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ANNUAL REPORT 2012

BANQUE CENTRALE DU LUXEMBOURG

EUROSYSTEM

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MISSION STATEMENT OF THE BCL

The Central Bank of Luxembourg (BCL), member of the European System of Central Banks (ESCB), is a public institution created by Luxembourg law. The BCL's independence is based on its organic law and the European Union Treaties.

THE MISSION

The BCL is in charge of managing all the monetary and financial responsibilities granted to it as one of the National Central Banks of the ESCB.

It is also a member of the Eurosystem that gathers the European Central Bank and the National Central Banks that have adopted the euro.

On a national level, the Bank has to carry out the tasks imposed on it by the national laws and conventions.

It is developing the following fields of competence:

- Research and studies and their communication thereof, which aim to prepare, on the one hand, monetary policy decisions and, on the other hand, the development of wider knowledge concerning monetary, financial and economic issues;
- Collection and analysis of statistics in the monetary, financial and balance of payments fields;
- Implementation of monetary policy instruments;
- Organisation and supervision of payment and securities settlement systems;
- Issuance and circulation of banknotes and coins;
- Financial asset management, both on own account and for third parties;
- Participation in the prudential supervision of the financial system and the exercise of the oversight of payment and securities settlement systems, in order to ensure the stability of the financial system in Luxembourg;
- Advisory services to legislative and regulatory authorities in financial and monetary areas.

THE VISION

The BCL intends to become a centre of competence, excellence even, whose performance will generate public confidence in the Central Bank.

Among Luxembourg institutions, the BCL takes every care that it is capable of fulfilling all its national, European and international obligations.

In view of the wide variety of its duties and activities, both in the public sector and in a competitive environment, the BCL must generate an income guaranteeing its institutional, functional and financial independence.

CORPORATE VALUES

Consequently, the values associated with its action are:

- Professionalism, guaranteed by highly specialised employees, high-performance tools and a high-level infrastructure;

- 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 operations and with respect to professional ethics.

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THE GOVERNOR'S MESSAGE[1]

1 Finalised on 30 April 2013.

In 2012, the euro area has continued to be marked by the crisis and the measures aimed at trying to ward it off.

The Governing Council of the European Central Bank (ECB) has acted in a determined way. The lowering of the interest rate of the main refinancing operations to 0.75%, against the backdrop of receding inflation expectations, was followed by the announcement of the introduction of the Outright Monetary Transactions (OMTs) in September. This new non-standard measure aims at restoring the transmission mechanism of monetary policy within the euro area. It allows the Eurosystem to intervene, without limits, in the secondary market for sovereign debt, with a maturity below or equal to three years, in countries which have an adjustment programme with the European Stability Mechanism (ESM). The programmes of the ESM, the successor to the European Financial Stability Facility (EFSF), are designed and monitored with the assistance of the IMF. As with the Securities Markets Programme (SMP), which was terminated with the introduction of the OMTs, additional liquidity funnelled to the markets through OMTs would be sterilised.

In order to continue supplying the euro area money market with liquidity, the Eurosystem completed a second longer term refinancing operation with a maturity of 36 months in February 2012; a first such operation had been completed in December 2011. These two liquidity-providing operations have been very successful, channelling more than € 1000 billion to banks within the euro area. By the same token, the Eurosystem maintained a fixed rate full allotment policy during the whole year of 2012. In order to ensure access to liquidity in foreign currencies, the ECB also extended swap agreements with certain foreign central banks, notably the American Federal Reserve System for liquidity in US dollars. Besides, the Eurosystem adjusted the rules pertaining to collateral which, in conformity with the Treaty, counterparts of the Eurosystem have to deposit in order to obtain the liquidity they need.

The year 2012 has seen important reforms of the European Union's economic and financial governance, especially in the euro area.

Article 136 of the Treaty on the Functioning of the European Union (TFEU) was modified to ensure the operation of the new ESM, of which the Incorporation Treaty became effective in September 2012. Also, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), also referred to as Fiscal Treaty, was signed on 2 March 2012 and became effective on 1 January 2013; Luxembourg ratified the Treaty only on 27 February 2013. This treaty aims at strengthening fiscal discipline in EU Member States with the introduction of constraining fiscal rules containing an automatic correction mechanism through the inception, in every Member State that is a signatory, of a national institution tasked with monitoring the compliance with such rules and through enhanced monitoring of economic policies. In 2013, based on proposals made by the European Commission, dubbed 'Two Pack', legal acts will complement the fiscal rules already strengthened by the 'Six Pack'.

In addition, the European Council decided, in its meeting of 28 and 29 June 2012, on the creation of a Single Supervisory Mechanism (SSM) for the banks established within the euro area, aiming at consolidating the supervision of those banks under the aegis of the ECB. This mechanism, which is expected to be created in 2013, is destined to be complemented by a single resolution mechanism and a single deposit insurance scheme. Beyond strengthening financial stability, this new structure should also break the vicious feedback loop between banking crises and national public finances. This mechanism will be open to Member States that are outside the euro area. The implementation of new rules on surveillance will inevitably entail a strengthened cooperation between the BCL and the *Commission de Surveillance du Secteur Financier* (CSSF).

While financial markets have stabilised, notably due to the announcement of the introduction of OMTs, the effects of the crisis continue to weigh on the real economy. At the level of the euro area, real GDP contracted by 0.5% in 2012; signs of recovery remain timid. Inflation slightly receded and the unemployment rate exceeded 11.5% at the end of 2012. Although Luxembourg's real GDP did not contract, economic growth has slowed down markedly. According to the national accounts published in early April 2013, real GDP grew by only 0.3% in 2012, well below the growth rate reached in 2011 (1.7%). The domestic inflation rate, measured by the National Index of Consumer Prices (IPCN), reached an annual average of 2.7%, which lies above the Harmonised Index of Consumer Prices (HICP) for the whole euro area (average inflation rate of 2.5% in 2012). The deficit of the central administration, with 2.6 percent of GDP according to the latest stability programme and revised compared to previous figures, has reached a worrisome level. While the fiscal deficit as defined in the Maastricht Treaty, which includes the central administration but also local administrations and social security, seems to have remained below the 3% mark, it remains, *ceteris paribus*, alarming over the medium to long haul, as this result is due the accumulation of large surpluses by the pension system.

In Luxembourg, as in other Member States of the euro area, priority should be given to the implementation of structural reforms laying the ground for a competitive and productive economy as well as sustainable public finances over the medium term. The ongoing fiscal, financial and economic reforms in the European Union should be implemented in a steadfast way at the national level. In the context of the Fiscal Treaty, it is important to point out the necessity to set up, at the national level, an independent body or a body endowed with an operational independence and acting as a watchdog in order to ensure fiscal rules are being complied with. Also, in the realm of financial sector regulation, the State is called upon to follow up as soon as July 2013 to the recommendation of the European Systemic Risk Board (ESRB) on the macro-prudential mandate of national authorities, notably with the designation of the authority in charge of macro-prudential policies. This new authority must be appointed by the Government with diligence.

The BCL has continued to play an active role in various domestic and international fora dealing with macro-prudential surveillance and financial stability: the ESRB, which has been operating for its second year in 2012, the Bank for International Settlements (BIS), of which the BCL has been a shareholder since 2011 and the Regional Consultative Group for Europe under the Financial Stability Board (FSB), created in 2011.

At the national level, the BCL will further the promotion of research in economics, finance and public finance in view, inter alia, of a better understanding of the mechanisms underpinning the Luxembourg economy. The BCL Foundation, incepted in 2011 to promote research and tertiary education in the areas pertaining to central banking, has granted for the first time in 2012 the award for the best PhD thesis on financial stability.

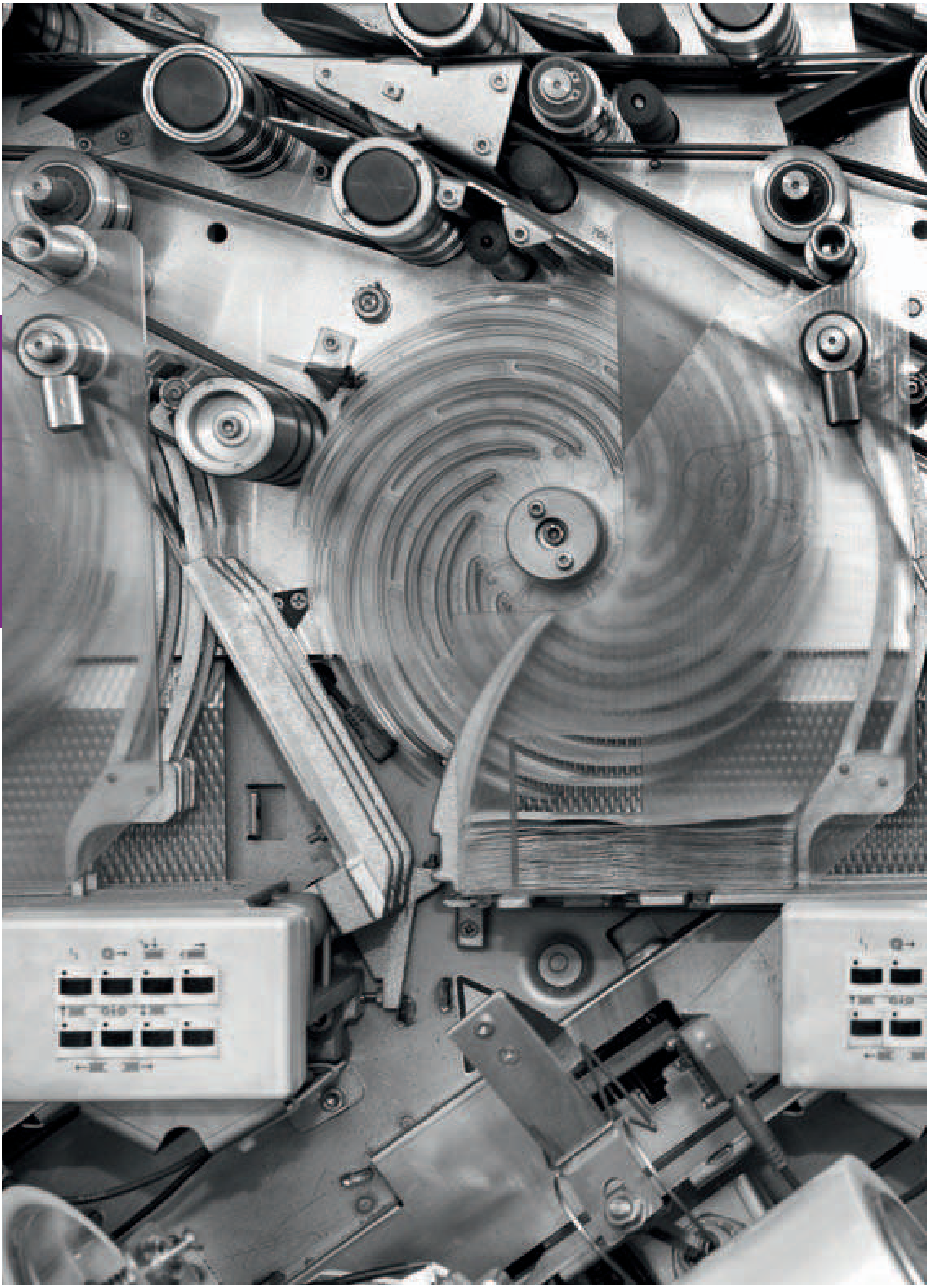
To fulfil its growing missions, notably of a sovereign character, and to respond to the increasing demands by the Eurosystem, the BCL had to continue increasing its staffing. As of December 2012, 303 staff members were employed by the BCL. Human capital remains the Bank's main asset and the social dialogue has taken a particularly important dimension. The question of the status of BCL staff arises in the context of the reform of the Luxembourg public service, which is in the course of being adopted.

The intensification of the crisis has engendered an intensification of current missions and the emergence of new sovereign missions, notably in the framework of the establishment of a SSM. Hence, the BCL needs to review, concomitantly with a review of its asset and liability management and its yield/risk balance, its capital and income-generating base as it is far too low per se and in comparison to other central banks of the euro area[2].

To conclude, I would like to pay tribute to my predecessor, Yves Mersch, who was appointed as a member of the ECB's Executive Board as of 15 December 2012. I would like to thank him for what he has done for the Bank and wish him best of luck in his new endeavours.

Gaston Reinesch

2 See graphs on page 77 to 78 of the report.



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THE BCL'S ACTIVITIES

1 THE BCL'S ACTIVITIES

1.1 MONETARY POLICY OPERATIONS

In the Grand-Duchy of Luxembourg, the BCL is responsible for conducting the monetary policy defined by the Eurosystem, for the entire euro area.

The primary objective of monetary policy is price stability through interest rates and liquidity situation management. In order to achieve its objectives, the Eurosystem has at its disposal a set of monetary policy instruments:

Open-market operations

The refinancing operations implemented by the BCL (*open market* operations), consist of funds allocated by the BCL guaranteed by eligible collateral submitted by its counterparties, the financial institutions in Luxembourg.

Open market operations include:

– Main refinancing operations (MRO), carried out through weekly tenders with a one-week maturity.

  These operations play a leading role in steering interest rates (thanks to the minimum bid rate or the fixed rate, since October 2008), in the management of banking liquidity and in signalling the trend of monetary policy.

– Long-term refinancing operations (LTRO), normally carried out through monthly tenders with a three-month maturity.

  These operations aim at providing additional long-term funding to the financial sector. They do not aim to give indications concerning the orientation of monetary policy.

– Fine-tuning operations, carried out by the Eurosystem on an ad hoc basis in order to counter temporary imbalances.

Standing Facilities

This instrument allows for the injection and withdrawal of liquidities on a day-to-day basis.

There are two types of standing facilities:

- The marginal lending facility: counterparties benefit from a marginal lending facility at the BCL, which they can use in the form of a current account overdraft (guaranteed by collateral) until the following working day.
- The deposit facility: counterparties benefit from the possibility to make overnight deposits with the BCL at the end of the day.

Minimum reserves

Euro area financial institutions are subject to a system of mandatory minimum reserves to be held on accounts opened at their national central bank.

These reserves aim at stabilising money market interest rates and at creating a structural liquidity deficit.

The amount of reserves to be held is determined according to the balance sheet of the financial institution.

Besides the regular monetary policy operations, the Eurosystem has implemented a number of non conventional operations:

Temporary currency auction facilities (swaps)

The Eurosystem established end-2007 a swap facility agreement with the US Federal Reserve. This agreement allows the Eurosystem to provide US dollars and the US Federal Reserve to provide euro to their counterparties, guaranteed by eligible collateral.

In September 2012, the Eurosystem renewed the swap agreement established with the Bank of England in December 2010.

In addition, in December 2012, the Eurosystem, the Bank of Canada, the Bank of England, the Federal Reserve and the Swiss National Bank announced the extension of the temporary liquidity swap arrangements until 1 February 2014.

Extension of operation maturities

The maturities of open market operations have been extended to an exceptional maturity of 36 months for some operations.

Covered Bond Purchase Programmes

In order to revitalize the covered bond market, the Eurosystem established two purchase programmes.

Securities Markets programme

This programme was implemented by the Eurosystem in order to address the malfunctioning of securities markets in the euro area.

Outright Monetary Transactions

Outright monetary transactions can only be activated for the purchase of securities of countries that strictly adhered to the requirements of a programme of the European Stability Mechanism or being under a macroeconomic adjustment programme and about to regain access to the market.

1.1.1 Conventional Operations

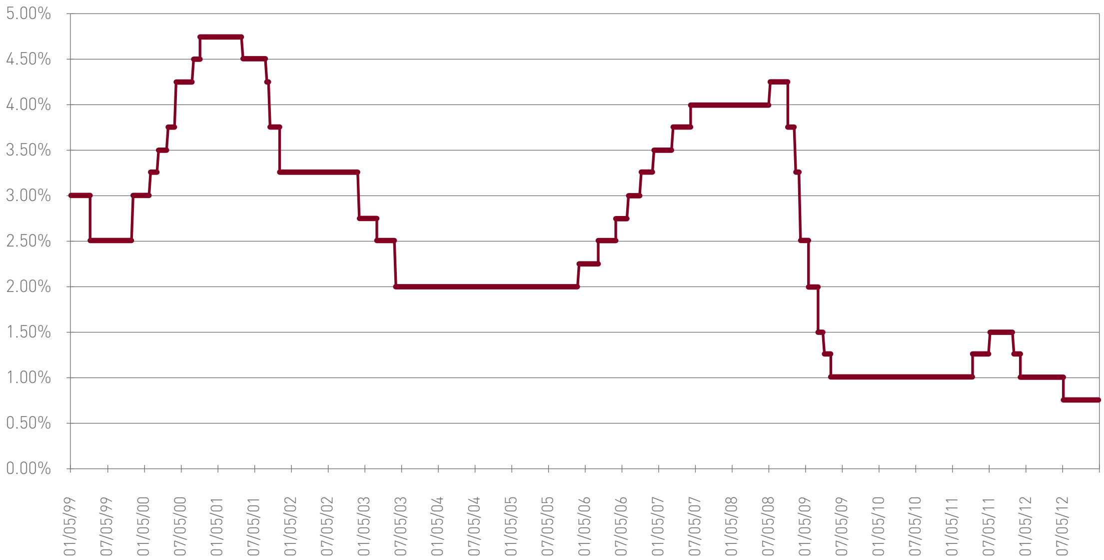
1.1.1.1 Open market operations

1.1.1.1.1 Main refinancing operations (MRO)

Since October 2008, the MRO were conducted by the Eurosystem on a full allotment and fixed rate basis. This measure was effective all through the year 2012. It is foreseen that this allotment method be maintained as long as necessary and at least until July 2013.

The Governing Council decreased the interest rate on the main refinancing operations to 0.75% in July 2012.

Graph 1:
MRO - Interest rate evolution since 1999

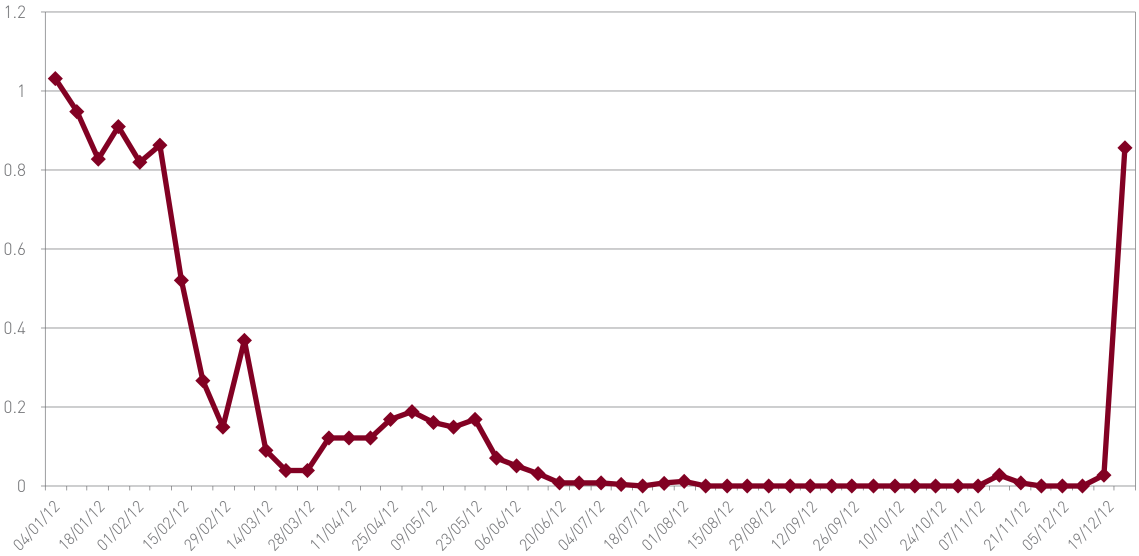


Source: BCL

The percentage of participation of Luxembourg to the MRO decreased strongly in the first part of 2012 down to an almost zero % in the second part of 2012.

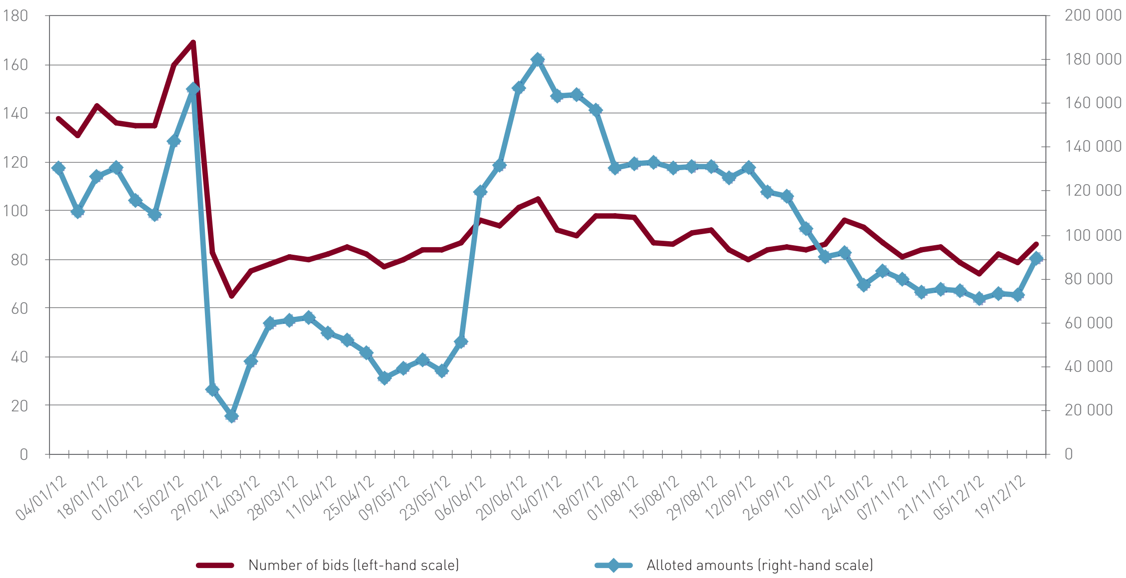
Luxembourg now ranks twelfth in the euro area in terms of percentage of participation. Since August 2012, Luxembourg counterparties have not shown interest for MRO. Some counterparties have nevertheless chosen to participate in the last MRO (28/12/12 to 03/01/13), which is reflected in their balance sheet (see Graph 2).

Graph 2:
MRO - Participation of LU compared to the euro area in 2012 (in %)



Source: BCL

Graph 3:
MRO - Number of bids and alloted amounts in 2012 in the euro area (in € million)



Source: BCL

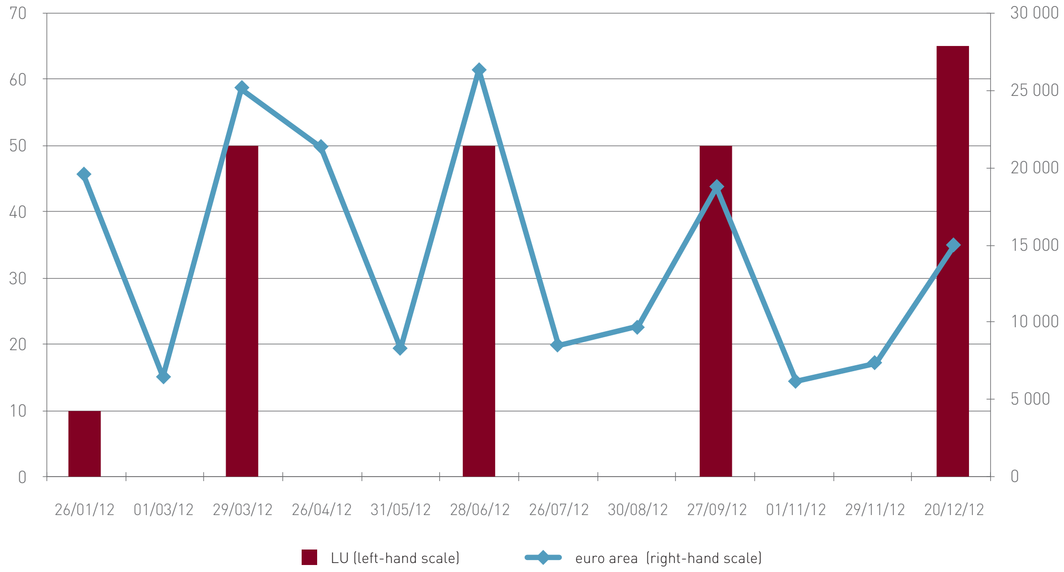
1.1.1.1.2 Longer-term refinancing operations (LTRO)

Additional one-maintenance period operations were conducted all through the year 2012. The Eurosystem announced that these operations would be maintained at least until mid-2013.

Luxemburgish counterparties did not participate in the one-maintenance period operations in 2012.

As shown in graph 4, Luxemburgish counterparties did not participate in all LTRO three-month operations in 2012.

Graph 4:
LTRO 3 months - LU and euro area - alloted amounts in 2012 (in € million)



Source: BCL

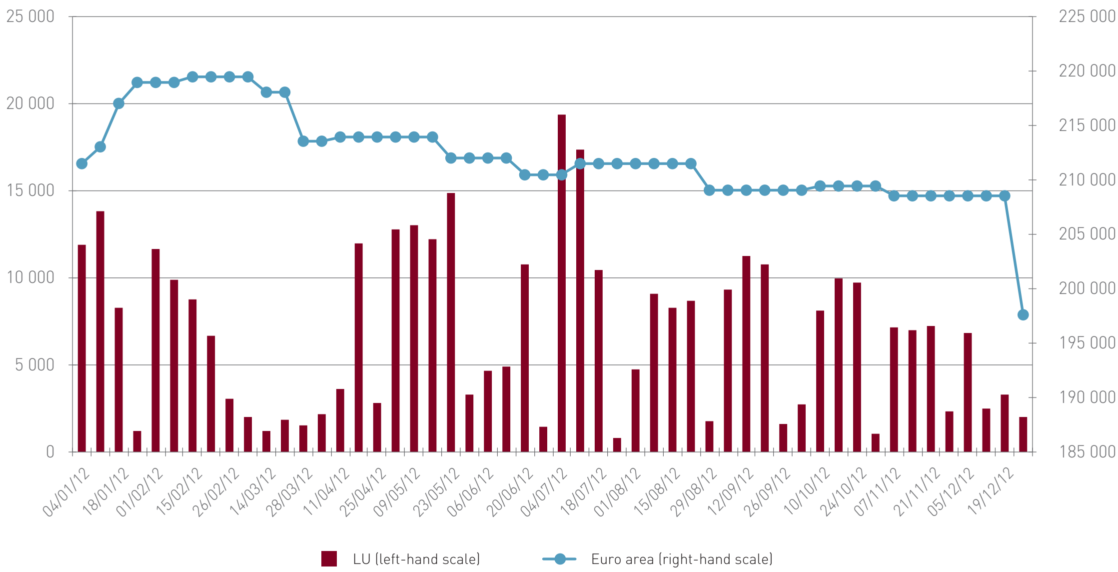
1.1.1.1.3 Fine-tuning operations

Liquidity-absorbing operations

From May 2010, the Eurosystem implemented one-week operations aiming at absorbing the liquidities injected through the Securities Markets Programme (see 1.1.2.4.).

Overall, 52 operations of this type were conducted in 2012, absorbing on average € 6.9 billion in Luxembourg and € 212 billion in the euro area.

Graph 5:
One-week deposits in 2012 - LU and euro area (in € million)



Source: BCL

Liquidity-providing operations

In 2012, there was no fine-tuning liquidity-providing operation.

1.1.1.2 Standing facilities

Luxemburgish counterparties may resort to daily standing facilities with the BCL, i.e. deposit or marginal lending facilities, at a rate fixed beforehand. These rates are in connection with the reference rate of the Eurosystem.

The Governing Council reduced the interest rate on the marginal lending rate to 1.5% and on the deposit facility to 0% in July 2012.

Marginal lending facility

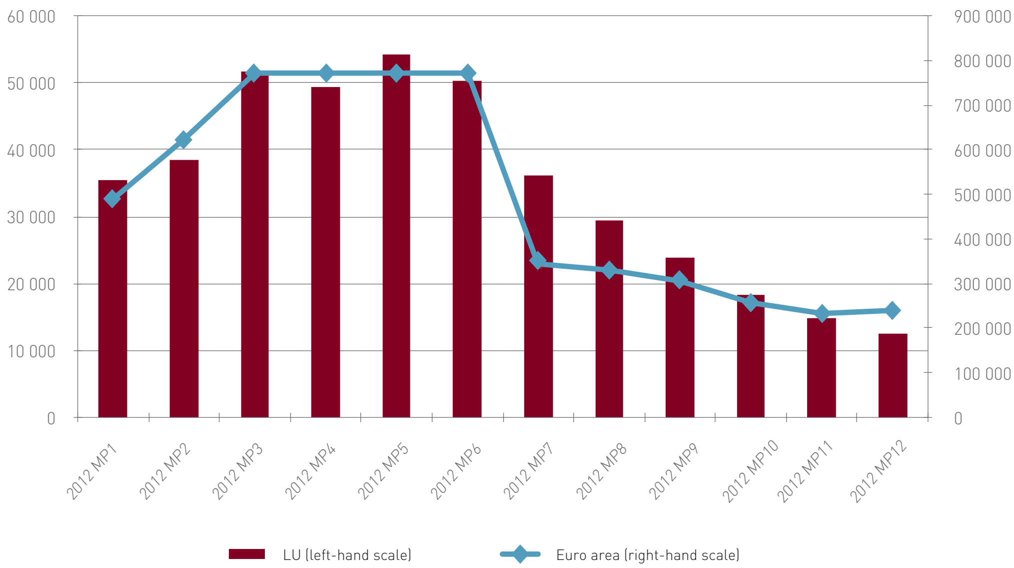
The marginal lending facility was scarcely used in 2012 by the Luxemburgish counterparties. It was only used punctually for limited amounts.

Deposit facility

After the continuous growth that had begun in mid-2011, the deposit facility's amounts in Luxembourg began to decline steadily in the second half of 2012, following the change in the rate of deposit facility (0%).

At the same time, the amounts left on current accounts increased due to the reduction of opportunity cost.

Graph 6:
Evolution of the deposit facility in 2012 - LU and euro area (average daily amount) (in € million)



Source: BCL

1.1.1.3 Minimum reserves

Since January 2012, the reserve ratio has been 1%, compared to 2% previously.

The change of the rate of the deposit facility - reduced to 0% in July 2012 - has modified the behaviour of Luxemburgish counterparties concerning their excess reserves. Amounts that can be considered as excess reserves (unremunerated) have increased dramatically.

1.1.2 Non-conventional operations

1.1.2.1 Temporary currency auction facilities

In 2012, the Eurosystem, in cooperation with the US Federal Reserve System, carried on supplying US dollar liquidities to the banks of the euro area. These operations were conducted as reverse transactions against collateral securities with a maturity of 7 or 84 days. All bids were satisfied at a fixed rate, announced beforehand.

In 2012, these operations met with a low level of interest in Luxembourg and in the euro area. Luxemburgish counterparties have no longer participated since May 2012.

In September 2012, the Eurosystem extended the agreement made in December 2010 with the Bank of England. It is now applicable until 30 September 2013.

In addition, in December 2012, the Eurosystem, the Bank of Canada, the Bank of England, the US Federal Reserve System and the Swiss National Bank announced the extension of the temporary currency agreements, set up in November 2011, which were originally due to expire on 1 February 2013. These agreements have been extended until February 1, 2014.

1.1.2.2 Extension of operation maturities

Alongside the traditional 3-month operations (12 for the year), and after additional operation to 36 months launched in December 2011, an additional second 36 months operation was implemented in February 2012 to support bank lending and liquidity in the money market in the euro area.
This was allocated at 100% at a floating rate, calculated at maturity and fixed to the average minimum bid rate on the main refinancing operations over the life of the operation. After one year, counterparties have the opportunity to repay part or all of the amounts allocated at any date coinciding with the settlement day of MRO.

The 36-months-operation, proposed for the second time, met a considerable success. € 529 billion were allocated to 800 counterparties in the euro area. 7 Luxembourg participants submitted bids for this operation.

1.1.2.3 Covered bond purchase programmes

The covered bonds that are guaranteed by mortgage bonds or by local authorities are a key instrument for the credit institutions funding. This market segment was particularly affected by the financial crisis.

In November 2011, the Eurosystem decided to launch a second covered bonds purchase programme on the primary and secondary markets.

This programme matured in November 2012. A nominal amount of € 16.4 billion was purchased on the primary and secondary markets between November 2011 and October 2012.

National central banks of the Eurosystem notified their intention to keep the purchased bonds until maturity.

1.1.2.4 Securities Markets programme

In May 2010, the Eurosystem decided to conduct an exceptional securities market programme.

The objective of this programme is to address the malfunctioning of definite segments of debt securities markets in the euro area and restore an appropriate monetary policy transmission mechanism.

In order to sterilise the impact of those bond purchases, the Eurosystem conducts specific operations aimed at re-absorbing the liquidities injected through the Programme.

The Securities market programme ended in September 2012, following the decision of the Eurosystem concerning monetary transactions (see below).

As of 31 December 2012, the cumulated value of the purchases realised on the ground of the securities market programme reached € 218.1 billion.

1.1.2.5 Outright Monetary Transactions

In September 2012 the Eurosystem published the technical specifications of outright monetary transactions in secondary sovereign bond markets.

Outright Monetary Transactions can only be activated for the purchase of securities of countries that strictly adhered to the requirements of a programme of the European Stability Mechanism (ESM) or being under macroeconomic adjustment programme and about to regaining market access.

As for the Securities Markets programme, the liquidity created through Outright Monetary Transactions will be fully neutralised.

1.2 FOREIGN EXCHANGE RESERVE MANAGEMENT BY THE BCL

The ECB's foreign exchange reserves have been managed in a decentralised way by the national central banks since January 1999. In accordance with the Statutes of the Eurosystem and in line with its share in the ECB's capital key, the BCL transferred € 74.6 million in foreign exchange assets to the ECB.

As a result of the EU's enlargement and the relative growth of GDP and population in Luxembourg, the BCL's share in the ECB's capital key has been 0.1747% since 1 January 2011. As of 31 December 2012, the total market value of the ECB's reserves (including accrued interest) managed by the BCL corresponded to € 321 million[3]. One goal of the foreign exchange reserve management of the ECB is to ensure that the ECB has sufficient available liquidity to intervene in the foreign exchange markets if need be. Security and liquidity are, therefore, basic requirements in managing reserves.

The tactical benchmark is established for each currency in line with the strategic benchmark. This tactical benchmark reflects the ECB's risk/return medium-term preference in regards to market conditions. A change in the tactical benchmark may affect different risk categories (for example, modified duration or liquidity risk). The Value at Risk of the tactical benchmark may differ from that of the strategic benchmark in the context of fluctuation margins announced, in advance, by the ECB.

Regarding the management of this portfolio, the prime task of the BCL is to invest foreign exchange reserves on behalf of the ECB within the prescribed fluctuation bands and fixed risk limits, the objective being to maximise return. The amount of passively managed assets in gold is determined by the ECB, taking into account strategic considerations and market conditions.

3 This amount includes the reserves of the Bank of Slovenia (BS) which are pooled with the reserves of the BCL and are managed by the latter pursuant to a pooling agreement.

1.3 MANAGEMENT OF THE BCL'S ASSETS

1.3.1 Institutional structure

Asset management is based on a five-level intervention structure, in addition to risk control:

Level 1: The Council

The Council approves the guidelines of the asset management framework. Thus, the Council has allowed the BCL to provide asset management services to third parties and to hold own fund asset portfolios in order to diversify the Bank's income. The guidelines also include a risk mitigation framework applied to asset management.

Level 2: The Executive Board

The Executive Board defines the risk management framework. Thus, it determines the maximum risk allowance (MRA) in the management of the Bank's own assets. It also specifies the risk management measures, like the Value-at-Risk (VaR) method and the application of stress-testing scenarios. The Executive Board also sets warning thresholds, which can lead to the calling of emergency meetings for assessment and arbitrage purposes. The Executive Board sets the limits of the framework annually.

Level 3: The Asset and Liability Management Committee ALCO

ALCO determines the strategic benchmark according to the framework fixed annually by the Executive Board by examining the impact of each risk profile (market, credit and liquidity risk) which would result from the proposed investment policies, in regards to both the overall balance sheet and the profit and loss account of the BCL. In the course of the year, ALCO has regularly assessed the results of the investment policy.

Level 4: The tactical committees

The tactical committees monitor the evolution of the portfolios on a short-term basis and work out proposals for tactical benchmarks that comply with the limits laid down by the strategic benchmark.

The tactical committees consist of the following:
- The *Comité de gestion*, for the BCL's own funds,
- The *Comité réserves de change* for the pooled reserves of the ECB,
- The *Comité tactical benchmark* for the pension fund of the BCL.

Level 5: The portfolio managers

The transactions are executed by the portfolio managers, in strict compliance with the limits set, covering both the overall and specific investment limits.

1.3.2 Risk control

The Risk Management unit monitors the positions of all the portfolios in order to assess risks and to check compliance with the pre-defined limits. This monitoring is carried out daily and independently from the Front Office. This monitoring structure is reinforced by specific missions allocated to different levels of the organisation and by the monitoring carried out by the Middle and Back Offices.

1.3.3 Conceptual framework

The investment policy objectives

The main objectives are to generate a high income on a regular basis and to ensure a total return over the long term by taking into account considerations concerning matters such as capital safety, stability of securities and liquidity. In order to achieve these goals and in accordance with the principle of risk diversification, the BCL implements a coordinated, progressive and pro-active investment policy based on modern portfolio theory.

The investment approach takes the following into account:
- the analysis of international economies and financial markets;
- the asset allocation decisions through the assessment of the returns on different international markets;
- the drawing-up of a clearly defined strategy;
- the capital value preservation of the assets under management by a policy of risk diversification and the application of specific qualitative requirements with regard to investments;
- the application of strict risk control measures.

Investment decisions are based on:
- market risks (interest rates, exchange rates, equity prices, commodity prices);
- credit risks (minimum credit ratings criteria by international rating agencies);
- liquidity risks (concentration limits by sector, by issuer, by issue and by geographical diversification).

Performance measurement

The quality of the investment decisions is measured by comparing the performance with the external benchmarks of leading investment banks. This allows a given performance to be assigned to a decision level (strategic, tactical) as well as to daily management.

1.3.4 Structure of portfolios

The bulk of the BCL's own funds are invested in fixed income securities denominated in euro. The strategic orientation enables diversification in other asset categories.

The BCL manages eight kinds of portfolios.

a) Investment Portfolio

This portfolio consists of assets (equity and bonds), which can be deemed to represent its own funds (with a long-term investment profile). The main goal of the portfolio is to maximise return by taking the above-mentioned risk constraints into account (see section 1.3.2). As of 31 December 2012 the total market value (including accrued interest) amounted to € 2 719 million.

In 2012, the share of this portfolio invested in fixed income securities with a maturity above three years was raised from 29% to 53%, whereas the percentage of bonds with a one to three-year maturity decreased from 33% to 23%. Moreover, by the end of 2012, variable rate and fixed rate bonds with a maturity under one year represented 24% of the investment portfolio.

The securities included in this portfolio are widely diversified, not only geographically but also in terms of sectors and issuers.

b) Liquidity Portfolio

This portfolio comprises the other assets that are largely attributable to a Eurosystem arrangement and mirrors TARGET accounts and other liabilities.

This portfolio, whose liability profile covers certain liquidity needs, also aims at maximising income. The instruments used are mainly fixed-income short-term bonds, variable rate bonds and certificates of deposits (Euro commercial paper (ECP), provided that they comply with strict and predefined rating criteria). As of 31 December 2012, the total market value (including accrued interest) amounted to € 1 683 million. Since 2011 a part of the portfolio has been outsourced to an external portfolio manager.

Table 1: Breakdown of reserves as of 31 December 2012

Maturity	Portfolio 1	Portfolio 2
0-1 year	24%	90%
1-3 years	23%	10%
› 3 years	53%	0%

c) Domestic Foreign Reserves Portfolio

This portfolio aims to maintain an intervention portfolio in addition to the pooled foreign exchange reserves transferred to the ECB. Thus, the main requirements for this portfolio are security and liquidity. As of 31 December 2012, the total market value (including accrued interest) of this portfolio in foreign currencies amounted to € 132 million.

d) Pension Fund Portfolio

The management of this Fund is described further in section 2.2.2 of this report.

e) Foreign Reserves Portfolio of the European Central Bank

The management of this portfolio is described further in section 1.2 of this report.

f) Covered Bond Purchase Programme

After participating in the first CBPP, the BCL also took part in the second programme. This programme expired in November 2012.

g) Securities Market Programme

The Securities Market Programme, which was initiated in May 2010, ended in September 2012 following a decision of the Eurosystem.

h) Third Party Portfolios

The BCL provides non-standardised discretionary management services to institutional clients (central banks and international organisations). Furthermore, the Bank acts as one of the Eurosystem's service providers (ESP). Six central banks within the Eurosystem offer institutional clients (central banks, public authorities and international organisations) a comprehensive range of services for managing Euro-denominated reserve assets under a framework of harmonised services defined by the ECB.

1.4 BANKNOTES AND COINS

1.4.1 Production of banknotes and coins

Within the Eurosystem, the euro banknote production is assigned on the basis of a decentralised pooling scenario adopted in 2002, in which each NCB of the euro area is responsible for providing a part of the total requirements. Euro banknotes are produced in accordance with the needs expressed by the participating NCBs and aggregated by the ECB. In this context, in 2012, the BCL was responsible for the production of 21.1 million of € 20 banknotes for the Eurosystem's needs (compared to 7.7 million € 20 and 8.0 million € 50 banknotes in 2011). The BCL allocated these banknotes via a tender. In addition, for its own needs, the BCL received 39.8 million banknotes from other NCBs (compared to 36.3 million in 2011).

Under an agreement with the State of Luxembourg, the BCL is also in charge of Luxembourg's euro coin production and puts these coins into circulation. Following a tender, the BCL has commissioned the production of 38.6 million coins of the 2012 series, identical to the 2011 figure, to cover the needs of economic agents and numismatists.

1.4.2 Circulation of banknotes and coins

1.4.2.1 Euro banknotes and coins

1.4.2.1.1 Banknotes

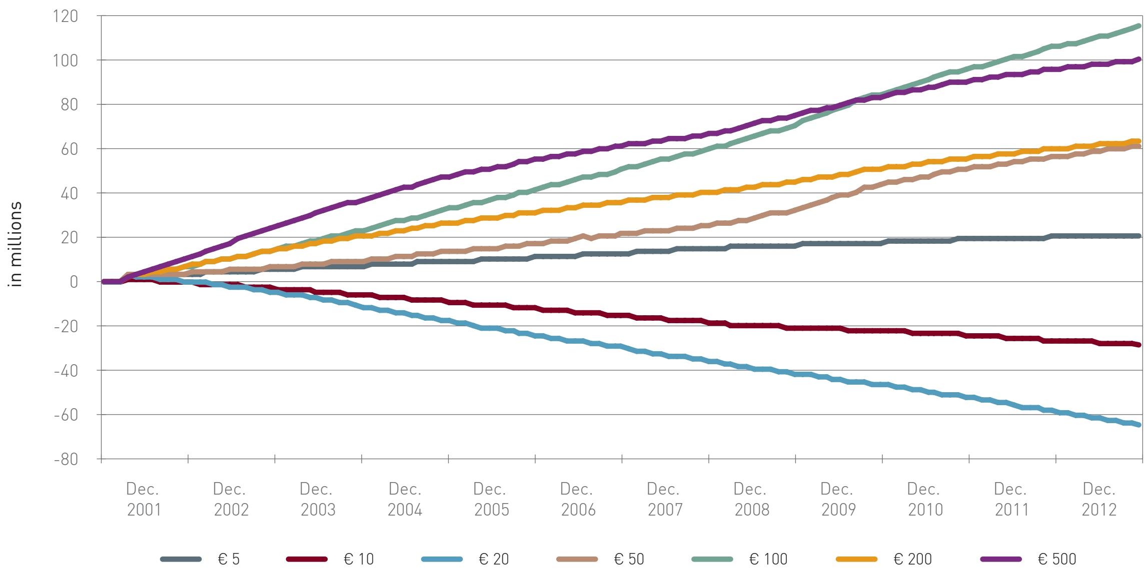
The total net volume of notes issued by the BCL during the year 2012 amounts to 18.0 million banknotes compared to 18.7 million in 2011, a decrease of 3.3%. Notwithstanding these developments, the BCL still contributed 2.4%, the same figure as in 2011, to the overall volume of banknotes put into circulation by the Eurosystem.

A closer look at the distribution of banknotes by denomination reveals that the number of € 10 and € 20 banknotes deposited at the BCL exceeds the number of banknotes issued. This is explained by the fact that financial institutions have indeed lodged more of these banknotes at the BCL than they withdrew, demonstrating the contribution to these denominations of tourists and especially cross-border workers from countries where they are more widely used.

As to the denominations typically used for hoarding, e.g. banknotes of € 100 and € 200, in line with what had been observed since 2010, the year 2012 was marked by a sustained demand, both in Luxembourg and in the euro area. Regarding banknotes of € 500, the number of banknotes put into circulation in Luxembourg increased, continuing the trend observed in previous years, whereas at the European level demand for this denomination decreased slightly. It is noted that the € 100 banknote continues to grow in terms of numbers, already exceeding the € 500 banknote since the beginning of 2010. A similar development is taking shape for € 50 and € 200 banknotes. This reflects a shift in preference of the general public away from € 200 and € 500 banknotes towards € 50 and € 100 banknotes.

The graph below illustrates the different trends in the evolution of the circulation of the different denominations.

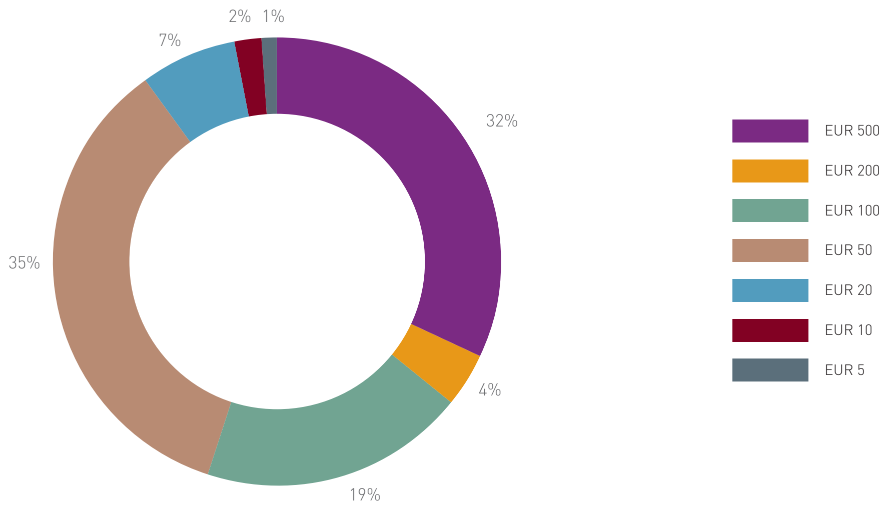
Graph 7:
Denominational breakdown of the number of euro banknotes put into circulation by the BCL



Source: BCL

In value terms, the net issuance of banknotes in Luxembourg grew at a less sustained pace in 2012 (+€ 4.3 billion, or +6.0% in moving annual average) and reached € 76.4 billion by end-December 2012. This increase is less strong than the ones recorded in previous years: 7.7% in 2011, 10.5% in 2010 and 15.1% in 2009. Moreover, in terms of net issuance Luxembourg ranked fourth in the Eurosystem in 2012, behind Germany (€ 427.5 billion), Italy (€ 146.3 billion) and France (€ 95.9 billion). In fact, the annual growth of net issuance in Luxembourg was higher than the one observed for the euro area as a whole (+2.7% after +5.8% in 2011), where it reached € 912.6 billion at the end of 2012 (compared to € 888.6 billion at end-December 2011), with the following breakdown by denomination:

Graph 8:
Distribution of the value of euro banknotes put into circulation by the Eurosystem by denomination at the 31.12.2012



Source: ECB

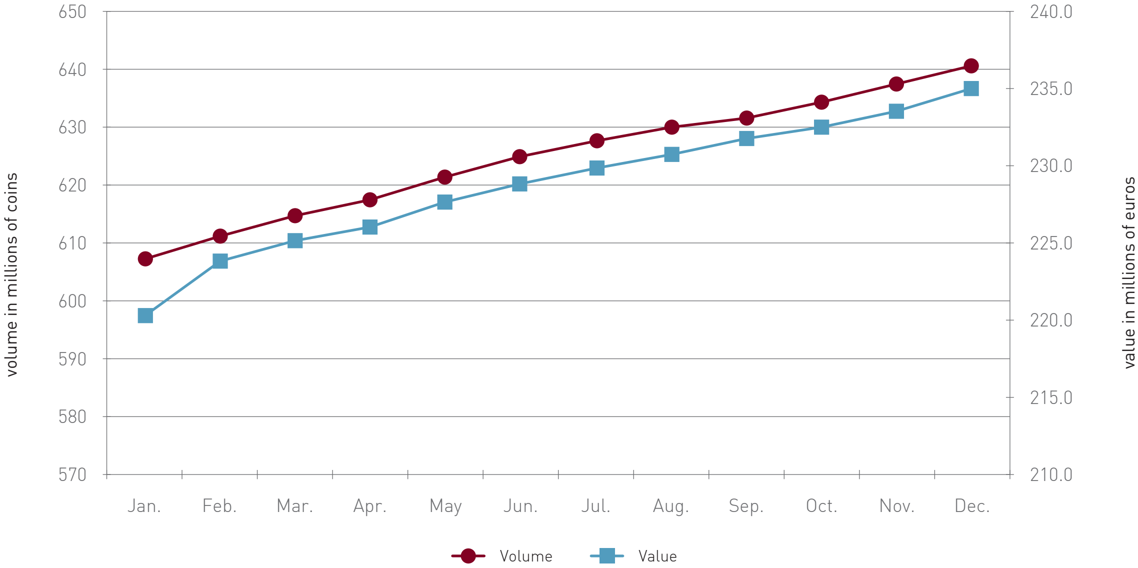
1.4.2.1.2 Coins

Luxembourg coins continue to be the object of strong demand from the public. The total value of coins put into circulation increased by 7.1% in 2012 (compared to 6.7% in 2011). It increased from € 219.5 million to € 235.0 million.

The volume of coins put into circulation in the course of the year 2012 increased by 34.9 million units, equalling a growth of 5.8% to a total of 640.6 million of Luxembourg coins in circulation at the end of the year.

The graph below shows the evolution both in terms of the volume and value of Luxembourg euro coins in circulation in 2012. The demand for Luxembourg coins steadily increased throughout the year.

Graph 9:
Volume and value of Luxembourg euro coins put into circulation in 2012

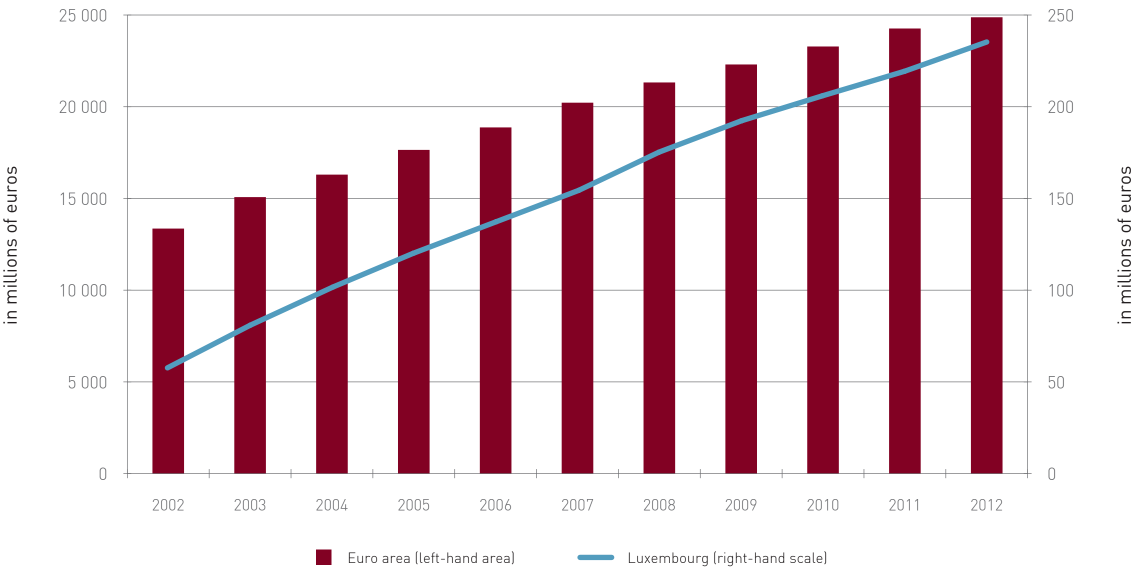


Source: BCL

Within the euro area, Luxembourg contributes nearly one percent (0.9%) to the total value issued by all issuing authorities and 0.6% to the total volume. The average value of Luxembourg coins in circulation amounted to 37 cents compared to 24 cents on average in the euro area. The average value for the euro area has remained unchanged compared to 2010 and 2011.

The graph below shows a visual comparison of the volume of coins put into circulation in Luxembourg with the corresponding volume of the euro area.

Graph 10:
Comparison of the euro coin circulation volume in Luxembourg and in the euro area (in millions of coins)

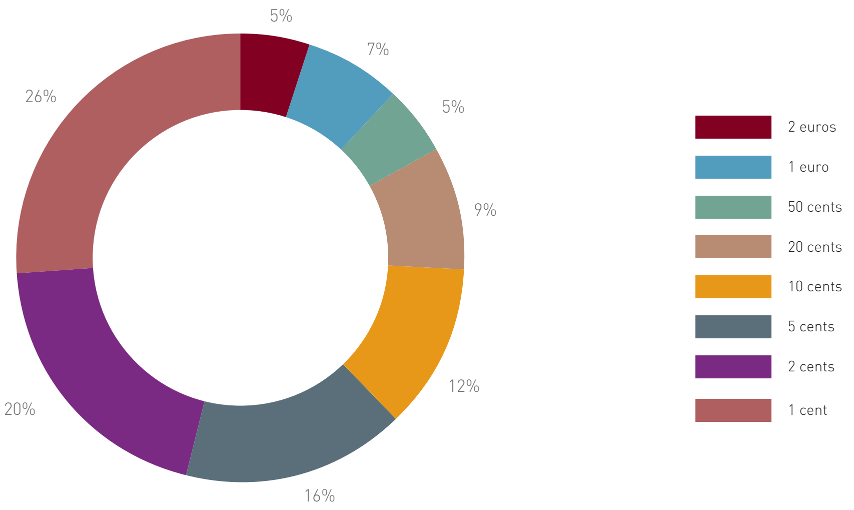


Source: ECB and BCL

The total value of euro coins put into circulation by the issuing authorities rose from € 24.2 billion in 2011 to € 24.8 billion in 2012, while the total number of coins totalled 104.8 billion.

The following chart shows the breakdown by denomination of the volume of coins at the euro area level. It is noted that the 1 and 2 cent coins represent almost half the number of coins put into circulation in the euro area while at the national level these two denominations represent only a third of the coins put into circulation.

Graph 11:
Breakdown of the volume of coins of the euro area in circulation by denomination at the 31.12.2012



Source: ECB

1.4.2.2 Luxembourg franc banknotes

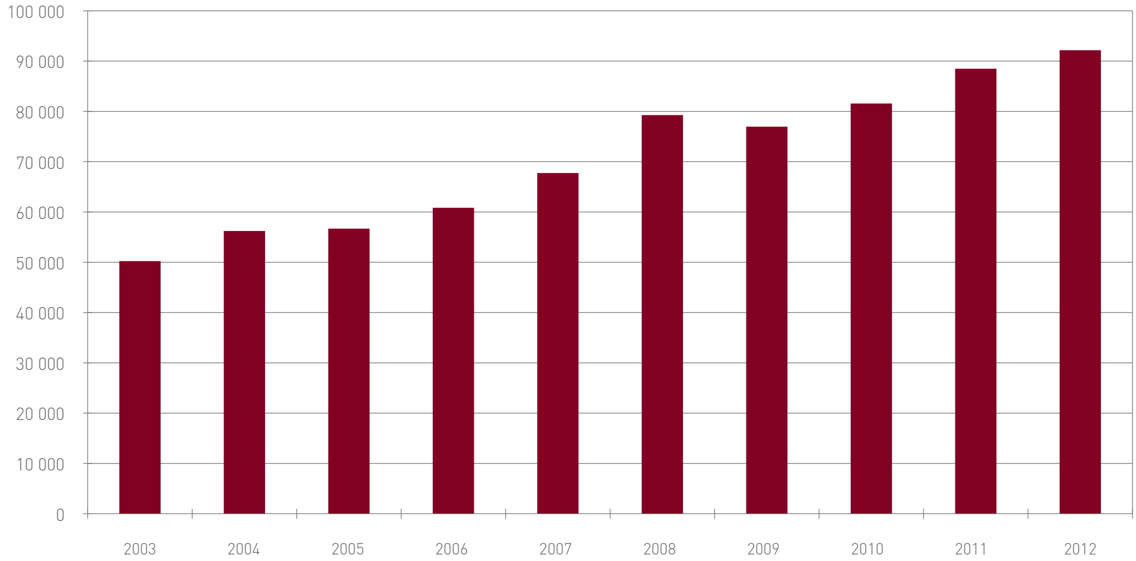
During the year under review, the total value of Luxembourg franc banknotes issued by the *Institut Monétaire Luxembourgeois* and not yet presented for exchange, fell from LUF 206.9 million to LUF 206.3 million, equalling a decrease of 0.3%. In 2012, holdings of the 5 000 LUF banknote continued to decline more sharply by 0.6%, while 1 000 LUF banknotes decreased by 0.3% and 100 LUF by 0.05%.

1.4.3 Handling of banknotes and coins

The volume of euro banknotes returned by financial institutions to the BCL increased by 3.9%, compared to the previous year thus increasing from 88.7 million to 92.1 million banknotes. Over the past ten years, banknote lodgements made at the BCL increased by 83%.

The following graph describes the evolution of these lodgements at the BCL since 2003.

Graph 12:
Lodgements of euro banknotes by financial institutions at the BCL (in thousands of banknotes)



Source: BCL

The number of banknotes processed by sorting machines amounted to 77 million in 2012. These sorting machines perform checks on the banknotes' authenticity and cleanliness. 8.3 million banknotes of all denominations were destroyed because they were unfit for circulation, which amounts to a destruction rate of 10.7%. This rate shows a wide variation between the denominations processed: ranging from 5.6% for the € 500 banknote to 53.9% for the € 5 banknote.

1.4.4 National and international cooperation

In the fight against the counterfeiting of euro banknotes and coins, the BCL closely cooperated with the ECB and the national authorities in charge. For the analysis of counterfeited and mutilated euro banknotes and coins, the BCL has collaborated since 2002 with the *Banque de France* and the *Deutsche Bundesbank* in accordance with cooperation agreements.

In meetings organised by the ECB, the BCL's Currency and Numismatics Department participates in the preparation of the new series of euro banknotes. The design of this new series, which is also based on the theme of 'Ages and styles in Europe', is slightly modified.
The dominant colour of each of the denominations is maintained. New or improved security features are incorporated to ensure maximum protection against counterfeiting and in order to enable the public to quickly distinguish a genuine banknote from a counterfeit. The introduction of the new series will begin with the € 5 note on 2 May 2013.
The issuance sequence of the second series will be at a pace of one denomination per year, or two for the highest denominations. The end of the legal tender status of the first series will be announced in due course. Banknotes of the first series will remain redeemable at the NCBs with no time limit.

For five years, the BCL has been pooling its share of banknotes to be produced for the Eurosystem with seven other Eurosystem NCBs (the central banks of Cyprus, Estonia, Finland, Malta, the Netherlands, Slovakia and Slovenia). This pooling, whose goal is to share resources and experience necessary to follow a production of banknotes, foreshadows the future 'Single European Tender Procedure'.

The BCL also collaborates with eight other NCBs (the national central banks of Belgium, Cyprus, Estonia, Finland, Ireland, Latvia, Malta and the Netherlands) in the management and maintenance of the CashSSP application. This system allows the BCL's Currency and Numismatics Department not only to manage its banknote and coin stocks and to monitor its sorting activity of fiduciary money, but also to obtain in a secured manner the deposit and withdrawal announcements of commercial banks.

1.4.5 Numismatic issues

The BCL issues numismatic products on the theme of the history and culture of the Grand Duchy. Via its numismatic premises, more than 2 500 sales operations were performed in 2012. More than 6 000 packages were sent out, corresponding to sales made through traditional mail or through the Internet shop with the use of an online sale of numismatic products (https://eshop.bcl.lu).

During the year 2012, the BCL issued the following numismatic products:

- a € 2 commemorative coin, minted in 700 000 units, was put into circulation in February 2012. This coin, representing the effigies of Their Royal Highnesses Grand Duke Henri and Grand Duke William IV, was also issued in BU quality as a coin card limited to 10 000 units;

- a second € 2 commemorative coin, minted in 500 000 units, was put into circulation in February 2012. This coin, dedicated to the tenth anniversary of the euro banknotes and coins was also issued in BU quality as a coin card limited to 10 000 units;

- the 2012 BU set, issued in 7 500 units, comprises Luxembourg's euro coins of the 2012 series (including both € 2 commemorative coins);

- the 2012 BENELUX set, issued in an edition of 10 000 units, contains eight pieces of the 2012 series of each of the three member countries;

- the 2012 PROOF set, limited to 2 000 units, is composed of ten coins;

- the 2009-2012 PROOF set, limited to 3 000 units, is composed of six € 2 commemorative coins, issued between 2009 and 2012;

- a silver-niobium coin, issued in June 2012 in an edition of 3 000 units, was dedicated to the Castle of Bourscheid and is the fourth part of the series devoted to the castles of Luxembourg;

- a silver and Nordic gold coin, issued in September 2012 in an edition of 3 000 units was dedicated to 'Ophrys bourdon' and is the fourth part of the series devoted to the fauna and flora of Luxembourg.

1.5 STATISTICS

The BCL develops, collects, compiles and disseminates a wide range of statistics that allow it to fulfil its legal missions within the European System of Central Banks, the European Systemic Risk Board as well as at the national level. This information is also used by other national institutions such as the *Institut National de la Statistique et des Etudes Economiques* (STATEC) and the *Commission de Surveillance du Secteur Financier* (CSSF) for the fulfillment of their respective missions.

In 2012, statistics were generally provided within the deadlines and significant efforts were undertaken in order to improve the statistical set disseminated by the BCL. An important challenge in 2012 was the collection and the compilation of data required for the fulfilment of the financial stability missions.

1.5.1 New data collection and improvements

In the course of 2012, the BCL was involved in the development of a risk scoreboard for the ESRB that was published for the first time after the ESRB meeting of 20 September 2012. These initial developments will be regularly completed and improved.

The BCL also contributed to the development of an improved measure of the monetary aggregate M3 that was corrected for repurchase agreements operations through central counterparties.

In January 2012, the BCL implemented a new definition of monetary investment funds, in accordance with the ECB Regulation (UE) N° 883/2011 of 25 August 2011 modifying the Regulation (CE) N° 25/2009 on the balance sheet of monetary financial institutions. This new definition is in line with the guidelines for a common definition of the European monetary undertakings for collective investment (UCIT) published on 19 May 2010 by the Committee of the European regulators of securities markets (CESR 10-049)[4]. This definition is more restrictive than the previous one, which has impacted the measure of the number and the activity volume of the monetary UCITs in Luxembourg.

1.5.2 Other developments in statistics

In 2012, the BCL pursued its efforts to improve the quality and the quantity of statistical data published on its website, in order to meet the needs and requests of the users.

The Governing Council adopted the regulation BCE/2012/24 on the statistics of security holders. This regulation focuses on the collection of data on the holdings of securities by euro area residents as well as the holding of securities issued by euro area residents that are held by non-euro area residents and held in custody in the euro area, on a security by security basis. This new data collection will start in March 2014 and will cover data from December 2013.

The BCL continued its cooperation with national institutions in charge of collecting and compiling data, in order to minimize the burden on respondents. It is also involved in the redesigning of certain international standards such as the European system of accounts (ESA95), which will affect the concepts used in the area of data collection.

Finally, the BCL participates in the G20 initiative to introduce a *Legal Entity Identifier* in March 2013. This unique identifier will allow a better identification of participants in financial markets, and consequently a better analysis of the risks incurred by the different economic stakeholders. In the same context, the BCL took part in the development of the ECB register of financial institutions, now including insurance companies and pension funds.

1.6 PAYMENT AND SECURITIES SETTLEMENT SYSTEMS

1.6.1 TARGET2-LU

The real time gross settlement system (RTGS) TARGET2 runs on the Single Shared platform operated in common by the 18 central banks of the Eurosystem and six central banks of the ESCB.

The Luxembourgish component TARGET2-LU has 32 direct participants (7 more than in 2007 and 2 more than in 2011), 42 indirect participants and 3 ancillary systems.

Domestic payments

In 2012, participants in TARGET2-LU exchanged a monthly average of 21 503 payments (compared to 20 773 in 2011) for a value of € 111.4 billion (compared to € 103.2 billion in 2011). 15 005 or 69.8% of these payments were retail payments. Their value represented a monthly average of € 9.3 billion or 8.3% of the domestic value exchanged.

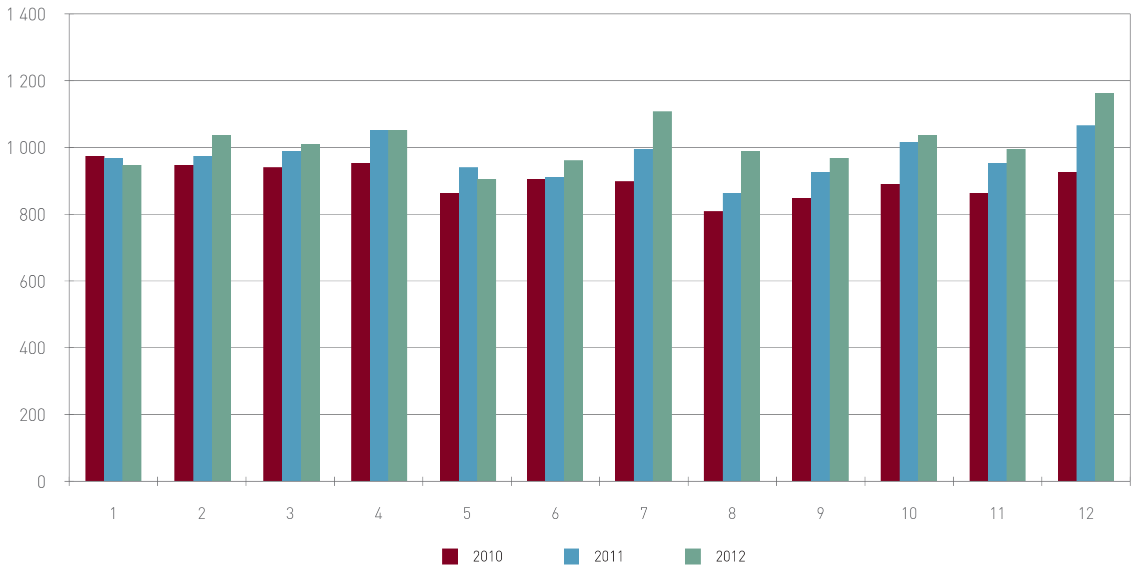
In TARGET2-LU, the decrease of domestic volumes triggered by the financial crisis of 2008 continued until 2010. The renewed increase of volumes by 3.5% was less pronounced than in 2011. It allowed domestic volumes to reach 21 015 payments, slightly above pre-crisis levels.

In parallel, with 7.9%, the increase in the value exchanged between domestic participants was less important than in 2011.

The following graph illustrates the development of average daily volumes in domestic payments.

4 On 1 January 2011, the CESR became the ESMA (European securities and markets authorities).

Graph 13:
Domestic payments: development of average daily volumes (number of payments)



Cross-border payments

In 2012, participants in TARGET2-LU sent a monthly average of 51 937 payments towards other countries of the EU (47 820 payments in 2011) for an average value of € 780.2 billion (€ 808.4 billion in 2011). The volume of retail payments increased by 6.6% thus reaching 27 326 payments representing 52.6% of the total cross-border volume. Their relative part decreased by 1%. After a decrease of 5% in 2011, the volume of interbank payments increased again by 11% to reach a monthly average of 24 605 transactions in 2012.

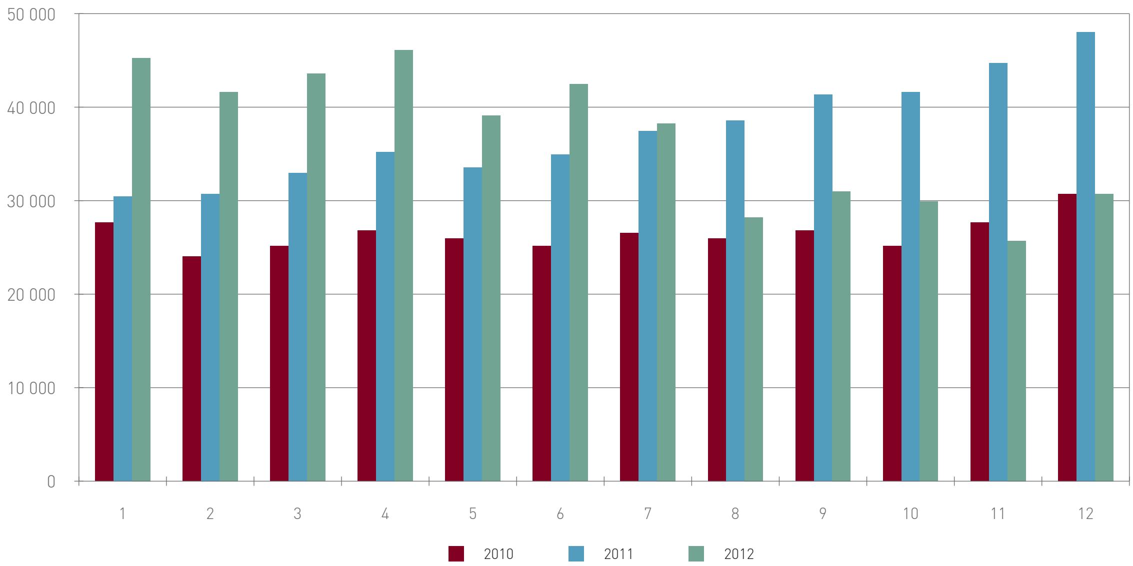
Customer payments amounted to a monthly average value of € 24.5 billion representing an increase of 38%. In contrast, the monthly value of interbank cross-border payments decreased by 4.4% reaching € 755.7 billion. The decrease was largely triggered by reduced transfers related to lower overnight deposits with BCL.

Cross-border payments increased in volume by globally 8.6%. This was partially due to the transactions issued by the new participants. In value, they decreased by 3.5% within one year. The average value per transaction sent was € 15.0 million (compared to € 16.9 million in 2011). The average value of an interbank payment decreased from € 35.6 million to € 30.78 million between 2011 and 2012.

The following graphs display the development of average daily volumes and values in cross-border payments sent by Luxembourgish participants.

Graph 14:
Cross-border payments sent: development of average daily volumes (number of payments)

Graph 15:
Cross-border payments sent: development of average daily values (in million €)



Aggregated figures of domestic and cross-border payments

The total number of payments sent by participants in TARGET2-LU in 2012 amounted to 881 282 transactions (823 113 in 2011, increase of 7.1% in one year). 507 978 or 57.6% of all payments were retail payments.

Table 2 provides a global overview of the average daily volumes of payments per year since 2010. In 2012, all categories displayed increased figures.

Table 2: Volumes of payments in daily averages

	Domestic		Cross-border sent		Total sent	Cross-border received	
	Volume	(% volume sent)	Volume	(% volume sent)	Volume	Volume	(% volume sent and received)
2010	893	(29.8%)	2 107	(70.2%)	3 000	1 704	36.2%
2011	970	(30.3%)	2 233	(69.7%)	3 203	1 722	35.0%
2012	1014	(29.3%)	2 447	(70.7%)	3 461	1 965	36.2%
Variation 2011-2012	+4.5%		+9.6%		+8.1%	+14.1%	

The average monthly value of all payments sent was € 891.6 billion of which € 33.7 billion (3.8%) represented retail payments.

TARGET2-LU compared to other systems participating in TARGET2

All national RTGS systems participating in TARGET2 transferred a monthly average of 7.55 million payments in 2012 representing an increase of 1.6% compared to 2011. Luxembourg's part represented 1% of this volume. The average monthly value exchanged totalled € 52 636 billion. The part of Luxembourg in the value exchanged was 2.3%.

64% of all payments in 2012 were domestic transactions and 60% were retail payments. In TARGET2-LU, domestic payments represented 29.3% and customer payments 57.6% of the volume.

The average value of a TARGET2 payment was € 7.1 million in 2012. In TARGET2-LU, this value was € 12.1 million.

The daily maximum of payments sent in TARGET2 was 542 773 transactions (29 June 2012). In 2011, the maximum had been reached in January with 515 253 payments. For Luxembourg, the daily maximum was reached on 21 December 2012 with 5 663 payments. In 2011, the maximum had been reached in April with 4 722 payments sent.

Availability and performance of TARGET2

After 99.89% in 2011, the availability of the TARGET2 platform, and hence of TARGET2-LU, was 100% in 2012.

The SSP received a daily average of 360 146 payment instructions. 99.98% were settled within five minutes (99.85% in 2011) and 100% within 15 minutes.

1.6.2 Retail payments in Luxembourg

Except for notes and coins, the most used payment instruments in Luxembourg are payment cards, credit transfers and direct debits. The use of cheques has been decreasing for several years. Network-based electronic money schemes, which are issued and operated by credit institutions or electronic money institutions, are mainly used for remote payments. Several mobile payment solutions emerged in 2012; they are based on different payment instruments (e-money or credit transfers). These new payment solutions are not widely used.

Credit transfers and standing orders

Credit transfers can be processed internally in banks, on a bilateral basis between the involved banks or through a payment system (for instance TARGET2 or STEP2[5]). The bulk of Luxembourg customer credit transfers and standing orders are processed on the pan-European platform STEP2.

5 STEP2 is managed by the Euro Banking Association (EBA).

In 2012, Luxembourgish participants sent 21.28 million transactions to STEP2 for a total value of € 69.45 billion. The share of domestic[6] transactions was 66% for the volume (approximately 14 million transactions) and 59% for the value (€ 41 billion). Compared to 2011, the Luxembourgish participants' activity increased by 5.20% in volume and by 18.09% in value. The growth of the domestic activity reached 5.47% in volume and 17.45% in value.

Direct debits

Until the European direct debit (see below, 'The Single European Payments Area (SEPA)') takes off, direct debits are domestic payments that banks clear either via the DOM-Electronic system, bilaterally or internally.

In 2012, there were 15.46 million direct debits for a value of € 8 591 million (16.71 million transactions worth € 7 565 million in 2011).

Payment cards in Luxembourg

There are two main categories of payment cards: debit cards and credit cards. Bancomat, the domestic debit card scheme, ceased operations on 31 December 2011. Luxembourgish banks now issue debit cards in international schemes.

As from 2012, the BCL has been using a new methodology for the collection of the payment card activity data in Luxembourg. The new methodology had a strong impact on the credit card data collected. Previously, data was only collected from the main card processor whereas the new methodology includes all the stakeholders in Luxembourg.

At the end of 2012, banks in Luxembourg issued 627 000 debit cards (compared to 782 000 at the end of 2011, the higher number is due to the new debit card changeover period) and 1.3 million credit cards (compared to 533 000 at the end of 2011 for the main card processor).

In 2012, the number of transactions[7] with Luxembourg-issued[8] debit cards totaled 58.35 million (44.92 million in 2011) for a value of € 4.93 billion (€ 3.48 billion in 2011). The number of credit card transactions amounted to 43.68 million (24.77 million in 2011 for the main card processor) worth € 4.51 billion (€ 2.66 billion in 2011).

As for the transactions in Luxembourg on cards issued in Luxembourg or abroad, the volume on debit cards was 50.60 million (40.91 million in 2011) for a value of € 4.26 billion (€ 2.91 billion in 2011) and the volume on credit cards was 22.72 million (22.50 million in 2011) worth € 2.12 billion (€ 2.01 billion in 2011).

The Single European Payments Area (SEPA)

The SEPA (Single European Payments Area) project aims at achieving a single euro payment area in which all payments are considered as domestic, without any distinction between national and cross-border transactions.

With SEPA, a common set of payment instruments will be available and governed by a harmonised legal framework. The SEPA area encompasses 32 countries and territories, where users can make and receive payments in euro from a single account with the same ease and on the same conditions as domestic transactions.

The SEPA project is being implemented by the European banking industry through the European Payments Council (EPC)[9].The Eurosystem and the European Commission are the catalysts of this project.

6 A credit transfer or a direct debit is considered as domestic when both the payer and the payee have their payment account with a Luxembourgish institution.

7 Payment transactions and cash withdrawals at ATMs.

8 Domestic (in Luxembourg) and international (abroad) transactions.

9 www.europeanpaymentscouncil.eu

The following set of SEPA payment instruments are already available to the users:
- the SEPA Credit Transfer (SCT), which was launched on 28 January 2008.
- the SEPA Direct Debit (SDD), which was launched on 1 November 2009.
- the payment cards: according to the SEPA Cards framework, every cardholder should be able to use their card in the SEPA area and every merchant should be able to accept all SEPA compliant cards, as far as it is economically justified. Common processing and security standards are being elaborated at the European level.

The migration of credit transfers and direct debits should be achieved on 01 February 2014 in the euro area countries, according to the migration end-dates set in the EU Regulation 260/2012[10].

Banks in Luxembourg have already widely adopted the European credit transfer for retail operations. So far, the European direct debits are hardly used. Their adoption should then soar, following the migration plan that the domestic banking community started up in October 2012. In its capacity as a catalyst of the harmonisation in the payments area, the BCL monitors the creditors' preparedness on a voluntary basis.

1.6.3 Collateralisation of Eurosystem credit operations

1.6.3.1 List of eligible assets

All credit operations of the ECB and national central banks are based on 'adequate collateral'[11]. Consequently, each counterparty of the Eurosystem guarantees the credit received from a Eurosystem central bank by providing assets as collateral. These assets have to fulfil specific eligibility criteria specified by the Eurosystem in the General Documentation on Eurosystem monetary policy instruments and procedures. The list of eligible assets is published on the website of the ECB. This single list for Eurosystem credit operations comprises two different asset classes, marketable assets (securities) and non-marketable assets (in particular credit claims).

Eligible assets can be used throughout the whole euro area in order to collateralise credit operations with the Eurosystem. According to the nature of the assets and the country in which they are settled, counterparties use different channels and procedures to mobilise collateral. Non-marketable assets are either mobilised via appropriate handling procedures developed by each NCB (domestic mobilisation) or via the intermediation of a correspondent central bank (cross-border mobilisation). The mobilisation of marketable assets requires the involvement of one or of several securities settlement systems.

In the context of the buy-back scheme of the public debt of the Greek state, the Eurosystem suspended the eligibility of marketable debt instruments issued or guaranteed by the Hellenic Republic for use as collateral in Eurosystem monetary policy operations:
- From 28 February 2012 to 8 March 2012:
  Greek marketable debt instruments became eligible again after this period thanks to the activation of the buy-back programme. This lasted until 24 July 2012. Moreover, the Eurosystem decided to no longer apply the minimum credit rating threshold for these securities until further notice.
- From 25 July 2012 to 21 December 2012:
  Following the positive analysis of the European Commission, the IMF, and the ECB, these securities became eligible again after this period, but with higher applicable haircuts.

The Governing Council took the following measures in order to increase the availability of collateral:
- In December 2011, the Eurosystem authorised the acceptance of certain private credit claims as of 9 February 2012.
- On 22 June 2012, the Eurosystem decided to reduce the rating threshold for certain asset-backed securities (ABSs) and certain other private credit claims. More detailed information on this haircut schedule is published on the website of the ECB.

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10 Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009.

11 Article 18 of the Statute of the ESCB and the ECB, article 22 of the founding law of the BCL.

- On 6 September 2012, until further notice, the Eurosystem decided to suspend for certain assets the application of the minimum credit rating threshold in the collateral eligibility requirements for Eurosystem credit operations. This measure concerns marketable debt instruments issued or guaranteed by the central government, and credit claims granted to or guaranteed by the central government of countries that are eligible for Outright Monetary Transactions or are under an EU-IMF programme and comply with the conditions foreseen by the Governing Council.
- On 6 September 2012, with effect as of 9 November 2012, the Eurosystem decided to temporarily extend the list of eligible assets to marketable debt instruments denominated in USD, GBP, and JPY, under the condition that these securities are issued and held in the euro area, that the issuer is established in the European Economic Area, and that the securities fulfil all other eligibility criteria.

On 3 July 2012, the Governing Council decided that counterparties that participate in the Eurosystem's refinancing operations may no longer increase the levels of own-used government guaranteed bank bonds above the prevailing level decided upon on 3 July 2012. Any derogation to this rule requires explicit ex-ante approval by the Governing Council of the counterparty's request along with a funding plan.

On 30 October 2012, the Governing Council announced the end of the covered bond purchase programme that had been launched in November 2011. More detailed information on this measure is published on the website of the ECB.

On 28 November 2012, effective as of 1 January 2013, the Eurosystem published amendments to its General Documentation applicable to monetary policy operations. Details about the main changes are available on the website of the ECB.

On 4 December 2012, the Governing Council decided to extend until 1 February 2014 the reciprocal swap lines between the ECB and the Federal Reserve, the Bank of Japan, the Bank of England, the Swiss National Bank, and the Bank of Canada. Moreover, the Governing Council decided to continue the 7-day and 84-day liquidity-providing operations in US dollars until further notice.

1.6.3.2 Securities settlement systems

Selection of eligible depositories

For the mobilisation of securities by its counterparties, the Eurosystem has selected securities settlement systems operated by central securities depositories. A securities settlement system is eligible if it obtains, after verification of its compliance with the evaluation criteria established by the Eurosystem (the User Standards), the formal approval of the Governing Council. In this context, the Eurosystem assesses securities settlement systems and links between different securities settlement systems. In Luxembourg, the systems operated by Clearstream Banking S.A. (CBL), VP Lux S.à r.l., and by LuxCSD S.A. are eligible for the mobilisation of securities by the Eurosystem's counterparties.

Cross-border use of securities

Besides using eligible domestic securities settled via the national depository, counterparties can receive credit from their national central bank by using collateral issued in a depository located elsewhere in the euro area. The Eurosystem has set two procedures for such cross-border use of collateral. Counterparties may use:
- the CCBM[12]; and
- links established between securities settlement systems of CSDs.

Currently two types of links are eligible, direct links and relayed links:
- In a given securities settlement system located in a country of the euro area, direct links make securities issued in a system of another euro area country available, thanks to bilateral accounts that the two systems maintain with each other;

12 Correspondent Central Banking Model, see section 1.6.4.

- Relayed links enable the transfer of securities between two systems without bilateral accounts by using a third intermediary system.

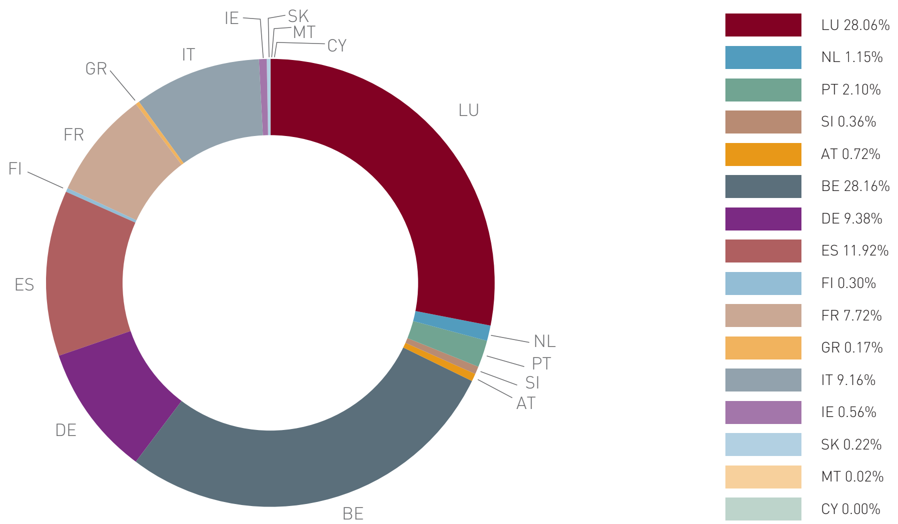
Links have to be approved by the Governing Council before being used for collateralisation of central bank credit operations. In 2012, Luxembourg counterparties had the possibility to use the direct links between CBL and Clearstream Banking A.G. Frankfurt, Euroclear Bank, the SSS operated by the National Bank of Belgium, Monte Titoli (Italy), OeKB (Austria), Euroclear Netherlands, Euroclear France, KDD (Slovenia), and BOGS (Greece).

1.6.4 Correspondent Central Banking Model (CCBM)

The main objective of the CCBM is to enable counterparties of the Eurosystem to use securities on a cross-border basis even if there is no eligible link between the national depository and the foreign depository in which the counterparty holds securities. In the CCBM each national central bank acts on behalf of the other central banks as a custodian for securities held at the national depository. This procedure involves first of all a central bank called a correspondent central bank (CCB), which differs from the central bank granting the credit to the counterparty. The CCB holds the account at the CSD in which the deposited securities are registered. Moreover, the home central bank (HCB) grants the credit to its counterparty based on the confirmations it receives from the CCB.

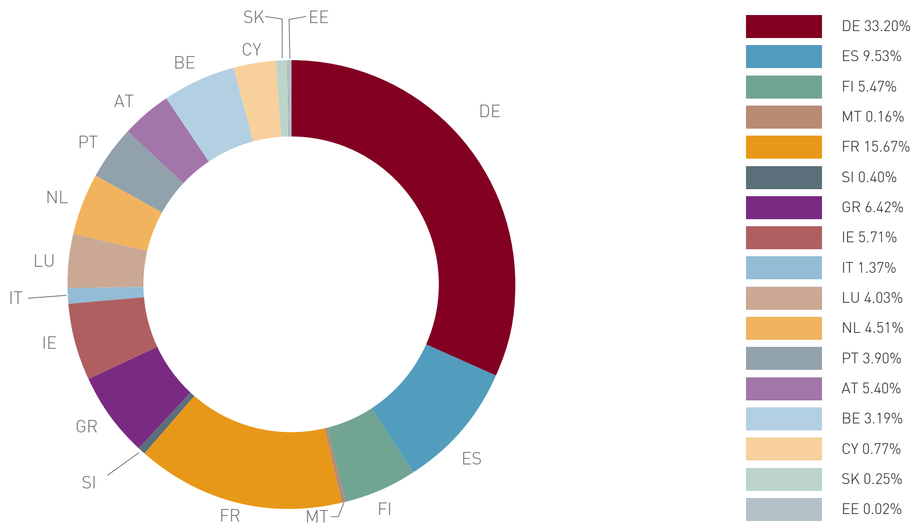
The CCBM remains the main channel for the cross-border mobilisation of collateral used in the Eurosystem's credit operations. In terms of value, the most active correspondent central banks in 2012 were those of Belgium (28.2%), Luxembourg (28.1%), Spain (11.9%), and Germany (9.4%). The most active home central banks were those of Germany (33.2%), France (15.7%), Spain (9.5%), and Greece (6.4%).

Graph 16:
Correspondent Central Bank – 2012



Source: Eurosystem

Graph 17:
Home Central Bank – 2012



Source: Eurosystem

1.6.5 Future collateral management of the Eurosystem

In 2012, the Eurosystem continued its work aimed at enhancing collateral management, both for the Eurosystem and for counterparties. In particular, certain counterparties suggested to abandon the need to repatriate eligible securities from the investor SSS to the issuer SSS in order to use them in the CCBM, as well as to allow the cross-border use of triparty services in the mobilisation of collateral. The incorporation of these two measures into the CCBM framework has required the definінition of more harmonised operational procedures of the Eurosystem towards its counterparties.

1.6.6 Target2-Securities

TARGET2-Securities (T2S) is a Eurosystem project aimed at developing a single pan-European securities settlement platform in order to organise settlement operations in and between all participating Central Securities Depositories (CSDs) in a centralised and harmonised way. The platform will accommodate both the securities and the cash component of transactions and provide delivery-versus-payment settlement in central bank money (CeBM) accordingly. This initiative is part of a more general process of financial market integration in Europe, leading to a streamlining of procedures and to a substantial reduction of costs and risks.

In July 2012, the Governing Council appointed the members of the T2S Board, a new executive body in charge of formulating proposals to the Governing Council on strategic matters related to T2S. One of the BCL Directors was appointed Vice-Chairman of the T2S Board.

In parallel to the ongoing technical development of the platform by the four central banks (4CB) involved, the most important event in the T2S project in 2012 was the signature, between all CSDs involved and the Eurosystem, of the Framework Agreement, confirming their commitment to the project. The signature took place in two steps. Early May 2012, 9 CSDs committed to the Framework Agreement, including the two CSDs based in Luxembourg, VP Lux and LuxCSD. A second group of CSDs signed the Agreement in June 2012, thus reaching a total of 23 CSDs supporting the initiative which will de facto allow T2S to reach, from launch, a critical mass close to 100% of all domestic transactions settled in Europe.

Beyond the Eurosystem, the National Bank of Denmark also decided to make its currency available for settlement in T2S from 2018 onwards.

1.6.7 LuxCSD

LuxCSD, Luxembourg's central securities depository was jointly created by the BCL and Clearstream International on the basis of an equal shareholding in 2010. It provides securities settlement services in central bank money. The Clearstream Group is the operator of LuxCSD, allowing it to benefit from operational synergies and a functional IT platform.

LuxCSD became operational in 2011. In 2012, it enhanced its range of services and started its commercial deployment. In that respect, LuxCSD provides the following services:
- the settlement of securities transactions in central bank money;
- the settlement of free of payment transactions;
- securities issuance services with settlement in central bank money or free of payment;
- securities custody services;
- the routing of orders in investment fund shares;
- direct settlement against Clearstream Banking counterparties or against counterparties in domestic markets;
- upon its availability, a national access point to T2S.

Securities eligible in LuxCSD are debt securities, equities or investment fund shares, whether they are domiciled in Luxembourg or not. The first securities issuances, within LuxCSD, are foreseen for 2013.

The LuxCSD Board is composed of three members, one of them mandated by the BCL while the two others are mandated by Clearstream Banking.

In 2012, LuxCSD confirmed its commitment to the T2S initiative by signing the Framework Agreement with the Eurosystem.

1.7 FINANCIAL STABILITY AND PRUDENTIAL SUPERVISION

1.7.1 Macro-prudential supervision

The financial stability mandate attributed to the BCL is based on the Treaty on the functioning of the European Union (TFEU), through its participation in the Eurosystem, and on national legislation.

At the European level, in addition to its central tasks, article 127 (5) of the TFEU entrusts the Eurosystem with the responsibility of contributing to 'the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system'. At the national level, article 2(6) of the organic law of the BCL stipulates that 'the Central Bank shall cooperate with the Government and with prudential supervision authorities at national level, as well as with the other central banks at Community and international level, in order to ensure financial stability, notably within committees set up for this purpose'.

In addition to the financial stability mandate, the legislator has entrusted the BCL with the supervision of the payment systems and securities settlement systems.

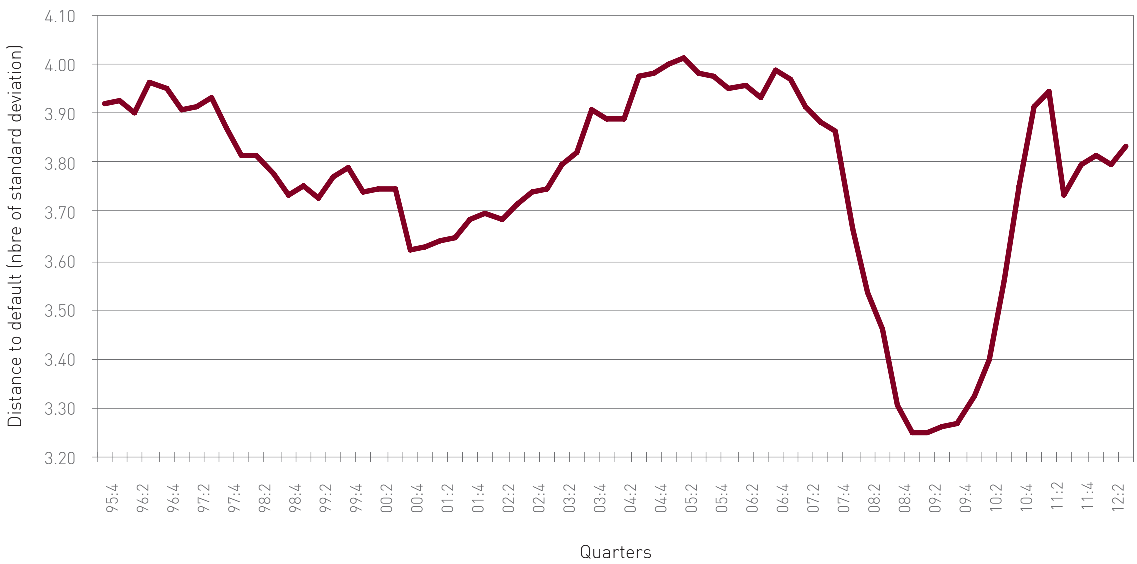
1.7.1.1 Macro-prudential supervision in Luxembourg

Despite the absence of any legislative framework establishing an authority in charge of macro-prudential supervision, the BCL is actively involved in the surveillance of risks that could compromise the stability of the national financial system as a whole. However, given the considerable size of the banking industry in the Luxembourgish financial system, the analyses undertaken by the BCL give prominence to the assessment of the accumulation of risks within the banking sector over time.

Therefore, the analysis of the temporal dimension of risk focuses on the issue of pro-cyclicality in the banking sector. Pro-cyclicality leads to an accumulation of risk over time due to the interaction of the financial and real sectors of the economy and can be analysed using indicators for the credit cycle, asset prices, leverage and maturity mismatches. Furthermore, the BCL has developed several complementary indicators. The list of additional BCL indicators includes marginal probabilities of default of individual banks and their counterparties, conditional probability of default and risk of contagion, aggregate z-scores and specific indicators to monitor liquidity.

The preliminary results of estimations made by the BCL concerning the probability of default of banks operating in Luxembourg in 2012 show a slight rise in their dispersion compared to the levels assessed in 2011. This result applies only to the maximum values assessed and not to the median of the probabilities of default, which remains quite low (0.01%). Hence, the examination of individual results, which reveal the existence of vulnerabilities for some banks. However, these banks do not pose any risk of systemic nature to the Luxembourgish financial system due to their lack of significant interbank linkages at the national level. This last observation is confirmed at the aggregate level by the results obtained from the z-score (see graph below) as well as those of the vulnerability index computed by the BCL. Variation of the aggregate z-score index reflects the cyclical evolution of the financial sector. This index increased between 2009Q4 and 2010Q4 after the sharp decline which lasted from 2007Q4 to 2009Q1. Nevertheless, after such a substantial improvement, the trajectory of the index in 2011-2012 stabilised around its historical mean. A slight decrease in the level of the index at the beginning of 2012 reflects the marginal impact of a severe turmoil prevailing in the European sovereign debt market, which seems to indicate that Luxembourg's credit institutions had very little exposure to the risks arising from Euro area periphery countries. Finally, it is important to stress that the aggregate level of the index remains below the threshold of two standard deviations. Thus, the overall financial situation of the banking sector in Luxembourg seems to be in line with the conditions of financial stability.[13]

Graph 18:
Z-score index of banks located in Luxembourg: 1995Q4 – 2012Q3

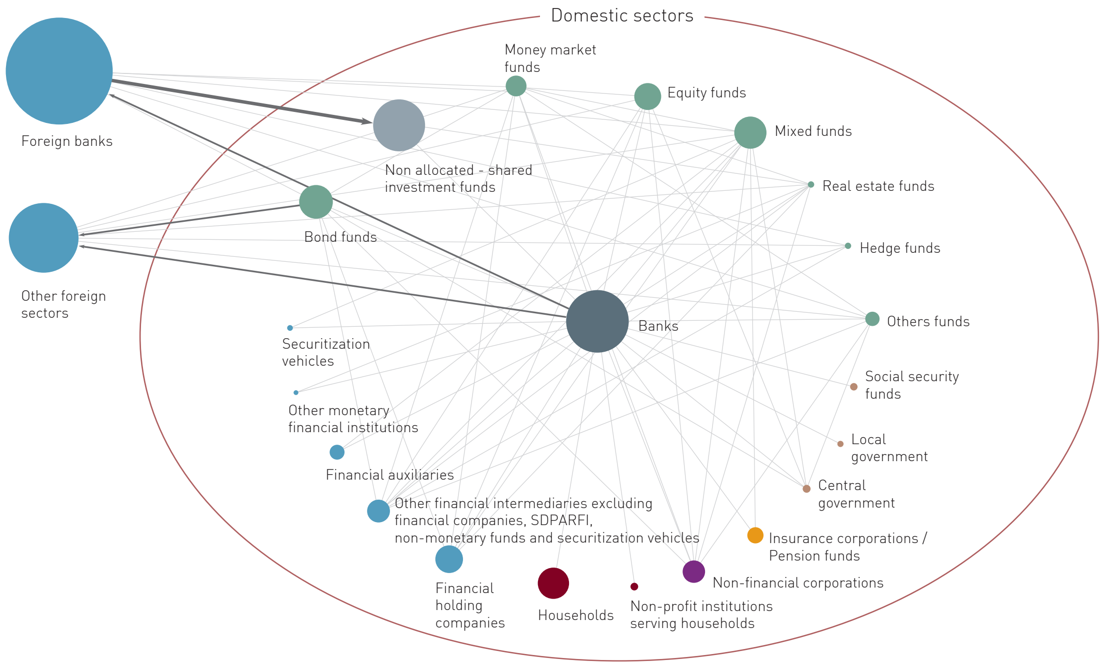


Recently, the analysis was extended to other segments of the financial sector in order to take the systemic importance of certain market participants into account, including their connectedness with the banking sector. In this context, specific emphasis was paid to the linkages between the banking sector and investment funds. The application of network analysis techniques enables linkages between different sectoral components to become visible; thus highlighting potential channels of contagion. The graph below illustrates the degree and significance of interconnectedness among the market participants, where the significance of

13 A more detailed analysis of the results of the indicators will be provided in May of the current year with the publication of the 2013 Financial Stability Review.

interconnectedness is represented by the thickness of an arrow. From this analysis it therefore appears that the factors of vulnerability that could have an impact on the stability of the financial system in Luxembourg arise from external financial conditions rather than domestic.

Graph 19:
Network of credits and debts between Luxembourg sectors and foreign counterparts – June 2012



The BCL also engages in determining the link between finance and the real economy and in liquidity stress-testing. In this context it may be noted that a number of indicators which were developed at the BCL take a forward-looking approach. In order to anticipate rising vulnerabilities in the banking sector, the BCL has put special emphasis on its synthetic financial vulnerability indicator as well as macro-prudential stress tests.

The vulnerability indicator is constructed using a host of variables from bank balance sheets and profit and loss accounts (overnight and inter-bank deposits, profitability, variability in own funds and provisions), macro-financial variables (stock market returns) and variables that reflect the structure of the Luxembourgish banking sector (variation in the number of banks). In order to keep track of medium term vulnerabilities in the Luxembourgish banking sector, and while taking Eurosystem macro conditions into account, the indicator is set for up to two years. Despite the current adverse European economic environment, predictions for 2013 and 2014 display a convergence of vulnerability in historical averages. In addition, over this time period, the index remains below the vulnerability threshold. With regard to the estimates, it is worth noting that confidence intervals still remain relatively large, thus revealing a high degree of uncertainty.

The BCL also carries out regular top-down stress tests in the context of a macro-prudential approach. The aim of macro-prudential, or top-down stress tests is to quantify the impact of severe, but plausible, hypothetical shocks on the stability of individual components of the financial system. Such studies can be followed up with the use of additional risk indicators to support the results of the stress test. Both of these indicators and the outcome of the stress tests can subsequently help to calibrate the prudential response.

In conjunction with the conduct of macro-prudential stress testing, during the second half of 2012, the BCL analysed the impact of certain sovereign risks on the solvency ratios of banks located in Luxembourg.[14] In

14 The results of this exercise were published in the last BCL bulletin of 2012.

fact, simulations of downgrades of certain sovereign bonds in bank portfolios contributed to the determination of additional capital that Luxembourg banks could request if confronted with further deterioration in European sovereign debt markets. Moreover, a detailed analysis of the importance of the outstanding amounts of certain sovereign bonds held by the Luxembourg fund industry is also provided.

It is worth noting that the BCL has carried out a number of specific studies aimed at identifying the emergence of new risks within the Luxembourg financial system. In the context of recent developments in banking and financial regulation, several quantitative studies were undertaken to assess the impact of the new Basel III liquidity requirements on Luxembourg's credit institutions. Moreover, particular consideration has been given to the analysis of the debt ratio of Luxembourg's banks as an indicator of bank reliance on external funding. Furthermore, a common project between the BCL and the Luxembourg School of Finance (LSF) with financing from the *Fonds National de la Recherche* (FNR) focuses on stability in the Luxembourg financial sector and on the construction of macro-prudential instruments, and has been running since early 2011.

In addition, the BCL used the Basel Committee on Banking Supervision's (BCBS) framework to determine systemically important institutions in Luxembourg. The framework is based on a series of indicators including the size of an institution, its interconnectedness and its substitutability in case of default. Furthermore, the BCL takes part in the work of the BCBS Macro-prudential Supervision Group which was set up to establish macro-prudential supervision standards.

In performing its macro-prudential supervision functions, the BCL contributes to a number of committees and working groups at the level of the ESCB, inter alia the Financial Stability Committee (FSC) and its substructures. The BCL is also involved in a research network focusing on macro-prudential issues (Macro-prudential Research and Supervision network-MaRs) which involves central banks of the EU. This initiative revolves around three main pillars including (i) the development of macro-financial models linking financial stability concerns to the performance of the economy, (ii) the evaluation of contagion risks and their transmission channels and (iii) the elaboration of a set of systemic risk indicators.

1.7.1.2 The European Systemic Risk Board (ESRB)

The BCL has considerably increased its involvement in macro-prudential supervision following the creation of the European Systemic Risk Board (ESRB) under European regulation n°1092/2010, issued by the European Parliament and the Council on November 24, 2010, as well as its components, in particular the Advisory Technical Committee and its two substructures related to macro-prudential instruments and macro-prudential analysis. The BCL takes part in various subgroups operating under the ESRB such as the task force on stress testing, the expert group on guidance on setting countercyclical capital buffer and the expert group on securities financing transactions.

The ESRB includes more than 70 institutions (central banks, national and European financial supervision authorities, the European Commission ...) and consists of a General Board and a Steering Committee. The technical work is performed by an Advisory Technical Committee (ATC) involving experts from the member institutions, and by an Advisory Scientific Committee involving academic experts.

This new structure calls for new responsibilities, in particular for central banks, which now play a major role in European macro-prudential surveillance in regard to their expertise and responsibility in sustaining financial stability. More specifically, the Governor of the BCL is a voting member of the ESRB General Board, which is the unique decision-making body of the institution. Furthermore, the national micro-prudential supervisory authorities are also part of the General Board, although as non-voting members, so as to share their expertise and exchange specific information. In this regard, the BCL finds itself also represented in the General Board as a liquidity supervisor, according to a rotation principle among the other national supervisory authorities. Finally, the BCL contributes to the technical and analytical works performed by the ESRB substructures, thereby providing its analytical expertise regarding macroeconomic, financial, monetary and statistical issues.

The inception of the ESRB should allow for the improvement of the ability to identify macro-prudential risks at the level of the whole financial system. Likewise, it provides a mechanism to issue clear warnings and recommendations which should trigger prompt action by the concerned national authorities under the 'comply-or-explain' principle.

After a short initial period aimed at implementing the institutional and organisational framework, the ESRB General Board started holding its plenary meetings at a minimum of four times per year. The ESRB has been mainly working on the following five subjects:

- the identification and assessment of general systemic risk, as well as the actions needed to deal with it;
- the analysis and study of macro-prudential actions towards specific risks which have triggered, for example, the issuing of recommendations regarding loans in foreign currencies (ESRB/2011/1) and the foreign currency funding of financial institutions in Europe (ESRB/2011/2);
- the analysis of macro-prudential aspects of ongoing European legislative developments, namely those regarding the transposition into European law of the Basel III rules within the Capital Requirements Directive and the new Regulation for banks and other credit institutions (CRDIV/CRR), as well as the Central Counterparties legislation (EMIR);
- the identification of common principles for the implementation of macro-prudential national mandates and tools; the ESRB has issued a recommendation regarding national macro-prudential mandates (ESRB/2011/2). National authorities are requested to establish a national authority entrusted with the conduct of macro-prudential policy and the evaluation of systemic risk accumulation by June 30, 2013;
- the identification of the analytical tools that the ESRB will develop further in the near future in order to study systemic risk.

1.7.2 Micro-prudential supervision

1.7.2.1 Liquidity surveillance

The mission of liquidity surveillance of market operators was assigned to the BCL through a modification of its organic law on 24 October 2008. The liquidity surveillance of market operators principally aims to apprehend the liquidity situation and the management of the liquidity risk of individual operators. The flaws in the liquidity risk management of certain operators having been one of the principal causes of financial turbulences in 2008, liquidity management and the related risks were in the focus of attention of supervisory authorities at the international level during the last years.

The regulation of liquidity is important for a central bank because, on the one hand, it acts as supplier of liquidity to the financial system in normal times as well as in times of stress, and, on the other hand, it can detect or indeed prevent a failure chain on the markets, thus limiting systemic risk.

The mission of liquidity surveillance also constitutes an essential support function for analyses conducted in the field of financial stability and the analysis of systemic risks, by providing micro prudential data as input. In this context, the framework of supervision of the BCL is based essentially on two pillars, namely the permanent off-site monitoring carried out internally on the basis of data collected via the regular statistical and prudential reporting and the on-site inspections of market operators.

Particular importance is given to the monitoring of works carried out at the international level, in relation to the definition and set-up of new liquidity standards in the framework of Basel III as well as in the context of their transposition at the European level.

1.7.2.1.1 Tools for liquidity surveillance

The off-site monitoring of market operators is based on a regular analysis of qualitative and quantitative information on an individual as well as on an aggregated level. In order to have a better monitoring of the liquidity position of market operators, the BCL notably developed a daily reporting on the liquidity position of credit institutions. This reporting, which applies to a sample of credit institutions, was introduced in May 2010 and allows the BCL to assess the liquidity position of these entities on a day-to-day basis.

From a database containing historical data listed in this daily liquidity reporting, the BCL has moreover developed an analysis tool, the 'Daily Liquidity Assessment Tool (DAT)', which allows the apprehension of the structural liquidity position of these credit institutions and the evolution of their liquidity position over time on an individual basis.

The Liquidity Monitoring Framework (LMF) is another analysis tool that allows the assessment of the vulnerability of individual credit institutions in terms of liquidity as well as in identifying liquidity risks at an aggregate level. The LMF was supplemented by the development of a quarterly Watch List identifying all credit institutions having suffered a deterioration in their situation beyond a certain threshold, while highlighting the parameters of the model that are at the origin of this development. All information available from the prudential and statistical reporting are introduced in dashboards and allow real-time access to significant information and ratios on each supervised entity. Finally, a daily report with several financial market indicators is made available to the analysts. Altogether, these tools add an extra dimension to the surveillance mission carried out by the BCL.

In 2012, the BCL carried out seven on-site visits with regard to liquidity surveillance. These assessments serve to understand in detail the framework and the procedures the individual operators have in place, in the context of assessing the appropriateness of the framework for the liquidity risk management of the operators in question. The BCL mainly targets the credit institutions that are the most exposed to liquidity risk or those which participate as a counterparty in monetary policy operations. As a general rule, the on-site visits are coordinated and carried out in consultation with the CSSF. The BCL is in regular contact with other institutions in the context of its surveillance mission, especially with institutions that are engaged or wish to participate in the monetary policy operations of the BCL.

1.7.2.1.2 Impact studies for the implementation of the Basel III standards

The on-site visits revealed that the credit institutions are reinforcing their framework for liquidity risk management in order to align themselves with the recommendations given, but some weaknesses remain, principally at the level of performing stress tests and liquidity management in times of stress.

These weaknesses also persist in the impact studies carried out in the context of the implementation of the new Basel III standards for liquidity. In the course of 2012, the BCL conducted in cooperation with the CSSF, two impact studies on a representative sample of credit institutions of the financial centre, in order to determine the current positions of these banks facing these new liquidity standards. The last study showed that, on the basis of the 30 June 2012 figures, twenty-four credit institutions on a total of 66 succeeded in respecting the LCR (Liquidity Coverage Ratio) whereas 32 entities respected the NSFR (Net Stable Funding Ratio). Finally, 18 credit institutions of the sample succeeded in respecting both standards for funding liquidity.

In early January 2013 the Basel Committee on Banking Supervision issued a revised LCR. The amendments compared to the version presented in 2010 are fourfold: revisions of the definition of high-quality liquid assets and net cash outflows; a revised timetable establishing a gradual implementation of the standard; a reaffirmation of the possibility of using the stock of liquid assets in times of stress, including the transition period; the approval to pursue the work undertaken by the Basel Committee on the interaction between the LCR and the provision of central bank facilities. The LCR will be introduced as planned on 1 January 2015; but the minimum requirement will be set initially at 60%, rising in equal annual steps of 10 percentage points to reach 100% on 1 January 2019.[15]

In order to ensure an effective implementation of the liquidity ratios, it is planned to introduce, from the first quarter of 2014 onwards, a formalised and harmonised reporting at the European level to which all credit institutions will be subjected. In the meantime, the BCL will continue in 2013 to closely follow-up the two liquidity ratios of the banks belonging to the representative sample.

1.7.2.1.3 National and international cooperation

As a supervisor in charge of liquidity, the BCL is also involved in the work of 11 supervisory colleges. The majority of the credit institutions being affiliates of groups having their head office abroad, the participation in these colleges allows for the understanding of the activity and risk profile of the Luxembourg entities in the context of their group.

15 According to a press release by the Council of the European Union in March 2013, confirming the agreement with the European Parliament on amended bank capital and liquidity rules, the so called 'CRD 4' package, it is foreseen that in the EU, the LCR will reach 100% in 2018.

As regards the follow-up of regulatory developments at the international level, the BCL participates in the working groups dedicated to liquidity issues at the level of the Basel Committee and the European Banking Authority. Beyond the working groups dedicated to liquidity aspects, the BCL is also a member of the Board of Supervisors of the European Banking Authority as well as of other committees and subgroups that are of relevance in the context of its supervisory mission. As a general rule the BCL participates in these committees and working groups jointly with the CSSF.

Following the recommendations of the European Systemic Risk Board on foreign currency loans and USD financing of the credit institutions, the BCL and the CSSF formulated in June 2012, for the financial center, the respective detailed rules of application for concerned market operators in common circulars. The respective positions are monitored quarterly, at both the individual level and the aggregated level of the entities under surveillance.

1.7.2.1.4 Single supervisory mechanism project

Finally, the year 2012 was marked by the launch of the single supervisory mechanism (SSM) project following the decision of the European Council on 28 and 29 June 2012. The introduction of the SSM will represent a first cornerstone of the banking union, which will also include a single rule book for the banking sector, a common deposit guarantee scheme and a single recovery and resolution framework for banks under the control of a European resolution authority.

Based on the proposal for a regulation of the European Commission on the introduction of a SSM for banks in the euro area dated 12 September 2012, which confers a central role to the ECB, the preparatory work for the setting up of the SSM was immediately initiated. The BCL has been involved right from the start in this work which is led by a group of High Level Supervisory Representatives at the ECB. The group is assisted by a task force and several other working groups that have to address, notably legal, operational and reporting issues related to the implementation of the SSM.

According to the proposal for a regulation of the European Commission, the ECB will be responsible for the overall functioning of the SSM and will be in charge of the direct supervision of banks in the euro area, although in a differentiated manner and in close cooperation with the authorities responsible for the supervision at national level.

During a phasing-in period, initially scheduled from 1 March 2013 to 1 March 2014, supervision of the ECB will focus on credit institutions having received or requested European public funding. After this phase of gradual implementation on 1 March 2014, or twelve months after the entry into force of the legislation, the ECB will assume full supervisory responsibility over any credit institution within the SSM. The transitional phase will also serve to make all necessary preparations for the establishment and functioning of the SSM.

Upon adoption of the Regulation, a Supervisory Board established within the ECB will take office, and will have as its main task the direct supervision of the largest European credit institutions.

The 'less significant' credit institutions, defined as those that do not exceed certain quantitative and qualitative thresholds (30 billion euros of assets or representing more than 20% of GDP and at least € 5 billion euros as well as a cross-border activity) will remain under the direct supervision of national authorities; however the ECB may take over the supervision on a case by case basis, if deemed necessary.

The BCL will be involved in the work of the Supervisory Board and will actively contribute to the development of the new supervisory framework at the level of the ECB. Adequate representation of Luxembourg in these new supervisory structures will require enhanced cooperation between the BCL and the CSSF.

1.7.2.2 Oversight

The smooth functioning of financial market infrastructures such as payment, clearing and securities settlement systems is essential for preserving the confidence of financial market participants in the infrastructures and financial markets as well as for the preservation of public confidence in the currency in general. Furthermore, the resilience of the abovementioned financial market infrastructures contributes to the preservation of financial stability, the adequate implementation of monetary policy as well as the sound functioning of the economy as a whole.

Hence, oversight of payment, clearing and securities settlement systems is to be considered as a key function of the ESCB, through which the reliability and the efficiency of the systems are promoted. In addition, the ESCB, in its oversight function and in order to contribute to the preservation of public confidence in the currency, is concerned with the safety of payment instruments. In this respect, the ESCB in general and the BCL in particular, foster the development, by the respective system operators and the respective issuers of payment instruments, of a risk management framework commensurate with the volume and the complexity of the activities performed as well as with the services offered.

The BCL's oversight mission is detailed in articles 2(5) and 27-3 of the law of 23 December 1998 concerning the monetary status and the Banque centrale du Luxembourg. Furthermore, in line with article 34(1) of that law, the BCL has, within the limits of its competencies and responsibilities, the power to issue regulations. In this context, the BCL amended, on 10 July 2012, the BCL regulation 2010/n°6 of 8 September 2010 concerning the oversight of payment systems, securities settlement systems and payment instruments in Luxembourg, in order to include a reference to central counterparties and trade repositories. In the context of the abovementioned amendment, the BCL has also adopted the new principles for financial market infrastructures, published by the CPSS-IOSCO committee during April 2012, by integrating the latter within its general oversight framework.

The BCL's oversight activities are based, among others, on the regular or ad-hoc collection of quantitative and qualitative information, as well as on the performance, by the respective system operators or payment instrument issuers, of a self-assessment of their level of observance with respect to the applicable recommendations, principles and standards. The BCL is, among others, in regular contact with system operators and payment instrument issuers included within the scope of its oversight. The aforementioned information and contacts are completed with onsite inspections aimed at ensuring an adequate implementation of the risk management framework set up by the respective system operators or payment instrument issuers.

Apart from oversight activities relating to systems designated in and operating out of Luxembourg and to payment instruments available to the public in Luxembourg, the BCL also contributes to oversight activities cooperatively performed at the Eurosystem, or ESCB level, and more specifically aimed at infrastructures having no domestic anchor and for which the Governing Council decided to entrust primary oversight responsibility to the ECB.

1.7.2.2.1 Oversight of securities settlement systems

The BCL's oversight covered the activities and functioning of the systems operated by Clearstream Banking S.A., LuxCSD S.A. and VP LUX S.àr.l.. In general, the functioning of the aforementioned securities settlement systems in 2012 was stable and resilient. Regular oversight activities with respect to these systems included, in particular, the processing and assessment of:

- general information on the systems;
- data on the activity and incidents;
- financial data;
- information relating to the risks the systems are exposed to, as well as on the internal risk mitigation tools;
- information relating to changes affecting the systems;
- information relating to the governance and internal rules and procedures.

Concerning the system operated by Clearstream Banking S.A., the BCL also monitored and assessed the implementation of some of the recommendations issued in the context of the evaluation of the system against the ESCB-CESR recommendations, finalised in late 2010, and against the former CPSS-IOSCO standards conducted and finalised by the International monetary fund (IMF) in collaboration with the national authorities in 2011 in the context of the Financial Sector Assessment Program (FSAP). In addition, the BCL maintained its cooperation with the National Bank of Belgium in the context of the link established between the two International Central Securities Depositories, Clearstream and Euroclear.

Apart from the processing and analysis of data obtained in the context of VP LUX S.àr.l.'s monthly reporting and the set-up of such reporting for LuxCSD S.A., both securities settlement system operators performed, in conjunction with the BCL, a self-assessment of their respective systems against the ESCB-CESR recommendations. These self-assessments are currently being analysed by the BCL in order to assess the respective systems' level of compliance with the ESCB-CESR recommendations and to issue, if need may be, recommendations to the respective system operators.

1.7.2.2.2 Oversight of payment systems

As regards the oversight of payment systems, the BCL contributed to the cooperative oversight of the TARGET2 payment system, the centralised platform set-up and operated by the Eurosystem, through its participation in various European working groups and committees. In the context of the coordinated follow-up to the TARGET2 assessment report against the Core principles for the oversight of payment systems issued by the Eurosystem in 2009, the BCL evaluated in particular the BCL's procedures around the mobilisation of collateral aimed at covering payments performed in the TARGET2 contingency module.

Apart from these cooperative oversight activities with respect to TARGET2, the BCL also oversees certain decentralised features of TARGET2 located in Luxembourg, such as the local technical components ensuring the BCL's connectivity to the single platform (TARGET2-LU). In this respect, the BCL has set-up a specific oversight guide.

Through its participation in various European working groups and committees, the BCL showed a particular interest in the activities and in the oversight of the payment systems operated by EBA Clearing, EURO 1, STEP1 and STEP2, and in the developments related to CLS (Continuous linked Settlement System). Furthermore, the BCL participated in the discussions in relation to the oversight of the development and implementation process of the TARGET2 Securities (T2S) settlement platform as well as to the set-up of a cooperative oversight framework for T2S.

The development of new principles for different types of financial market infrastructures by the CPSS-IOSCO committee attracted, in light of their potential impact on the infrastructures operating out of Luxembourg, the BCL's particular attention until the principles' publication in April 2012. In addition, special interest had been granted to the drawing up of the regulation of the European Parliament and the Council on OTC derivatives, central counterparties and trade repositories (European Market Infrastructure Regulation – EMIR), published on 4 July 2012. In this context, the BCL attended discussions on the definition of certain EMIR related technical standards.

Finally, the BCL granted particular interest to the evolution of the draft regulation of the European Parliament and the Council on improving securities settlement in the European Union and on central securities depositories (CSD Regulation). In this context, the BCL participated in European Council working group meetings.

1.7.2.2.3 Oversight of payment instruments

As regards payment instruments, the BCL continued to perform its oversight with respect to payment instruments available to the public, with particular attention to card payment, credit transfer, direct debit as well as e-money schemes thus contributing to the Eurosystem's oversight activities. In particular, the BCL closely monitored the migration of the debit card payment scheme operated by Bancomat to the VPAY card payment scheme. Furthermore, the BCL followed with interest the initiatives by Luxembourg card issuers promoting the security of online payments. In particular, various e-money schemes and payment solutions, which had only recently been made available to the public, attracted the BCL's particular attention.

Furthermore, the BCL continued to actively contribute to the initiatives of the European Forum on the Security of Retail Payments (SecuRe Pay). The aim of this forum, established in 2011, is to facilitate a common and homogenous understanding between central banks responsible for the oversight of payment instruments and prudential supervisors of payment service providers, on issues related to the security of retail payments within the European Union. During April 2012, the Governing Council of the ECB launched a public consultation regarding recommendations for the security of internet payments issued by the forum. The final recommendations were published end of January 2013 by the ECB. In parallel, the forum has worked on the elaboration of recommendations relating to payment account access services as well as recommendations relating to payments by mobile phone.

1.8 REGULATORY AND LEGISLATIVE DEVELOPMENTS

1.8.1 European legislation

The Eurosystem, which the BCL is a part of, follows with particular interest the developments related to economic governance and financial stability, both at the European and national level.

1.8.1.1 Banking Union

During 2012, it was decided to strengthen the Economic and Monetary Union (EMU) on the basis of an integrated financial framework. Such integrated financial framework can also be referred to as the setting up of a banking union.

During the European summit held on 28 and 29 June 2012, Heads of State or Government decided that this banking union would be primarily made up of three major components among which a first pillar relating to the banking prudential supervision should be established at the beginning of 2013.

This banking union was motivated by the desire to break the vicious circle between bank failures and the aggravation of Member States' sovereign debts.

On 12 September 2012, the European Commission made legislative proposals aimed at creating a Single Supervisory Mechanism (SSM) under the auspices of the ECB, for all banks established in the euro area and open to all Member States. According to this proposal, the Council of the European Union should adopt a Regulation by unanimity on the basis of Article 127(6) TFEU, conferring to the ECB, exclusively, the main tasks relating to the prudential supervision of banks established in the Member States participating in the SSM. This proposal was presented together with another proposal for a Regulation to be adopted by way of co-decision procedure so as to take into account the new tasks conferred to the ECB and adapt provisions applicable to the European Banking Authority (EBA)[16].

During the European Council held on 18 and 19 October 2012, Heads of State or Government restated that the establishment of the SSM was a matter of priority. In this respect, the European Council highlighted three main requirements of the SSM: first, a separation between monetary policy of the ECB and its supervisory tasks, second, a balance between rights and obligations of all Member States participating in the new supervision mechanism, and, third, the obligation for the new single supervision authority to be adequately accountable, including before the European Parliament.

The specific legislative procedure provided for by Article 127(6) TFEU requires a prior consultation of the ECB and of the European Parliament. The ECB already fulfilled this requirement with an opinion issued on 27 November 2012[17].

At the end of its meeting on 12 December 2012, the Council of the European Union, in its ECOFIN configuration (Economic and Financial Affairs) reached an agreement on a compromise text that confers banking supervision tasks to the ECB.

16 Proposal for a Council regulation conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (COM(2012) 511) and proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority) as regards its interaction with Council Regulation (EU) No…/… conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (COM(2012) 512) of 12 September 2012.

17 Opinion of the European Central Bank of 27 November 2012 on a proposal for a Council regulation conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions and a proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority) (CON/2012/96), OJ C 30, 01.02.2013, p. 6.

The European Parliament, which is consulted for an opinion on the proposal of a Regulation that confers banking supervision tasks to the ECB, is also co-legislator in the adoption procedure of the second proposal for a Regulation concerning the EBA. Due to this reason, it joined the two legislative proposals. On 31 December 2012, the trilogue phase of consultation between the Council, the Parliament and the Commission was still on going.

During the legislative procedure, the BCL was involved in the technical discussions at the level of the Council of the European Union, within the framework of a working group: the 'ad hoc working party – Banking Supervision Mechanism' established by the COREPER under the Cyprus presidency. Due to the priority given to this legislative proposal, the ad hoc group met often throughout the year 2012.

There are two other pillars necessary for a banking union, namely a resolution system for ailing banks and a uniform system for protecting depositors' savings. These three pillars are bound together by a single rule book for all banks.

With regard to the banking resolution component, on which the BCL already presented its views to national institutions during the summer of 2010, it is worth noting that on 6 June 2012 the European Commission presented a legislative proposal for a bank crisis management framework that foresees common steps and powers, but remains a harmonisation of tools at the national level. The aim of such a framework is to ensure that bank failures across the EU are managed in a way that avoids financial instability and minimises costs for taxpayers. In addition to this national framework, it is foreseen that the European Commission will make a new legislative proposal so as to cover the European dimension and achieve the second pillar of the banking union. Such a proposal is expected by the summer of 2013.

Finally, with regard to the third element of the banking union, on 12 July 2012, the European Commission adopted a legislative proposal for a thorough revision of the Directive on Deposit Guarantee Schemes. It mainly deals with a harmonisation and simplification of protected deposits, a faster payout and an improved financing of schemes at national level. At the moment, the establishment of a deposit guarantee scheme at European level is only envisaged over the medium term because it raises fiscal issues that need to be further dealt with.

1.8.1.2 Economic governance

1.8.1.2.1 Primary law

Modification of Article 136 of the Treaty on the Functioning of the European Union (TFEU)

On the occasion of the European Council of 28 and 29 October 2010, the Heads of State or Government agreed on the need for Member States to establish a permanent crisis mechanism to safeguard the financial stability of the euro area as a whole.

In accordance with the simplified revision procedure under Article 48(6) of the Treaty on European Union, the European Council adopted on 25 March 2011 the Decision 2011/199/EU amending Article 136 TFEU with regard to a stability mechanism for Member States whose currency is the euro. Consequently, the following paragraph was added:

> *'The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality.'*

In accordance with the national procedures for approval this new provision entered into force on 1 January 2013.

In Luxembourg, the decision of the European Council, as mentioned above, was approved by the law of 3 July 2012 approving the decision of the European Council of 25 March 2011 modifying article 136 of the TFEU with regard to a stability mechanism for Member States whose currency is the euro.

International Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (Fiscal Compact)

Following the Statement by the Heads of State or Government of the euro area on 9 December 2011, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) was endorsed by 25 Member States of the EU on 30 January 2012. This treaty reinforces fiscal discipline, particularly through the introduction of a permanent and binding balanced budget rule, preferably to be introduced at the constitutional level, and ensuring enhanced surveillance of Member States that are subject to an excessive deficit procedure. This treaty was signed by the Heads of State or Government of all the EU Member States (except the United Kingdom and the Czech Republic) on 2 March 2012 and entered into force on 1 January 2013.

Roadmap towards a Genuine Economic and Monetary Union

The European Council of the EU asked its President, Herman Van Rompuy, in close cooperation with the Presidents of the European Commission, the Eurogroup and the ECB, to develop detailed proposals towards a genuine economic and monetary union. To this end, reports were submitted to the European Council in the month of June, October and December 2012.

These reports defined detailed proposals with different stages that would lead to a genuine economic and monetary union in a manner to contribute best to growth, employment and stability. It is suggested to reinforce the architecture of the EMU in the following decade based on an integrated financial framework, an integrated budgetary framework and an integrated economic policy framework. All these changes should also imply strengthened democratic legitimacy and accountability. Such a 'deepening'would eventually imply an amendment of the TFUE.

More specifically, the above-mentioned reports focus on the following aspects:

(i) The integrated financial framework

The integration of the financial sector in the EU saw a sharp acceleration following the introduction of the single currency. Nonetheless, the lack of common instruments of resolution of bank failures has prevented an effective crisis management given the fact that the crisis management and resolution mechanisms in the banking sector are still organised at the national level.

This is the reason why the creation of an integrated financial framework is a necessary condition in order to achieve a genuine economic and monetary union.

This framework should contain the following elements:

- An SSM, as described above;

- A single mechanism for the recapitalization of banks which would allow after the establishment of the SSM a direct recapitalization of banks by the ESM, without having recourse to the fiscal resources of the Member States;

- A harmonisation of national deposit guarantee frameworks as of 2013, to be entrusted to a European authority in order to limit the risks of contagion.

(ii) The integrated budgetary framework

Taking into account the high degree of interdependence between the Member States of the euro area, it has been proved necessary to complete the current framework concerning the surveillance and coordination of fiscal policies by strengthened rules, notably concerning economic governance.

It should contain the following elements:

- Solid national fiscal policies based on an ex ante coordination of the national budgets and an strengthened surveillance of the Member States that face financial difficulties;

- The creation of an own fiscal capacity of the EMU, similar to what already exists for other monetary unions. The financial resources of the fiscal capacity have not yet been determined, but different options exist, such as national budgets and/or own resources and the establishment of a euro area Treasury function with clearly defined budgetary responsibilities.

(iii) The integrated economic framework

The crisis has shown the importance of competitiveness in the monetary union and the deficiencies in the preceding economic policy framework, leading in this regard to several reforms of its European legal basis. Other reforms have been identified in order to strengthen the ex ante coordination of economic policies of the EU Member States.

This framework should contain the following elements:

1. the reforms of the EU surveillance framework;

2. the promotion of structural reforms by arrangements of a contractual nature;

3. the reinforcement of macroprudential policies.

(iv) The democratic legitimacy and accountability

The authors of the report consider that the three integrated financial, budgetary and economic frameworks will only be effective if they benefit from a strong democratic legitimacy and accountability of the parties. The European decisions will involve the European parliament, whereas the national Parliaments will contribute to their role in the Member States.

The European proposals in the final report of 5 December 2012 are inspired by the Communication of the Commission of 28 November 2012, by specifically incorporating the roadmap which can be broken down into three stages.

The first stage: end 2012 to 2013

This stage implies an increased commitment of the Member States to ensure sound management of public finances.

In addition to the implementation of the revised Stability and Growth Pact ('Six-Pack'), including the 'Two-Pack' which is currently being finalised, the report considers it necessary to put a framework into place allowing an enhanced ex ante coordination of the national economic policies, as foreseen by the article 11 of the TSCG.

The report also requests putting into place a SSM for the banking sector under the auspices of the ECB for all the banks of the euro area. Finally, the objective is to reach an agreement on the harmonisation of national resolution and deposit guarantee frameworks, ensuring appropriate funding from the financial industry. A single mechanism for the recapitalization of banks should also be envisaged with its own European authority backed by the ESM, which would provide it with a credit line.

2nd phase: years 2013-2014

It aims at the achievement of an integrated financial framework and of new structural reforms.

3rd phase: after 2014

It will consist in the creation of a fiscal capacity. At this stage an increasing degree of common decision-making on national budgets and on an enhanced coordination of economic polices is proposed.

It follows from the conclusions of the European Council of 14 December 2012 that it did not entirely follow this proposed road map.

The European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM)

The year 2012 was marked by the completion of the ESM. The Treaty establishing the ESM, revised and signed again on 2 February 2013 was finally ratified on 27 September 2012. Thus, it entered into force and the official inauguration took place a few days later in the margins of the Eurogroup meeting that took place on 8 October 2012 in Luxembourg.

Since the creation of the ESM, the combined lending capacity of the EFSF and the ESM has increased to € 500 billion. The EFSF will continue to support ongoing programs but will however cease to finance new ones.

From the perspective of Member States that needed European financial assistance, one may notice that during the year 2012 the EFSF continued to provide financial support to Ireland, Portugal and Greece.

In addition, the Spanish and Cypriot governments submitted official requests for assistance to the Eurogroup on 25 June 2012. For Spain, the request for a loan that could reach up to € 100 billion was related to its banking sector. Such assistance was granted on 20 July 2012. Within the framework of this assistance, the first payout by the ESM was made in December 2012 to the *Fondo de Restructuración Ordenada Bancaria (FROB)*, the restructuring fund of the Spanish government.

For Cyprus, there was no payout made during 2012.

During the euro area summit of 29 June 2012, the Heads of State or Government of the euro area made a statement according to which the establishment of the SSM was a prerequisite for envisaging the possibility to have the European Stability Mechanism (ESM) recapitalising banks directly, instead of indirectly as it was the case for Spain.

The Heads of State or Government tasked the Eurogroup with determining the detailed operational criteria that will be used for a direct recapitalisation of banks by the ESM. The direct recapitalisation of banks by the ESM was not foreseen as a financial assistance tool in the Treaty establishing the ESM. It could be adopted as a supplemental instrument.

1.8.1.2.2 Secondary law

The six legislative proposals of the European Commission of 29 September 2010 concerning the reinforcement of economic governance in the EU and of the euro area were adopted by the European Parliament on 28 September 2011 and by the Council on 8 November 2011 in order to allow for their entry into force on 13 December 2011.

The objective was to broaden and improve the surveillance of fiscal policies, but also of macroeconomic policies as well as structural reforms following the shortcomings brought to the fore by the economic and financial crisis.

The adopted legislative package comprises six different legislative acts: four legislative acts on fiscal aspects aiming notably at reinforcing the Stability and Growth Pact and the national fiscal frameworks of the Member States and two legislative acts aiming at detecting and correcting macroeconomic imbalances in the EU and the euro area[18]. This implies a reform of the preventive and corrective arms of the Stability and Growth Pact and the introduction of a new procedure on the prevention and correction of macroeconomic imbalances.

This legislative package implies a reform consisting of the preventive and corrective arms of the Stability and Growth Pact as well as a new procedure for preventing and correcting eventual macroeconomic imbalances.

The 'European semester', a new tool adopted by the European Council in 2010 and reflected in the amended Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, was applied for the first time in 2011. It enables an enhanced coordination of economic and fiscal policies according to a coordinated cycle.

The Eurosystem welcomed the agreement between the European Parliament and the Council, considering, however, that the agreed package fell short of the 'quantum leap' in economic governance that the Eurosystem had long advocated for the euro area.

In view of reinforcing the economic governance reform in the euro area, beyond the aforementioned legislative package, 23 Member States, including Member States with a derogation (Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania) agreed on a 'Euro Plus Pact' on the occasion of the informal meeting of the Heads of State or Government of the euro area of 11 March 2011 as endorsed by the European Council on 24 and 25 March 2011. In this context the signatories committed to even stronger economic coordination with annual assessments and monitoring by the Heads of State or Government.

On the basis of the aforementioned legislative package the European Commission published two new proposals for Regulations on 23 November 2011, but their adoption is pending.

One of the proposals sets out provisions for the introduction of a progressive surveillance complementing the existing provisions of the Stability and Growth Pact and which will reinforce the surveillance of fiscal discipline in the Member States whose currency is the euro. These provisions foresee the introduction of national fiscal rules in line with the budgetary objectives defined at a European level as well as enhanced surveillance of Member States in excessive deficit. These rules shall be implemented through provisions of binding force and permanent character, preferably constitutional, in order to show the rigorous adhesion of the national authorities to the Stability and Growth Pact. A common budgetary calendar aiming at ensuring the efficiency of the European semester and the setting up of independent budgetary councils at the national level, in charge of monitoring compliance with national fiscal rules, are also proposed.

1.8.2 National legislation

1.8.2.1 BCL regulations

In 2012, the BCL issued three regulations.

With regard to Oversight, the BCL Regulation 2012/N°11 concerning the oversight of central counterparties and trade repositories in Luxembourg was adopted on 10 July 2012; it modified the amended BCL Regulation 2010/N°6 of 8 September 2010 concerning the oversight of payment systems, securities settlement systems and payment instruments in Luxembourg (the 'Oversight Regulation'). The Oversight Regulation now contains provisions regarding the oversight of central counterparties and trade repositories by the

18 (i) Regulation (EU) No 1173/ 2011 of the European Parliament and of the Council of 16 November 2011 on the effective renforcement of budgetary surveillance in the euro area ; (ii) Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on the enforcement measures to correct excessive macroeconomic imbalances in the euro area ; (iii) Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ; (iv) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances ; (v) Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure ; (vi) Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

BCL, following the adoption of the EU Regulation on market infrastructures and OTC derivatives (European Market Infrastructure Regulation – EMIR).

A consolidated version of the Oversight Regulation was thereafter published in both French and English.

With regard to the monetary policy, the BCL issued the following regulations:

- BCL Regulation 2012/N°12 of 12 September 2012 implementing the Guideline of the European Central Bank of 2 August 2012 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9 (ECB/2012/18);

- BCL Regulation 2012/N°13 of 9 November 2012 implementing the Guideline of the European Central Bank of 10 October 2012 amending Guideline ECB/2012/18 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2012/23).

1.8.2.2 Interest rates

Legal interest rate

The legal interest rate for the year 2012 has been set at three point five per cent (3.5%) by the Grand-ducal Regulation of 8 December 2011 (Mémorial A N°255 of 16 December 2011, page 4305). For the year 2013, the rate remains unchanged pursuant to the Grand-ducal Regulation of 26 December 2012 (Mémorial A N°299 of 31 December 2012, page 4723). It may be observed that such a rate does not correspond to a particular money market reference rate.

Late payment interest rate on overdue claims in commercial transactions

As regards late payment interest rates on overdue claims in commercial transactions, reference is made, for the first half of 2012, to the publication in the Mémorial B N°9 of 2 February 2012, page 275, and, for the second half of 2012, to the publication in the Mémorial B N°62 of 24 July 2012, page 978. Both publications have been made in accordance with Article 5 (2) of modified law of 18 April 2004 relating to payment deadlines and late payment interests.

These two half-year interest rates are calculated on the basis of the marginal interest rate resulting from the tender procedure for the main refinancing operations applied by the ECB for its most recent main refinancing operation, conducted prior to the first calendar day of the first or the second half of 2012. In both cases, such rate was 1%.

1.8.2.3 Draft bills

1.8.2.3.1 Draft bill approving the Treaty on Stability, Coordination and Governance in the EMU ('TSCG') (number 6449)

The draft law limits itself to one article, the objective of which is to approve the Treaty on Stability, Coordination and Governance in the EMU, as signed on 2 March 2012 in Brussels. The Explanatory Memorandum reflects a summary of the TSCG, indicating that the Government regrets that the intergovernmental instrument was chosen in this case.

The Opinion of the Council of State (Conseil d'Etat) of 21 December 2012 raises no objection against the ratification of the TSCG. However, the Council of State considers that article 3 (2) and article 8 of the TSCG impose a vote of the draft law in compliance with the majority rules foreseen by article 114 of the Constitution.

As regards the fiscal rules and independent institutions, the Explanatory Memorandum of the draft law unfortunately limits itself to a description of the TSCG's content, without mentioning the manner in which the Government envisages to transpose the details defined in the TSCG into Luxembourg law. Following the ratification of the TSCG and its entering into force on 1 January 2013, the contracting parties are obliged to put into place, in conformity with article 3(1) and (2) of the TSCG, the budget balancing rules and automatic correction mechanisms.

In this respect, the BCL reiterates its position reflected in the 2012-1 Bulletin (pp. 101 ss.) as well as in its Opinion with regard to the draft law on the budget of the income and expenses of the State for 2013. More specifically, a reinforcement of the Grand-Duchy of Luxembourg's budgetary framework is considered necessary, thus implying an amendment of the law of 8 June 1999 on the budget, the accounting and the treasury of the State and, as the case may be, of the Constitution.

1.8.2.3.2 Proposal for a revision of the Constitution (number 6030)

A proposal for a revision of the Constitution was filed by the Member of Parliament Paul-Henri Meyers on 21 April 2009. The constitutional reform is still ongoing.

The BCL is not purposefully targeted by these reform proposals.

However, it draws the attention to the fact that, in conformity with article 3(2) of the TSCG[19], it could be envisaged to introduce a budgetary rule in the Constitution of the Grand-Duchy, even if the Constitution does not impose it formally. This provision would have to be accompanied by a special legislation with regard to public finance, thus assuring the multiannual programming and compliance with the European rules as well as policies (with the introduction of the majority of two-thirds of the members of Parliament on matters governing the rules on the establishment and the execution of accounts and public budgets).

This option would have the advantage of stability while creating legal constraints guaranteeing that a future amendment would only occur with hindsight and after the required reflection.

Reference could also be made to an independent body.

1.8.2.3.3 Draft bill to approve the Protocol regarding the immunities of the BIS (n° 6506)

Since Luxembourg became shareholder of the Bank for International Settlements (BIS) in 2011, it has been invited to adhere to the Protocol of Brussels regarding the immunities of the BIS signed on 30 July 1936, the depositary of which is the government of the Kingdom of Belgium. This resembles what other States, which are also members of the international organisation based in Basel, such as Germany, Belgium or France, have done in the past.

The Grand Duchy of Luxembourg's ambassador to the Kingdom of Belgium signed this protocol, subject to ratification, in Brussels on 22 September 2011.

The draft bill n° 6506 that foresees the approval of the signature of the protocol was introduced before Parliament on 28 November 2012.

The regime of immunities that is provided for by the protocol aims to avoid that claims against the BIS hinder the accomplishment of its tasks concerned with public interest. This regime of immunities is common under international public law and is similar to the immunity from enforcement regime that applies to accounts opened by the BCL in accordance with national law (Art. 27-1(2) of the organic law of the BCL).

1.8.2.3.4 The BCL's capital increase

During 2012, the exchange of views between the BCL and the government on the recapitalisation of the Bank continued. A proposal for a draft bill that would increase its capital to up to € 1 500 000 000 was sent to the ECB for consultation; nine hundred million (€ 900 000 000) would be immediately paid out. The ECB issued

19 Reference is made to ' binding rules, preferably at constitutional level [...] '.

an opinion on 7 September 2012[20] suggesting some clarifications on the proposed draft bill. Further to this opinion, the proposal has continued to be discussed between the BCL and the government.

1.8.2.3.5 Draft bill N° 6327 on dematerialised securities

On 12 September 2011, the draft bill N°6327 on dematerialised securities (the 'draft bill') was introduced before Parliament. It aims to regulate the dematerialisation of securities that are subject to Luxembourg law, whether they are equities, debt instruments issued by companies incorporated under Luxembourg law or debt instruments issued under Luxembourg law by companies incorporated under a foreign law. Dematerialised securities are designed as an additional category of securities, which supplements the existing categories of bearer securities and registered securities. The draft bill introduces a procedure for the conversion of existing bearer or registered securities into dematerialised securities as well as the issuance of new securities in dematerialised form.

In its Opinion of 24 January 2012 on the draft bill (CON/2012/3), the ECB welcomed the amendments made to the law of 1 August 2001 on the circulation of securities and other fungible instruments (the '2001 Law'), which strengthen the protection and the enforcement of rights of the securities holders who maintain securities in a securities settlement system, a liquidation body, a central account keeper or an account keeper in Luxembourg. The ECB also welcomed in particular the amendment to Article 16 of the 2001 Law, which allows for the mitigation of credit risk taken by the financial intermediary financing the acquisition of securities by its customers. The ECB considered that such amendment has particular relevance to TARGET2-Securities (T2S), the Eurosystem's future settlement platform. Moreover, the ECB acknowledged that the amendment made to Article 15 of the 2001 Law aims to address specific situations encountered during the present financial crisis where transfer orders duly entered into a system, in respect of a counterparty against which insolvency proceedings were subsequently brought, remained unsettled and suspended in the said system, as the insolvent counterparty could not discharge its obligations, and where the parties could not immediately agree on the bilateral cancellation of such a transfer order.

In this respect, the ECB recommended in its Opinion the clarification of the scope as well as the relationship of the newly introduced provision with regard to the settlement's irrevocability safeguarded by Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality payment and securities settlement systems. The ECB also recommended that the draft bill define the manner in which the statutory discharge of obligations may be aligned with the rules of the securities settlement system operator.

The minutes of the meeting of 27 November 2012 of the Finances and Budget Commission (hereafter 'the Commission') specified that Article 15 of the draft bill was amended in order to clarify the situation following the recommendations of the ECB in the aforementioned Opinion of 24 January 2012.

The ECB feared that the parties could agree to abandon their obligations on a certain date, without the securities settlement system and thus also the T2S operator having knowledge of such an agreement and that subsequently the securities settlement system and, thus T2S, could continue to attempt to settle the transaction after such a date, which may produce legal uncertainty as to the status of such transaction. The Commission considered that such fear could be dispelled for mainly two reasons.

Firstly, the Commission considered that, in accordance with the doctrine of privacy of contracts, the agreement between the purchaser and the seller of the securities is not binding upon the securities settlement system. Hence, the securities settlement system may continue to act as long as it has not received from the seller and/or purchaser a notification of a modification of the settlement instructions. Secondly, the Commission considered that Article 15 reserves expressly title V of the law on payment services and, accordingly, once an order is entered into the securities settlement system (Article 111 of the law on payment services), it becomes irrevocable notwithstanding any agreement to the contrary.

20 Opinion of the European Central Bank of 7 September 2012 on the capital increase of the Banque centrale du Luxembourg (CON/2012/69).

In order to take into account the Opinion of the ECB and to avoid any ambiguity, the Commission decided to add a subparagraph to Article 15 of the 2001 Law which specifies that the rules of the securities settlement system prevails over the arrangements of the parties.

1.8.3 Legal acts of the ECB

1.8.3.1 An overview of the non-standard collateral regime

By virtue of Article 18 of the Statute of the ECB and the ESCB, Eurosystem credit operations with counterparties are 'based on adequate collateral'.

In view of the significant challenges generated by the financial crisis and the subsequent sovereign debt crisis, adaptations had to be made to the Eurosystem's monetary policy instruments and in particular to the collateral framework.

Although the Eurosystem already had a relatively broad collateral framework in place, the list of eligible assets had to be widened further temporarily so as to ensure that collateral did not constitute a constraint after the introduction of the fixed rate procedure with full allotment, which formed part of the non-standard measures.

As from 22 October 2008, the minimum rating threshold for marketable assets, other than asset-backed securities, and non-marketable assets was lowered from A- to BBB-, leaving unchanged the threshold of A- imposed for asset-backed securities.

Moreover, debt instruments denominated in foreign currencies such as the US dollar, the Japanese yen and the British pound became eligible and debt instruments issued by credit institutions and traded on certain non-regulated markets recognised by the ECB also became eligible. Finally, subordinated debt instruments, which were secured by an acceptable guarantee and fulfilling all other eligibility criteria, could also be used as collateral.

The extension of the list of eligible assets generated an increase of eligible collateral which amounted to a volume of approximately EUR 870 billion. This amount was further increased by a significant amount of credit claims which became eligible when the rating threshold was lowered to BBB-.

In view of the improved conditions, a phasing-out of such measures was initiated in late 2009, as the collateral framework was to some extent tightened and some non-standard refinancing operations were not renewed. For instance, eligibility requirements for asset-backed securities became more stringent and the expiry date for the temporary expansion of the list of eligible assets, which was initially set for end of 2009, was prolonged until the end of 2010. The emergence of the sovereign debt crisis prompted, however, the reassessment of such phasing-out process.

On 8 December 2011, an additional temporary widening of the collateral framework was decided upon by the Governing Council. The purpose of this decision was to facilitate the access to central bank liquidity. The additional asset types included in the single list of eligible assets were aiming to improve, in particular, the refinancing conditions for smaller banks financing small and medium-sized enterprises of particular importance to the euro area.

The adopted measures may be summarised as follows:

First, the rating threshold applicable to certain asset-backed securities was reduced to A- (at issuance). Second, national central banks were allowed on a temporary basis to accept as collateral credit claims satisfying specific criteria, which are additional to those eligible pursuant to the common Eurosystem eligibility criteria. On 9 February 2012, the Governing Council approved a first wave consisting of seven additional credit claim frameworks submitted by national central banks.

The ECB Guideline of 2 August 2012 has further extended the eligibility criteria regarding certain additional asset-backed securities, which are now eligible as collateral for Eurosystem monetary policy operations, provided that they have two ratings of at least BBB at issuance and at any time subsequently.

In addition, NCBs can also accept as collateral – upon prior approval by the Governing Council – credit claims that do not satisfy the Eurosystem eligibility criteria, but which are compliant with the specific eligibility criteria and risk control measures imposed by NCBs that accept them.

Furthermore, the Governing Council announced that the Eurosystem had the intention to strengthen its internal credit assessment capacities and to encourage potential external credit assessment providers and the commercial banks using internal rating systems (IRB) to request the approval of the Eurosystem within the Eurosystem Credit Assesment Framework (ECAF) system.

On 6 September 2012, the Governing Council decided to adopt additional measures aiming to preserve collateral availability for counterparties (e.g. suspension of the minimum credit rating threshold for marketable debt instruments issued or guaranteed by the central government, countries that are eligible for Outright Monetary Transactions or are under an EU-IMF programme and comply with the conditionality as assessed by the Governing Council; the eligibility of the securities issued and held in the Euro zone but denominated in US dollar, pound sterling or Japanese yen).

1.8.3.2 Amendments to Guideline ECB/2011/14 of the European Central Bank of 20 September 2011 on monetary policy instruments and procedures of the Eurosystem

Guideline ECB/2011/14 of the ECB of 20 September 2011 on monetary policy instruments and procedures of the Eurosystem ('General Documentation') has been amended by the ECB Guideline of 26 November 2012 (ECB/2012/25) with effect as of 3 January 2013 ('Guideline ECB/2012/25'). The General Conditions of the operations of the BCL and, in particular, Annex 8 have been updated and complemented, in order to implement Guideline ECB/2012/25.

Beside a number of technical adjustments, with the aim of streamlining and strengthening the collateral and risk control framework in place for the Eurosystem operations, Guideline ECB/2012/25 includes the following changes.

As announced on 6 July 2012, the reporting requirements related to the loan-level data for asset-backed securities have been laid down in Section 6.2.1.1 and in the new Appendix 8 of the General Documentation.

Moreover, the Eurosystem has streamlined the coupon types of eligible marketable instruments in Section 6.2.1.1. Specifically, floating-rate coupons must be linked to a single standard euro interest rate reference or to a euro area inflation index. Complex coupon structures and inverse floaters are excluded.

A certain number of amendments have also been made to the provisions relating to covered bonds.

On the one hand, the Eurosystem decided (Section 6.2.1.1) that, as from now, the cover pools of eligible covered bonds may only contain asset-backed securities to the extent that (i) these comply with the requirements of Directives 2006/48/EC and 2006/49/EC, (ii) were originated within the same consolidated group and (iii) the securities are used as a technical tool to transfer mortgages or guaranteed real-estate loans from the originating entity into the cover pool. A grandfathering period of two years (starting as of 3 January 2013) for covered bonds already issued has been put in place.

On the other hand, the Governing Council decided to amend the provisions of Section 6.2.3.2 relating to the close-link requirements in place for the own-use of covered bonds as collateral. Henceforth, only the following covered bonds will be eligible for own-use:

- covered bonds issued in accordance with the criteria set out in annex VI, Part 1, points 68 to 70 of Directive 2006/48/EC;or
- covered bonds issued in accordance with the criteria set out in Article 52(4) of the UCITS Directive (Directive 2009/65/EC) and offering a comparable protection to the criteria set out in annex VI, Part 1, points 68 to 70 of Directive 2006/48/EC, such as in the case of the non-marketable RMBD which are not

securities or covered bonds for which all criteria set out in Part 1, points 68 of annex VI to 70 of Directive 2006/48/EC are complied with, except for the limits on guaranteed loans in the cover pools.

Furthermore, the acceptance of unrated UCITS-compliant covered bonds issued prior to 1 January 2008 has been phased out (Section 6.3.2).

Finally, two other modifications shall be underlined.

The first one resulting from the decision of the Governing Council according to which the providers of credit assessment systems accepted within the ECAF will be required to submit performance monitoring data on a disaggregated basis. Also, credit assessment systems will be required to provide a signed certificate confirming the accuracy and validity of the performance monitoring information provided.

The second one consisting in the introduction of a new information requirement for counterparties (Section 6.2.3) which are required to inform the Eurosystem (i) one month in advance of any planned modification to an asset-backed security which it has submitted as collateral and (ii) upon submission of an asset-backed security, of any modification made to that asset in the six months prior to its submission, if the asset-backed security is own-used.

1.9 COMMUNICATION

1.9.1 Publications

As required by its statutes, the BCL publishes each year a report on its activities. The annual report is available in French and in English.

In 2012, the BCL also published four Bulletins and one Financial Stability Review.

In its working papers the BCL publishes the results of research conducted by its staff. Working papers can be accessed via the internet, on the BCL's website. Each working paper contains a non-technical summary. In 2012, 10 working papers were published.

1.9.2 Training at the BCL

The BCL continued its cooperation with the University of Luxembourg where staff members gave lectures in law and economics. Other staff members also gave lectures concerning European economic integration (MUDEC – Miami University John E. Dolibois Center), economics (Catholic University of Louvain), foreign exchange risk management (Strasbourg Institute of Political Studies), econometrics and time series analysis (University Metz).

The BCL also organised ad hoc presentations for various groups of students (ULB-Solvay, RWTH Aachen University, BTS Bank of Orleans) either upon direct demand by the universities themselves or in the framework of presentations on the financial sector organised by Luxembourg for Finance (LFF).

The BCL is a shareholder of the Agence de Transfert de Technologie Financière (ATTF). This agency, established in 1999 at the initiative of the Luxembourgish government, aims to render Luxembourg's know-how in financial matters accessible to other countries, in particular emerging countries. Upon demand of the ATTF, presentations were organised in favour of delegations from Uzbekistan, Mongolia, China and from countries in the South Pacific. The BCL also welcomed a high-level delegation of the National Development and Reform Commission of the People's Republic of China in the context of a work visit organised by the Minister of foreign affairs as well as a high-level delegation from the financial sector of Casablanca in the framework of a mission organised by LFF.

Finally, the BCL organises presentations on the Eurosystem and the BCL for economics students in their last two years of secondary school. Students are received, along with their economics teachers, at the auditorium of the Monterey building for an educational and interactive presentation of the organisation and the missions of the BCL and the Eurosystem. Other subjects can also be addressed with regard to the students' questions and the teachers' requests.

1.9.3 The BCL's website

The BCL's website, www.bcl.lu, provides information about the Bank's activities and services as well as statistics concerning Luxembourg and the Eurosystem. It also contains links to the ECB's website and to websites of other central banks of the ESCB. Based on its search engine and its configurable mailing list, the site offers each visitor a clearly structured information package, suitable for professionals as well as private individuals.

All BCL publications can be viewed and downloaded from the publications and media section. The publications can also be obtained upon request in hard copy, depending on availability.

The website is in English and in French. The documents are published in their original language (English, French or German).

In 2012, the BCL decided to renew its website which is expected to go online in 2013.

Overall, around 112 000 people visited the BCL's website in 2012 (more than 14, 3 million consulted pages). The most often downloaded document remains the numismatic programme which was downloaded about 32 000 times. The numismatic products' electronic shop (eshop.bcl.lu), which is directly accessible through the BCL's website, attracted more than 39 000 visitors in 2012.

1.9.4 The library

The library of the BCL, inaugurated in 2005, uses the ALEPH library management system which is connected to the public libraries in Luxembourg.

The library mainly contains economics and law publications. Most documents refers to monetary, economic, financial and legal issues in the euro area.

The library is open to the public upon reservation, either by fax (+352 4774 4910) or by e-mail (bibliotheque@bcl.lu).

1.9.5 Press relations

The Governor of the BCL gave eight interviews to the international and national press in 2012. Seven press conferences were held, on the occasion of the presentation of the BCL's Annual Report, financial accounts, as well as its Bulletins, Financial Stability Review and Opinion regarding the state budget motion for the year 2013. A total of 109 press releases were issued.

1.9.6 The BCL research programme

BCL research activities are organised in six main research areas:
- Financial stability;
- Monetary analysis, credit and financial markets;
- Business cycles and long-term trends;
- Competitiveness and productivity;
- Labour markets;
- Other subjects and current events.

1.9.6.1 Research activities

The BCL's research output is regularly disseminated through its working paper series, the BCL Bulletin and the Financial Stability Review. In 2012, BCL staff members published several studies in peer-reviewed scientific journals (Journal of Economic Dynamics and Control, Journal of Productivity Analysis, Journal for Labour Market Research, Economic Modelling, Economic Inquiry, Economic Letters, Advances in Statistical Analysis, Brussels Economic Review). BCL staff members also presented their work in seminars and workshops organised, among others, by the University of Luxembourg, the Eurosystem, the European University Institute, the Austrian Economic Association, and the Swedish Network for European Studies in Economics & Business.

Since December 2006, the BCL is a member of the research network of European central banks called Household Finance and Consumption Network (HFCN). This network conducted a harmonised survey on Household finance and consumption in the euro area. The Luxembourg part of this survey was carried out by the BCL in collaboration with CEPS/Instead. First results were published as BCL working papers or as text boxes in BCL bulletins.

Since June 2010, the BCL also participates in a second European central bank research network called MaRs (Macro-prudential Research Network). In this context, the BCL contributes to the work in two workstreams: one concentrates on macro-financial models, with a focus on the link between financial stability and economic performance, and the other focuses on early warning systems and systemic risk measures.

Since March 2012, BCL is also a member of a third European central bank research network called Compnet (Competitiveness Research Network). In this context, the BCL contributes to two workstreams: one focuses on the macroeconomic dimension of competitiveness (global and sectoral indicators and their link to export performance), the other analyses competitiveness at the firm level using micro-data.

In October 2012, BCL organised an international conference in Luxembourg on the subject 'Disaggregating the Business Cycle' in collaboration with CEPR and the Euro Area Business Cycle Network. In November 2012 a second conference was held on the subject 'Financial Stability, Bank Risk and Regulation in the Light of the Crisis' in collaboration with the LSF, University of Luxembourg, the Journal of Financial Stability and other institutions. This second conference served to present BCL's work in the context of the multi-year research project RISKADBS (Measuring financial stability in Luxembourg: risk adjusted balance sheets) conducted in collaboration with the LSF and partially financed by the Fonds national de la Recherche (FNR).

External Presentations

- Seminar on 'Best Practices in Forecasting Public Revenues' (Ministère des Finances and Statec), Luxembourg, January 2012
- Séminaire du midi, University of Luxembourg, February 2012
- OECD technical seminar on 'Inequalities and social mobility' (Ministère de l'économie et du commerce extérieur), April 2012
- EUI-nomics, European University Institute, Florence, Italy, April 2012
- Annual meeting of the Austrian Economic Association, Vienna, Austria, May 2012
- Workshop on 'Taxing Cross-Border Commuters: Öresund and Beyond', Uppsala, Sweden, May 2012
- Annual conference of the Swedish Network for European Studies in Economics and Business (SNEE), Mölle, Sweden, May 2012
- Macro-prudential Research Network (MaRs), workstream 1 conference, Frankfurt, May 2012
- Conference of RETEL (Réseau d'étude sur le marché du travail et de l'emploi), Mondorf, May 2012
- ESCB seminar in preparation of the ECB surveillance reports, Frankfurt, ECB, June 2012.

- Conference on 'Demographic Trends, Saving and Retirement Security: Stylized Facts and Behavioural Responses,' Munich, June 2012

- 7th European Workshop on Labour Markets and Demographic Change, University of St. Gallen, Switzerland, August 2012

- Presentation to the Working Group on Econometric Modelling, ECB, Frankfurt, September 2012

- Central Bank Macroeconomic Modelling Workshop on 'Modelling Imbalances', Warsaw, September 2012

- Presentation to the Working Group on Forecasting, ECB, Frankfurt, September 2012

- Short and medium-term impact of structural reforms and their implications for macroeconomic projections, workshop of the Working Group on Forecasting, ECB, Frankfurt, in October 2012

- CEPR/Euro Area Business Cycle Network conference on 'Disaggregating the Business Cycle,' Luxembourg, October 2012.

1.9.6.2 The BCL Foundation

Created in 2011, the BCL Foundation aims to promote research and higher education in the BCL's fields of activity. For 2011-2012, its Board of Directors set the priority on research in financial stability, a subject of current interest for researchers as well as policymakers. The Foundation offered a € 5 000 grant to finance visits to the BCL by researchers active in this domain and also a € 2 000 prize for the best PhD thesis defended in 2011 in this domain. The Foundation also contributed to the organisation of the BCL Financial Stability Seminar in April 2012 and the international conference on 'Disaggregating the business cycle' in collaboration with CEPR and the Euro Area Business Cycle Network.

The Foundation's bylaws were approved by the Règlement grand-ducal of 12 March 2011. On 1 December 2012, the Board of Directors included the following members:

Mr. Yves Mersch, President of the Council of the BCL - President

Mr. Serge Kolb, member of the Council of the BCL and BCL Executive Director - Managing Director

Mr. Hans Helmut Kotz, Senior fellow at the Centre for Financial Studies, Goethe Universität, Frankfurt, Honorary Professor at Freiburg University (D) and former member of the Deutsche Bundesbank Board of Directors - Director

Mr. Jacques Poos, member of the Council of the BCL - Director

Mr. Patrice Pieretti, Professor at the University of Luxembourg and former member of the Council of the BCL- Director

M. Romain Schintgen, member of the Council of the BCL - Director

M. Henri Sneessens, Professor at the University of Luxembourg - Director

M. Christian Wolff, Professor at the University of Luxembourg, Director of the Luxembourg School of Finance - Vice-President

M. Jean-Pierre Zigrand, Professor at the London School of Economics - Director

Given his appointment to the ECB's Executive Board, Mr. Mersch resigned his position as Director and President effective as of 7 December 2012.

1.9.7 Conferences and events

The BCL was involved in the organisation of the following conferences and events:

- A Seminar was organised on the occasion of the presentation of the BCL's Financial Stability Review to the press, on 25 April, in the presence of several central bank governors and of other high-level guests, such as members of the Luxembourgish and European financial sector, as well as representatives of the academic world. The seminar concluded with a panel discussion on a national approach to a macro prudential architecture and policy, in which Aerdt Houben of the Central Bank of the Netherlands, as well as Lars Nyberg, former Vice-Governor of the Swedish Central Bank, Claudio Borio, Deputy Head of the Economic and monetary department and Director of research and statistics at the Bank for International Settlements (BIS), Vitor Constancio, Vice-President of the ECB, Charles Goodhart, Director of the research program of financial regulation at the London School of Economics, André Sapir, Professor at the *Université libre de Bruxelles* and Ignazio Visco, Governor of the Bank of Italy, participated.

- Seminar of the European Supervisor Education Initiative (ESE) organised in Luxembourg from 24 to 26 April 2012. The seminar dealt with the subject 'Importance of the liquidity risk management for the stability of individual banks and the financial system.' The association European Supervisor Education Initiative, of which the BCL has been a member since 2010, aims to train supervisors in Europe and to promote the convergence of micro-prudential supervisory practices at the European level.

- Following the launch, at the end of 2010, of the ECB Charity Initiative, the Governor of the BCL donated € 6 500 to Marc de Geest, Director of *Autisme Luxembourg asbl*, on the occasion of a ceremony organised at the BCL on 9 May. The association, created in 1981, arranges and manages accommodation, medical, employment and leisure services for people affected by autism. The donations come from funds received in the last few years in the framework of external activities of the members of the ECB Executive Board and of other members of the ECB, which are then equally distributed amongst the national central banks of the Eurosystem.

- Organisation by the *Bridge Forum Dialogue* association on 7 June at the European Commission of a conference on the subject: 'Immigration and integration in Europe'. Cem Özdemir, co-president of the 90 Alliance/the Greens and Jan O. Karlsson, former President of the European court of Auditors and Former Swedish Minister for Migration and Development Cooperation, expressed their views. The conference was chaired by Vitor Manuel da Silva Caldeira, Vice-President of *The Bridge Forum Dialogue* association.

- Conference by the Bridge Forum Dialogue association on 2 July at the EIB on the subject: 'Which energy policy for Europe?', under the chairmanship of Werner Hoyer, Vice-President of *The Bridge Forum Dialogue* association. The conference's main speaker was Günther Hermann Oettinger, European Commissioner for Energy.

- Prize award ceremony of € 2000 for the best PhD. thesis presented in 2011 in the field of financial stability to Ms Agnese Leonello, of the European Institute of Florence, on 8 October. The ceremony took place at the same time as the conference 'Disaggregating the Business Cycle' which was organised by the BCL in collaboration with the Euro Area Business Cycle Network. This research network, founded in 2002, gathers academic researchers and researchers from central banks and other institutions involved in the empirical analyses of the euro area. The BCL is one of the 19 central bank members of this research network.

- Organisation, jointly with the Luxembourg School of Finance, the University of Luxembourg, the *Fonds National de la Recherche Luxembourg*, the Journal of Financial Stability, the University of Fordham and the central banks of Finland and Turkey of the conference 'Financial Stability, Bank Risk and Regulation in the Light of the Crisis' on 15 and 16 November at the BCL. The conference gathered university and central bank decision-makers and practitioners together, to allow for an exchange of views and presentations on the latest achievements regarding the functioning of banking and financial markets as well as monetary, economic and financial stability.

- Ceremony organised at the BCL on 21 December in honour of the nominations of Mr. Yves Mersch to the ECB Executive Board and of Mr. Gaston Reinesch to the BCL. The introductory speech was given by Mr. Jean-Claude Juncker, the Prime Minister. The ceremony was attended by the BCL staff as well as by the current and former members of the BCL Council and invited guests, notably Mr. Laurent Mosar, President of the Chamber of Deputies, Mr. Jean Asselborn, Vice-Prime Minister and Minister of Foreign Affairs, Mr. Victor Gillen, President of the State Council and Mr. Luc Frieden, Minister of Finance.

1.10 EUROPEAN ACTIVITIES

1.10.1 Activities at the level of the ECB

In 2012, the Governor of the BCL participated in 23 meetings of the Governing Council and in four meetings of the General Council. Members of the Governing Council act in their personal capacity and not as national representatives when taking decisions, which is reflected in the principle 'one member, one vote'.

The Governing Council usually meets twice a month at the ECB's headquarters in Frankfurt. At its first meeting, the Governing Council assesses economic and monetary developments and takes its monthly monetary policy decision, whilst at its second meeting the Council discusses mainly issues related to other tasks and responsibilities of the ECB and the Eurosystem. The General Council comprises the ECB President and Vice-President as well as ESCB Governors and meets in Frankfurt four times a year.

In 2012, more than 500 Executive Board proposals were adopted by the Governing Council by written procedure, including opinions relating to draft laws at the European or national level, according to article 127 paragraph 4 of the Lisbon Treaty.

The 17 Eurosystem/ESCB Committees assist the decision-making bodies of the ECB in the fulfillment of their tasks. The Governing Council or the Executive Board may ask Committees to conduct analyses on specific topics. Committees were established under article 9.1 of the ECB's rules of procedure and report to the Governing Council through the ECB's Executive Board. Committees are mainly composed of members of the Eurosystem but may also include, for some issues, ESCB members. Each member is appointed by the Governor of his/her national central bank or, in some cases, by the ECB's Executive Board. Working groups or task forces have also been established with specific objectives in accordance with their related Committee's mandate. The Governing Council has further created High Level Groups to consider particular issues.

1.10.2 Economic and Financial Committee (EFC)

The Economic and Financial Committee (EFC) is composed of representatives of the finance ministries and the central banks of EU Member States, as well as representatives of the European Commission and the ECB. In this Committee, the BCL is represented by one of the members of its Executive Board.

According to the treaty, one of the tasks of the EFC is to 'review the economic and financial situation of the Member states and of the Community and to report regularly from there onwards to the Council and to the Commission'.

In 2012, the EFC continued to closely follow the evolution of financial stability in the EU, including the recapitalisation of the banking sector under the aegis of the new EBA (European Banking Authority), as well as the progress achieved in setting up a single supervisory mechanism for the banks.

The EFC also handles cases relative to the economic policy discussed in the informal meetings of the ECOFIN Council, in which the BCL Governor participates.

1.10.3 Committee on Monetary, Financial and Balance of Payments Statistics (CMFB)

In the context of the mission of the Statistical Office of the European Communities (Eurostat), the CMFB rules in particular on the development and coordination of statistical categories that are required under the policy implemented by the Council, the Commission and various committees assisting them. Central banks, National Statistics Institutes as well as the Commission and the ECB are represented in the CMFB. Under the leadership of this Committee, different 'task forces' operate with specific duties assigned to them.

The BCL has contributed actively in 2012 to this committee. Progress has been made particularly in terms of financial accounts, balance of payments, financial services and public finance statistics as well as national accounts.

1.10.4 Other activities at the European level

On January 20, the Governor of the BCL received the Luxembourg members of the European Parliament for a debate on the ongoing reforms and discussions, at the EU level, linked to economic governance and financial stability in the European Union and in the euro area.

In the context of the nomination procedure of a new member of the ECB Executive Board, the BCL Governor, in his quality of candidate, appeared in front of the Economic and Monetary Affairs committee of the European Parliament, on 22 October, for a hearing.

1.11 NATIONAL AND EXTERNAL ACTIVITIES

1.11.1 National activities

1.11.1.1 Relations with Parliament

On 16 November, the BCL presented its Opinion on the state budget motion to the Financial and Budget Commission of the Luxembourg Parliament.

1.11.1.2 BCL committees

The Operational Crisis Prevention Group (OCPG)

The BCL established the Operational Crisis Prevention Group (OCPG) with the mandate of enhancing the financial sector's preparation with regard to large-scale operational disruptions. Members include the ABBL, the CSSF and systemically important market participants.

The group held three meetings in 2012. It took part in the pan European exercise *Cyber Europe 2012* which was conducted by the European Network and Information Security Agency (ENISA). Its members are currently working at establishing communication procedures for crisis situations.

The Lawyers' Committee (Comité des Juristes)

The Lawyers' Committee met five times in 2012.

The Statistics Committee

The Statistics Committee has been set up by the BCL to ensure a constant dialogue between the representatives of entities subject to statistical data collection and the main users of such data. The Committee is regularly consulted on issues relating to the statistical reporting in the financial sector.

The Monetary and banking statistics consultative commission

This consultative commission has been set up by the BCL in order to assure an efficient collection of monetary and banking statistics and to enhance the dialogue with reporting credit institutions. In 2012, the Commission was informed and consulted on various conceptual issues concerning the revision of the statistical data collection.

The Balance of payments statistics consultative commission

The Balance of payments statistics consultative commission acts as an advisory group and assists the BCL in its mission to collect data in the areas of balance of payments and international investment position. The Commission ensures an efficient organisation of data collection in order to avoid redundancies and to limit the collection charge for the entities requested to submit statistical data. In 2012, the commission has not been consulted due to the absence of new projects.

The Economic and financial statistics consultative commission

The Economic and financial statistics consultative commission has been set up by the BCL in order to ensure an efficient organisation of the data collection in the area of economic and financial statistics as well as to enhance the dialogue between financial intermediaries and the central bank. In 2012, the Commission was not consulted due to the absence of new projects.

1.11.1.3 External committees

The Economic Committee (Comité de conjoncture)

The Economic Committee acts on the basis of the legislation which authorises the Government to take measures in order to stabilise employment. The Committee, therefore, provides a framework for the examination of business cycle fluctuations in the country's economy and for the monitoring of economic policy issues when they arise.

The BCL's contribution to the Economic Committee is two-fold: first, the BCL collects information on Luxembourg's cyclical position and secondly, it contributes to the Committee's work by monitoring and commenting on the latest developments in monetary areas and in the financial sector.

The Consumer Price Index Commission (Commission de l'indice des prix à la consummation)

The BCL has an observer status at the meetings of the Consumer Price Index Commission (CPIC), which is in charge of advising and assisting the STATEC in the preparation of consumer price indices. This Commission also issues technical opinions on the design of the monthly consumer price index and supervises the compliance of this index with national and European regulations. The BCL presents its inflation projections for Luxembourg to the CPIC and provides explanations on the BCL's work in the area of consumer prices.

Committee Comptabilité bancaire

The committee *Comptabilité Bancaire* set up by the *Commission de surveillance du secteur financier* (CSSF), aims at ensuring an exchange of views between the supervisory authority, the BCL and the stakeholders of the Luxembourg financial centre. The committee is consulted during the development of CSSF circulars concerning bank accounting issues.

Higher Council for Statistics of Luxembourg

The Higher Council for Statistics carries out advisory functions on behalf of the national statistical institute of Luxembourg (STATEC) and is mandated to assess STATEC's annual programme. The BCL contributes in two ways to the work of the Higher Council for Statistics: on the one hand, it provides its opinion on the documents submitted at the meetings; on the other hand, it provides STATEC with data collected on the financial centre to enable the latter to achieve its work programme.

XBRL Luxembourg

XBRL (eXtensible Business Reporting Language) is a financial reporting standard based on XML, the main objective of which is to improve the accuracy, transparency and efficiency of internal and external reporting. The non-profit association XBRL Luxembourg includes some twenty organisations using XBRL and / or providing services related to XBRL technology. The role of the association is to promote the XBRL standard within Luxembourg's economy.

The BCL, as a founding member of XBRL Luxembourg, will analyse the potential to adopt the XBRL standard in the context of the statistical reporting collected from companies of the Luxembourg financial sector.

1.11.2 External activities

1.11.2.1 The BCL's multilateral activities

Activities at the level of the IMF

Luxembourg is a founding member of the IMF. In 2012, the BCL Governor, being also the Alternate Governor for Luxembourg at the IMF, attended the Annual Meeting of the IMF and the meeting of the International Monetary and Financial Committee (IMFC). A BCL member is on secondment to the IMF.

The IMF's Executive Board is composed of 24 Executive Directors. In the framework of the amendments to the IMF's Articles of Agreement, which aim notably at reducing the representation of advanced European countries by two seats, Belgium and Luxembourg joined the constituency chaired by the Dutch Executive Director on 1 November 2012. Henceforth, the Netherlands and Belgium will designate an Executive Director on a rotating basis, thereby reducing by one the number of Executive Directors of advanced European countries. For Luxembourg, the position of its seconded staff member was upgraded to that of Senior Advisor. Apart from the Netherlands, Belgium and Luxembourg, the other 12 members of this constituency, in the decreasing order of their quotas are: Ukraine, Israel, Romania, Bulgaria, Croatia, Cyprus, Bosnia-Herzegovina, Georgia, Moldova, Macedonia, Armenia and Montenegro.

The BCL handles Luxembourg's financial transactions with the IMF. It holds Luxembourg's assets and liabilities with regard to the IMF in both the General Resources Account and the Special Drawing Rights (SDR) account.

On 31 December 2012, Luxembourg's quota, recorded in full on the BCL's balance sheet, amounted to SDR 418.7 million. On the same date, Luxembourg's reserve position -i.e. the difference between Luxembourg's total quota in the IMF and the euro-denominated assets detained by the IMF at the BCL- was of SDR 109.8 million, equivalent to 26.2% of Luxembourg's quota.

The IMF's operational budget defines the currencies to be made available by its members on a quarterly basis and the distribution of reimbursements among its members. At the end of the year, the credits granted by Luxembourg under the New Arrangements to Borrow (NAB), reached SDR 114.6 million.

At the end of the year 2012, Luxembourg held SDR 244.1 million, or 98.98% of its SDR allocation, in comparison with 98.87% end 2011.

In the framework of the 14th General Review of Quotas, the IMF's total quotas will double from SDR 238.4 billion to SDR 476.8 billion. Luxembourg's quota will increase from SDR 418.7 million to SDR 1 321.8 million, an increase of 216%. This increase of SDR 903.1 million is regulated by the law of 10 October 2012, which authorises the government to participate in the general review of quotas of the IMF Member States, approved by Resolution n° 66-2 of the Board of Governors on 15 October 2010 and approving the amendment to the IMF's Articles of Agreement in regard to the same resolution.

The review of the quotas and the amendment to the IMF's Articles of Agreement are linked and will enter into force when Member States representing at least 85% of the voting rights have adopted them. Following the doubling of the IMF's quotas, the NAB will be rolled back from around SDR 370 billion to about SDR 182 billion. Luxembourg's participation in the NAB will be reduced from SDR 970.59 million to SDR 493.1 million.

Activities at the level of the IILM

The International Islamic Liquidity Management Corporation (IILM) is an international institution created in October 2010 by twelve central banks and two multilateral organisations from Asia and Africa.

The BCL co-established this organisation in order to participate in the creation of short-term sharia-compliant financial securities, thus facilitating the cross-border management of liquid assets of institutions offering sharia-compliant financial services and, more generally, contributing to the strengthening of financial stability. The BCL Governor was appointed Vice-president of the IILM's Governing Board, the IILM's main decision-making body. The Governing Board is responsible for defining the strategic vision and for the approval of the operational guidelines for the IILM's development.

In this context, the BCL Governor participated in the Board meetings and in the General Meeting that took place in the course of 2012.

Activities at the level of the Bank for International Settlements (BIS)

In 2011, the BCL became a member of the BIS, according to article 8.3 of the statutes of the BIS.

Established in 1930, the BIS, which has its headquarters in Basel, is the oldest international financial institution. It promotes the cooperation between central banks, notably by the regular organisation of high-level meetings including the governors of central banks and experts. It also contributed to the establishment of international standards in banking areas. The BIS has at present about sixty members from advanced and emerging countries.

The BCL is closely associated with the activities of the various committees and working groups of the BIS. Besides its participation in the Committee on the Global Financial System (CGFS) and in the Annual General Meeting of the BIS, the BCL is also represented by its Governor in the meeting on the world economy (Global economy meeting) and in the meeting of governors (Governors' meeting), which both take place once every two months in Basel.

In 2012, the discussions that took place in the framework of BIS meetings addressed the economic and financial crisis and the global financial system, as well as the definition and use of macro-prudential instruments and the enhancement of the BIS' international banking statistics.

Activities at the level of the Financial Stability Board (FSB)

The Financial Stability Board was established in 2009 in order to coordinate the work of national financial authorities and the organisations that elaborate standards in the field of financial stability. It consists of three committees which are dedicated respectively to the assessment of vulnerabilities, cooperation in supervisory and regulatory matters and the implementation of standards.

With regard to the FSB's work related to financial system vulnerabilities and measures aiming at enhancing financial stability, the FSB has set up since 2011 so-called 'Regional Consultative Groups' (RCG) which allow exchanges of views between financial sector authorities from FSB member and FSB non-member jurisdictions. The Governor of the BCL, who was elected at the end of 2011 as co-chairman of the RCG for Europe by the non members of the FSB, co-chaired the meetings of this group in 2012 and also attended, in his quality of co-chairman, the plenary meetings of the FSB, which were held in May in Hong Kong and in October in Tokyo, in the margins of the IMF and World Bank Annual Meetings. These meetings addressed the vulnerabilities of the financial system as well as the G20's work programme in this regard and the implementation and follow-up of the Basel standards and the recommendations targeting shadow banking activities.

Participation in seminars or high-level conferences

- Participation of the BCL Governor in the 4th *Welt-Wirtschaftsgipfel* in Berlin on 11 January. This fourth summit, jointly organised by the press group *Die Welt* and Axel Springer S.A, reunited, in the framework of non public sessions, leading actors of the economic and political world in a manner that permitted a frank and confidential dialogue, in the context of the euro area sovereign debt crisis. Around 50 people were present; with such names as Chancellor Dr. Angela Merkel, the Minister of finance Dr. Wolfgang Schäuble as well as other members of the German government and the President of the World Bank, Robert B. Zoellick. Mr. Mersch addressed the subject: 'The Euro in the crisis: risks, solutions and strategies'.

- Participation of the BCL Governor in a round table, on 24 October in Berlin, concerning the subject *Leistungsfähige Finanzplätze - Politk und Banken in gemeinsamer Verantowortung* at the main headquarters of *Bankenverband*.

- Participation of the BCL Governor, upon invitation by Mr. Rundheersing Bheenick, Governor of the Central Bank of Mauritius, in the 19th Conference of French-speaking central banks, from 23 to 26 May, on the topic: Central banks: new role, new missions in a world economy undergoing major changes. Mr. Mersch delivered a short speech on the euro crisis and its impact on the rest of the world, notably the French-speaking countries.

- Participation of the BCL Governor, from 12 to 13 July, in the High-Level Eurosystem Seminar with Mediterranean Countries' Central Banks which was held in Casablanca. The subjects discussed essentially concerned economic and financial developments in the Mediterranean countries of the euro area and on the monetary policy implementation, macro-prudential policies as well as financial stability.

- Participation of the BCL Governor, from 30 August to 1 September, in the symposium organised by the Federal Reserve of Kansas City in Jackson Hole, United States. This worldwide famous event has taken place every year since 1978 and regroups central bankers and other high-level personalities of the economic, financial and academic world, in order to discuss current economic issues. In 2012, the discussions focused on the following subject: 'The Changing Policy Landscape'.

- Speech by the BCL Governor, on 23 October, on the occasion of the session entitled '*Europa und der Euro-ein Währungsraum mit Zukunft?*' (Europe and the euro – a currency area with a future?) in the context of the 6th *Deutscher Maschinenbau Gipfel* organised in Berlin, alongside Dr. Wolfgang Schäuble, Federal minister of finance and of Mr. Torsten Hinrichs, Managing Director of Standard & Poor's Credit Market Services Europe Ltd.

1.11.2.2 Bilateral relations

The BCL Governor signed a Memorandum of Understanding with Mr. Abdellatif Jouahri, Governor of the Central Bank of Morocco, on 12 July, in the margins of the High-Level Eurosystem Seminar with Mediterranean Countries' Central Banks which took place in Casablanca from 12 to 14 July. The agreement concerned the cooperation between both institutions in the fields of technical assistance and training.

02

THE BCL AS AN ORGANISATION

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

EXECUTIVE BOARD		
	Heads of General Departments	
Internal Audit and Risk Prevention Internal Audit Section Risk Prevention Section	**Economics and Research Department** Business Cycle Section Research Section	**Financial Stability and Prudential Surveillance Department** **Financial Stability Division** Financial Stability Section **Prudential Surveillance and Oversight Division** Liquidity Surveillance Section Oversight Section
Financial Risk and Collateral Management Division Financial Risk Management Section Collateral Management Section	**Statistics Department** Banking and Monetary Statistics Section External Statistics Section Economical and Financial Statistics Section	**Internal Finance and Strategy Department**
General Secretariat Governor's Office Section Legal Services Section External Relations and Communication Section	**Operations Department** Monetary Policy Implementation Section Front Office - Asset Management Section Back Office Section Payments Section	**Human Resources Department**
Eurosystem Procurement Co-ordination Office	**Currency and Numismatics Department** Currency Operations Section Currency Handling Control Section Numismatics Section	**Information Technology Department** Infrastructure Section Software and Development Section Planning and Support Section
Infrastructures and Payment Systems Section		**Corporate Services Department** Procurement Section Facilities Section Security Section

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.

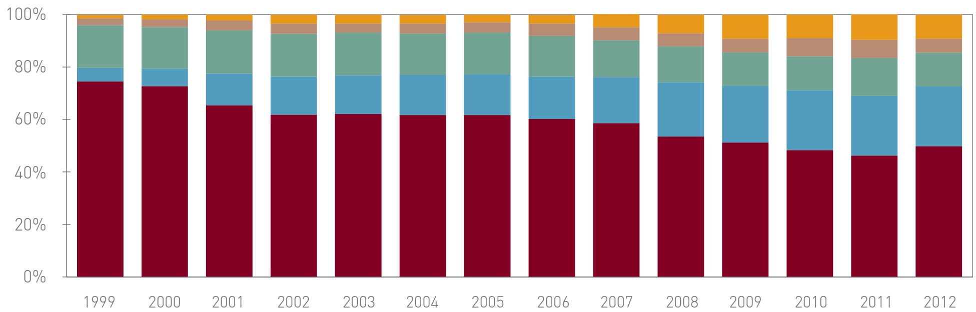
The average number of staff members working at the BCL in 2012 was 291.50 persons or 276.60 full-time equivalents (FTE).

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.

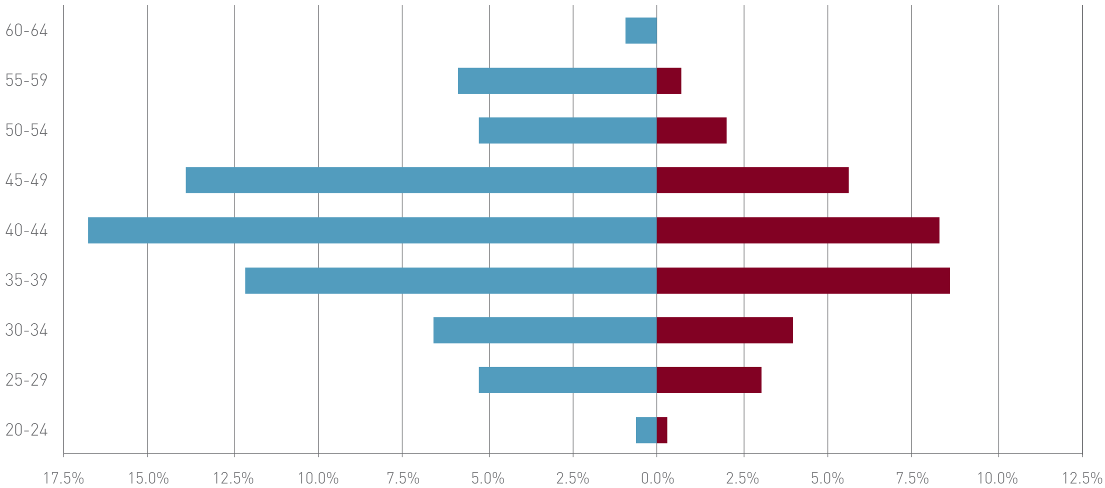
Furthermore, the BCL proposed summer internships to 12 students following university studies in connection with the activities of the Bank of a duration of six weeks to two months. 6 students were welcomed within the framework of a subsidised internship.

Graph 1:
Staff members by nationality

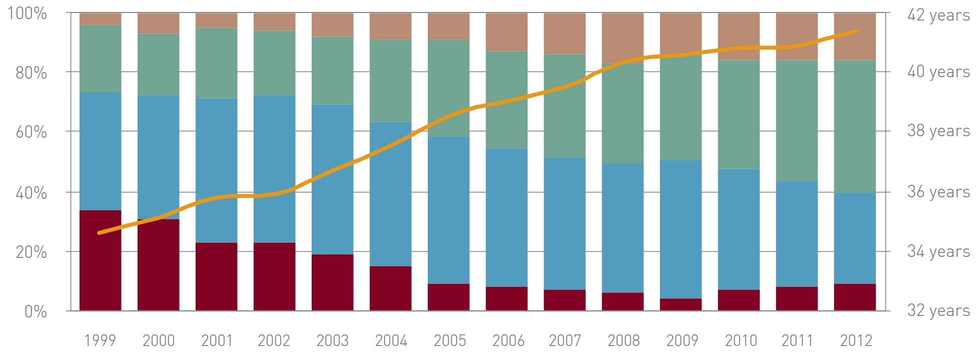


	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Others	1.3%	1.8%	2.2%	3.4%	3.4%	3.3%	2.9%	3.3%	5.0%	7.1%	9.2%	8.9%	9.7%	9.2%
D	2.6%	3.0%	3.8%	3.9%	3.4%	3.8%	3.9%	4.7%	5.0%	5.0%	5.2%	7.0%	6.9%	5.3%
B	16.3%	15.8%	16.5%	16.4%	16.3%	15.8%	16.0%	15.6%	14.0%	13.7%	12.8%	12.9%	14.5%	12.9%
F	5.2%	6.7%	12.1%	14.5%	14.8%	15.3%	15.5%	16.1%	17.6%	20.7%	21.6%	22.9%	22.8%	22.8%
L	74.5%	72.7%	65.4%	61.8%	62.1%	61.7%	61.7%	60.2%	58.6%	53.5%	51.2%	48.3%	46.2%	49.8%

Graph 2:
Distribution of staff members per age group

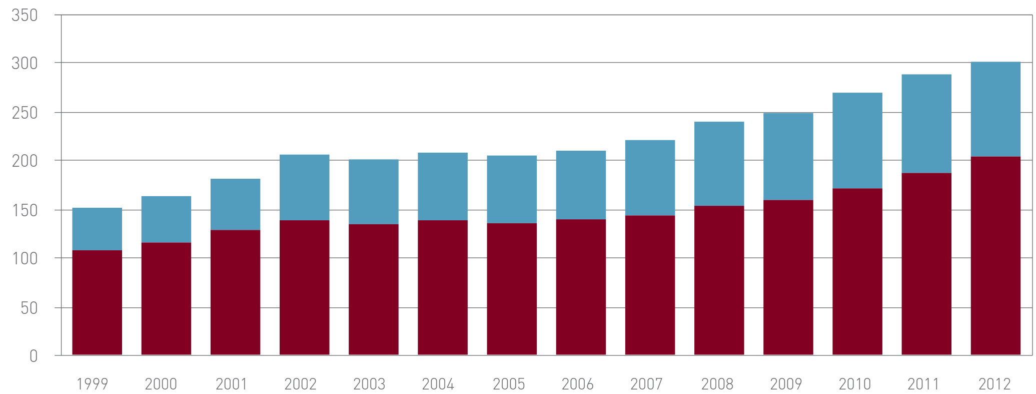


Graph 3:
Evolution of the average age of staff members



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

Graph 4:
Evolution in staff members



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

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1 In 2012, the EPCO Central Banks were, in addition to the Eurosystem Central Banks, the Central Bank of Romania (Banca Naţională 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.

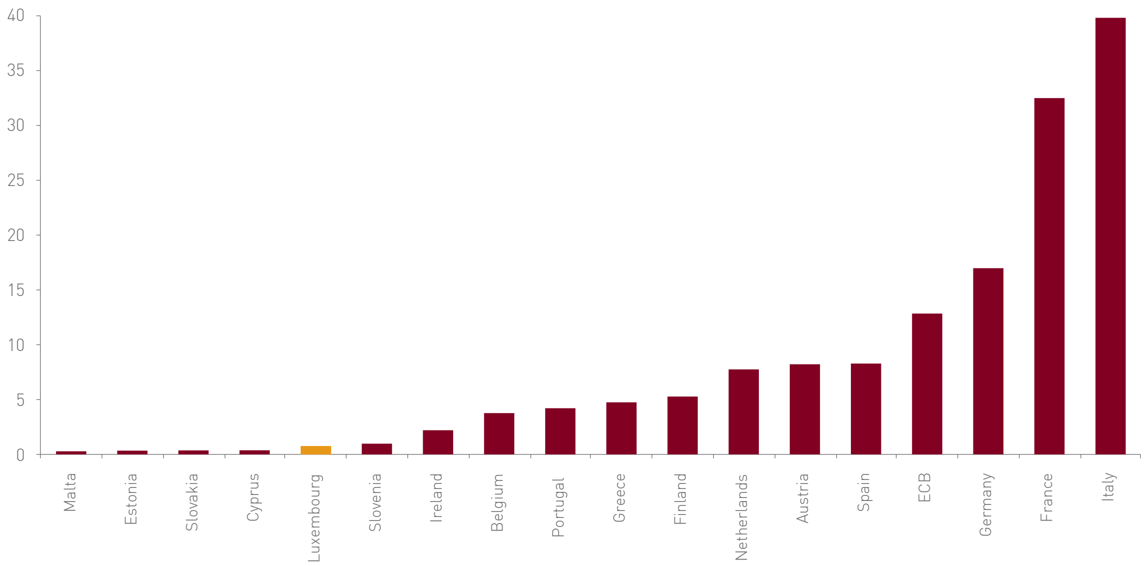
2.6.1 Key figures as of year-end (in euro)

	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%	

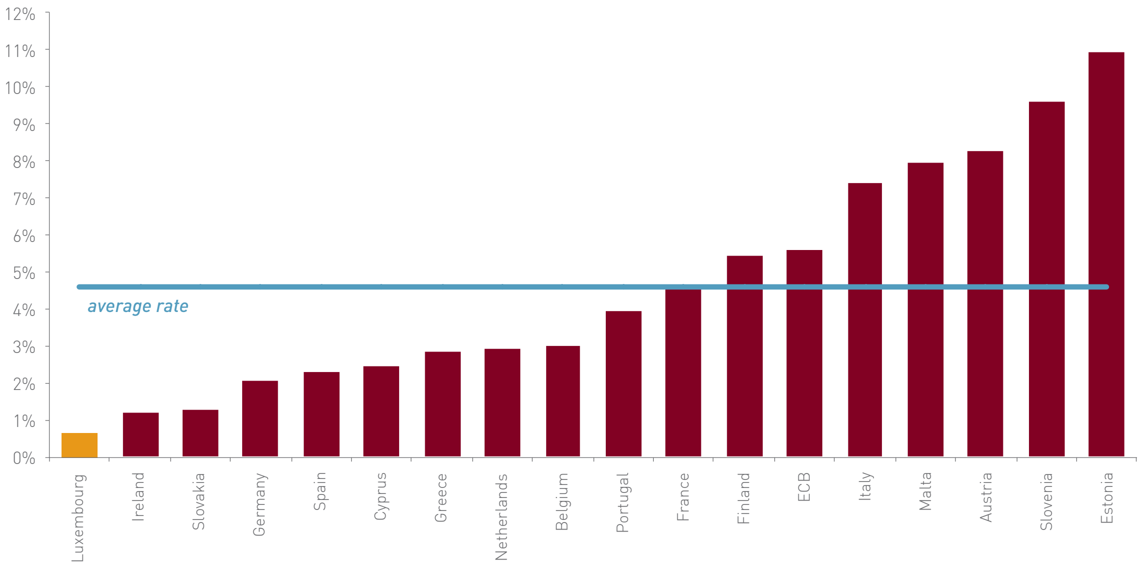
[1] Capital, reserves, provisions for general banking risks and net profit to be allocated to the reserves
[2] Net ajusted interest income, net result from fees and commissions, net result on financial operations
[3] Net profit plus depreciation of tangible / intangible assets and write-downs on financial 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 Naţională 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 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 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.

03 ANNEXES

3
ANNEXES

1 LIST OF BCL REGULATIONS PUBLISHED IN 2012

2012/N°13 of 9 November 2012

Regulation 2012/N°13 of 9 November 2012 implementing the Guideline of the European Central Bank of 10 October 2012 amending Guideline ECB/2012/18 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2012/23).

Domain: Monetary policy

2012/N°12 of 12 September 2012

Regulation 2012/N°12 of 12 September 2012 implementing the Guideline of the European Central Bank of 2 August 2012 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9 (ECB/2012/18).

Domain: Monetary policy

2012/N°11 of 10 July 2012

Regulation 2012/N°11 of 10 July 2012 relating to the surveillance of central counterparties and of trade repositories in Luxembourg, amending the modified BCL regulation 2012/N°6 of 8 September 2010 relating to the surveillance of the payment system, securities settlement system as well as the instruments of payment in Luxembourg.

Domain: Oversight

For a complete list of regulations published by the Banque centrale du Luxembourg, please visit the BCL's website (www.bcl.lu).

2 LIST OF BCL CIRCULARS PUBLISHED IN 2012

Circular n°230 of 29 June 2012

Lending in foreign currencies - to all credit institutions, investment firms and professionals carrying on lending operations.

Circular n°229 of 29 June 2012

US dollar denominated funding of credit institutions - to all credit institutions.

For a complete list of circulars published by the Banque centrale du Luxembourg, please visit the BCL's website (www.bcl.lu).

3 LIST OF BCL PUBLICATIONS PUBLISHED IN 2012

3.1 BCL bulletins

- BCL Bulletin 2012/4, December 2012
- BCL Bulletin 2012/3, September 2012
- BCL Bulletin 2012/2, June 2012
- Financial Stability Review, April 2012
- BCL Bulletin 2012/1, March 2012

For a complete list of bulletins published by the BCL, please visit the BCL's website (www.bcl.lu).

3.2 BCL annual report

- Rapport annuel 2011, April 2012
- Annual Report 2011, July 2012

For a complete list of annual reports published by the BCL, please visit the BCL's website (www.bcl.lu).

3.3 BCL working papers

- Working paper n°80, October 2012
  The Determinants of Short Term Funding in Luxembourgish Banks, by Dirk Mevis

- Working paper n°79, October 2012
  An empirical study on the impact of Basel III standards on banks' default risk: the case of Luxembourg, by Gaston Giordana and Ingmar Schumacher

- Working paper n°78, October 2012
  Income, wealth and consumption of cross-border commuters to Luxembourg, by Thomas Mathä, Alessandro Porpiglia and Michael Ziegelmeyer

- Working paper n°77, October 2012
  Macroeconomic Conditions and Leverage in Monetary Financial Institutions: Comparing European countries and Luxembourg, by Gaston Giordana and Ingmar Schumacher

- Working paper n°76, July 2012
  LOLA 2.0: Luxembourg OverLapping generation model for policy Analysis, by Luca Marchiori and Olivier Pierrard

- Working paper n°75, June 2012
  An Early-warning and Dynamic Forecasting Framework of Default Probabilities, by Xisong Jin and Francisco Nadal De Simone

- Working Paper n°74, July 2012
  Backing out of private pension provision - Lessons from Germany, by Michael Ziegelmeyer and Julius Nick

- Working Paper n°73, May 2012
  The Luxembourg household finance and consumption survey (LU-HFCS): Introduction and results, by Thomas Y. Mathä, Alessandro Porpiglia and Michael Ziegelmeyer

- Working Paper n°72, March 2012
  A financial accounting matrix (SAM) for Luxembourg, by Amela Hubic

- Working Paper n°71, March 2012
  Macro-financial linkages: Evidence from country-specific VARs, by Paolo Guarda and Philippe Jeanfils

For a complete list of Working Papers published by the BCL, please visit the BCL's website (www.bcl.lu).

3.4 BCL brochures

Brochure of the BCL's numismatic products, edition 2012.

3.5 Information material about the security features of Euro banknotes and coins

For a complete list of the information material concerning the security features of banknotes and coins, please visit the BCL's website (www.bcl.lu).

3.6 Publications and external presentations of the BCL Staff

3.6.1 External publications of the BCL's staff members

- D. De la Croix, O. Pierrard and H. Sneessens (2012): Ageing and Pensions in Gernal Equilibrium: Labour Market Imperfections Matter. Forthcoming in Journal of Economic Dynamics and Control

- Ph. Du Caju, C. Fuss and L. Wintr (2012): Sectoral differences in downward real wage rigidity: workforce composition, institutions, technology and competition. Journal for Labour Market Research, 45(1):7-22.

- Ph. Du Caju, C. Fuss and L. Wintr (2012): Downward wage rigidity for different workers and firms. Brussels Economic Review 55 (1):

- D. Igan, N. Tamirisa, A. Kabundi, F. Nadal de Simone, M. Pinheiro (2011): Housing, Credit, and Real Activity Cycles: Characteristics and Comovements. Journal of Housing Economics 20(3): 210-231

- A. Kabundi and F. Nadal De Simone (2011): France in the global economy: a structural approximate dynamic factor model analysis. Empricial Economics 41 (2): 311-342

- A. Kabundi And F. Nadal De Simone (2012): Recent French relative export performance: Is there a competitiveness problem? Economic Modeling 29: 1408-1435

- L. Marchiori, I-L. Shen and F. Docquier (2012): Brain Drain in Globalization: A General Equilibrium Analysis from the Sending Countries' Perspective, Economic Inquiry, forthcoming.

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3.6.2 External presentations

- Seminar on 'Best Practices in Forecasting Public Revenues' (Ministry of Finance and Statec), Luxembourg, January 2012
- Lunchtime Seminar, University of Luxembourg, February 2012
- Technical Seminar of the OECD, concerning inequality and social mobility (Ministry of economy and external trade), April 2012
- EUI-nomics, European University Institute, Florence, Italy, April 2012
- Annual meeting of the Austrian Economic Association, Vienna, Austria, May 2012
- Workshop on 'Taxing Cross-Border Commuters: Öresund and Beyond', Uppsala, Sweden, May 2012
- Annual conference of the Swedish Network for European Studies in Economics and Business (SNEE), Mölle, Sweden, May 2012
- Macro-prudential Research Network (MaRs), conference of workstream 1, Frankfurt, May 2012
- RETEL Conference (Network Research on the Labour Market and Employment), Mondorf, May 2012
- ESCB Seminar to prepare the surveillance reports of the ECB, Frankfurt, European Central Bank, June 2012
- Conference on 'Demographic Trends, Saving and Retirement Security: Stylized Facts and Behavioral Responses', Munich, June 2012
- 7th European Workshop on Labour Markets and Demographic Change, St.Gall University, Switzerland, August 2012
- Presentation to the working group on econometric modeling, European Central Bank. September 2012
- Central Bank Macroeconomic Modeling Workshop on 'Modeling Imbalances', Warsaw, September 2012
- Presentation to the working group on forecasting, European Central Bank, Frankfurt, September 2012
- Short and medium term impacts of the structural reforms and their implications on macroeconomic projections, workshop of the working group on forecasting, European Central Bank, Frankfurt, October 2012
- Conference of CEPR/Euro Area Business Cycle Network conference on 'Disaggregating the Business Cycle' Luxembourg, October 2012

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5 MONETARY, ECONOMIC AND FINANCIAL STATISTICS PUBLISHED ON THE WEBSITE OF THE BCL (WWW.BCL.LU)

1 Monetary policy statistics

1.1 Financial statement of the BCL

1.2 Luxembourg minimum reserve statistics

2 Monetary and financial developments in the euro area and Luxembourg

2.1 Aggregated balance sheet of the Luxembourg MFIs (excluding the Banque centrale du Luxembourg)

2.2 Liabilities of Luxembourg's MFIs included in the euro area monetary aggregates

3 Capital markets and interest rates

3.1 Luxembourg bank interest rates on euro-denominated deposits and loans by euro area residents - new contracts

3.2 Luxembourg bank interest rates on euro-denominated deposits and loans by euro area residents - outstanding amounts

3.3 Money market interest rates

3.4 Government bond yields

3.5 Stock market indices

3.6 Exchange rates

4 Developments of prices and costs in Luxembourg

4.1 Developments in the Harmonised Index of Consumer Prices (HICP) and the National Index of Consumer Prices in Luxembourg (NCIP)

4.2 Industrial goods and commodity prices

4.3 Costs indicators and terms of trade

5 Luxembourg real economy indicators

5.1 GDP at market prices and its components (ESA95 version)

5.2 Selected other real economy indicators

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6 LIST OF ABREVIATIONS

ABBL	Association des Banques et Banquiers, Luxembourg
EBA	European Banking Authority
ATTF	Agence de transfert de technologie financière *(Luxembourg Agency for the Transfer of Financial Technology)*
ECB	European Central Bank
BCL	Banque centrale du Luxembourg
BIS	Bank for International Settlement
CCBM	Correspondent Central Banking Model
CETREL	Centre des transferts électroniques Luxembourg *(Center for Electronic Transfers Luxembourg)*
CSSF	Commission de surveillance du secteur financier
EFC	Economic and Financial Committee
EFSF	European Financial Stability Facility
EIB	European Investment Bank
EMU	Economic and Monetary Union
ESA 95	European System of Accounts
ESCB	European System of Central Banks
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
EU	European Union
EUROSTAT	Statistical office of the European communities
FSB	Financial Stability Board

GDP	Gross Domestic Product
IILM	International Islamic Liquidity Management Corporation
IMF	International Monetary Fund
LFF	Luxembourg for Finance
LSF	Luxembourg School of Finance
LU	Luxembourg
NCB	National Central Banks
OECD	Organisation for Economic Cooperation and Development
SDR	Special Drawing Rights
SSM	Single Supervisory Mechanism
SSS	Securities settlement system
STATEC	Institut national de la statistique et des études économiques *(National Institute for Statistics and Economic Studies)*
Target System	Trans-European Automated Real-time Gross settlement EXPRESS Transfer system
TFUE	Treaty on the Functioning of the European Union
UCI	Undertaking for Collective Investments
UCITS	Undertaking for Collective Investments in Transferable Securities
USD	US Dollar

7 GLOSSARY

Balance of payments (b.o.p.): a statistical statement that summarises, for a specific period of time, the economic transactions of an economy with the rest of the word. The transactions considered are those involving goods, services and incomes; those involving financial claims on, and liabilities to, the rest of the world; and those (such as debt forgiveness) that are classified as transfers.

Central Counterparty: an entity that interposes itself between the counterparties to the contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer.

Central securities depository (CSD): an entity that (i) enables securities transactions to be processed and settled by book entry, and (ii) provides custodial services (e.g. the administration of corporate actions and redemptions), and (iii) plays an active role in ensuring the integrity of securities issues. Securities can be held in physical (but immobilisd) form or in a dematerialised form (whereby they exist only as electronic records).

Collateral: assets pledged or otherwise transferred (e.g. by credit institutions to central banks) as a guarantee for the repayment of loans, as well as assets sold (e.g. by credit institutions to central banks) under repurchase agreements.

Consolidated balance sheet of the MFI sector: a balance sheet obtained by netting out inter-MFI positions (e.g inter-MFI loans and deposits) in the aggregated MFI balance sheet. It provides statistical information on the MFI sector's assets and liabilities vis-à-vis residents of the euro area not belonging to this sector (i.e. the general government and other euro area residents) and vis-à-vis non-euro area residents. It is the main statistical source for the calculation of monetary aggregates, and it provides the basis for the regular analysis of the counterparts of M3.

Correspondent central banking model (CCBM): a mechanism established by the European System of Central Banks with the aim of enabling counterparties to use eligible collateral on a cross-border basis. In the CCBM, NCBs act as custodians for one another. Each NCB has a securities account in its securities administration for each of the other NCBs (and for the European Central Bank).

Council of the European Union: the institution of the EU made up of representatives of the governments of the EU Member States, normally ministers responsible for the matters under consideration and the relevant European Commissioner (see also ECOFIN Council).

Counterparty: the opposite party in a financial transaction (e.g. any party transacting with a central bank).

Covered bond purchase programme (CBPP): an ECB programme, based on the decision of the Governing Council of 7 May 2009 to purchase euro-denominated covered bonds issued in the euro area, in support of a specific financial market segment that is important for the funding of banks and was particularly affected by the financial crisis. The purchases under the programme were for a nominal value of 60 billion euro, and they were fully implemented by 30 June 2010. On 6 October 2011 the Governing Council decided to launch a second covered bond purchase programme, the CBPP2. This programme allowed the Eurosystem to purchase euro-denominated covered bonds issued in the euro area for an intended nominal value of 40 billion euro. The purchases were conducted in both the primary and secondary markets from November 2011 until the end of October 2012, with the purchases totaling a nominal amount of 16.418 billion euro.

Credit institution: 1) an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account; or 2) an undertaking or any other legal person, other than those under (1), which issues means of payment in the form of electronic money. The most common types of credit institutions are banks and saving banks. See also electronic money (e-money).

Economic analysis: One pillar of the European Central Bank's framework for conducting a comprehensive analysis of the risks to price stability, which forms the basis for the Governing Council's monetary policy decisions. The economic analysis focuses mainly on the assessment of current economic and financial developments and the implied short to medium-term risks to price stability from the perspective of the interplay between supply and demand in goods, services and factor markets at those horizons. Due attention is paid to the need to identify the nature of schools affecting the economy, their effects on cost and pricing behaviour, and the short to medium-term prospects for their propagation in the economy (see also monetary analysis).

Economic and Monetary Union (EMU): the process that led to the single currency, the euro, and the single monetary policy in the euro area, as well as to the coordination of the economic policies of the EU Member States. This process, as laid down in the Treaty, took place in three stages. Stage Three, the final stage, started on 1 January 1999 with the transfer of monetary competence to the European Central Bank and the introduction of the euro. The cash changeover on 1 January 2002 completed the process of setting up EMU.

ECOFIN Council: Council of the European Union reuniting/meeting at the level of the ministers of economics and finance.

Economic and Financial Committee (EFC): a committee which contributes to the preparation of the work of the ECOFIN Council and the European Commission. Its tasks include reviewing the economic and financial situation of both Member States and the EU, and contributing to budgetary surveillance.

Electronic money (e-money): An electronic store of monetary value on a technical device that may be widely used as prepaid bearer instrument for making payments to undertakings other than the issuer, without necessarily involving bank accounts in the transactions.

EONIA (euro overnight index average): a measure of the effective interest rate prevailing in the euro interbank overnight market. It is calculated as a weighted average of the interest rates on unsecured overnight lending transactions denominated in euro, as reported by a panel of contributing banks.

EURIBOR (euro interbank offered rate): the rate at which a prime bank is willing to lend funds in euro to another prime bank, as reported by a panel of contributing banks, computed daily for interbank deposits with different maturities of up to 12 months.

ERM II (exchange rate mechanism II): the exchange rate mechanism which provides the framework for exchange rate policy cooperation between the euro area countries and the non-euro area EU Member States. ERM II is a multilateral arrangement with fixed, but adjustable, central rates and a standard fluctuation band of 15%. Decisions concerning central rates and, possibly, narrower fluctuation bands are taken by mutual agreement between the EU Member State concerned, the euro area countries, the ECB and the other EU Member States participating in the mechanism. All participants in ERM II, including the ECB, have the right to initiate a confidential procedure aimed at changing the central rates (realignment).

Euro: The name of the European single currency adopted by the European council at its meeting in Madrid on 15 and 16 December 1995 and used instead of the term ECU originally employed in the Treaty.

Euro area: the area encompassing those Member States which have adopted the euro as the single currency in accordance with the Treaty and in which a single monetary policy is conducted under the responsibility of the Governing Council of the European Central Bank. The euro area currently comprises Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

Eurogroup: an informal gathering of the ministers of economy and finance of the EU Member States whose currency is the euro.

European Central Bank (ECB): the ECB lies at the centre of the Eurosystem and the European System of Central Banks (ESCB) and has its own legal personality in accordance with the Treaty (ARTICLE 282(3)). It ensures that the tasks conferred upon the Eurosystem and the ESCB are implemented either though its own activities or through those of the NCBs, pursuant to the Statute of the ESCB. The ECB is governed by the Governing Council and the Executive Board, and, as a third decision-making body, by the General Council.

European Financial Stabilisation Mechanism (EFSM): an EU facility, based on Article 122(2) of the Treaty, that allows the European Commission to raise up to € 69 billion on behalf of the EU for lending to EU Member States experiencing, or being threatened with, exceptional circumstances beyond their control. EFSM lending is subject to strong conditionality in the context of joint EU-IMF programmes.

European Financial Stability Facility (EFSF): a limited liability company established by the euro area counterparties, on an intergovernmental basis, for the purpose of providing loans to the euro area countries in financial difficulties. Such financial assistance is subject to strong conditionality in the context of joint EU-IMF programmes. The EFSF has an effective lending capacity of € 440 billion, and its loans are financed through the issuance of debt securities, guaranteed by euro area countries on a pro rata basis.

European Monetary Institute (EMI): A temporary institution established at the start of stage two of Economic and Monetary Union on 1 January 1994. The two main tasks of the EMI were to strengthen central bank cooperation and monetary policy coordination and to make the preparations required for establishment of the European System of Central Banks, for the conduct of the single monetary policy and for the creation of a single currency in stage three. It went into liquidation upon the establishment of the European Central Bank on 1 June 1998.

European Stability Mechanism (ESM): an intergovernmental organisation established by the euro area countries on the basis of the Treaty establishing the European Stability Mechanism. It is a permanent crisis management mechanism for the euro area which issues debt instruments in order to finance loans and other forms of financial assistance to euro area countries. The ESM entered into force on 8 October 2012. It has an effective lending capacity of € 500 billion and will replace both the European Financial Stability Facility and the European Financial Stabilisation Mechanism. ESM lending is subject to strict conditionality.

European System of Central Banks (ESCB): composed of the European Central Bank (ECB) and the NCBs of all 28 EU Member States, i.e. it includes, in addition to the members of the Eurosystem, the NCBs of those Member States whose currency is not the euro. The ESCB is governed by the Governing Council and the Executive Board of the ECB, and, as a third decision-making body of the ECB, by the General Council.

European Systemic Risk Board (ESRB): an independent EU body responsible for the macro-prudential oversight of the financial system within the EU. It contributes to the prevention or mitigation of systemic risks to financial stability that arise from developments within the financial system, taking into account macroeconomic developments, so as to avoid periods of widespread financial distress.

Eurosystem: the central banking system of the euro area. It comprises the European Central Bank and the NCBs of the Member States that have adopted the euro.

Eurosystem's international reserves: These comprise the reserve assets of the European Central Bank (ECB) and the reserve assets held by the national central banks (NCBs) of the participating Member States. Reserve assets must 1) be under the effective control of the relevant monetary authority, whether the ECB or the NCB of one of the participating Member States, and 2) comprise highly liquid, marketable and credit-worthy foreign (i.e. non-euro) currency-denominated claims on non-euro area residents, plus gold, special drawing rights and the reserve positions in the International Monetary Fund of the participating NCBs.

Executive Board: one of the decision-making bodies of the ECB. It comprises the President and the Vice-President of the ECB and four other members appointed by the European Council, acting by a qualified majority, on a recommendation from the EU Council, after it has consulted the European Parliament and the ECB.

Fiduciary money: banknotes and coins having the status of legal tender.

Financial stability: condition in which the financial system - comprising financial intermediaries, markets and market infrastructures - is capable of with standing shocks and the unraveling of financial imbalances, thereby mitigating the likelihood of disruptions in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities.

Fine-tuning operation: an open market operation executed by the Eurosystem in order to deal with unexpected liquidity fluctuations in the market. The frequency and maturity of fine-tuning operations are not standardised.

Foreign exchange swap: Simultaneous spot and forward transactions exchanging one currency against another. The Eurosystem can execute open market operations in the form of foreign exchange swaps, where the national central banks)or the European central bank) buy or sell Euro spot against a foreign currency and, at the same time, sell or buy them back in forward transaction.

General council: one of the decision-making bodies of the European Central Bank (ECB). It comprises the President and the Vice-President of the ECB and the governors of all the NCBs of the European System of Central Banks.

Governing Council: supreme decision-making body of the European Central Bank (ECB). It comprises all the members of the Executive Board of the ECB and the governors of the NCBs of the Member States that have adopted the euro.

Harmonised index of the consumer prices (HICP): a measure of the development of consumer prices that is compiled by Eurostat and harmonised for all EU Member states.

Key ECB interest rates: the interest rates, set by the Governing Council, which reflect the monetary policy stance of the European Central Bank. They are the rates on the main refinancing operations, the marginal lending facility and the deposit facility.

Longer-term refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a monthly standard tender and normally have a maturity of three months. During the financial market turmoil that started in August 2007, supplementary operations with maturities ranging from one maintenance period to one year were conducted, the frequency of which varied.

Main refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a weekly standard tender and normally have a maturity of one week.

MFIs (monetary financial institutions): financial institutions which together form the money issuing sector of the euro area. These include the Eurosystem, resident credit institutions (as defined in Community law) and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credit and/or invest in securities. The latter group consists predominantly of money market funds.

M1, M2, M3: cf. **monetary aggregates**

Monetary aggregates: Currency in circulation, plus outstanding amounts of certain liabilities of monetary financial institutions and central governments that have a relatively high degree of liquidity and are held by non-MFI euro area residents outside the central government sector. The narrow monetary aggregate M1 has been defined as currency in circulation plus overnight deposits. The 'intermediate' monetary aggregate M2 comprises of M1 plus deposits with agreed maturity of up to two years and deposits redeemable at notice of up to three months. The broad monetary aggregate M3 includes M2 plus repurchase agreements, money market funds shares and units, money market paper and debt securities with a maturity of up to two years. In October 1998, the Governing Council announced a reference value for the growth of M3, which it has since reformed (see also reference value for monetary growth).

Monetary analysis: one pillar of the European Central Bank's framework for conducting a comprehensive analysis of the risks to price stability, which forms the basis for the Governing Council's monetary policy decisions. The monetary analysis helps to assess medium to long-term trends in inflation, in view of the close relationship between money and prices over extended horizons. The monetary analysis takes into account developments in a wide range of monetary indicators including M3, its components and counter-parts, notably credit, and various measures of excess liquidity (see also economic analysis).

Open market operation: an operation executed on the initiative of the central banking the financial market. With regard to their aims, regularity and procedures, Eurosystem open market operations can be divided into four categories: main refinancing operations; longer-term refinancing operations; fine-tuning operations; and structural operations. As for the instruments used, reverse transactions are the main open market instrument of the Eurosystem and can be employed in all four categories of operation. In addition, the issuance of debt certificates and outrights transactions are available for structural operations, while outright transactions, foreign exchange swaps and the collection of fixed-term deposits are available for the conduct of fine-tuning operations.

Outright Monetary Transactions (OMTs): transactions that aim to safeguard an appropriate monetary policy transmission and the singleness of the monetary policy in the euro area through purchases of euro area government bonds in the secondary market based on strict and effective conditionality.

Outright transaction: A transaction whereby assets are bought or sold up to their maturity (sport or forward).

Price Stability: the maintenance of price stability is the primary objective of the Eurosystem. The Governing Council defines price stability as a year-on-year increase in the Harmonised Index of Consumer Prices for the euro area below 2%. The Governing Council has also made it clear that, in the pursuit of price stability, it aims to maintain inflation rates below, but close to 2% over the medium term.

Real-time gross settlement (RTGS) system: a settlement system in which processing and settlement take place on a transaction-by transaction basis in real time (see also TARGET).

Reference value for M3 growth: the annual growth rate of M3 over the medium term that is consistent with the maintenance of price stability. At present, the reference value for annual M3 growth is 4.5%.

Reserve base: the sum of the eligible balance sheet items (in particular liabilities) that constitute the basis for calculating the reserve requirement of a credit institution.

Reserve ratio: the ratio defined by the central bank for each category of eligible balance sheet items included in the reserve base. The ratio is used to calculate reserve requirements.

Reserve requirement: the minimum amount of reserves a credit institution is required to hold with the Eurosystem over a predefined maintenance period. Compliance with the requirement is determined on the basis of the average of the daily balances in the reserve accounts over the maintenance period.

Reverse transaction: an operation whereby the central bank buys or sells assets under a repurchase agreement or conducts credit operations against collateral.

Securities Markets Programme (SMP): a programme for conducting interventions in the euro area public and private debt securities markets to ensure depth and liquidity in dysfunctional market segments with a view to restoring an appropriate monetary policy transmission mechanism. The SMP was terminated when the technical features of the Outright Monetary Transactions were announced on 6 September 2012.

Securities settlement system (SSS): a system which allows the transfer of securities, either free of payment or against payment (delivery versus payment).

Stability and Growth Pact: intended to serve as means of safeguarding sound government finances in Stage Three of Economic and Monetary Union in order to strengthen the conditions for price stability and for strong, sustainable growth conducive to employment creation. To this end, the Pact prescribes that Member States specify medium-term budgetary objectives. It also contains concrete specifications on the excessive deficit procedure. The Pact consists of the Resolution of the Amsterdam European Council of 17 June 1997 on the Stability and Growth Pact and two Council Regulations, namely i) Regulation (EC) n 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies as amended by Regulation (EC) n 1055/2005 of 27 June 2005 and ii) Regulation (EC) n 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure as amended by Regulation (EC) n 1056/2005 of 27 June 2005 - The Stability and Growth Pact is complemented by the ECOFIN Council's report entitled 'Improving the implementation of the Stability and Growth Pact', which was endorsed by the Brussels European Council of 22 and 23 March 2005. It is also complemented by the new Code of Conduct entitled 'Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of stability and convergence programs', which was endorsed by the ECOFIN Council on 11 October 2005.

Systemic Risk: the risk that the inability of one participant to meet its obligations in a system will abuse other participants to be unable to meet their obligations when due, with possible spillover effects such as significant liquidity or credit problems that may threaten the stability of the financial system. Such inability may be caused by operational or financial problems.

TARGET2: the second-generation TARGET system. It settles payments in euro in central bank money and functions on the basis of a single shared IT platform, to which all payment orders are submitted for processing.

TARGET2-Securtities (T2S): the Eurosystem's single technical platform enabling central securities depositories and NCBs to provide core, borderless and neutral securities settlement services in central bank money in Europe.

Treaty on the Functioning of the European Union (TFEU): Following entry into force of the Treaty of Lisbon on 1 December 2009, the Treaty establishing the European Community was renamed the Treaty on the Functioning of the European Union (TFEU). This Treaty - referred to as the Treaty of Rome (signed in Rome on 25 March 1957) - entered into force on 1 January 1958 to establish the European Economic Community (EEC). The Treaty establishing the European Community was subsequently amended by the Treaty on European Union (often referred to as the Maastricht Treaty) which was signed on 7 February 1992 and entered into force on 1 November 1993, thereby establishing the EU. Thereafter, both the Treaty establishing the European Community and the Treaty on the European Union were amended by the Treaty Amsterdam, signed on 1 October 1997 and in force as of 1 May 1999, the Treaty of Nice, signed on 28 February 2001 and in force as of 1 February 2003, and then by the Treaty of Lisbon.

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