



02

THE BCL AS AN
ORGANISATION

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2 THE BCL AS AN ORGANISATION

2.1 CORPORATE GOVERNANCE

2.1.1 The Council

Article 6 of the Founding Law of 23 December 1998 defines the powers of the Council of the Bank. The Council consists of the following members:

President: Yves Mersch (until 15 December 2012)
Gaston Reinesch (as from 1 January 2013)

Members: Pierre Beck
Betty Fontaine (as from 1 January 2013)
Pit Hentgen
Serge Kolb
Yves Nosbusch (until 12 July 2012)
Jacques F. Poos
Romain Schintgen
Michel Wurth
Claude Zimmer

During 2012, 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 2011 and the budgetary trends for the 2013 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. Pit Hentgen, Mr. Pierre Beck, Mr. Gaston Reinesch (President), Mr. Serge Kolb, Mr. Jacques F. Poos, Mr. Michel Wurth, Mr. Romain Schintgen
 Note: Ms. Betty Fontaine is missing on the picture.

The Audit Committee

Since 2001, the Audit Committee, composed of members of the Council, assists the Council in its choice of the statutory auditor to be proposed to the Government, in specifying the scope of the potential specific controls to be performed by the statutory auditor and in the approval of the financial accounts by the Council.

It is kept informed on the internal audit plan. It may invite the head of the internal audit unit and the statutory auditor of the Bank to participate in its work.

At its meeting on 14 December 2012, the Council nominated the non-executive members of the Audit Committee for 2013: Messrs Jacques F. Poos, Romain Schintgen and Claude Zimmer. The President of the Council is an ex-officio member. In 2012, the Audit Committee held three meetings and was chaired by one of its non-executive members, Mr Jacques F. Poos.

2.1.2 The Governor

Following the appointment of Mr. Yves Mersch as a Member of the Executive Board of the ECB, His Royal Highness Grand-Duke Henri of Luxembourg, on a proposal by the Government in Cabinet, appointed Mr. Gaston Reinesch as the new Governor of the BCL for a six-year period as of 1 January 2013.

2.1.3 The Executive Board

The Executive Board is the superior executive authority of the BCL. It makes the final decisions and draws up the measures necessary for the BCL 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 are taken collectively.

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

Director General: Yves Mersch (until 15 December 2012)
 Gaston Reinesch (as from 1 January 2013)
 Directors: Serge Kolb
 Pierre Beck



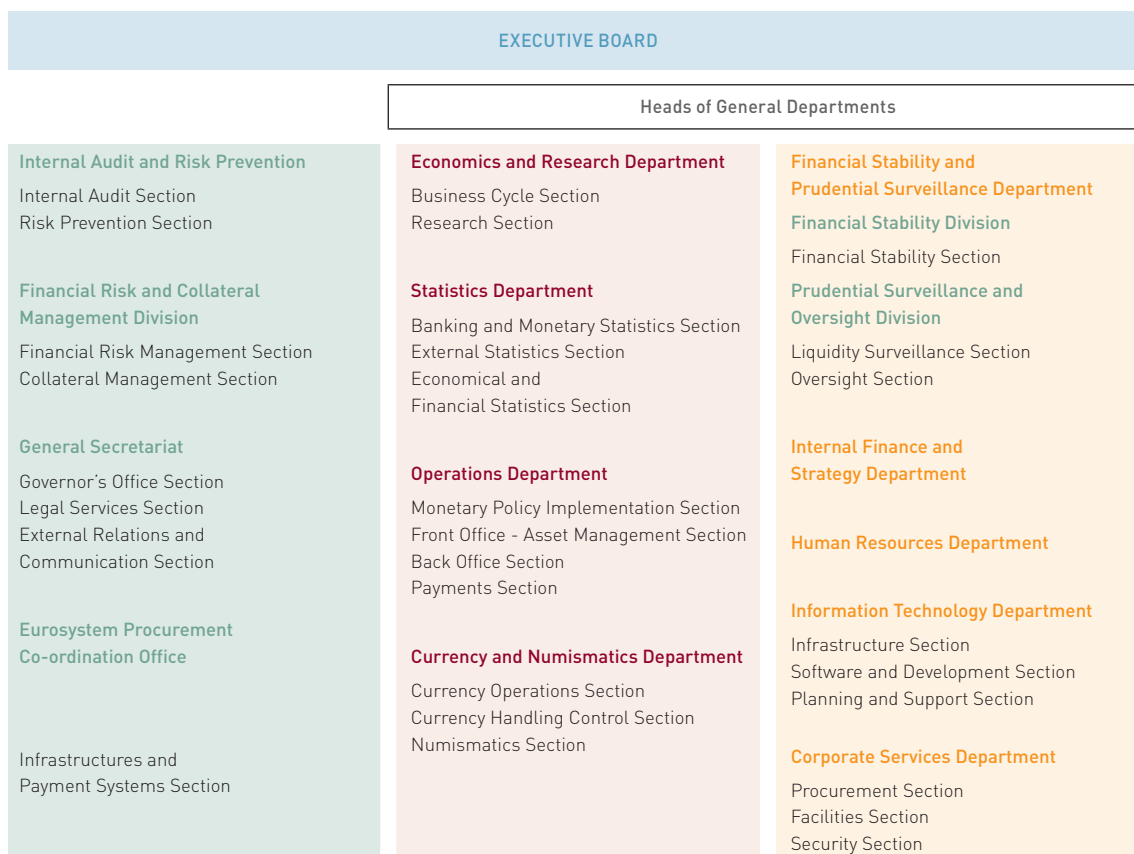
From l. to r.: Mr. Serge Kolb, Mr. Gaston Reinesch, Mr. Pierre Beck

The members of the Executive Board receive a salary according to the wage scale in the public sector as well as different allowances. The remuneration components are subject to the current legal tax rates (i.e. the progressive tax rate) in Luxembourg.

The annual salaries paid to the Executive Board members according to the Law of 23 December 1998 were as follows:

	Salary
Yves Mersch (Director General)	169 832 €
Serge Kolb (Director)	157 894 €
Pierre Beck (Director)	157 894 €
Total	485 620 €

2.1.4 Organisation Chart at 1 January 2012



2.1.5 Internal control and risk management

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

The Executive Board has defined the general framework and principles of the internal control system. The Executive Board of the BCL and its staff are responsible for the proper functioning of the internal control system. Functional reviews are carried out by specific administrative units, ensuring an adequate segregation of duties. These units are the Financial risk management and Collateral management sections, the Risk Prevention section as well as the Controlling function within the Internal Finance and Strategy department.

The Financial risk management section is mainly in charge of the analysis of financial risks, of the surveillance of the implementation of decisions made by the *internal committees* and by the Executive Board, as well as of the monitoring of the respect 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 management of collateral, in particular ABS (asset-backed securities), a Collateral management section exists within the Financial risk and Collateral management division.

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

Whereas departments are responsible for identifying the risks linked to their fields of activities and for taking appropriate actions to mitigate these risks, the Risk Prevention section has 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 related testing.

The purpose of the Compliance function is to identify, evaluate and monitor the Bank's risk of non-compliance. The risk of non-compliance is defined as the risk of judicial, administrative or disciplinary sanctioning, of financial losses or reputational damage which could harm the BCL, in the event that it did not comply with the laws, regulations, professional and ethical standards or internal instructions.

The Executive Board of the BCL identified several areas of intervention for the Compliance function and, in particular:

- 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 Internal Audit unit is in charge of the independent and objective assessment of the internal control system and its functioning. 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 about the organisation of internal controls, risk management as well as their functioning.

2.1.6 External control

In accordance with article 15 of BCL's organic law, the Bank's financial accounts are audited by an external auditor appointed for five years by the Government. Moreover, the external auditor is mandated by the Bank's Council to perform additional reviews and specific controls on an annual basis.

At the European level, the BCL's external auditor 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 ensure 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 can request any complementary information.

2.1.7 Code of Conduct

A Code of Conduct defines the internal and external rules of conduct applicable to all staff members. 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 nondiscrimination, integrity, independence, and professional secrecy to which BCL's staff has to adhere strictly.

Moreover, the ECB introduced a rigorous individual adherence to a specific Code of Conduct for its Governing Council members, which requires strict professional adherence to ethical standards. The members of the Governing Council must pledge honesty, independence, impartiality, and discretion. The members should not take their personal interests into account and avoid any situation that may lead to a conflict of

interests. These obligations extend to 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, as well as to events occurring outside of the ESCB, which the members of the Governing Council may attend. Finally, members of the Governing Council must neither disclose nor make use of confidential information when performing either directly, or indirectly via intermediaries, financial transactions on a private basis.

2.2 THE BCL'S STAFF

2.2.1 Quantitative evolution

In the course of 2012, the BCL staff increased by 4.3% to reach a total of 300 staff members on December 31, 2012, equivalent to 282.75 full-time positions. Staff members are of 18 different nationalities, thus contributing to the diversity of the human capital and to its cultural enrichment.

On December 31, 2012, 34 staff members worked on a part-time base:

- Part-time work (50%): 11 staff members
- Part-time work (75%): 9 staff members
- Leave for half-time work: 14 staff members

Only 1 staff member was on parental leave and 6 staff members were on part-time parental leave on December 31, 2012.

6 staff members were on unpaid leave on this date and 4 staff members were on special leave.

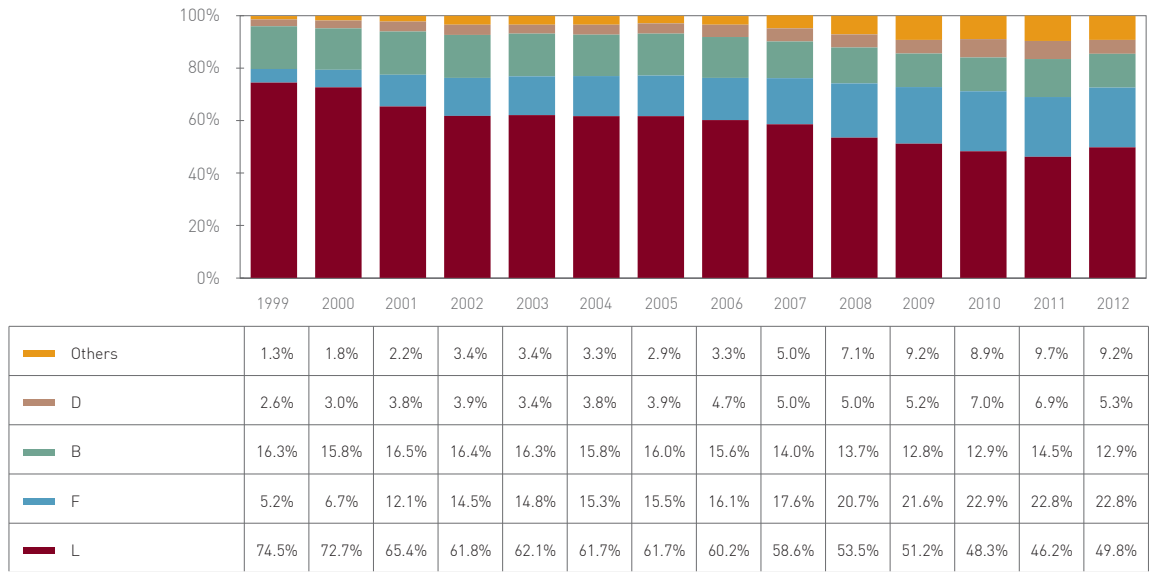
The average number of staff members working at the BCL in 2012 was 291.50 persons or 276.60 full-time equivalents (FTE).

The overall approved headcount cap for the year 2012 was 306.75 full-time equivalent positions.

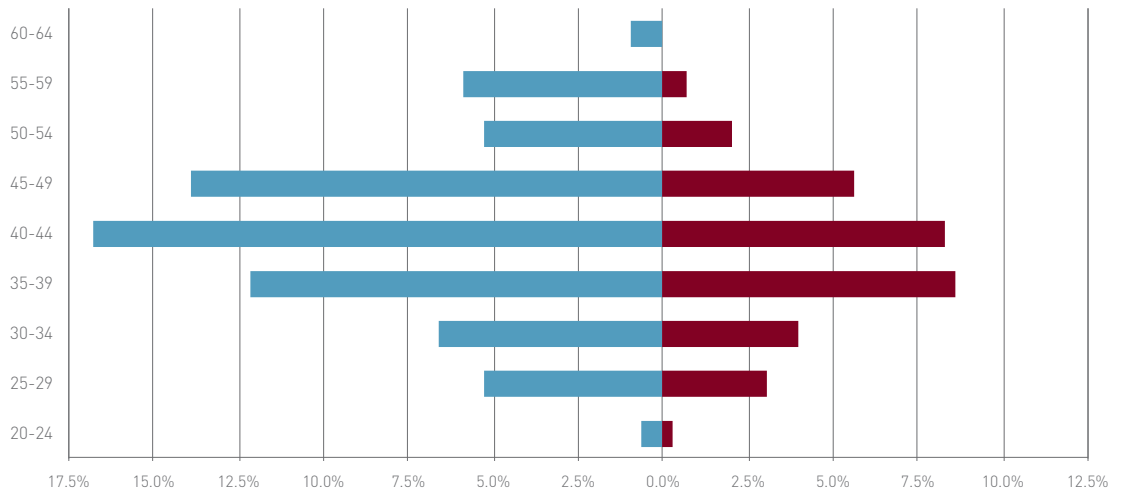
During the year 2012, 21 staff members left the bank. On the other hand, 35 new staff members joined the bank during the same period. The BCL received 350 spontaneous applications, 161 of these applications being for an internship (training course) or a summer internship. Besides, 517 applications were received for job offers published by the Bank.

Furthermore, the BCL proposed summer internships to 12 students following university studies in connection with the activities of the Bank of a duration of six weeks to two months. 6 students were welcomed within the framework of a subsidised internship.

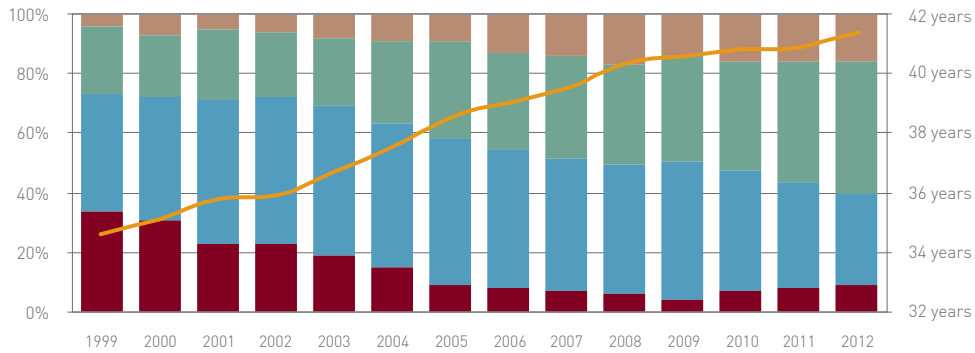
Graph 1:
Staff members by nationality



Graph 2:
Distribution of staff members per age group

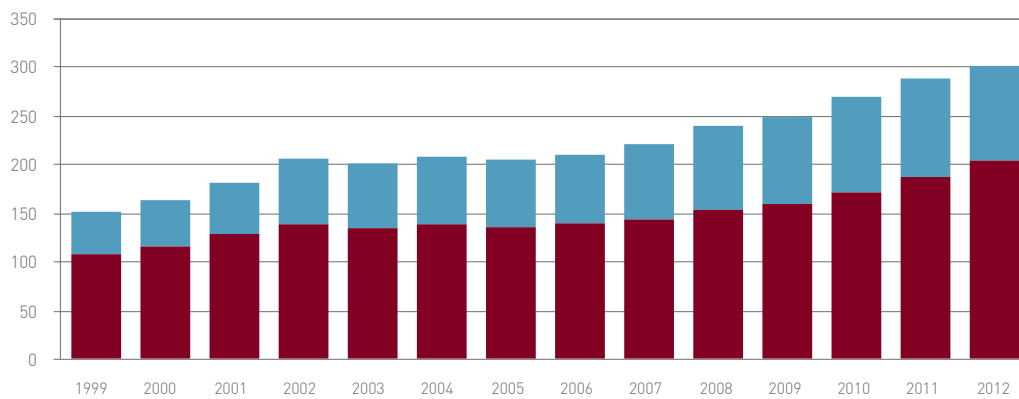


Graph 3:
Evolution of the average age of staff members



Year	>50	40 - 49	30 - 39	<30	Average
1999	3%	23%	40%	34%	34.6
2000	6%	21%	42%	31%	35.1
2001	5%	24%	49%	23%	35.8
2002	6%	22%	50%	23%	35.9
2003	7%	23%	51%	19%	36.7
2004	8%	28%	49%	15%	37.5
2005	9%	33%	50%	9%	38.5
2006	11%	33%	47%	8%	39
2007	13%	35%	45%	7%	39.5
2008	15%	34%	44%	6%	40.3
2009	14%	36%	47%	4%	40.6
2010	14%	37%	41%	7%	40.8
2011	15%	41%	36%	8%	40.9
2012	15%	45%	31%	9%	41.4

Graph 4:
Evolution in staff members



Year	Total	Female	Male
1999	152	44	108
2000	164	48	116
2001	182	53	129
2002	207	68	139
2003	202	67	135
2004	209	70	139
2005	206	70	136
2006	211	71	140
2007	222	78	144
2008	241	87	154
2009	250	90	160
2010	271	99	172
2011	290	102	188
2012	303	98	205

2.2.2 The pension fund

Article 14 of the Organic Law of 23 December 1998 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 which is linked to an individual's status, and 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 Executive Board, 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.

2.3 LOGISTICS

Due to a shortage of office space the BCL purchased a building at 7, boulevard Royal, vis-à-vis the headquarters of the BCL, in May 2012. The refurbishment of the building is underway.

It was possible to further reduce energy consumption at different sites of the BCL through new technical adjustments.

Extensive work has been done on the air conditioning systems of the main site in order to improve the working conditions of employees.

The drafting of an environmental charter for the BCL has begun.

2.4 INTERNAL FINANCE AND STRATEGY

2.4.1 Accounting and reporting

The BCL continued to update its accounting system and its procedures in order to meet its internal quality standards as well as those of the Eurosystem. The BCL also continued to take part in the working group relating to the ESCB's financial framework and adopted the accounting revisions in the BCL's systems.

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

The existing control systems proved its efficiency throughout the year.

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

The monthly balance sheet of the BCL 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. These tables include all the Bank's activities. The Bank monitors 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 such as interest rates, exchange rates and other variables of the Eurosystem and of the economic situation.

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

The implementation and adaptation of the new software relating to the portfolio of securities was carried out during 2012. The go-live became effective at the beginning of the year 2013.

2.4.2 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 long term financial sustainability. Furthermore, the annual budget determines the upper limit of the operating expenditure and the investment the Bank may incur during a given exercise.

The 2012 budget of the BCL was established in accordance with BCL's budgetary procedure and the guidelines set by the Bank's Council on July 14, 2011. The 2012 budget was approved by the Council of the BCL on December 15, 2011.

In particular, the 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 increase. The continuous assignment of new tasks and the persisting crises have required a reinforcement of the Bank's staff in both operational and support units. This trend continued in 2012.
- Taking into account the ongoing financial crisis, the low key interest rates and the fact that the BCL still lacks appropriate own capital, decision-making bodies of the BCL have intensified the existing economy measures. These efforts have helped to reduce the operating budget (excluding staff costs) by 5.0% compared to 2008, despite a simultaneous increase in employment.
- The BCL continues to implement internal and European projects, obviously having a measurable 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.

The actual expenditure for operational and investment charges as of 31 December 2012 stayed within the boundaries set by the Bank's annual budget.

2.4.3 Strategic planning and management control

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

Since end 2010, management control has been entrusted with the coordination and monitoring of the Bank's internal projects. Based on the internal regulation on the management of projects, management control has issued regular project monitoring reports and rendered secretariat services to BCL's project steering committee (BISC).

Furthermore, BCL representatives have participated in a series of project controlling activities at ESCB/Eurosystem level related to the preparation and monitoring of common IT projects. In 2012 these ESCB/Eurosystem controlling activities have seen a significant increase. Consequently BCL representatives have been heavily involved in Eurosystem matters as well as in related working groups.

Cost accounting, as part of BCL's management control function, serves as the basis for identifying, analysing and monitoring activity related costs (Activity Based Costing). Moreover, it establishes the financial figures for the invoicing of services. The applied cost accounting methodology follows the common rules adopted by the Eurosystem. It consists of allocating BCL's operational expenses according to their destination, i.e. according to the respective sections and units, allowing cost identification of each of the Bank's activities.

In order to facilitate the planning and monitoring of staff resources, the BCL applies a specific analytic tool for the measurement and evaluation of the allocation of human resources and material with respect to the various functions of a central bank. Together with an enhanced cost accounting system, this helps the Executive Board as well as line managers to better monitor the operational performance of the Bank. Finally, regular reports containing both financial and operational indicators facilitate the alignment of tasks and activities with strategic orientations and identified objectives of the Bank.

In future, the coordination and monitoring of BCL projects will require further attention. To this end, management control will foster its horizontal activities in close cooperation with the respective stakeholders.

As the BCL continues to grow, a strengthened medium and long term planning remains a core requirement. Consequently, the efforts in the field of strategic planning have been intensified in order to safeguard a smooth alignment of the BCL with the current economic, financial and institutional environment.

2.5 THE EUROSISTEM PROCUREMENT COORDINATION OFFICE (EPCO)

In December 2007, the ECB Governing Council appointed the Banque centrale du Luxembourg to establish and host the Eurosystem Procurement Coordination Office (EPCO) for an initial period of five years (2008-2012). This period was prolonged until the end of June 2014, to allow further analysis of the future scope of EPCO.

The objective of EPCO is to coordinate and support the joint procurement of goods and services by those ESCB Central Banks that have agreed to participate in EPCO activities (the so-called 'EPCO Central Banks')¹, as well as to further improve best practices in the field of public procurement within the Eurosystem.

EPCO facilitates the activities of the procurement experts' network of the EPCO Central Banks, which met six times in 2012. The exchange of best practices serves in particular to develop the reference set on public procurement procedures for all these central banks.

The fourth EPCO joint procurement plan was implemented in 2012, with significant progress made in a number of areas. The joint procedures on air transport and global hotel agreements for ESCB meetings were renewed. Joint procurement procedures were completed in the areas of IT consultancy services, purchase and maintenance of standard software, market data services and audit services. In addition, a number of procedures - covering areas such as office copy paper, ratings data services and packaging for euro banknotes - progressed further.

In 2012, EPCO coordinated studies in a wide range of areas that might lead to joint procurement, in domains such as IT products, insurance, office supplies, as well as in goods and services related to the issuance and circulation of euro banknotes.

In 2012, within the framework of procurements related to ESCB common projects, EPCO also collaborated and provided assistance to the two central banks in charge of conducting the Common Eurosystem Pricing Hub (CEPH) project.

In April 2012, the ECB Governing Council approved the Annual Report of EPCO's activities for the year 2011. This report confirmed that the execution of the 2011 budget was € 476 000 below the initially budgeted amount. Also, it fixed the distribution of EPCO's operating costs between the participating central banks, in line with the cost-sharing mechanism approved by the Governing Council.

In December 2012, the ECB Governing Council approved EPCO's procurement plan for 2013 ('EPCO Procurement Plan - Update 2013') as a multi-annual procurement plan. This procurement plan widened the scope of EPCO's activities for 2013, to include a total of twelve joint procurement procedures and five areas of further study, and it strengthened the coordination of future joint procurements of EPCO Central Banks, without prejudging the developments deriving from the term of EPCO's current mandate.

Finally, in December 2012, the ECB Governing Council approved a € 1.67 million budget for EPCO for 2013.

¹ In 2012, the EPCO Central Banks were, in addition to the Eurosystem Central Banks, the Central Bank of Romania (Banca Națională a României) and Hungary (Magyar Nemzeti Bank).

2.6 FINANCIAL STATEMENTS

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 Executive Board. In case of differences between the French version and this translation, the French version is binding.

2.6.1 Key figures as of year-end (in euro)

	2012	2011	Change in % 2012/2011
Total assets	120 419 763 880	127 206 165 402	-5%
Banks' current accounts	38 478 688 215	51 222 835 819	-25%
Claims on credit institutions	5 675 000 000	5 198 700 000	9%
Own funds ¹ , revaluation accounts, administrative provisions and specific banking risks provisions	1 131 271 692	813 457 921	39%
Net result from banking activities ²	606 702 366	201 723 709	201%
Total net revenues	55 304 679	56 848 437	-3%
Administrative expenses	49 487 198	51 879 107	-5%
Net profit	1 847 800	1 015 713	82%
Cash Flow ³	217 304 422	159 664 100	36%
Staff	300	287	5%
BCL's part in the capital of the ECB	0.1747%	0.1747%	
BCL's part in the Eurosystem's monetary policy operations	0.504%	0.602%	

¹ Capital, reserves, provisions for general banking risks and net profit to be allocated to the reserves

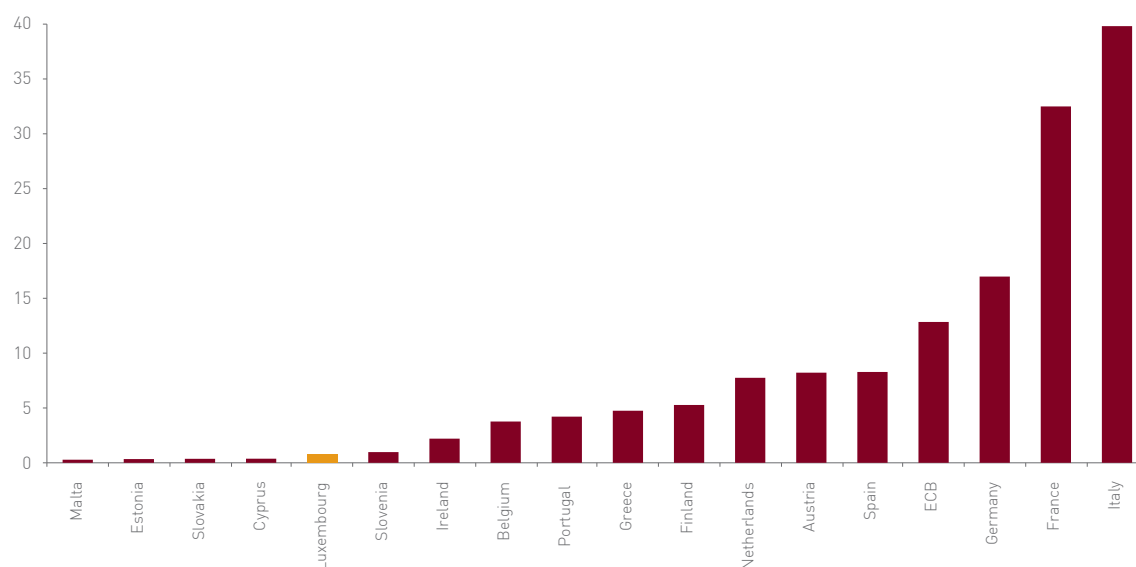
² Net adjusted interest income, net result from fees and commissions, net result on financial operations

³ Net profit plus depreciation of tangible / intangible assets and write-downs on financial assets, as well as net transfer to administrative provisions and provisions for banking risks

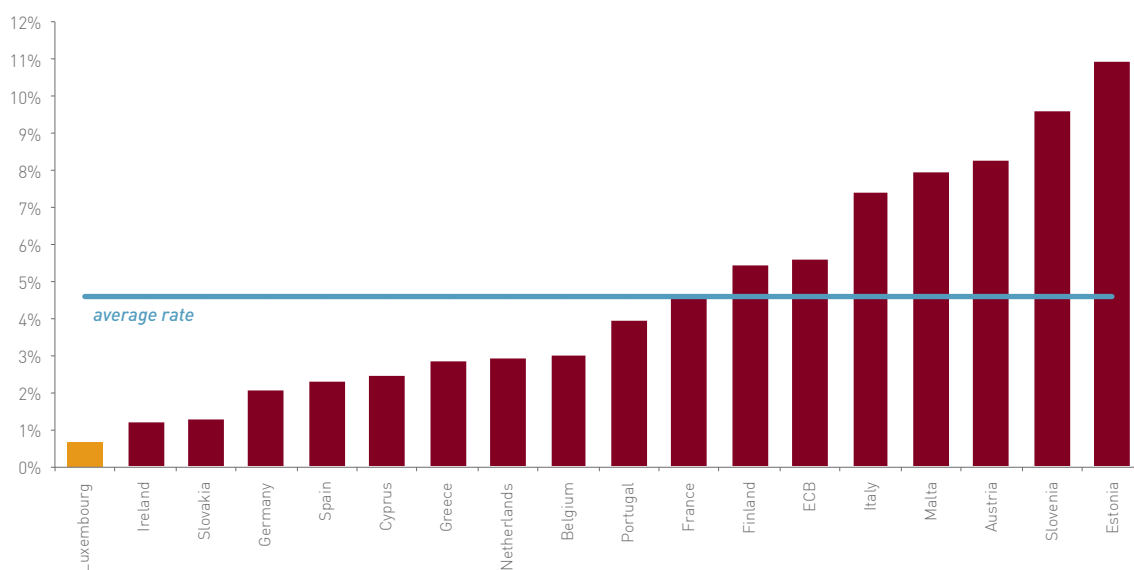
The capital base of the Bank is largely insufficient, both in absolute and relative terms, in comparison to other national central banks of the Eurosystem (see table below).

Graph 5:

Capital, reserves and provisions in the Eurosystem (in EUR billions, on 31/12/2011)



Graph 6:
Ratio own funds/total assets (on 31/12/2011)



2.6.2 Report of the *réviseur d'entreprises agréé*

We have audited the accompanying financial statements (*les comptes financiers*) of Banque centrale du Luxembourg, which comprise the balance sheet as of December 31, 2012 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 preparation and presentation of 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 as well as those defined by the European System of Central Banks. The Executive Board determines the use of internal control in regard to their ability 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 the International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. These standards require that we comply with ethical requirements and plan as well as perform the audit in order to obtain reasonable assurance regarding whether the financial statements are free from material misstatement.

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

An audit also includes the evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Executive Board, 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, 2012, 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 8, 2013

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

S. Chambourdon

2.6.3 Balance sheet as of 31 December 2012

ASSETS	Note	2012 EUR	2011 EUR
Gold and gold receivables	3	90 841 235	87 730 236
Claims on non-euro area residents denominated in foreign currency	4	660 287 665	695 481 591
- Receivables from the IMF		546 056 782	555 314 575
- Balances with banks, security investments, external loans and other external assets		114 230 883	140 167 016
Claims on euro area residents denominated in foreign currency	5	1 563 658 740	3 634 661 746
Claims on non-euro area residents denominated in euro	6	1 298 712 955	2 045 154 537
- Balances with banks, security investments and loans		1 298 712 955	2 045 154 537
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	5 675 000 000	5 198 700 000
- Main refinancing operations	7.1	770 000 000	1 849 200 000
- Long-term refinancing operations	7.2	4 905 000 000	3 349 500 000
Other claims on euro area credit institutions denominated in euro	8	1 326 635 883	1 120 880 261
Securities of euro area residents denominated in euro	9	3 436 692 374	4 193 925 411
- Securities held for monetary policy purposes	9.1	580 374 062	643 439 782
- Other securities	9.2	2 856 318 312	3 550 485 629
Intra-Eurosystem claims	10	105 882 564 666	109 438 006 356
- Participating interest in ECB	10.1	24 519 953	21 608 286
- Claims related to the transfer of foreign reserves	10.2	100 638 597	100 638 597
- Other claims within the Eurosystem	10.3	105 757 406 116	109 315 759 473
Items in course of settlement		211	629
Other assets	11	485 370 151	791 624 635
- Tangible and intangible fixed assets	11.1	65 049 947	52 300 903
- Other financial assets	11.2	217 349 308	193 998 587
- Accruals and prepaid expenses	11.3	190 632 560	187 326 773
- Sundry	11.4	12 338 336	357 998 372
Total assets		120 419 763 880	127 206 165 402

LIABILITIES	Notes	2012 EUR	2011 EUR
Banknotes in circulation	12	2 094 398 640	2 039 401 260
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	38 478 688 214	51 222 835 819
- Current accounts (covering the minimum reserve system)	13.1	18 366 964 668	10 844 067 972
- Deposit facility	13.2	18 089 623 546	37 035 967 847
- Fixed-term deposit	13.3	2 022 100 000	3 342 800 000
Liabilities to other euro area residents denominated in euro	14	622 704 906	702 053 478
- General government	14.1	552 662 871	501 918 650
- Other liabilities	14.2	70 042 035	200 134 828
Liabilities to non-euro area residents denominated in euro	15	1 672 172 078	1 397 788 044
Liabilities to euro area residents denominated in foreign currency	16	-	14 664
- Financial institutions		-	14 664
Liabilities to non-euro area residents denominated in foreign currency	17	1 546 248 826	187 606 132
Counterpart of special drawing rights allocated by the IMF	18	287 487 800	292 666 872
Intra-Eurosystem liabilities	19	74 257 491 195	69 994 510 855
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	19.1	74 257 491 195	69 994 510 855
Items in course of settlement	20	-	2 461 369
Other liabilities	21	180 919 979	358 065 654
- Off-balance sheet instruments revaluation differences		-	78 276 830
- Accruals and income collected in advance		145 825 697	242 423 410
- Sundry		35 094 282	37 365 414
Provisions	22	751 582 790	590 758 625
Revaluation accounts	23	341 511 307	233 292 285
Capital and reserves	24	184 710 345	183 694 632
- Capital	24.1	175 000 000	175 000 000
- Reserves	24.2	9 710 345	8 694 632
Profit for the year		1 847 800	1 015 713
Total liabilities		120 419 763 880	127 206 165 402

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

2.6.4 Off-balance sheet as of 31 December 2012

	Note	2012 EUR	2011 EUR
Foreign exchange swap	25	-	3 464 666 510
Securities received as collateral	26	140 206 472 952	170 820 403 147
Foreign currency reserve assets managed on behalf of the ECB	27	321 141 061	326 078 364
Forward transactions	28	32 600 000	88 318 113
Numismatic collection		207 906	207 533
		140 560 421 919	174 699 673 667

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

2.6.5 Profit and loss account for the year 2012

	Note	2012 EUR	2011 EUR
Interest income	29	1 267 581 069	1 230 767 803
Interest expense	29	(761 293 499)	(1 024 583 562)
Net interest income	29	506 287 570	206 184 241
Realised gains / (losses) arising from financial operations	30	107 300 137	74 005 794
Write-downs on financial assets and positions	31	(4 735 911)	(62 326 679)
Transfer to/from provisions for risks	32	(162 211 804)	(64 236 535)
Net result of financial operations, write-downs and risk provisions		(59 647 578)	(52 557 420)
Fees and commissions income	33	12 407 609	14 440 461
Fees and commissions expense	33	(13 197 857)	(14 236 940)
Net result from fees and commissions	33	(790 248)	203 521
Income from participating interest	34	3 503 490	2 055 511
Net result of pooling of monetary income	35	(403 075 958)	(106 277 533)
Other income	36	9 027 402	7 240 115
Total net income		55 304 678	56 848 435
Staff costs	37	(34 615 108)	(31 290 909)
Other administrative expenses	38	(9 543 040)	(9 275 958)
Depreciation of tangible and intangible fixed assets	11.1., 39	(3 969 679)	(3 953 615)
Banknote production services	40	(665 820)	(678 543)
Other expenses	41	(4 663 231)	(10 633 697)
PROFIT FOR THE YEAR		1 847 800	1 015 713

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

2.6.6 Notes to the financial statements as of 31 December 2012

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, which stipulates that the main task of the BCL shall be to contribute to the exercise of the tasks of the European System of Central Banks (ESCB) so as to achieve the objectives of the ESCB. The BCL is also responsible for the oversight of the general market liquidity situation and the evaluation of the market participants 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 the preparation of 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;
- recognition 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 items, 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 classified as held-to-maturity. These securities are valued at amortised cost (purchase price adjusted by premiums and discounts) 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 amortised cost (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 recognised in the period in 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 partly distributed in 2012. The amount distributed is disclosed in the Profit and Loss account under 'Income from participating interest'.

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 TARGET2 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 minus depreciation. Depreciation is 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 borne by the BCL. The pension fund aims to cover the risks related to old age, disability and survival, were set up in 2000.

The actuarial method determines the pension fund's liability related to old age, disability 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 decreases by pension payments to retirees. At the end of the year, 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 borne by the BCL.

2.12 Provision for banking risks

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

NOTE 3 – GOLD AND GOLD RECEIVABLES

As of 31 December 2012, the BCL held 72 028.82 ounces of fine gold amounting to 90.84 million euro (95.35 ounces of fine gold amounting to 0.12 million euro as of 31 December 2011).

As of 31 December 2011, BCL held a top-rated gold bond issued by the International Bank for Reconstruction and Development purchased in 2002 and valued at 87.6 million euro (date of maturity 28 March 2012).

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 2012.

NOTE 4 – CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

	2012 EUR	2011 EUR
Receivables from the IMF	546 056 782	555 314 575
Balances with banks, security investments, external loans and other external assets	114 230 883	140 167 016
	660 287 665	695 481 591

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 non-Eurosystem central banks).

This item is broken down into two sub-items:

- receivables from the International Monetary Fund (IMF) which are made up of reserve tranche position, SDR holdings and new arrangements to borrow. SDR are reserve assets created by the IMF and allocated by it to its members. A member's SDR holdings initially amount to the allocated SDRs. Afterwards, SDR holdings are subject to fluctuations as a result of encashment and transactions with other 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. The new arrangements to borrow are credit agreements between the IMF and the Government of Luxembourg.
- 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 103.2 million euro as of 31 December 2012 (104.9 million euro as of 31 December 2011), mainly consists of government bonds and bonds issued by international and supranational institutions denominated in US dollars. Securities are valued at market prices. As of 31 December 2012, their value at market prices included a negative net revaluation adjustment which amounted to 1.1 million euro (negative net revaluation adjustment amounting to 1.8 million euro as of 31 December 2011).

Balances with banks amounted to 11.1 million euro as of 31 December 2012 (35.3 million euro as of 31 December 2011).

NOTE 5 – CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

This item contains balances held in foreign currencies by the BCL with euro area counterparties which amounted to 1 563.7 million euro as of 31 December 2012 (172.3 million euro as of 31 December 2011).

As of 31 December 2011, this item also contained a claim arising from reverse operations with Eurosystem counterparties amounting to 3 462 million euro in connection with the US dollar Term Auction Facility. Under this program, US dollars 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's counterparties. The back-to-back swap transactions between the ECB and NCBs resulted in intra-Eurosystem balances reported under 'Other claims within the Eurosystem'.

NOTE 6 – CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO

	2012 EUR	2011 EUR
Balances with banks	22 085 354	16 248 401
Marketable securities	1 276 627 601	1 810 406 136
Deposits	-	218 500 000
	1 298 712 955	2 045 154 537

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 marketable securities portfolio contains government bonds and bonds issued by companies outside the euro area denominated in euro. Securities are valued at market value. As of 31 December 2012, their market value included a negative net revaluation adjustment amounting to 68.0 million euro (negative net revaluation adjustment amounting to 136.6 million euro as of 31 December 2011).

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:

	2012 EUR	2011 EUR
Main refinancing operations	770 000 000	1 849 200 000
Longer-term refinancing operations	4 905 000 000	3 349 500 000
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	-
Credits related to margin calls	-	-
	5 675 000 000	5 198 700 000

The total Eurosystem holding of monetary policy assets amounts to 1 126 019 million euro of which BCL holds 5 675 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 includes the amount of liquidity provided to credit institutions by way of weekly one-week tenders.

7.2 Long-term refinancing operations

This sub-item includes the amount of credit extended to credit institutions by way of tenders with three or thirty-six month maturities.

7.3 Fine-tuning reverse operations

This sub-item includes 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 includes 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 includes additional credit extended to credit institutions and resulting from the increase in 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

	2012 EUR	2011 EUR
Securities held for monetary policy purposes	580 374 062	643 439 782
Other securities	2 856 318 312	3 550 485 629
- marketable securities	2 019 294 067	2 659 420 818
- held-to-maturity securities	837 024 245	891 064 811
	3 436 692 374	4 193 925 411

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 (SMP). 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 the BCL within the scope of the purchase programme for covered bonds (first and second programme) amounts to 116.0 million euro as of 31 December 2012 (87.5 million for the first programme and 28.5 million for the second programme). The first programme was completed at the end of June 2010. The second programme was completed in October 2012.

The total Eurosystem holding of SMP securities amounts to 208.7 billion euro, of which BCL holds 464.3 million euro. In accordance with Article 32.4 of the Statute, any risks from holdings of SMP securities, if they were to materialise, should be shared in full by the Eurosystem, in proportion to the prevailing ECB capital key shares.

As of 31 December 2012 these securities held for monetary policy purposes amount to 580.4 million euro (643.4 million euro as of 31 December 2011).

There was no impairment on these securities.

9.2 Other securities

The securities portfolio recorded under this item includes:

- The marketable securities portfolio in euro issued by residents of the euro area amounted to 2 019.3 million euro as of 31 December 2012 (2 659.4 million euro as of 31 December 2011).
This portfolio only contains government bonds in euro issued by Member States of the European Union and bonds issued by companies of the euro area.
Securities are valued at market value. As of 31 December 2012, their market value included a negative net revaluation adjustment amounting to 19.2 million euro (negative net revaluation adjustment amounting to 116.9 million euro as of 31 December 2011).
- The Held-to-maturity portfolio in which 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. As of 31 December 2012, these securities amount to 837.0 million euro (891.0 million euro as of 31 December 2011).

9.3 Securities held within the scope of the purchase programme for covered bonds and the securities markets programme

Harmonised annual impairments tests on securities (for the purchase programme for covered bonds and the securities markets programme) are conducted in the Eurosystem on the basis of the information available and recoverable amounts estimated as of the reporting date.

As a result of an impairment test conducted as of 31 December 2012, the Governing Council decided that all future cash flows on these securities are expected to be received and that no impairment losses should be recorded at year end.

NOTE 10 – INTRA-EUROSYSTEM CLAIMS

10.1 Participating interest in ECB

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

The 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 paid up their increased capital in three equal annual instalments. The first instalment was paid on 29 December 2010. The second installment was paid on 28 December 2011. The last installment was paid on 27 December 2012.

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

	Subscribed capital since 29 December 2010	Paid-up capital until 26 December 2012	Paid-up capital since 27 December 2012
Nationale Bank van België/ Banque Nationale de Belgique	261 010 384.68	220 583 718.02	261 010 384.68
Deutsche Bundesbank	2 037 777 027.43	1 722 155 360.77	2 037 777 027.43
Eesti Pank	19 261 567.80	16 278 234.47	19 261 567.80
Central Bank of Ireland	119 518 566.24	101 006 899.58	119 518 566.24
Bank of Greece	211 436 059.06	178 687 725.72	211 436 059.06
Banco de España	893 564 575.51	755 164 575.51	893 564 575.51
Banque de France	1 530 293 899.48	1 293 273 899.48	1 530 293 899.48
Banca d'Italia	1 344 715 688.14	1 136 439 021.48	1 344 715 688.14
Central Bank of Cyprus	14 731 333.14	12 449 666.48	14 731 333.14
Banque centrale du Luxembourg	18 798 859.75	15 887 193.09	18 798 859.75
Central Bank of Malta	6 800 732.32	5 747 398.98	6 800 732.32
De Nederlandsche Bank	429 156 339.12	362 686 339.12	429 156 339.12
Oesterreichische Nationalbank	208 939 587.70	176 577 921.04	208 939 587.70
Banco de Portugal	188 354 459.65	159 181 126.31	188 354 459.65
Banka Slovenije	35 381 025.10	29 901 025.10	35 381 025.10
Národná banka Slovenska	74 614 363.76	63 057 697.10	74 614 363.76
Suomen Pankki – Finlands Bank	134 927 820.48	114 029 487.14	134 927 820.48
Subtotal for euro area NCBs	7 529 282 289.35	6 363 107 289.36	7 529 282 289.35
Българска народна банка (Bulgarian National Bank)	93 467 026.77	3 505 013.50	3 505 013.50
Česká národní banka	155 728 161.57	5 839 806.06	5 839 806.06
Danmarks Nationalbank	159 634 278.39	5 986 285.44	5 986 285.44
Latvijas Banka	30 527 970.87	1 144 798.91	1 144 798.91
Lietuvos bankas	45 797 336.63	1 717 400.12	1 717 400.12
Magyar Nemzeti Bank	149 099 599.69	5 591 234.99	5 591 234.99
Narodowy Bank Polski	526 776 977.72	19 754 136.66	19 754 136.66
Banca Națională a României	265 196 278.46	9 944 860.44	9 944 860.44
Sveriges Riksbank	242 997 052.56	9 112 389.47	9 112 389.47
Bank of England	1 562 145 430.59	58 580 453.65	58 580 453.65
Subtotal for non-euro area NCBs	3 231 370 113.23	121 176 379.25	121 176 379.25
Total	10 760 652 402.58	6 484 283 668.61	7 650 458 668.60

On 29 December 2010, the BCL paid the first annual installment of 2 911 666.67 euro, on 28 December 2011. The BCL paid the second annual installment of 2 911 666.67 euro and on 27 December 2012, the BCL paid the third annual installment of 2 911 666.66 euro.

As of 31 December 2012, the BCL's paid-up capital amounted to 18 798 859.75 euro (15 887 193.09 euro as of 31 December 2011).

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 of 31 December 2011).

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 interest rate used by the Eurosystem in its tender for main refinancing operations, adjusted to reflect a zero return on the gold component.

As of 31 December 2012, the claim of the BCL amounts to 100 638 597 euro (no change compared to 2011).

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 TARGET2 system, between the BCL and the other NCBs as well as the ECB. This claim amounts to 105.8 billion euro as of 31 December 2012 (109.3 billion euro as of 31 December 2011).

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 are as follows:

	Buildings EUR	Furniture and equipment EUR	Software EUR	Other EUR	Total EUR
Cost as of 1 January 2012	93 191 902	13 120 751	6 020 865	1 741 628	114 075 146
Disposals/Transfers	-	-	-	-	-
Acquisitions	14 515 774	751 554	211 418	1 239 977	16 718 723
Cost as of 31 December 2012	107 707 676	13 872 305	6 232 283	2 981 605	130 793 869
Accumulated depreciation as of 1 January 2012	43 437 508	12 544 568	5 792 167	-	61 774 243
Disposals	-	-	-	-	-
Depreciation	3 433 411	402 764	133 504	-	3 969 679
Accumulated depreciation as of 31 December 2012	46 870 919	12 947 332	5 925 671	-	65 743 922
Net book value as of 31 December 2012	60 836 757	924 973	306 612	2 981 605	65 049 947

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 acquisition of the new premise located at 7, boulevard Royal in 2012 explains the increase of sub-item 'Buildings'.

The 'Pierre Werner building', the 'Monterey building' and the '7 boulevard Royal building' are considered as new buildings and are amortised over a period of 25 years while the costs incurred in relation to the transformation of the Siège Royal are considered as renovations and are amortised over 10 years.

11.2 Other financial assets

The components of this item are as follows:

	2012 EUR	2011 EUR
Other participating interests	83 586 031	84 990 668
Pension fund	133 763 277	109 007 919
	217 349 308	193 998 587

The other participating interests comprise the BCL's investments in Swift, the ATTF, LuxCSD SA., the BCL's Foundation, the Islamic Liquidity Management Corporation and the Bank for International Settlements.

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 2012.

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.

Under this item are also included the commissions receivables, prepaid expenses, including salaries paid for January 2013, and other receivable income.

11.4 Sundry

	2012 EUR	2011 EUR
Others	12 338 336	357 998 372
	12 338 336	357 998 372

This item also consists of the counterpart of the unrealised loss on SDR holdings recorded in the financial statements of the BCL which is guaranteed by the Government according to the agreement signed in May 1999 establishing the financial relationship between the Government of Luxembourg and the BCL (8 million euro as of 31 December 2012; 4 million euro as of 31 December 2011).

As of 31 December 2011, this item mainly included the remaining outstanding claims against counterparties which defaulted in 2008 on refinancing operations undertaken by the Eurosystem. These outstanding claims were fully repaid in 2012.

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 totaled 2 094.4 million euro (2 039.4 million euro as of 31 December 2011).

NOTE 13 – LIABILITIES TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO

	2012 EUR	2011 EUR
Current accounts (including the minimum reserves)	18 366 964 668	10 844 067 972
Deposit facility	18 089 623 546	37 035 967 847
Fixed-term deposits	2 022 100 000	3 342 800 000
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	38 478 688 214	51 222 835 819

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 (including 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 unsettled average period, starting the following Wednesday of the Governing Council's meeting when the interest rate has been set.

13.2 Deposit facility

This sub-item records the standing facility which allows 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 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 following amounts:

	2012 EUR	2011 EUR
Current accounts	3 502 282	905 796
Account related to euro coins issued by the Treasury	236 565 589	221 012 854
Specific account	172 595 000	140 000 000
Fixed-term deposit	140 000 000	140 000 000
	552 662 871	501 918 650

The item current accounts records an amount of 3 502 282 euro owed to the Luxembourg Treasury.

In accordance with the amendment of 10 April 2003 to the agreement between the Government 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 specific account was opened for the State of Luxembourg in 2011 in order to enable operations with the IMF until a final agreement between the parties is reached.

The fixed-term deposit, unchanged since 2010, relates to the above-mentioned agreement.

14.2 OTHER LIABILITIES

This item contains mainly a remunerated current account held by a public enterprise offering financial services.

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

As of 31 December 2011, this item included 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 counter value of SDR, converted into euro at the same rate as the one applied to SDR assets, which should be returned to the IMF if SDRs are cancelled, if the SDR Department established by the IMF was closed or if Luxembourg decided to withdraw from it. This liability, of unlimited maturity, amounts to SDR 246.6 million, or 287.5 million euro as of 31 December 2012 (SDR 246.6 million, or 292.7 million euro as of 31 December 2011).

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 potential cash desk differences.

NOTE 21 – OTHER LIABILITIES

This item mainly comprises 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 not yet returned Luxembourg franc banknotes.

The Luxembourg franc banknotes still circulating as of 31 December 2012 amount to 5.1 million euro (5.1 million euro as of 31 December 2011).

NOTE 22 – PROVISIONS

	2012 EUR	2011 EUR
Provisions for banking risks	603 852 779	467 299 918
Provisions for pensions	147 680 011	123 408 707
Other provisions	50 000	50 000
	751 582 790	590 758 625

22.1 Provisions for banking risks

Provisions for specific banking risks	2012 EUR	2011 EUR
Provision covering credit and market risk	390 013 909	320 804 166
Buffer against counterparty risks in Eurosystem	700 538	2 144 550
Provision covering operational risk	17 850 000	18 280 000
Provision covering liquidity risk	16 302 115	16 026 903
Provision for doubtful debts	1 411 994	69 750 076
	426 278 556	427 005 695
Provisions for general banking risks		
Provision for liabilities resulting from monetary agreements	32 341 954	32 341 954
Other provision for general banking risks	145 232 269	7 952 269
	177 574 223	40 294 223
	603 852 779	467 299 918

22.1.1 Provision covering credit and market risk

The provision of 390.0 million euro (320.8 million euro as of 31 December 2011) corresponds to:

- 4.00% of the BCL's own securities portfolio existing as of 31 December 2012 (3.87% as of 31 December 2011) and participations other than the participating interest in the ECB;
- 4.00% (3.87% as of 31 December 2011) of the amount lent by the Eurosystem (main and long-term refinancing operations) as of 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 (excluding securities held by the ECB).

22.1.2 Buffer against counterparty risks in Eurosystem

In accordance with Article 32.4 of the ESCB Statute, 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 at the time a default occurs. In accordance with the general accounting principle of prudence, the Governing Council of BCE reduced the buffer from 949 000 000 euro as of 31 December 2011 to 310 000 000 euro as of 31 December 2012. This decrease was due to the revaluation of collateral and to principal payments received from the debtors.

For the BCL, the buffer decreased from 2 144 550 euro as of 31 December 2011 to 700 538 euro as of 31 December 2012.

22.1.3 Provision covering operational risk

This provision is intended to cover the risk of losses resulting from the inadequacy or failure attributable to procedures, to the human factor, to the BCL's systems or to external causes. Due to a lack of relevant statistics on the dimension of risk, the transfer to 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 2012, the average was based on previous years in accordance with the rules.

22.1.4 Provision for doubtful debts

The provision for doubtful debts covers non paid debts amounting to 1.4 million euro as of 31 December 2012 (unpaid interests from counterparty and unpaid debts amounting to 69.7 million euro at 31 December 2011).

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 2012.

22.1.6 Other provision for general banking risks

This provision is intended to cover non-specific risks of losses resulting from a central bank's activities and covers risks which could increase in light of the developments on the financial markets. It increased from 8.0 million euro as of 31 December 2011 to 145.2 million euro as of 31 December 2012.

22.2 Provisions for pensions

Provisions for pensions include the following items:

	2012 EUR	2011 EUR
Provision for pensions	147 680 011	123 408 707
	147 680 011	123 408 707

The pension claims of its agents are fully borne 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 147.7 million euro as of 31 December 2012 (123.4 million euro as of 31 December 2011).

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.

NOTE 23 – REVALUATION ACCOUNTS

This item includes positive revaluation differences related to the spread between the exchange rate as of 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 of 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 (unchanged compared with 2011).

24.2 Reserves

The reserves amount to 9.7 million euro (8.7 million euro as of 31 December 2011). This amount was increased by 1.0 million euro in 2012 following the profit allocation for 2011 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 2012	175 000 000	8 694 632
Profit allocation for 2011 (art 31)	-	1 015 713
As of 31 December 2012	175 000 000	9 710 345

NOTE 25 – FOREIGN EXCHANGE SWAP

As of 31 December 2011 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'). In connection with the same programme, forward claims arising from swap transactions with Eurosystem counterparties for the provision of US dollar liquidity against euro cash, were also outstanding.

NOTE 26 – SECURITIES RECEIVED AS COLLATERAL

This item includes the securities received as collateral from Luxembourg credit institutions to cover their liabilities related to refinancing operations, marginal lending facilities and intra-day credits.

This item also includes the securities received as collateral 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 2012, the market value of these securities amounts to 140.2 billion euro (170.8 billion euro as of 31 December 2011).

NOTE 27 – 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 28 – FORWARD CONTRACTS

This item includes interest rate derivatives. 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 2012, the total liabilities related to these forward contracts amount to 32.6 million euro (88.3 million euro as of 31 December 2011). 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 2012, unchanged compared to 2011.

NOTE 29 – 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	Total EUR
	2012	2012	2012
IMF	588 275	-	588 275
Monetary policy	-	45 307 196	45 307 196
Intra-Eurosystem claims	-	1 064 934 163	1 064 934 163
Securities	836 687	140 901 211	141 737 898
Gold	85 389	-	85 389
Other	8 997 280	5 930 868	14 928 148
Total	10 507 631	1 257 073 438	1 267 581 069
Composition of interest expense	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2012	2012	2012
IMF	(313 063)	-	(313 063)
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	(111 735 786)	(111 735 786)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	(641 596 853)	(641 596 853)
Other intra-Eurosystem liabilities	-	(56 855)	(56 855)
Interests on term deposits	-	(208 056)	(208 056)
Other liabilities	(2 446 449)	(789 444)	(3 235 893)
Interest on swap operation	(4 146 993)	-	(4 146 993)
Total	(6 906 505)	(754 386 994)	(761 293 499)
Composition of interest income	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2011	2011	2011
IMF	1 705 972	-	1 705 972
Monetary policy	-	51 055 590	51 055 590
Intra-Eurosystem claims	-	993 185 248	993 185 248
Securities	1 599 322	169 482 452	171 081 774
Gold	346 242	-	346 242
Other	1 445 909	11 947 068	13 392 977
Total	5 097 445	1 225 670 358	1 230 767 803
Composition of interest expense	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2011	2011	2011
IMF	(1 112 512)	-	(1 112 512)
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	(166 711 900)	(166 711 900)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	(853 689 155)	(853 689 155)
Other intra-Eurosystem liabilities	-	(38 110)	(38 110)
Interests on term deposits	-	(712 639)	(712 639)
Other liabilities	(478 849)	(999 358)	(1 478 207)
Interest on swap operation	(841 039)	-	(841 039)
Total	(2 432 400)	(1 022 151 162)	(1 024 583 562)

NOTE 30 – 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 2012, they amount to 110.0 million euro (99.1 million euro as of 31 December 2011) and to 2.7 million euro (25.1 million euro as of 31 December 2011) respectively, making a net gain of 107.3 million euro (a net gain of 74.0 million euro as of 31 December 2011).

NOTE 31 – WRITE-DOWNS ON FINANCIAL ASSETS AND POSITIONS

This item includes revaluation losses on securities for 4.7 million euro (revaluation losses on securities for 62.3 million euro in 2011).

NOTE 32 – 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 35).

NOTE 33 – NET RESULT FROM FEES AND COMMISSIONS

Fees and commissions income and expense are as follows:

	Fees and commissions income EUR		Fees and commissions expense EUR	
	2012	2011	2012	2011
Securities	11 242 000	13 311 915	(12 521 367)	(14 090 474)
Others	1 165 609	1 128 546	(676 490)	(146 466)
Total	12 407 609	14 440 461	(13 197 857)	(14 236 940)

NOTE 34 – INCOME FROM PARTICIPATING INTEREST

The Governing Council of the ECB has decided that the ECB's income on SMP securities and the seigniorage income of the ECB (which arises from the 8% share of euro banknotes allocated to the ECB) shall be partially distributed in 2012. The non-distributed income was transferred to the ECB's provision for risks as of 31 December 2012.

In 2012, the BCL received 2.7 million euro from the ECB.

Based on the investment in the Bank for International Settlements (BIS) in 2011, BCL has received a dividend of 0.7 million SDR (0.8 million euro) in June 2012.

In total, this item amounts to 3.5 million euro as of 31 December 2012 (2.0 million euro as of 31 December 2011).

NOTE 35 – 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 TARGET2 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 TARGET2 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 and of 3 November 2011 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 (0.24968% for the BCL in 2012).

This item includes the net monetary income allocated to BCL for 2012 representing an expense amounting to 404 519 970 euro (expense of 109 120 361 euro as of 31 December 2011).

As of 31 December 2012, this item also includes the amount of 1 444 012 euro due to the decrease of the buffer against counterparty risks in the Eurosystem, as described in note 22.1.2. (the decrease of this buffer amounting to 2 842 828 as of 31 December 2011).

NOTE 36 – OTHER INCOME

Other income include 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 the BCL's revenue from financial agreement between the Government of Luxembourg and BCL.

NOTE 37 – 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 Executive Board amounted to 566 668 euro for the year 2012 (547 420 euro for the year 2011).

As of 31 December 2012, the BCL employed 300 persons (287 as of 31 December 2011). The average number of persons working for the BCL from 1 January to 31 December 2012 was 291 (279 for the year 2011).

NOTE 38 – 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 85 344 euro in 2012 (84 493 euro in 2011).

NOTE 39 – 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 40 – BANKNOTE PRODUCTION SERVICES

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

NOTE 41 – OTHER EXPENSES

This item includes costs related to numismatic activities, to administrative provisions and to consultancy.

In 2011, this item included also a net amount of 7.0 million euro corresponding to the adjustment of the pension fund's Pension Benefit Obligation (PBO) for new staff of 8.5 million euro and to the reversal of the provision for an increase of PBO of 1.5 million euro which was no more indicated.