed assets	11.1	58 284 450	61 835 471
– Other financial assets	11.2	103 583 005	88 117 397
– Off-balance sheet instruments revaluation differences		-	303 493 840
– Accruals and prepaid expenses	11.3	195 684 787	269 921 336
– Sundry	11.4	1 808 764 473	19 999 587
Total assets		77 049 043 144	100 645 076 226

LIABILITIES	Note	2009 EUR	2008 EUR
Banknotes in circulation	12	1 858 777 355	1 586 572 000
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	13 488 516 285	45 531 698 234
– Current accounts (covering the minimum reserve system)	13.1	7 986 042 119	16 513 643 449
– Deposit facility	13.2	5 502 474 166	29 018 054 785
Liabilities to other euro area residents denominated in euro	14	343 930 484	386 914 979
– General government	14.1	343 928 072	386 914 979
– Other liabilities		2 412	-
Liabilities to non-euro area residents denominated in euro	15	1 173 715 978	1 011 538 123
Liabilities to non-euro area residents denominated in foreign currency	16	74 107 887	58 164 107
Counterpart of special drawing rights allocated by the IMF	17	268 473 209	18 731 884
Intra-Eurosystem liabilities	18	58 701 341 155	51 035 405 545
– Net liabilities related to the allocation of euro banknotes within the Eurosystem	18.1	58 701 341 155	51 035 405 545
Items in course of settlement	19	471	11
Other liabilities	20	190 324 104	514 129 564
– Accruals and income collected in advance		155 909 204	480 965 514
– Sundry		34 414 900	33 164 050
Provisions	21	448 753 796	242 276 198
Revaluation accounts	22	319 126 822	84 474 183
Capital and reserves	23	175 171 398	172 341 272
– Capital	23.1	175 000 000	25 000 000
– Reserves	23.2	171 398	147 341 272
Profit for the year		6 804 200	2 830 126
Total liabilities		77 049 043 144	100 645 076 226

4.9.4 Off-balance sheet as at 31 December 2009

	Note	2009 EUR	2008 EUR
Foreign exchange swap	24	-	15 002 234 740
Custody deposits	25	222 784 229 418	265 077 244 845
Foreign currency reserve assets managed on behalf of the ECB	26	273 110 588	255 797 786
Forward transactions	27	127 133 000	83 248 000
Numismatic collection		205 829	205 012
		223 184 678 835	280 418 730 383

4.9.5 Profit and loss account for the year 2009

	Note	2009 EUR	2008 EUR
Interest income	28	1 164 838 071	2 786 935 844
Interest expense	28	(915 296 255)	(2 555 941 232)
Net interest income	28	249 541 816	230 994 612
Realised gains / (losses) arising from financial operations	29	54 405 713	(2 584 464)
Write-downs on financial assets and positions	30	(20 885 405)	(377 639 979)
Transfer to/from provisions for foreign exchange rate and price risks	31	(199 519 974)	246 244 754
Net result of financial operations, write-downs and risk provisions		(165 999 666)	(133 979 689)
Fees and commissions income	32	19 555 931	16 879 833
Fees and commissions expense	32	(17 765 097)	(15 429 765)
Net result from fees and commissions	32	1 790 834	1 450 068
Income from participating interest	33	2 233 833	2 724 591
Net result of pooling of monetary income	34	(41 674 274)	(70 197 318)
Other income	35	7 849 854	16 161 538
Total net income		53 742 397	47 153 803
Staff costs	36	(25 846 425)	(23 226 084)
Other administrative expenses	37	(8 873 967)	(8 861 201)
Depreciation of tangible and intangible fixed assets	11.1, 38	(4 714 386)	(5 037 591)
Banknote production services	39	(1 133 127)	(722 786)
Other expenses	40	(6 370 292)	(6 476 014)
Profit for the year		6 804 200	2 830 126

4.9.6 Notes to the financial statements as at 31 December 2009

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;
- continuity of methods and comparability;
- relative significance;
- going concern concept;
- recording of charges and income in the accounting period they relate to.

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

Following the decisions of the Governing Council of 7 May and 4 June 2009 the European Central Bank (ECB) and the National Central Banks (NCBs) started to purchase for monetary policy purposes euro-denominated covered bonds issued in the euro area. These securities are valued at amortised cost and are subject to impairment tests.

The other 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 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 ECB and the participating 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 distributed in full in 2009 (partly distributed in 2008). The payment was made on the second working day of 2010. 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 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, as modified, the pension claims of the BCL's staff members were fully supported by the BCL. The pension fund aims to cover the risks related to ageing, infirmity and survival, and 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 and decrease by pension payments to retirees. At the year end, the provision is adjusted by the actuarial value. 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 at 31 December 2009, BCL held 409.67 ounces of fine gold amounting to 0.3 million euro (968.42 ounces of fine gold amounting to 0.6 million euro as at 31 December 2008) and a top-rated gold bond issued by the International Bank for Reconstruction and Development purchased in 2002 and valued at 55.2 million euro (44.8 million euro as at 31 December 2008).

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 2009.

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

	2009 EUR	2008 EUR
Receivables from the IMF	321 492 295	54 694 836
Balances with banks, security investments, external loans and other external assets	184 422 856	184 622 826
	505 915 151	239 317 662

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 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.

In 2009, an amount of SDR 229 667 459 was allocated to Luxembourg under the general allocation (SDR 206 899 565, in August 2009) and under the Fourth Amendment (SDR 22 767 894, in September 2009).

- 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 176.9 million euro as at 31 December 2009 (167.5 million euro as at 31 December 2008), mainly 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 2009, their value at market prices included an unrealised gain amounting to 2.9 million euro (unrealised gain amounting to 4.0 million euro as at 31 December 2008).

Balances with banks amounted to 7.5 million euro as at 31 December 2009 (2.4 million euro for balances with banks and 14.7 million euro for deposits as at 31 December 2008).

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

This item decreased significantly. As at 31 December 2009, this item includes only BCL's balances denominated in foreign currency with counterparties inside the euro area.

As at 31 December 2008, this item included mainly a claim arising from reverse operations with Eurosystem counterparties amounting to 10 769.0 million euro 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.

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

	2009 EUR	2008 EUR
Balances with banks	8 920 212	3 981 408
Securities	1 482 633 679	1 852 747 679
- marketable securities	1 382 466 794	1 703 986 030
- held-to-maturity securities	100 166 885	148 761 649
Deposits	109 556 667	378 422 575
	1 601 110 558	2 235 151 662

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:

- 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 2009, their value at market prices included an unrealised loss amounting to 92.6 million euro (unrealised loss amounting to 261.7 million euro as at 31 December 2008).
- 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 and in 2009. 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 2009 these securities amount to 100.2 million euro (148.8 million euro as at 31 December 2008). The unrealised loss amounts to 57.4 million euro as at 31 December 2009 (unrealised loss amounting to 63.1 million euro as at 31 December 2008). One security was impaired in 2008 and 2009. The adjusted write-down amounts to 54.2 million euro as at 31 December 2009.

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:

	2009 EUR	2008 EUR
Main refinancing operations	1 953 000 000	23 465 778 885
Longer-term refinancing operations	13 203 000 000	16 614 638 538
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	-
Credits related to margin calls	-	-
	15 156 000 000	40 080 417 423

The total Eurosystem holding of monetary policy assets amounts to 749 906 million euro of which BCL holds 15 156 million euro. In accordance with Article 32.4 of the Statutes, any risks from monetary policy operations, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

As at 31 December 2008, this item included lending to credit institutions which defaulted in 2008. According to a Eurosystem decision, these claims were reclassified to item "Other assets – sundry" in 2009.

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 tenders with one, three, six or twelve-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.

7.5 Marginal lending facility

This sub-item records a standing facility enabling counterparties to obtain overnight 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.

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

	2009 EUR	2008 EUR
Securities held for monetary policy purposes	45 317 335	-
Other securities	3 864 908 352	3 727 912 441
- marketable securities	3 706 676 021	3 569 101 117
- held-to-maturity securities	158 232 331	158 811 324
	3 910 225 687	3 727 912 441

In order to report securities held for monetary policy purpose separately, the item "Securities of euro area residents denominated in euro", has been divided into two sub-positions: "Securities held for monetary policy purposes", which was introduced in order to reflect the euro-denominated covered bond portfolio, which commenced in July 2009; and "Other securities", which includes marketable and non-marketable securities that are not related to the monetary policy operations of the Eurosystem.

9.1 Securities held for monetary policy purposes

This item contains securities acquired by BCL within the scope of the purchase programme for covered bonds announced by the Governing Council on 7 May 2009.

These securities are valued at amortised cost and are subject to impairment tests.

As at 31 December 2009 these securities amount to 45.3 million euro. The unrealised loss amounts to 0.08 million euro as at 31 December 2009.

Write-downs would be done on these securities in case of impairment.

9.2 Other securities

The securities portfolio recorded under this heading includes:

- 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 3 706.7 million euro as at 31 December 2009 (3 569.1 million euro as at 31 December 2008).

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 2009, their value at market prices included an unrealised loss amounting to 26.7 million euro (unrealised loss amounting to 81.1 million euro as at 31 December 2008).

- 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 and in 2009. 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 2009 these securities amount to 158.2 million euro (158.8 million euro as at 31 December 2008). The unrealised loss amounts to 1.2 million euro as at 31 December 2009 (unrealised loss amounting to 0.6 million euro as at 31 December 2008). No unrealised losses have been booked as none relate to impairments.

Note 10 - Intra-Eurosystem claims

10.1 Participating interest in ECB

Pursuant to Article 28 of the ESCB Statutes, 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 Statutes and which are subject to adjustment every five years.

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

From 1 January 2009, BCNs participations in ESCB are as follows:

Country	Participating key in ESCB (%)	
	from 1 January 2009	until 31 December 2008
Belgium	2.4256	2.4708
Germany	18.9373	20.5211
Ireland	1.1107	0.8885
Greece	1.9649	1.8168
Spain	8.3040	7.5498
France	14.2212	14.3875
Italy	12.4966	12.5297
Cyprus	0.1369	0.1249
Luxembourg	0.1747	0.1575
Malta	0.0632	0.0622
Netherlands	3.9882	3.8937
Austria	1.9417	2.0159
Portugal	1.7504	1.7137
Slovenia	0.3288	0.3194
Slovak Republic	0.6934	-
Finland	1.2539	1.2448
Subtotal for euro area NCBs	69.7915	69.6963
Bulgaria	0.8686	0.8833
Czech Republic	1.4472	1.3880
Denmark	1.4835	1.5138
Estonia	0.1790	0.1703
Latvia	0.2837	0.2813
Lithuania	0.4256	0.4178
Hungary	1.3856	1.3141
Poland	4.8954	4.8748
Romania	2.4645	2.5188
Slovak Republic	-	0.6765
Sweden	2.2582	2.3313
United Kingdom	14.5172	13.9337
Subtotal for non-euro area NCBs	30.2085	30.3037
Total	100.0000	100.0000

On 31 December 2009, the share that the BCL holds in the capital of the ECB amounts to 15 784 953 euro. The BCL holds an amount of 10 063 860 euro on a total of subscribed capital of the ECB of 5 761 billion euro (9 073 028 euro on a total of subscribed capital of the ECB of 5 761 billion euro as at 31 December 2008).

The share that the BCL held in the accumulated net profits of the ECB reflects the repayment of 5.7 million euro by the ECB (1.6 million euro as at 31 December 2008).

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.

The adjustments to the capital key weightings of the ECB on 1 January 2009 also resulted in the adjustment of claim of BCL with respect to the foreign reserve assets transferred to the ECB.

As at 31 December 2009, the claim of the BCL amounts to 100 638 597 euro (90 730 275 euro as at 31 December 2008).

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 52.5 billion euro as at 31 December 2009 (42.1 billion euro as at 31 December 2008) and includes seigniorage income amounting to 2 million euro (2.7 million euro as at 31 December 2008).

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:

	Buildings EUR	Furniture and equipment EUR	Software EUR	Other EUR	Total EUR
Cost as at 1 January 2009	91 902 474	12 932 108	5 925 193	36 846	110 796 621
Disposals	-	-	-	-	-
Acquisitions	507 988	442 090	127 174	86 113	1 163 365
Cost as at 31 December 2009	92 410 462	13 374 198	6 052 367	122 959	111 959 986
Accumulated depreciation as at 1 January 2009	33 615 601	10 362 504	4 983 045	-	48 961 150
Disposals	-	-	-	-	-
Depreciation	3 359 359	867 919	487 108	-	4 714 386
Accumulated depreciation as at 31 December 2009	36 974 960	11 230 423	5 470 153	-	53 675 536
Net book value as at 31 December 2009	55 435 502	2 143 775	582 214	122 959	58 284 450

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:

	2009 EUR	2008 EUR
Other participating interests	45 952	161 850
Pension fund	103 537 053	87 955 547
	103 583 005	88 117 397

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 depository bank as at 31 December 2009.

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 receivable, prepaid expenses (including salaries paid for January 2010) and other income receivable.

11.4 Miscellaneous

	2009 EUR	2008 EUR
Others	1 808 764 473	19 999 587
	1 808 764 473	19 999 587

This item includes mainly the remaining outstanding claims against counterparties which defaulted in 2008 on refinancing operations undertaken by the Eurosystem, which in the previous year were disclosed under item 7 "Lending to euro area credit institutions related to monetary policy operations denominated in euro". This reclassification was decided by the Eurosystem.

This item consists also 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 (18.7 million euro as at 31 December 2009).

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 1 858.8 million euro (1 586.6 million euro as at 31 December 2008).

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

	2009 EUR	2008 EUR
Current accounts (covering the minimum reserves)	7 986 042 119	16 513 643 449
Deposit facility	5 502 474 166	29 018 054 785
Fixed-term deposits	-	-
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	13 488 516 285	45 531 698 234

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 euro-denominated accounts of credit institutions which mainly serve to meet minimum reserve requirements. These requirements have to be respected over an average unsettled period starting on the Wednesday following the first Governing Council's meeting of the month.

13.2 Deposit facility

This sub-item records the standing facility allowing credit institutions to make overnight 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.

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:

	2009 EUR	2008 EUR
Current accounts	10 509	14 306
Account related to euro coins issued by the Treasury	193 917 563	176 900 673
Fixed-term deposit	150 000 000	210 000 000
	343 928 072	386 914 979

The item "current accounts" records an amount of 10 099 euro owed to the Luxembourg Treasury and an amount of 410 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 - 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 246.6 million, or 268.5 million euro as at 31 December 2009 (SDR 17.0 million, or 18.7 million euro as at 31 December 2008).

In 2009, an amount of SDR 229.7 million was allocated to Luxembourg.

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 2009.

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 2009 amount to 5.2 million euro (5.2 million euro as at 31 December 2008).

Note 21 - Provisions

Provisions developed as follows:

	2009 EUR	2008 EUR
Provisions for banking risks	342 314 711	146 692 892
Provisions for pensions	106 389 085	95 533 306
Other provisions	50 000	50 000
	448 753 796	242 276 198

21.1 Provisions for banking risks

Provisions for banking risks include the following items:

	2009 EUR	2008 EUR
Provision covering credit and market risk	178 598 096	27 757 214
Buffer against counterparty risks in Eurosystem	9 064 058	12 962 213
Provision covering operational risk	16 040 000	7 710 000
Provision covering liquidity risk	15 287 989	15 141 461
Provision for doubtful debts	83 030 345	42 827 781
	302 020 488	106 398 669
Provisions for general banking risks	2009 EUR	2008 EUR
Provision for liabilities resulting from monetary agreements	32 341 954	32 341 954
Other provision for general banking risks	7 952 269	7 952 269
	40 294 223	40 294 223
	342 314 711	146 692 892

21.1.1 Provision covering credit and market risk

The provision for 178.6 million euro (27.8 million euro as at 31 December 2008) corresponds to:

- 2.5% of the BCL's own securities portfolio existing as at 31 December 2009 and participations other than the participating interest in the ECB;
- 2.1% of the amount lent by the Eurosystem (main and long-term refinancing operations) as at year-end for monetary policy reasons multiplied by the BCL's capital key in Eurosystem

The BCL's aim is to target a rate of 4% on all items in the medium term.

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. As at 31 December 2009, the provisioning has been resumed according to the defined policy and taking into account the level of credits granted by the Eurosystem given the exceptional market conditions.

21.1.2 Buffer against counterparty risks in Eurosystem

In accordance with Article 32.4 of the ESCB Statutes, a buffer was established against counterparty risks in monetary policy operations. This buffer was funded among all national central banks of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing at the time of default. In accordance with the general accounting principle of prudence, the Governing Council of the ECB reduced the buffer from 5 736 000 000 euro as at 31 December 2008 to 4 011 000 000 euro as at 31 December 2009. This decrease was due to revaluation of collateral and to principal payments received from the debtors.

For the BCL, the buffer decreased from 12 962 213 euro as at 31 December 2008 to 9 064 075 euro as at 31 December 2009.

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 2009, 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 covers non paid interests from counterparty amounting to 83.0 million euro as at 31 December 2009 (non paid interests from counterparty amounting to 41.0 million euro and non paid coupons amounting to 1.8 million euro at 31 December 2008).

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 change in 2009.

21.1.6 Other provision for general banking risks

This provision, intended to cover non-specific risk of losses resulting from central bank's activities, did not change in 2009.

21.2 Provisions for pensions

Provisions for pensions include the following items:

	2009 EUR	2008 EUR
Provision for pensions	104 847 467	93 991 688
Provision for increase of PBO	1 541 618	1 541 618
	106 389 085	95 533 306

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 104.8 million euro as at 31 December 2009 (94.0 million euro as at 31 December 2008).

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 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 change in 2009.

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 for an amount of 175 million euro (25 million euro as at 31 December 2008). The capital increase has been realised by incorporation of reserves amounting to 150 million euro as at 1 June 2009.

23.2 Reserves

The reserves amount to 0.2 million euro (147.3 million euro as at 31 December 2008). This amount was increased by 2.8 million euro in 2009 following the allocation of profit for 2008 according to the decision of the BCL's Council in application of its Founding Law (Article 31). Furthermore, this amount decreased in 2009 following an increase of capital by incorporation of reserves for 150 million.

	Capital EUR	Reserves EUR
As at 1 January 2009	25 000 000	147 341 272
Profit allocation for 2008 (art. 31)	-	2 830 126
Capital increase	150 000 000	(150 000 000)
As at 31 December 2009	175 000 000	171 398

Note 24 - Foreign exchange swap

As at 31 December 2008 this item included forward liabilities to the ECB 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") and claims arising from the transfer of US dollar liquidity against euro cash.

In addition, off-balance-sheet items included forward liabilities to the ECB and forward claims against Eurosystem counterparties outstanding as at 31 December 2008, which arose in connection to the provision of Swiss franc funding to Eurosystem counterparties by means of a swap agreement.

As at 31 December 2009, the BCL has no swap forward agreement (15.0 billion euro as at 31 December 2008).

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 2009, the market value of these securities amounts to 222.8 billion euro (265.1 billion euro as at 31 December 2008).

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 2009, the total liabilities related to these forward contracts amount to 127.1 million euro (83.2 million euro as at 31 December 2008). 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 2009, no change compared to 2008.

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	
	2009	2008	2009	2008
IMF	436 044	788 239	-	-
Monetary policy	-	-	388 512 529	1 362 854 926
Intra-Eurosystem claims	-	-	514 864 267	988 580 261
Securities	4 638 904	4 722 149	189 376 978	266 088 544
Gold	341 504	315 713	-	-
Other	47 128 321	137 756 418	19 539 524	25 829 594
Total	52 544 773	143 582 519	1 112 293 298	2 643 353 325

Composition of interest expense	Amounts in foreign currency EUR		Amounts in euro EUR	
	2009	2008	2009	2008
IMF	(289 516)	(476 292)	-	-
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	-	(171 296 339)	(470 702 816)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	-	(695 147 107)	(1 937 193 702)
Other intra-Eurosystem liabilities	-	-	(125 371)	(99 331)
Interests on term deposits	-	-	(1 061 875)	(7 532 465)
Other liabilities	(694 085)	(12 120 431)	(587 115)	(3 433 167)
Interest on swap operation	(46 094 847)	(124 383 028)	-	-
Total	(47 078 448)	(136 979 751)	(868 217 807)	(2 418 961 481)

The net interest income increased. In the general context of decrease of interest rates during the year, the income on securities decreased less than refinancing costs.

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 2009, they amounted to 62.5 million euro (18.4 million euro as at 31 December 2008) and to 8.1 million euro (21.0 million euro as at 31 December 2008) respectively, making a net gain of 54.4 million euro (a net loss of 2.6 million euro as at 31 December 2008).

Note 30 - Write-downs on financial assets and positions

This item includes revaluation losses on securities for 20.9 million euro (revaluation losses on securities for 377.5 million euro, on currency for 0.002 million euro and on futures for 0.2 million euro in 2008).

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	
	2009	2008	2009	2008
Securities	18 334 059	15 543 097	(17 696 294)	(15 374 090)
Others	1 221 872	1 336 736	(68 803)	(55 675)
Total	19 555 931	16 879 833	(17 765 097)	(15 429 765)

Note 33 - Income from participating interest

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

In 2009, the ECB's income on euro banknotes in circulation was distributed in full. BCL's part amounted to 2.2 million euro as at 31 December 2009 (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 marginal rate on main refinancing operations.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed capital key (0.25032% for the BCL in 2009).

This item includes the net monetary income allocated to BCL for 2009 representing an expense amounting to 45 572 429 euro (expense of 57 235 105 euro as at 31 December 2008).

As at 31 December 2009, this item also includes the amount of 3 898 155 euro due to the decrease of the buffer against counterparty risks in Eurosystem, as described in note 21.1.2. (construction of this buffer amounting to 12 962 213 as at 31 December 2008).

Note 35 - Other income

Other income includes revenue for services rendered to third parties, transfers from administrative provisions, income from "Monterey building" renting, income from numismatic activities and the recovered functioning costs of EPCO (Eurosystem procurement Co-ordination Office).

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

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 518 410 euro for the year 2009 (511 570 euro for the year 2008).

As at 31 December 2009, the BCL employed 247 persons (238 as at 31 December 2008). The average number of persons working for the BCL from 1 January to 31 December 2009 was 242 (226 for the year 2008).

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 79 037 euro in 2009 (76 019 euro in 2008).

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

In 2009, this item mainly shows costs related to numismatic activities and to consultancy.

In 2008, this item mainly showed adjustment related to pension fund, the transfer to the administrative provisions and costs related to numismatic activities.

