



03

THE BCL AS AN ORGANISATION

3

THE BCL AS AN ORGANISATION

3.1 CORPORATE GOVERNANCE

3.1.1 The Council

Article 6 of the Founding Law of 23 December 1998 defines the powers of the Council of the Bank. In 2010, the Council consisted of the following members:

Governor: Yves Mersch

Members: Pierre Beck

Pit Hentgen

Serge Kolb

Yves Nosbusch (as from 15 September 2010)

Patrice Pieretti (until 11 June 2010)

Jacques F. Poos

Romain Schintgen

Michel Wurth

Claude Zimmer

During 2010, the Council held five meetings. Within the framework of monitoring the financial situation of the Bank, the Council approved the financial accounts as per 31 December 2009, the budgetary trends and subsequently, the budget for the 2011 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.



From l. to r.: Mr. Claude Zimmer, Mr. Yves Nosbusch, Mr. Pierre Beck, Mr. Pit Hentgen, Mr. Yves Mersch (President), Mr. Jacques F. Poos, Mr. Serge Kolb, Mr. Michel Wurth, Mr. Romain Schintgen.

The Audit Committee

Since 2001, the Audit Committee, composed of members of the Council, 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 9 December 2010, the Council nominated the non-executive members of the Audit Committee for 2011: Messrs Jacques F. Poos, Romain Schintgen and Claude Zimmer. Mr Yves Mersch is an ex-officio member in his function as President of the Council. In 2010, the Audit Committee was chaired by one of its non-executive members, Mr Jacques F. Poos, and held four meetings.

3.1.2 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 and Pierre Beck

The members of the Board of Directors receive a salary according to wage scale in the public sector as well as different allowances. They receive, in accordance with the legal provisions of the law of June 22, 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 liable 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.



Mr. Serge Kolb, Mr. Yves Mersch, Mr. Pierre Beck

The following base salary was paid in 2010 to the board members:

	Base salary
Yves Mersch (Director General)	162 576 €
Serge Kolb (Director)	151 149 €
Pierre Beck (Director)	151 149 €
Total	464 874 €

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 72 291 € in 2010) and to a BCL's Council allowance (for a total amount of 33 891 € in 2010).

3.1.3 Organisation chart

The BCL's organisation chart (as from 1 January 2011)



3.1.4 Internal control and risk management

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 risk management section, the Risk Prevention section as well as the Controlling function within the Internal Finance and Strategy department.

The Financial risk management section is in particular in charge of the analysis of financial risks, of the surveillance of the implementation of decisions made by the 'Comité de Gestion' and by the Executive Board, of the control of the established limits and of the production of regular reports in this area. In order to consider the increasing importance of risk management in the field of the management of collateral, a section 'Collateral management' was constituted as of 1 January 2011.

The Risk Prevention section is in charge of the surveillance of operational risks, of the management of risks related to information systems and of the non-compliance risks.

Whereas the senior managers 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 Risk Prevention section is also in charge of coordinating the Business Continuity Plan and the related testing.

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 purpose of the Controlling function is to enhance the effectiveness and responsabilisation within the Bank, allowing the Executive Board to focus in its daily management on strategic decision-making. In this context, the Controlling function assists the executive Board by providing quantitative analyses and dashboards required for appropriate decision-making.

Moreover, these dashboards enable the management and Executive Board to monitor the Bank's operational performance. These dashboards comprise both financial and operational indicators (in qualitative and quantitative terms) that are linked to the defined strategic axes and objectives.

Considering that the BCL has continued to develop, it has become necessary to enhance planification on a medium and longer term. In 2010, the BCL has established an organisational structure to facilitate its strategic planning. In this context, the BCL also strengthened its horizontal coordination in order to start new projects in a short timeframe.

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 independent of the BCL's other administrative units and reports directly to the President of the Council.

When performing its tasks, the work of the Internal Audit unit is based on internationally accepted professional standards, applied at the level of the ESCB.

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.

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

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

3.1.5 External control

The Bank's financial accounts are audited by an external auditor nominated by the Government. Moreover, the external auditor is mandated by the Bank's Council to perform additional verifications and specific controls.

At the European level, the external auditor of the ECB 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.

3.1.6 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.

Moreover, the European Central Bank introduced a rigorous individual adherence to a specific Code of Conduct by its Governing Council members, requiring particular strict professional adherence to ethical standards. 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.

3.2 THE BCL STAFF

3.2.1 Quantitative evolution

During 2010, the BCL staff increased by 8.5% to reach a total of 268 staff members on December 31, 2010, equivalent to 248.75 full time positions. Staff members are of 17 different nationalities, thus contributing to the diversity of the human capital and to its cultural enrichment.

On December 31, 2010, 30 staff members worked part-time:

- Part-time work (50%): 8 staff members
- Part-time work (75%): 9 staff members
- Leave for part-time work: 13 staff members

Chart 3.1: Staff members by nationality

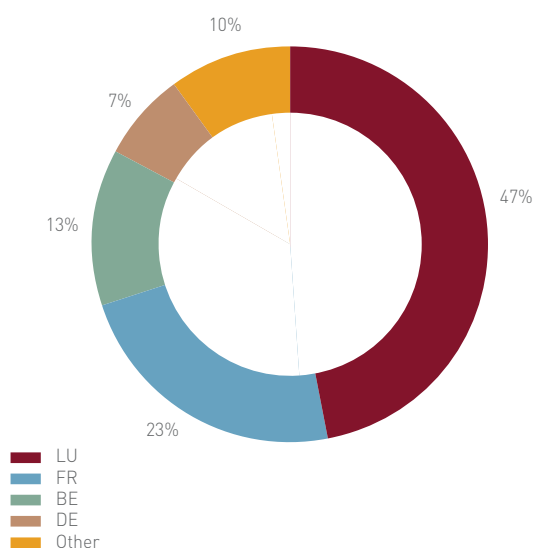
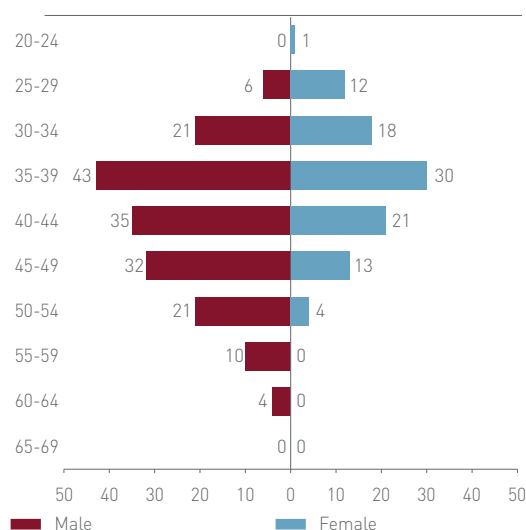


Chart 3.2: Distribution of staff members per age group



Five staff members were on full-time parental leave and four staff members were on part-time parental leave.

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

The average number of staff members working at the BCL in 2010 was of 256, compared to 245 in 2009.

The overall approved headcount ceiling for the year 2010 was 259 full-time equivalent positions.

During 2010, 12 staff members left the bank. On the other hand, 38 new staff members joined the bank during 2010. There were 346 applications to job advertisements at the bank. Furthermore, the BCL received 378 spontaneous job applications and 238 applications for internships or student jobs.

The BCL offered internships for a period from six weeks to two months to 14 students attending university studies related to the bank's activities and, furthermore, a subsidised internship to 7 students.

Chart 3.3: Evolution of the average age of staff members

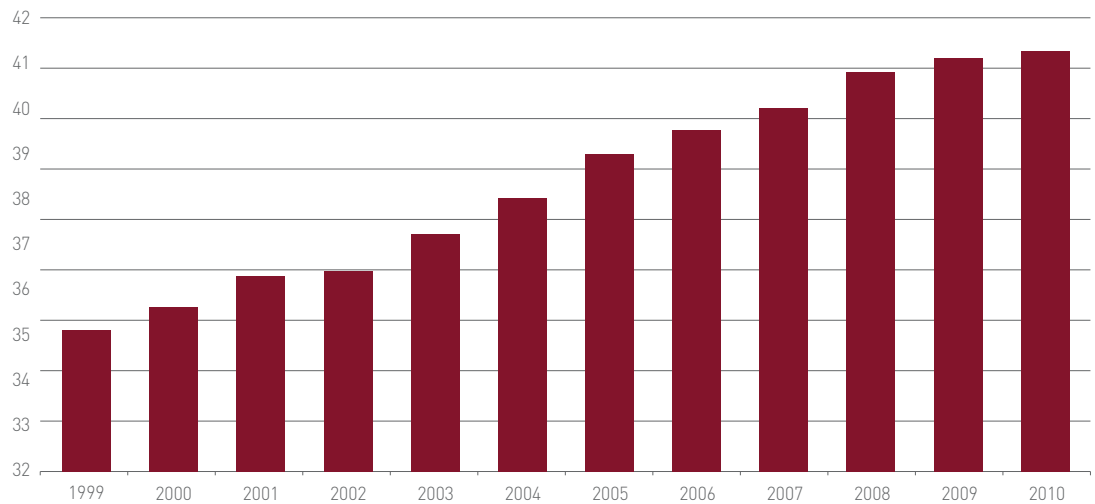
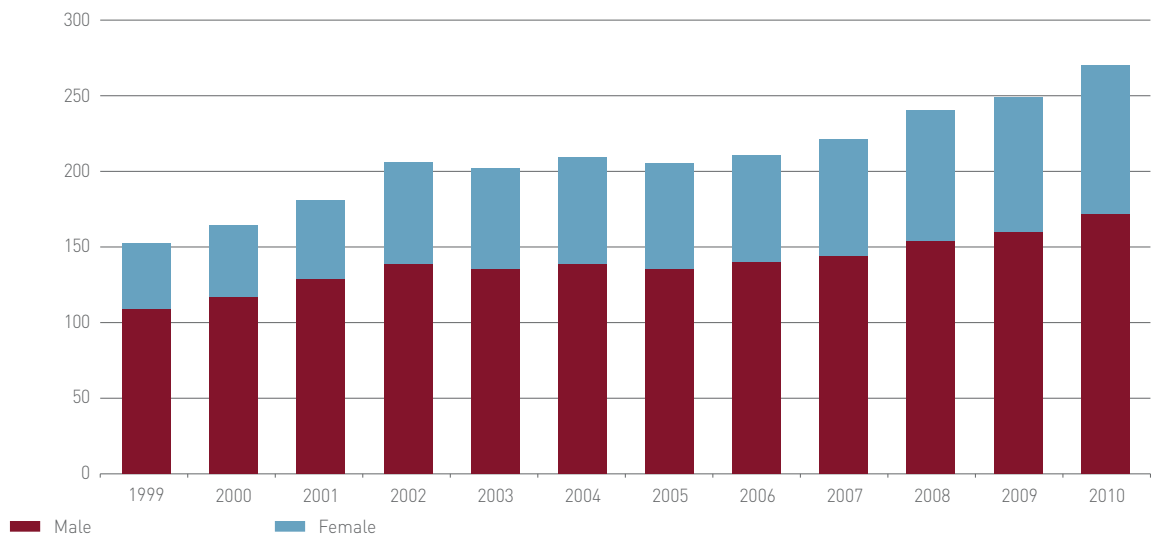


Chart 3.4: Evolution in staff members



3.2.2 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: 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 is in contact with 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.

3.3 LOGISTICS

To avoid in the medium term a lack of office space, the BCL decided not to renew the existing rental agreements of its building called Monterey as from 2013.

One floor of the Monterey building was already fitted out during 2010 to be able to move a part of the staff from the main building in order to create more office space in several departments.

The strategy of energy savings was among others pursued through:

- The implementation of the "free-cooling" system at the Royal site;
- The implementation of presence detectors in various premises and corridors;
- The improvement of the insulation of the windows of the the oldest building;
- The implementation of pumps with frequency converter.

The replacement of the old office chairs by more ergonomic models was enclosed in 2010.

Concerning waste management, further efforts will be done to reduce paper consumption

3.4 INTERNAL FINANCE AND STRATEGY

3.4.1 Accounting and reporting

BCL continued to update its accounting system and its procedures in order to meet its internal quality standards and those of the Eurosystem. In 2010, 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 2011, harmonised techniques relative to project costs will continue to be developed in the Eurosystem (in particular on cost allocation for common IT projects and systems in operation).

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 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 2010, research to select a new software of follow-up portfolio of securities continued.

3.4.2 Budget

Budget preparation, in accordance with the Organic Law of the BCL, is part of the multi-year planning process of the Bank whose primary purpose is to ensure a long-term financial stability. The annual budget determines the upper limit of operating expenditure and investment the Bank may incur during a given exercise. Furthermore, BCL's budget is based on the corporate values of the Bank, notably:

- Professionalism;
- Quality in all its services;
- Stability provided by its long-term vision of all its activities;
- Objectivity resulting from the establishment of precise rules that are equally applied;
- Integrity, guaranteed by the transparency of its internal operation and by respect for professional ethics.

The 2010 budget of the BCL was established under the terms of the budgetary procedure CI99011 and guidelines set by the Bank's Council dated July 9, 2009. The 2010 budget was approved by the Council of the BCL on February 5, 2010.

The 2010 budget takes account of the following elements:

- For years, the number of tasks assigned to the BCL at both national and European level has seen a constant rise. The continuous assignment of new tasks implies a necessary reinforcement of the Bank's staff in both operational and support units. This trend holds for 2010.
- Taking into account the financial crisis and low key interest rates and considering that the BCL still lacks appropriate own assets, decision-making bodies of the BCL have intensified the existing economy measures. These efforts have helped to reduce the operating budget (excluding staff costs) of 0.1% compared to 2009; despite a simultaneous increase in employment.
- The BCL continues to implement internal and European projects, obviously having a direct impact on the overall budget size.

The Internal Finance and Strategy Department supervises the execution of the budget and prepares quarterly reports for the Executive Board of the Bank. At the end of each fiscal year, a detailed analysis of initial budget vs. actual expenditure is prepared. This analysis is submitted to the Executive Board and the Council of the Bank for information and approval. Finally, conclusions drawn from this exercise are taken into account for preparing future budgets.

3.4.3 Strategic planning and management control

Management control aims at enhancing efficiency and accountability within the Bank, allowing the Executive Board to limit its regular involvement in operational tasks and to concentrate on management and decision-making on a strategic level. To this end, management control also assists the Executive Board of the Bank by providing quantitative analysis and dashboards, thus facilitating and supporting an efficient decision-making process.

In addition, these dashboards allow senior and higher management to monitor operational performance of the Bank. Moreover, these reports contain both financial and operational indicators (qualitative and quantitative) resulting from related strategic orientations and identified objectives of the Bank.

As the BCL continues to grow, a strengthened medium and long-term planning has become a core requirement. Consequently, the BCL has established in 2010 an organisational structure to facilitate and assist the "strategic planning" function of the Bank. In this context, the BCL has also reinforced its internal coordination activities to be prepared for a series of new projects that will be initiated in a near future.

3.5 THE EUROSISTEM PROCUREMENT COORDINATION OFFICE (EPCO)

In December 2007, the Governing Council of the ECB designated the BCL 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 NCBs of the Eurosystem.

The procurement experts of the participating central banks met six times during the course of 2010 and, in particular, the activity of exchange of best practices served to build up the reference set of information regarding public procurement procedures for all the participating central banks. The activity will continue in 2011 with a view to making a complete reference set available in 2012.

In 2010, the second joint procurement programme of the central banks was launched and significant progress was made in a number of areas. Studies in areas identified in the 2009 programme gave rise to several specific proposals for joint procurement. In December 2010, the Governing Council of the ECB approved the EPCO Procurement Plan 2011 which widened the scope of EPCO activities for 2011 to include a total of thirteen specific joint procurement proposals, as well as four areas for study.

In May 2010, the Governing Council of the ECB also approved EPCO's Annual Activity Report for 2009. This report included the execution of the 2009 budget and the distribution of EPCO's operational costs between the participating central banks.

In December 2010, the Governing Council of the ECB approved the "Mid-term Review of EPCO's activities", which provided an analysis of the work of EPCO during the first half of the mandate and also provided recommendations and proposals for their implementation during the second half of the mandate. As a result, EPCO was given a more ambitious role in the context of joint procurement procedures and may now, together with the Banque centrale du Luxembourg, assume the role of "Lead Central Bank" in these procedures. In addition, a new, more proportionate and objective cost-sharing mechanism was adopted for the financing of EPCO. Finally, the procurement plans will in future be managed on a multi-annual basis, ensuring more effective operation of the joint procurement procedures.

In December 2010, the Governing Council of the ECB approved 1.68 €Mio as the Budget for 2011 for EPCO.

3.6 FINANCIAL STATEMENTS

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

	2009	2010	Change in% 2010/2009
Total assets	77 049 043 144	79 719 605 521	3%
Banks' current accounts	13 488 516 285	9 641 729 532	-29%
Claims on credit institutions	15 156 000 000	2 768 600 000	-82%
Own funds ⁽¹⁾ , revaluation accounts, administrative provisions and specific banking risks	752 914 346	784 541 974	4%
Net result of banking activities ⁽²⁾	233 429 734	128 340 403	-45%
Total net revenues	53 742 397	48 612 237	-10%
Administrative expenses	42 223 811	42 723 146	1%
Net profit	6 804 200	1 719 034	-75%
Cash Flow ⁽³⁾	191 721 401	170 892 549	-11%
Staff	247	268	9%
BCL's part in the capital of the ECB	0.1747%	0.1747%	
BCL's part in the Eurosystem's monetary policy operations	2.021%	0.506%	

(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

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.

3.6.2 Report of the Réviseur d'Entreprises agréé

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

We have audited the accompanying financial statements ("les comptes financiers") of Banque centrale du Luxembourg, which comprise the balance sheet as of December 31, 2010 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

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 for Luxembourg by the Commission de Surveillance du Secteur Financier. 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 agréé, 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 agréé 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, 2010, 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 1, 2011

KPMG Audit S.à r.l.
Cabinet de révision agréé

K. Riehl S. Chambourdon

3.6.3 Balance sheet as of 31 December 2010

ASSETS	Note	2010 EUR	2009 EUR
Gold and gold receivables	3	76 277 814	55 490 933
Claims on non-euro area residents denominated in foreign currency	4	559 565 189	505 915 151
– Receivables from the IMF		358 082 581	321 492 295
– Balances with banks, security investments, external loans and other external assets		201 482 608	184 422 856
Claims on euro area residents denominated in foreign currency	5	95 157 125	71 067 245
Claims on non-euro area residents denominated in euro	6	1 559 679 672	1 601 110 558
– Balances with banks, security investments and loans		1 559 679 672	1 601 110 558
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	2 768 600 000	15 156 000 000
– Main refinancing operations	7.1	1 125 600 000	1 953 000 000
– Long-term refinancing operations	7.2	1 643 000 000	13 203 000 000
Other claims on euro area credit institutions denominated in euro	8	1 014 440 661	1 010 269 125
Securities of euro area residents denominated in euro	9	4 004 164 315	3 910 225 687
– Securities held for monetary policy purposes	9.1	430 742 233	45 317 335
– Other securities	9.2	3 573 422 082	3 864 908 352
Intra-Eurosystem claims	10	67 999 926 986	52 572 646 254
– Participating interest in ECB	10.1	18 696 620	15 784 953
– Claims related to the transfer of foreign reserves	10.2	100 638 597	100 638 597
– Other claims within the Eurosystem	10.3	67 880 591 769	52 456 222 704
Items in course of settlement		728	1 476
Other assets	11	1 641 793 031	2 166 316 715
– Tangible and intangible fixed assets	11.1	55 197 792	58 284 450
– Other financial assets	11.2	111 143 624	103 583 005
– Accruals and prepaid expenses	11.3	151 721 511	195 684 787
– Sundry	11.4	1 323 730 104	1 808 764 473
Total assets		79 719 605 521	77 049 043 144

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

LIABILITIES	Note	2010 EUR	2009 EUR
Banknotes in circulation	12	1 935 513 110	1 858 777 355
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	9 641 729 531	13 488 516 285
– Current accounts (covering the minimum reserve system)	13.1	6 435 590 706	7 986 042 119
– Deposit facility	13.2	2 986 138 825	5 502 474 166
– Fixed-term deposit	13.3	220 000 000	0
Liabilities to other euro area residents denominated in euro	14	347 975 936	343 930 484
– General government	14.1	347 825 258	343 928 072
– Other liabilities		150 678	2 412
Liabilities to non-euro area residents denominated in euro	15	1 230 361 599	1 173 715 978
Liabilities to euro area residents denominated in foreign currency	16	22 307 244	0
– Financial institutions		22 307 244	0
Liabilities to non-euro area residents denominated in foreign currency	17	74 676 245	74 107 887
Counterpart of special drawing rights allocated by the IMF	18	285 391 510	268 473 209
Intra-Eurosystem liabilities	19	64 974 757 810	58 701 341 155
– Net liabilities related to the allocation of euro banknotes within the Eurosystem	19.1	64 974 757 810	58 701 341 155
Items in course of settlement	20	285	471
Other liabilities	21	209 863 308	190 324 104
– Accruals and income collected in advance		175 407 214	155 909 204
– Sundry		34 456 094	34 414 900
Provisions	22	515 628 167	448 753 796
Revaluation accounts	23	297 706 144	319 126 822
Capital and reserves	24	181 975 598	175 171 398
– Capital	24.1	175 000 000	175 000 000
– Reserves	24.2	6 975 598	171 398
Profit for the year		1 719 034	6 804 200
Total liabilities		79 719 605 521	77 049 043 144

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

3.6.4 Off-balance sheet as of 31 December 2010

	Note	2010 EUR	2009 EUR
Custody deposits	25	210 222 286 690	222 784 229 418
Foreign currency reserve assets managed on behalf of the ECB	26	304 680 837	273 110 588
Forward transactions	27	121 668 500	127 133 000
Numismatic collection		207 417	205 829
		210 648 843 444	223 184 678 835

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

3.6.5 Profit and loss account for the year 2010

	Note	2010 EUR	2009 EUR
Interest income	28	912 078 799	1 164 838 071
Interest expense	28	(730 475 431)	(915 296 255)
Net interest income	28	181 603 368	249 541 816
Realised gains/ (losses) arising from financial operations	29	72 633 294	54 405 713
Write-downs on financial assets and positions	30	(112 132 569)	(20 885 405)
Transfer to/from provisions for risks	31	(67 668 179)	(199 519 974)
Net result of financial operations, write-downs and risk provisions		(107 167 454)	(165 999 666)
Fees and commissions income	32	16 984 552	19 555 931
Fees and commissions expense	32	(15 950 957)	(17 765 097)
Net result from fees and commissions	32	1 033 595	1 790 834
Income from participating interest	33	3 669 719	2 233 833
Net result of pooling of monetary income	34	(39 098 266)	(41 674 274)
Other income	35	8 571 273	7 849 854
Total net income		48 612 235	53 742 397
Staff costs	36	(28 075 491)	(25 846 425)
Other administrative expenses	37	(8 762 363)	(8 873 967)
Depreciation of tangible and intangible fixed assets	11.1, 38	(4 170 055)	(4 714 386)
Banknote production services	39	(811 372)	(1 133 127)
Other expenses	40	(5 073 920)	(6 370 292)
Profit for the year		1 719 034	6 804 200

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

3.6.6 Notes to the financial statements as of 31 December 2010

Note 1 - General

The Banque centrale du Luxembourg ("BCL" or "Banque centrale") 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 participations 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

Securities held for monetary policy purposes are valued at amortised cost and write-downs are done in case of permanent impairment.

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 applied to held-to-maturity securities in case of impairment.

The revaluation of securities takes 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 pro rata 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, and the ECB's (net) income arising from securities purchased for monetary policy purposes under the Securities Markets Programme (SMP) shall be fully retained in 2010.

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 of 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 are fully supported by the BCL. The pension fund which aim is to cover the risks related to ageing, invalidity and survival, was set up in 2000.

The actuarial method determines the pension fund's liability related to ageing, invalidity 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

In accordance with the prudence principle, the BCL's provision policy is intended to cover specific and general risks resulting from the Bank's activities.

Note 3 – Gold and gold receivables

As of 31 December 2010, BCL held 272.61 ounces of fine gold amounting to 0.29 million euro (409.67 ounces of fine gold amounting to 0.3 million euro as of 31 December 2009) and a top-rated gold bond issued by the International Bank for Reconstruction and Development purchased in 2002 and valued at 76 million euro (55 million euro as at 31 December 2009).

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 2010.

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

	2010 EUR	2009 EUR
Receivables from the IMF	358 082 581	321 492 295
Balances with banks, security investments, external loans and other external assets	201 482 608	184 422 856
	559 565 189	505 915 151

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.
- 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 198.5 million euro as at 31 December 2010 (176.9 million euro as at 31 December 2009), mainly contains government bonds and top-rated bonds issued by international and supranational institutions denominated in US dollar. Securities are valued at market prices. As at 31 December 2010, their value at market prices included a positive net revaluation adjustment amounting to 1.7 million euro (positive net revaluation adjustment amounting to 2.9 million euro as at 31 December 2009).

Balances with banks amounted to 3 million euro as at 31 December 2010 (7.5 million euro as at 31 December 2009).

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

This item contains balances in currency held by the BCL on accounts with euro area counterparties amounting to 95.2 million euro as of 31 December 2010 (71.1 million euro as of 31 December 2009).

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

	2010 EUR	2009 EUR
Balances with banks	17 616 744	8 920 212
Securities	1 390 062 928	1 482 633 679
- marketable securities	1 287 801 478	1 382 466 794
- held-to-maturity securities	102 261 450	100 166 885
Deposits	152 000 000	109 556 667
	1 559 679 672	1 601 110 558

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 of 31 December 2010, their value at market prices included a negative net revaluation adjustment amounting to 75.5 million euro (negative net revaluation adjustment amounting to 92.6 million euro as of 31 December 2009).
- The Held-to-maturity portfolio was created in 2007. These securities are intended 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 since 2007. 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 of 31 December 2010, these securities amount to 102.3 million euro (100.2 million euro as of 31 December 2009). One security was impaired in 2009 and 2010. The adjusted write-down amounts to 42 million euro as of 31 December 2010.

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:

	2010 EUR	2009 EUR
Main refinancing operations	1 125 600 000	1 953 000 000
Longer-term refinancing operations	1 643 000 000	13 203 000 000
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	-
Credits related to margin calls	-	-
	2 768 600 000	15 156 000 000

The total Eurosystem holding of monetary policy assets amounts to 546 747 million euro of which BCL holds 2 768 million euro. In accordance with Article 32.4 of the Statute, 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.

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 three-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

	2010 EUR	2009 EUR
Securities held for monetary policy purposes	430 742 233	45 317 335
Other securities	3 573 422 082	3 864 908 352
- marketable securities	3 415 768 744	3 706 676 021
- held-to-maturity securities	157 653 338	158 232 331
	4 004 164 315	3 910 225 687

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 and the securities markets programme. These securities are classified as held-to-maturity.

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

The securities acquired by BCL within the scope of the purchase programme for covered bonds amounted to 138.3 million euro as at 31 December 2010. This programme was completed at the end of June 2010.

The total Eurosystem holding of SMP securities amounts to 74 billion euro, of which BCL holds 292.4 million euro. In accordance with Article 32.4 of the Statutes, any risks from holdings of SMP securities, if they were to materialise, should eventually be shared in full by the Eurosystem, in proportion to the prevailing ECB capital key shares.

As of 31 December 2010, these securities held for monetary policy purposes amount to 430.7 million euro (45.3 million euro as of 31 December 2009).

9.2 Other securities

The securities portfolio recorded under this heading includes:

- The marketable securities portfolio in euro issued by residents of the euro area amount to 3 415.8 million euro as of 31 December 2010 (3 706.7 million euro as of 31 December 2009). 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 of 31 December 2010, their value at market prices included a negative net revaluation adjustment amounting to 179.9 million euro (net revaluation adjustment amounting to 26.7 million euro as of 31 December 2009).
- The Held-to-maturity portfolio was created in 2007. These securities are intended 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 since 2007. Securities already in portfolios as of 31 December 2006 were transferred at accounting value as of 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 of 31 December 2010, these securities amount to 157.7 million euro (158.2 million euro as of 31 December 2009). The value of the securities will be adjusted if their impairment is assumed to be permanent.

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.

The ECB increased its subscribed capital by 5 billion euro from 5 760 652 402.58 euro to 10 760 652 402.58 euro with effect from 29 December 2010. The NCBs of the euro area countries shall pay up their increased capital in three equal annual instalments. The first instalment was paid on 29 December 2010, and the remaining two instalments will be paid at the end of 2011 and 2012, respectively.

As a result, the subscribed and paid-up capital of NCBs is as follows:

	Subscribed capital until 28 December 2010	Paid-up capital until 28 December 2010	Subscribed capital from 29 December 2010	Paid-up capital from 29 December 2010
Banque Nationale de Belgique	139 730 384.68	139 730 384.68	261 010 384.68	180 157 051.35
Deutsche Bundesbank	1 090 912 027.43	1 090 912 027.43	2 037 777 027.43	1 406 533 694.10
Central Bank and Financial Services Authority of Ireland	63 983 566.24	63 983 566.24	119 518 566.24	82 495 232.91
Bank of Greece	113 191 059.06	113 191 059.06	211 436 059.06	145 939 392.39
Banco de España	478 364 575.51	478 364 575.51	893 564 575.51	616 764 575.51
Banque de France	819 233 899.48	819 233 899.48	1 530 293 899.48	1 056 253 899.48
Banca d'Italia	719 885 688.14	719 885 688.14	1 344 715 688.14	928 162 354.81
Central Bank of Cyprus	7 886 333.14	7 886 333.14	14 731 333.14	10 167 999.81
Banque centrale du Luxembourg	10 063 859.75	10 063 859.75	18 798 859.75	12 975 526.42
Central Bank of Malta	3 640 732.32	3 640 732.32	6 800 732.32	4 694 065.65
De Nederlandsche Bank	229 746 339.12	229 746 339.12	429 156 339.12	296 216 339.12
Oesterreichische Nationalbank	111 854 587.70	111 854 587.70	208 939 587.70	144 216 254.37
Banco de Portugal	100 834 459.65	100 834 459.65	188 354 459.65	130 007 792.98
Banka Slovenije	18 941 025.10	18 941 025.10	35 381 025.10	24 421 025.10
Národná banka Slovenska	39 944 363.76	39 944 363.76	74 614 363.76	51 501 030.43
Suomen Pankki – Banque de Finlande	72 232 820.48	72 232 820.48	134 927 820.48	93 131 153.81
Subtotal for euro area NCBs	4 020 445 721.55	4 020 445 721.55	7 510 020 721.55	5 183 637 388.22
Българска народна банка (Bulgarian National Bank)	50 037 026.77	3 502 591.87	93 467 026.77	3 505 013.50
Česká národní banka	83 368 161.57	5 835 771.31	155 728 161.57	5 839 806.06
Danmarks Nationalbank	85 459 278.39	5 982 149.49	159 634 278.39	5 986 285.44
Eesti Pank	10 311 567.80	721 809.75	19 261 567.80	722 308.79
Latvijas Banka	16 342 970.87	1 144 007.96	30 527 970.87	1 144 798.91
Lietuvos bankas	24 517 336.63	1 716 213.56	45 797 336.63	1 717 400.12
Magyar Nemzeti Bank	79 819 599.69	5 587 371.98	149 099 599.69	5 591 234.99
Narodowy Bank Polski	282 006 977.72	19 740 488.44	526 776 977.72	19 754 136.66
Banca Națională a României	141 971 278.46	9 937 989.49	265 196 278.46	9 944 860.44
Sveriges Riksbank	130 087 052.56	9 106 093.68	242 997 052.56	9 112 389.47
Bank of England	836 285 430.59	58 539 980.14	1 562 145 430.59	58 580 453.65
Subtotal for non-euro area NCBs	1 740 206 681.03	121 814 467.67	3 250 631 681.03	121 898 688.04
Total	5 760 652 402.58	4 142 260 189.22	10 760 652 402.58	5 305 536 076.26

On 29 December 2010, BCL paid first annual instalment of 2 911 666.67 euro.

As of 31 December 2010, the BCL's paid-up capital amount to 12 975 526.42 euro (10 063 859.75 euro as at 31 December 2009).

The share that the BCL held in the accumulated net profits of the ECB reflects the repayment of 5.7 million euro of ECB reserves (5.7 million euro as at 31 December 2009).

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 of 31 December 2010, the claim of the BCL amounts to 100 638 597 euro (100 638 597 euro as of 31 December 2009).

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 67.9 billion euro as of 31 December 2010 (52.5 billion euro as of 31 December 2009).

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 of 1 January 2010	92 410 462	13 374 198	6 052 367	122 959	111 959 986
Disposals/Refund	-	-	(187 500)	-	(187 500)
Acquisitions	541 828	481 388	31 858	215 823	1 270 897
Cost as of 31 December 2010	92 952 290	13 855 586	5 896 725	338 782	113 043 383
Accumulated depreciation as of 1 January 2010	36 974 960	11 230 423	5 470 153	-	53 675 536
Disposals	-	-	-	-	-
Depreciation	3 260 600	712 137	197 318	-	4 170 055
Accumulated depreciation as of 31 December 2010	40 235 560	11 942 560	5 667 471	-	57 845 591
Net book value as of 31 December 2010	52 716 730	1 913 026	229 254	338 782	55 197 792

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:

	2010 EUR	2009 EUR
Other participating interests	3 045 952	45 952
Pension fund	108 097 672	103 537 053
	111 143 624	103 583 005

The other participating interests comprise the BCL's investments in Swift, ATTF and LuxCSD SA.

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 of 31 December 2010.

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 Commission receivables, prepaid expenses (including salaries paid for January 2011) and other income receivable.

11.4 Sundry

	2010 EUR	2009 EUR
Others	1 323 730 104	1 808 764 473
	1 323 730 104	1 808 764 473

This item includes mainly the remaining outstanding claims against counterparties which defaulted in 2008 on refinancing operations undertaken 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 (15.4 million euro as of 31 December 2010).

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 1 935.5 million euro (1 858.8 million euro as of 31 December 2009).

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

	2010 EUR	2009 EUR
Current accounts (covering the minimum reserves)	6 435 590 706	7 986 042 119
Deposit facility	2 986 138 825	5 502 474 166
Fixed-term deposits	220 000 000	–
Fine-tuning reverse operations	–	–
Deposits related to margin calls	–	–
	9 641 729 531	13 488 516 285

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

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 when the interest rate is set.

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:

	2010 EUR	2009 EUR
Current accounts	631 043	10 509
Account related to euro coins issued by the Treasury	207 194 215	193 917 563
Fixed-term deposit	140 000 000	150 000 000
	347 825 258	343 928 072

The item current accounts records an amount of 631 043 euro owed to the Luxembourg Treasury.

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 euro area residents denominated in foreign currency

This item includes current accounts in foreign currency held by euro area resident credit institutions.

Note 17 – 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 18 – 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 285.4 million euro as of 31 December 2010 (SDR 246.6 million, or 268.5 million euro as of 31 December 2009).

Note 19 – Intra-Eurosystem liabilities

19.1 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 20 – Items in course of settlement

This item contains cash desk's differences as of 31 December.

Note 21 – 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 of 31 December 2010 amount to 5.2 million euro (5.2 million euro as of 31 December 2009).

Note 22 - Provisions

Provisions developed as follows:

	2010 EUR	2009 EUR
Provisions for banking risks	405 906 211	342 314 711
Provisions for pensions	109 671 956	106 389 085
Other provisions	50 000	50 000
	515 628 167	448 753 796

22.1 Provisions for banking risks

Provisions for banking risks include the following items:

Provisions for specific banking risks	2010 EUR	2009 EUR
Provision covering credit and market risk	226 883 533	178 598 096
Buffer against counterparty risks in Eurosystem	4 987 379	9 064 058
Provision covering operational risk	20 480 000	16 040 000
Provision covering liquidity risk	15 433 443	15 287 989
Provision for doubtful debts	97 827 633	83 030 345
	365 611 988	302 020 488
Provisions for general banking risks	2010 EUR	2009 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
	405 906 211	342 314 711

22.1.1 Provision covering credit and market risk

The provision of 226.9 million euro (178.6 million euro as at 31 December 2009) corresponds to:

- 3.35% of the BCL's own securities portfolio existing as of 31 December 2010 (2.5% as of 31 December 2009) and participations other than the participating interest in the ECB;
- 3.35% (2.1% as of 31 December 2009) of the amount lent by the Eurosystem (main and long-term refinancing operations) as at year-end for monetary policy purposes multiplied by the BCL's capital key in Eurosystem including securities held in the framework of the Securities Markets Programme.

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

22.1.2 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 BCE reduced the buffer from 4 011 000 000 euro as of 31 December 2009 to 2 207 000 000 euro as of 31 December 2010. This decrease was due to revaluation of collateral and to principal payments received from the debtors.

For the BCL, the buffer decreased from 9 064 058 euro as of 31 December 2009 to 4 987 379 euro as of 31 December 2010.

22.1.3 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 2010, the average has been based on previous years in accordance with the rules.

22.1.4 Provision for doubtful debts

The provision for doubtful debts covers non paid interests from counterparty amounting to 97.8 million euro as of 31 December 2010 (non paid interests from counterparty amounting to 83.0 million euro of 31 December 2009).

22.1.5 Provision for liabilities resulting from monetary agreements

The provision for liabilities resulting from monetary treaties created in order to face any future monetary liabilities did not change in 2010.

22.1.6 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 2010.

22.2 Provisions for pensions

Provisions for pensions include the following items:

	2010 EUR	2009 EUR
Provision for pensions	108 130 338	104 847 467
Provision for increase of PBO	1 541 618	1 541 618
	109 671 956	106 389 085

22.2.1 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 108.1 million euro as of 31 December 2010 (104.8 million euro as of 31 December 2009).

The variance 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.

22.2.2 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 2010.

Note 23 – 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 24 - Capital and reserves

24.1 Capital

The State of Luxembourg is the sole shareholder of the BCL's capital for an amount of 175 million euro (no change compared to 2009).

24.2 Reserves

The reserves amount to 7 million euro (0.2 million euro as of 31 December 2009). This amount was increased by 6.8 million euro in 2010 following the allocation of profit for 2009 according to the decision of the BCL's Council in application of its Founding Law (Article 31).

	Capital EUR	Reserves EUR
As of 1 January 2010	175 000 000	171 398
Profit allocation for 2009 (art 31)		6 804 200
As of 31 December 2010	175 000 000	6 975 598

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 of 31 December 2010, the market value of these securities amounts to 210.2 billion euro (222.8 billion euro as of 31 December 2009).

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

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

Note 27 – Forward contracts

BCL 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 of 31 December 2010, the total liabilities related to these forward contracts amount to 121.7 million euro (127.1 million euro as of 31 December 2009). 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 of 31 December 2010, no change compared to 2009.

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 2010	Amounts in euro EUR 2010	Total EUR 2010
IMF	978 950	-	978 950
Monetary policy	-	98 408 869	98 408 869
Intra-Eurosystem claims	-	654 827 812	654 827 812
Securities	2 974 410	146 313 241	149 287 651
Gold	363 558	-	363 558
Other	905 197	7 306 762	8 211 959
Total	5 222 115	906 856 684	912 078 799

Composition of interest expense	Amounts in foreign currency EUR 2010	Amounts in euro EUR 2010	Total EUR 2010
IMF	(833 497)	-	(833 497)
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	(102 906 741)	(102 906 741)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	(625 029 889)	(625 029 889)
Other intra-Eurosystem liabilities	-	(30 423)	(30 423)
Interests on term deposits	-	(357 847)	(357 847)
Other liabilities	(556 126)	(567 840)	(1 123 966)
Interest on swap operation	(193 068)	-	(193 068)
Total	(1 582 691)	(728 892 740)	(730 475 431)

Composition of interest income	Amounts in foreign currency EUR 2009	Amounts in euro EUR 2009	Total EUR 2009
IMF	436 044	-	436 044
Monetary policy	-	388 512 529	388 512 529
Intra-Eurosystem claims	-	514 864 267	514 864 267
Securities	4 638 904	189 376 978	194 015 882
Gold	341 504	-	341 504
Other	47 128 321	19 539 524	66 667 845
Total	52 544 773	1 112 293 298	1 164 838 071

Composition of interest expense	Amounts in foreign currency EUR 2009	Amounts in euro EUR 2009	Total EUR 2009
IMF	(289 516)	-	(289 516)
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	(171 296 339)	(171 296 339)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	(695 147 107)	(695 147 107)
Other intra-Eurosystem liabilities	-	(125 371)	(125 371)
Interests on term deposits	-	(1 061 875)	(1 061 875)
Other liabilities	(694 085)	(587 115)	(1 281 200)
Interest on swap operation	(46 094 847)	-	(46 094 847)
Total	(47 078 448)	(868 217 807)	(915 296 255)

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 losses realised on these transactions. In 2010, they amounted to 77.3 million euro (62.5 million euro as of 31 December 2009) and to 4.7 million euro (8.1 million euro as of 31 December 2009) respectively, making a net gain of 72.6 million euro (a net gain of 54.4 million euro as of 31 December 2009).

Note 30 – Write-downs on financial assets and positions

This item includes revaluation losses on securities for 110.6 million euro and on futures for 1.5 million euro (revaluation losses on securities for 20.9 million euro in 2009).

Note 31 – Transfer to/from provisions for 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	
	2010	2009	2010	2009
Securities	15 784 915	18 334 059	(15 871 717)	(17 696 294)
Others	1 199 637	1 221 872	(79 240)	(68 803)
Total	16 984 552	19 555 931	(15 950 957)	(17 765 097)

Note 33 – Income from participating interest

In 2010, the ECB's income on euro banknotes in circulation and on SMP securities amounting to 654 million euro and 438 million euro respectively, was fully retained by the ECB. This income was transferred to the ECB's provision for risks.

This item includes the BCL's part for 2009 amounting to 3.7 million euro and paid in March 2010.

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;
- securities held for monetary policy purposes
- 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, and securities held for monetary policy purposes under decision of the Governing Council of 2 July 2009 on the implementation of covered bonds purchase programme are considered to generate income at the latest available marginal rate for the Eurosystem's main refinancing operations.

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 2010).

This item includes the net monetary income allocated to BCL for 2010 representing an expense amounting to 43 174 945 euro (expense of 45 572 429 euro as at 31 December 2009).

As of 31 December 2010, this item also includes the amount of 4 076 679 euro due to the decrease of the buffer against counterparty risks in Eurosystem, as described in note 22.1.2. (decrease of this buffer amounting to 3 898 155 euro as of 31 December 2009).

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 537 165 euro for the year 2010 (518 410 euro for the year 2009).

As of 31 December 2010, the BCL employed 268 persons (247 as of 31 December 2009). The average number of persons working for the BCL from 1 January to 31 December 2010 was 256 (242 for the year 2009).

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 78 439 euro in 2010 (79 037 euro in 2009).

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 2010, this item shows mainly costs related to numismatic activities and to consultancy (the same in 2009).

Note 41– Post-balance-sheet events

On 1 January 2011, following the entry of Estonia in the Eurosystem, the BCL's Eurosystem participation key changed from 0.25032% to 0.24968%.

BCN's participations are as follows (rounded):

	Eurosystem key until 31 December 2010	Eurosystem key from 1 January 2011
Belgium	3.47549	3.4666
Germany	27.13411	27.06469
Greece	2.81539	2.80818
Spain	11.8983	11.86786
France	20.37669	20.32457
Ireland	1.59145	1.58738
Italy	17.90562	17.85981
Luxembourg	0.25032	0.24968
Netherlands	5.71445	5.69983
Austria	2.78214	2.77503
Portugal	2.50804	2.50163
Finland	1.79664	1.79204
Cyprus	0.19616	0.19565
Malta	0.09056	0.09032
Slovenia	0.47112	0.46991
Slovak Republic	0.99353	0.99099
Estonia	-	0.25582
Total	100.00000	100.00000

