



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 consisted of the following members:

President: Gaston Reinesch
Members: Pierre Beck
Betty Fontaine
Pit Hentgen
Serge Kolb
Jacques F. Poos
Romain Schintgen
Michel Wurth
Claude Zimmer

During 2013, the Council held seven meetings. The level of participation by the members was as follows: Pierre Beck (6 meetings), Betty Fontaine (4 meetings), Pit Hentgen (5 meetings), Serge Kolb (7 meetings), Jacques F. Poos (7 meetings), Romain Schintgen (7 meetings), Michel Wurth (5 meetings) and Claude Zimmer (7 meetings).

Within the framework of monitoring the financial situation of the Bank, the Council approved the financial accounts as at 31 December 2012, the budgetary trends and subsequently the budget for the 2014 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 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 6 December 2013, the Council nominated the non-executive members of the Audit Committee for 2014: Jacques F. Poos, Romain Schintgen and Claude Zimmer. As from 24 May 2013, the President of the Council, following his request, is no longer an *ex officio* member. In 2013, the Audit Committee was chaired by one of its non-executive members, Jacques F. Poos, and held nine meetings.

2.1.2 The President

His Royal Highness Grand-Duke Henri of Luxembourg, on a proposal by the Government in Cabinet, appointed Mr. Gaston Reinesch as the President 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 shall be taken collectively.

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

Director General: Gaston Reinesch

Directors: Serge Kolb and Pierre Beck

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

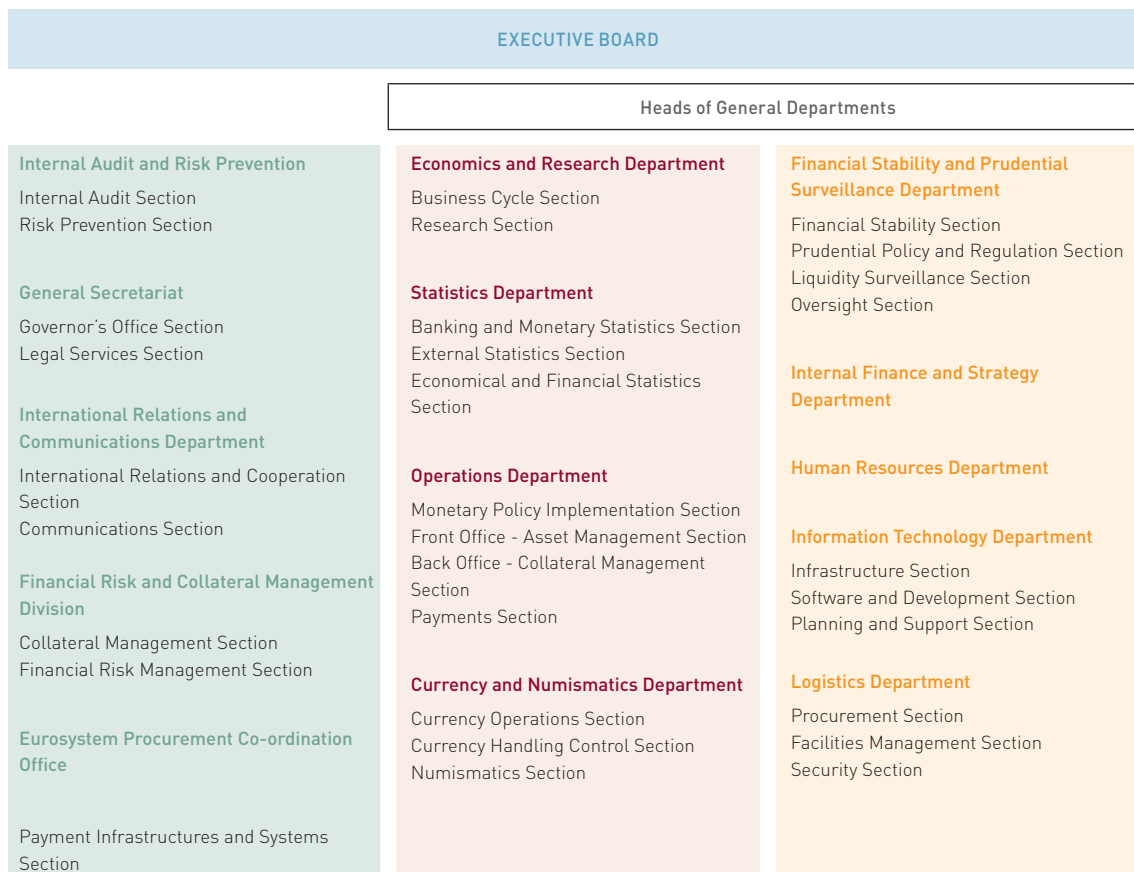


From l. to r.: Mr. Serge Kolb, Mr. Gaston Reinesch, Mr. Pierre Beck

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

	Salary
Gaston Reinesch (Director General)	174 076 €
Serge Kolb (Director)	161 840 €
Pierre Beck (Director)	161 840 €
Total	497 756 €

2.1.4 Organisation Chart as of 1 January 2013



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, taking into consideration the BCL's specific needs as a central bank.

The Executive Board has defined the general framework and the principles of the internal control system. The management of the BCL and their 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, above all, 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, of the surveillance with respect to the established limits and of the production of regular reports on these issues. The Collateral Management section within the Financial Risk and Collateral Management division is entrusted with the risk management responsibility in the field of the management of collateral, in particular for ABS (asset-backed securities).

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 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 would 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, 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 from 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 complies with internationally accepted professional standards, as applied by 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 charter. The Internal Audit unit follows-up on the implementation of the recommendations issued during its audit activities.

Finally, the Audit Committee is informed about the internal control and the risk management framework and its functioning.

2.1.6 External control

In accordance with art. 15 of the BCL's organic law, the Bank's financial accounts are audited by an external auditor nominated 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 the Eurosystem level.

Considering that the mandate of the external auditor of the BCL, currently KPMG audit S.à.r.l., expired at the end of 2013, the BCL launched a European public market tender for the mandate of the external auditor of the BCL for the years 2014 to 2018.

The statutes of the ESCB and of the ECB provide that National Central Banks act in accordance with ECB guidelines and instructions. Compliance with these provisions is monitored at the European level by the Governing Council of the ECB which may request any additional 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 it prescribes ethical standards of nondiscrimination, integrity, independence, and professional secrecy to which the BCL's staff has to strictly adhere.

At the request of the Director general, the Code of Conduct for the Director general was strengthened at his own expense. Moreover, in order to avoid any suspicion of a potential conflict of interest with regard to his function as a member of the Governing Council of the ECB, the Director general does not participate in the investment committees of the BCL which are entrusted with the management of the BCL's own funds. In addition, as far as the Executive Board of the BCL is concerned, the Director general does not take part in the deliberations regarding the latter. His responsibilities are limited, as the President of the Council, to those of an administrator.

Moreover, the European Central Bank requires the Members of the Governing Council to strictly adhere to its Code of Conduct, which foresees particularly strict standards of professional and ethical conduct. The members of the Governing Council shall act with honesty, independence, impartiality, and discretion. The members shall not consider their personal interests and shall avoid any situation that may lead to a conflict of interests. These obligations extend one year after the termination of their function. The conditions for the acceptance of gifts and other benefits as well as for the participation 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 concerning events happening 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 2013, the BCL staff increased by 1% to reach a total of 303 staff members on 31 December 2013. Currently 282,75 full-time positions are occupied which represents an increase of 1.06% compared to 2012. The staff members are of 17 different nationalities, thus contributing to the diversity of the human capital and to its cultural enrichment.

On 31 December 2013, 33 staff members occupied a part-time position:

- Part-time work (50%): 13 staff members
- Part-time work (75%): 8 staff members
- Leave for half-time work: 12 staff members

Only 2 staff members were on parental leave and 3 staff members were on part-time parental leave.

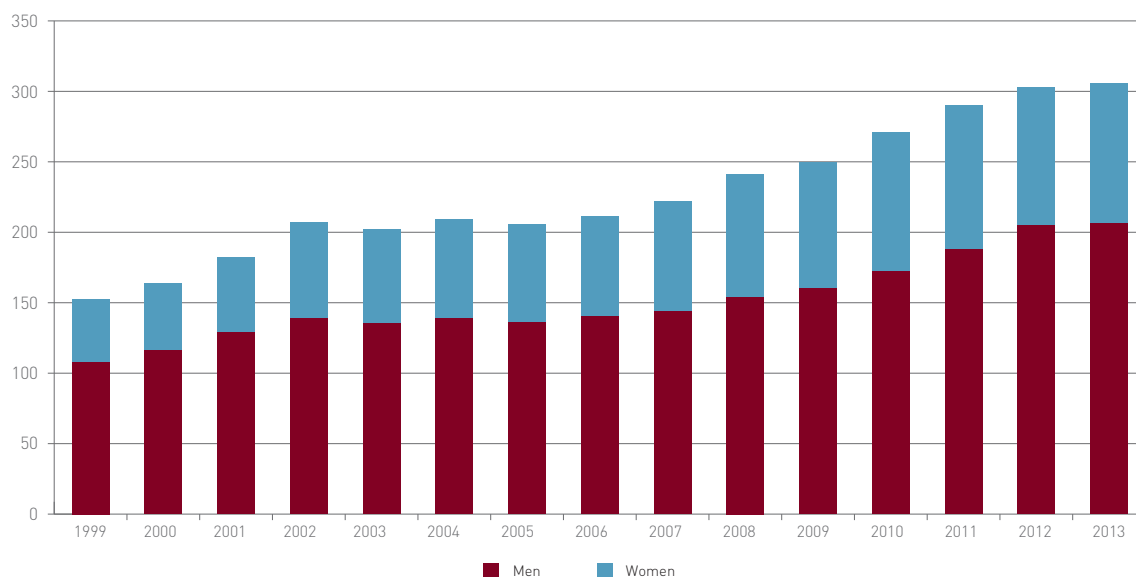
In addition, 6 staff members were on unpaid leave and 3 staff members were on special leave.

The average number of staff members working at the BCL in 2013 was 303.05 persons or 285.94 full-time equivalents (FTE).

The overall approved headcount cap for the year 2013 was 332.25 full-time equivalent positions.

During the year 2013, 9 staff members left the bank. On the other hand, 10 new staff members joined the bank during the same period.

Graph 20 :
Quantitative evolution



Source : BCL

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 INTERNAL FINANCE AND STRATEGY

2.3.1 Accounting and reporting

The BCL continued to update its accounting system and its procedures in order to meet the quality standards of the Eurosystem. The BCL 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 controlling systems in place proved to be effective during the year.

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

The 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 activities of the Bank. The BCL strictly controls the development of the interest margin and compares the profitability of its investments to benchmarks.

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

In early 2013, a new software dedicated to asset management for own account and third parties was deployed.

2.3.2 Budget

Budget preparation, in accordance with the Organic Law of the BCL, is part of the multiannual planning process of the BCL, whose primary purpose is to ensure the Bank's long term financial equilibrium. In addition, the annual budget determines the upper limit of operating expenditure and investment the Bank may incur during a given financial year.

The 2013 budget of the BCL was established in accordance with the BCL's budgetary procedure and the guidelines set by the Bank's Council on 11 July 2012. The 2013 budget was approved by the Council of the BCL on 22 February 2013.

In particular, the budget includes the following elements:

- The number of tasks assigned to the BCL at both the national and European level continues to increase, particularly in the field of prudential supervision and statistics. 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.
- Taking into account the ongoing financial crisis, the low level of key interest rates and the fact that the BCL still lacks appropriate own funds, the decision-making bodies of the BCL have applied strict cost control since 2008. These efforts have permitted to contain the average increase of the operating budget (excluding staff costs) at +2.1% per year over the period 2008-2013 and this despite a significant simultaneous increase in employment.
- The BCL continues to implement internal and European projects, which have a measurable impact on the headcount and 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, the conclusions drawn from this analysis are taken into account in the preparation of future budgets.

The expenditure for operating costs and investments as at 31 December 2013 stayed within the boundaries set by the Bank's annual budget.

2.3.3 Strategic planning and management control

Management control aims at enhancing efficiency and accountability within the BCL, allowing the Executive Board to concentrate its involvement on decision making at the 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.

In addition, management control is 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 secretarial services to the BCL's project steering

committee (BISC). The “Overall Project Monitoring Reports” (OPMR), prepared by the Internal Finance and Strategy Department, allows the BISC to better monitor and control the progress of the BCL’s various projects.

BCL representatives have participated in a series of project controlling activities at the ESCB/Eurosystem level related to the preparation and monitoring of common IT projects. Since 2013 the head of the BCL’s Internal Finance and Strategy Department represents the Bank as a member of the EISC (Eurosystem IT Steering Committee). Consequently, BCL representatives have been heavily involved in Eurosystem matters as well as in related working groups.

Cost accounting, as part of the 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 the BCL’s operational expenses according to their category, i.e. according to the respective sections and units, allowing cost identification of each of the Bank’s activities.

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

As the BCL continues to grow, a more comprehensive 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. Moreover, in order to monitor the capital adequacy with respect to its financial independence, the BCL performs assessments of its long-term financial situation. It carries out prospective analyses based on internal factors (e.g. costs and revenues) and external factors (e.g. interest rates, exchange rates and other variables of the Eurosystem and of the economic situation).

2.4 FINANCIAL STATEMENTS

Preamble

Only the French version of the present financial statements has been reviewed by the Independent Auditor. Consequently, the present 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, only the French version is legally binding.

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

	2013	2012	Change in % 2013/2012
Total assets	118 560 343 356	120 419 763 880	-2%
Liabilities to credit institutions	24 565 392 606	38 478 688 215	-36%
Lending to credit institutions	5 819 000 000	5 675 000 000	3%
Own funds (1), revaluation accounts, administrative provisions and specific banking risks provisions	1 180 157 100	1 131 271 692	4%
Net result from banking activities (2)	442 058 203	606 702 366	-27%
Total net income	94 987 233	55 304 679	72%
Administrative expenses	88 380 978	49 487 198	79%
Net profit	1 911 549	1 847 800	3%
Cash Flow (3)	246 130 093	217 304 422	13%
Staff	303	300	1%
BCL's weighting in the capital of the ECB	0.1739%	0.1747%	
BCL's weighting in the Eurosystem's monetary policy operations	0.774%	0.504%	

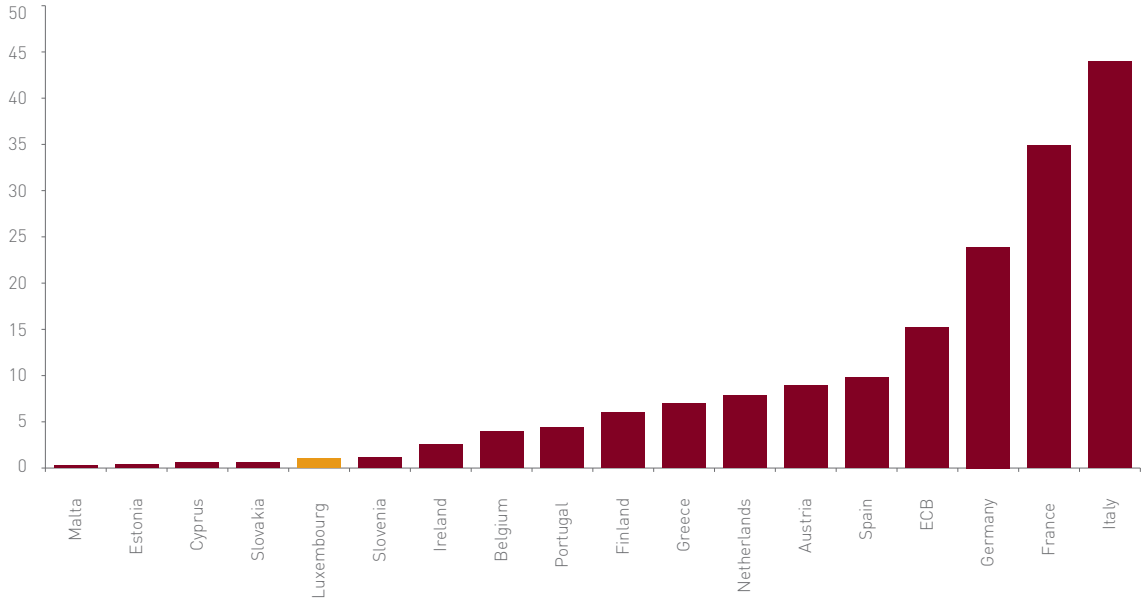
(1) Capital, reserves, provisions for general banking risks and net profit to be allocated to the reserves

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

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

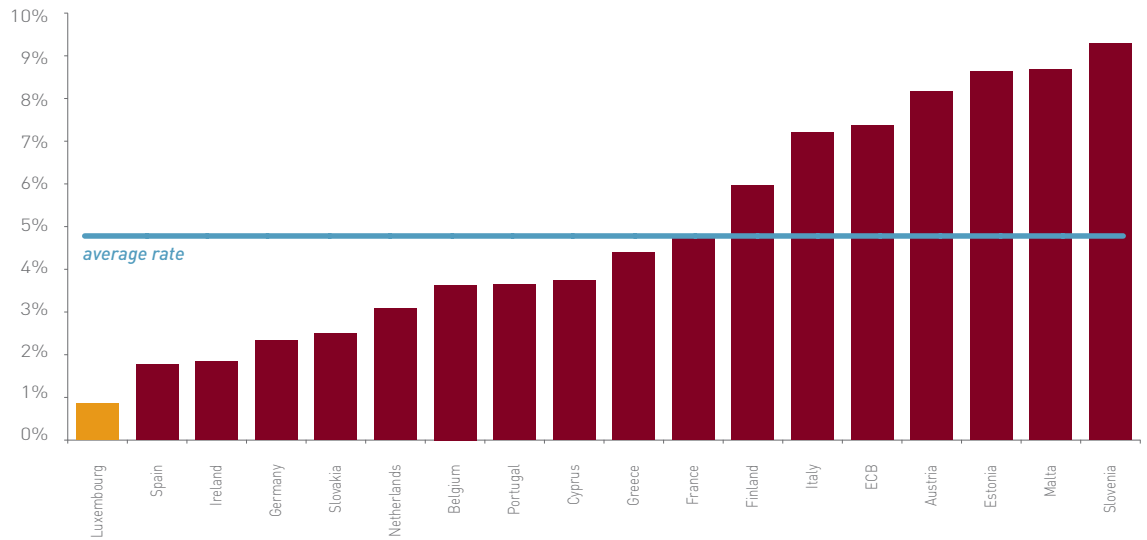
The capital base of the BCL is largely insufficient, both in absolute and relative terms, in comparison to other national central banks of the Eurosystem (see graphs below):

Graph 21 :
Capital, reserves and provisions in the Eurosystem (in € billion)



Source: Annual reports 2012; BCL figures 2013.

Graph 22 :
Ratio own funds / total assets (in %)



Source: Annual reports 2012; BCL figures 2013.

2.4.2 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 at December 31, 2013 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 Directors and are approved by the Council. The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles and those defined by the European System of central banks, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banque centrale du Luxembourg as of December 31, 2013, 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 21, 2014

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

S. Chambourdon

2.4.3 Balance sheet as at 31 December 2013

ASSETS	Note	2013 EUR	2012 EUR
Gold and gold receivables	3	63 070 482	90 841 235
Claims on non-euro area residents denominated in foreign currency	4	686 841 414	660 287 665
- Receivables from the IMF		502 202 535	546 056 782
- Balances with banks, security investments, external loans and other external		184 638 879	114 230 883
Claims on euro area residents denominated in foreign currency	5	1 311 147 611	1 563 658 740
Claims on non-euro area residents denominated in euro	6	1 025 997 742	1 298 712 955
- Balances with banks, security investments and loans		1 025 997 742	1 298 712 955
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	5 819 000 000	5 675 000 000
- Main refinancing operations	7.1	4 629 000 000	770 000 000
- Longer-term refinancing operations	7.2	1 190 000 000	4 905 000 000
Other claims on euro area credit institutions denominated in euro	8	2 599 902 128	1 326 635 883
Securities of euro area residents denominated in euro	9	2 954 104 966	3 436 692 374
- Securities held for monetary policy purposes	9.1	483 869 824	580 374 062
- Other securities	9.2	2 470 235 142	2 856 318 312
Intra-Eurosystem claims	10	103 670 039 952	105 882 564 666
- Participating interest in ECB	10.1	24 628 803	24 519 953
- Claims related to the transfer of foreign reserves	10.2	100 776 864	100 638 597
- Other claims within the Eurosystem	10.3	103 544 634 285	105 757 406 116
Items in course of settlement		182	211
Other assets	11	430 238 879	485 370 151
- Tangible and intangible assets	11.1	62 927 236	65 049 947
- Other financial assets	11.2	234 288 721	217 349 308
- Accruals and prepaid expenses	11.3	110 819 223	190 632 560
- Sundry	11.4	22 203 699	12 338 336
Total assets		118 560 343 356	120 419 763 880

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

LIABILITIES	Notes	2013 EUR	2012 EUR
Banknotes in circulation	12	2 199 225 500	2 094 398 640
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	24 565 392 606	38 478 688 214
- Current accounts (covering the minimum reserve system)	13.1	11 580 392 606	18 366 964 668
- Deposit facility	13.2	7 849 600 000	18 089 623 546
- Fixed-term deposit	13.3	5 135 400 000	2 022 100 000
Liabilities to other euro area residents denominated in euro	14	576 442 874	622 704 906
- General government	14.1	576 367 135	552 662 871
- Other liabilities	14.2	75 739	70 042 035
Liabilities to non-euro area residents denominated in euro	15	2 749 366 441	1 672 172 078
Liabilities to non-euro area residents denominated in foreign currency	16	1 366 345 288	1 546 248 826
Counterpart of special drawing rights allocated by the IMF	17	275 797 896	287 487 800
Intra-Eurosystem liabilities	18	85 326 850 130	74 257 491 195
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	18.1	85 326 850 130	74 257 491 195
Other liabilities	19	119 393 238	180 919 979
- Accruals and income collected in advance		82 374 535	145 825 697
- Sundry		37 018 703	35 094 282
Provisions	20	1 040 824 609	751 582 790
Revaluation accounts	21	152 235 079	341 511 307
Capital and reserves	22	186 558 146	184 710 345
- Capital	22.1	175 000 000	175 000 000
- Reserves	22.2	11 558 146	9 710 345
Profit for the year		1 911 549	1 847 800
Total liabilities		118 560 343 356	120 419 763 880

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

2.4.4 Off-balance sheet as at 31 December 2013

	Note	2013 EUR	2012 EUR
Securities received as collateral	23	146 851 686 663	140 206 472 952
Foreign currency reserve assets managed on behalf of the ECB	24	299 387 312	321 141 061
Forward transactions	25	-	32 600 000
Numismatic collection		206 247	207 906
		147 151 280 222	140 560 421 919

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

2.4.5 Profit and loss account for the year ending 31 December 2013

	Note	2013 EUR	2012 EUR
Interest income	26	851 981 760	1 267 581 069
Interest expense	26	(464 355 280)	(761 293 499)
Net interest income	26	387 626 480	506 287 570
Realised gains / (losses) arising from financial operations	27	58 065 957	107 300 137
Write-downs on financial assets and positions	28	(2 762 514)	(4 735 911)
Transfer to/from provisions for risks	29	(236 761 324)	(162 211 804)
Net result of financial operations, write-downs and risk provisions		(181 457 881)	(59 647 578)
Fees and commissions income	30	11 012 033	12 407 609
Fees and commissions expense	30	(11 883 754)	(13 197 857)
Net result from fees and commissions	30	(871 721)	(790 248)
Income from participating interest	31	4 646 498	3 503 490
Net result of pooling of monetary income	32	(125 857 340)	(403 075 958)
Other income	33	10 901 197	9 027 402
Total net income		94 987 233	55 304 678
Staff costs	34	(36 988 559)	(34 615 108)
Other administrative expenses	35	(11 311 493)	(9 543 040)
Depreciation of tangible and intangible assets	11.1, 36	(4 694 706)	(3 969 679)
Banknote production services	37	(1 107 630)	(665 820)
Other expenses	38	(38 973 296)	(4 663 231)
Profit for the year		1 911 549	1 847 800

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

2.4.6 Notes to the financial statements as at 31 December 2013

NOTE 1 – GENERAL INFORMATION

The Banque centrale du Luxembourg (“BCL” or “Central Bank”) was founded in accordance with the law of 22 April 1998. The Founding Law of 23 December 1998 as modified, 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. In addition, establishing the European banking union implies new tasks for the BCL. The BCL is a public institution, endowed with legal personality and financial independence.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out 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 those defined 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 Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the valuation at market prices of securities (other than those classified as held-to-maturity), gold and of all other on-balance-sheet and off-balance-sheet assets and liabilities denominated in foreign currency.

Transactions in financial assets and liabilities are reflected in the accounts of the BCL on the basis of 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 prevailing on the balance sheet closing date. Income and expenses are converted at the exchange rate prevailing on the dates of the transactions.

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 Events after the reporting period

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 since 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 liabilities 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 partially distributed in 2013. 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 liabilities 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, except for land and works of art, are stated at their acquisition cost less depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the fixed asset:

	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, which aims to cover the risks related to old age, disability and survival, was 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 decrease by pension payments to retirees. At the year end, the provision is adjusted by the actuarial value. In addition, if necessary, periodic transfers from the account "Booking reserve of the pension fund", equivalent to the revenues generated by the fund's assets, to adjust the account "Provision for pensions" to its actuarial value are booked. In cases where transfers are insufficient to cover the BCL's pension liabilities, the difference between the existing provision and the effective claim is covered by a special transfer to be 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 BCL's activities.

NOTE 3 – GOLD AND GOLD RECEIVABLES

As at 31 December 2013, the BCL holds 72 393.29 ounces of fine gold amounting to € 63.07 million (72 028.82 ounces of fine gold amounting to € 90.84 million on 31 December 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.

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

	2013 EUR	2012 EUR
Receivables from the IMF	502 202 535	546 056 782
Balances with banks, security investments, external loans and other external assets	184 638 879	114 230 883
	686 841 414	660 287 665

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) 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 SDR allocated. Afterwards, SDR holdings are subject to fluctuations as a result of encashments and transactions with others SDR holders. The reserve tranche position corresponds to the net amount of the quota and the IMF's currency holding and takes into account the re-evaluation of the general account. 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 € 114.3 million as at 31 December 2013 (€ 103.2 million on 31 December 2012), mainly consists of government bonds and bonds issued by international and supranational institutions denominated in US dollars. Securities are valued at market prices. As at 31 December 2013, their value at market prices included a negative net revaluation adjustment amounting to € 0.01 million (negative net revaluation adjustment amounting to € 1.1 million on 31 December 2012).

Balances with banks amounted to € 70.3 million as at 31 December 2013 (€ 11.1 million on 31 December 2012).

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

This item contains balances in foreign currency held by the BCL on accounts with euro area counterparties which amounts to € 1 311.1 million as at 31 December 2013 (€ 1 563.7 million on 31 December 2012).

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

	2013 EUR	2012 EUR
Balances with banks	2 115 801	22 085 354
Marketable securities	1 023 881 941	1 276 627 601
	1 025 997 742	1 298 712 955

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 at 31 December 2013, their market value included a positive net revaluation adjustment amounting to € 47.8 million (negative net revaluation adjustment amounting to € 68.0 million on 31 December 2012).

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:

	2013 EUR	2012 EUR
Main refinancing operations	4 629 000 000	770 000 000
Longer-term refinancing operations	1 190 000 000	4 905 000 000
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	-
Credits related to margin calls	-	-
	5 819 000 000	5 675 000 000

The total Eurosystem holding of monetary policy assets amounts to € 752 312 million of which the BCL holds € 5 819 million. In accordance with Article 32.4 of the Statute, any risks from monetary policy operations, if they were to materialise, should be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

Losses can only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided by the counterparty is not sufficient.

It should be noted that for specific collateral which can be accepted by NCBs at their own discretion, risk sharing has been excluded by the Governing Council of the ECB.

7.1 Main refinancing operations

This sub-item includes the amount of liquidity provided to credit institutions by way of weekly one-week tenders.

Since October 2008, these operations were conducted as fixed rate tender procedures. These operations play a key role in achieving the aims of steering interest rate, managing market liquidity and signalling the monetary policy stance.

7.2 Longer-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 BCL 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 the value of the securities pledged as collateral for other credits extended to these same institutions.

NOTE 8 – OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

This item includes the BCL's current accounts and fixed-term deposits not related to monetary policy operation with credit institutions inside the euro area.

NOTE 9 – SECURITIES OF EURO AREA RESIDENTS DENOMINATED IN EURO

	2013 EUR	2012 EUR
Securities held for monetary policy purposes	483 869 824	580 374 062
Other securities	2 470 235 142	2 856 318 312
- marketable securities	1 925 039 595	2 019 294 067
- held-to-maturity securities	545 195 547	837 024 245
	2 954 104 966	3 436 692 374

9.1 Securities held for monetary policy purposes

This item contains securities acquired by the 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 € 61.4 million as at 31 December 2013 (€ 32.9 million for the first programme and € 28.5 million for the second programme). The first programme was completed in June 2010. The second programme was completed in October 2012.

The total Eurosystem holding of SMP securities amounts to € 178.8 billion as at 31 December 2013, of which the BCL holds € 422.5 million. This programme was completed in September 2012. 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 at 31 December 2013 these securities held for monetary policy purposes amount to € 483.9 million (€ 580.4 million on 31 December 2012).

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 amount to € 1 925 million as at 31 December 2013 (€ 2 019.3 million on 31 December 2012). This portfolio 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 at 31 December 2013, their market value included a positive net revaluation adjustment amounting to € 54.9 million (negative net revaluation adjustment amounting to € 19.2 million on 31 December 2012).
- the held-to-maturity portfolio 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 at 31 December 2013, these securities amount to € 545.2 million (€ 837.0 million on 31 December 2012).

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

Harmonised annual impairment 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 estimated recoverable amounts as at the reporting date.

On the basis of the results of an impairment test as at 31 December 2013, the Governing Council considered that all estimated future cash flows on the relevant securities are expected to be received and that, therefore, 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.

On 1 July 2013, as Croatia joined the the European Union, Croatia's national central bank joined the ESCB.

As a result, the ECB's capital keys of the NCBs changed in 2013 as shown in the following table (in euro):

	Subscribed capital from 1 July 2013	Subscribed capital until 30 June 2013	Paid-up capital from 1 July 2013	Paid-up capital until 30 June 2013
Banque Nationale de Belgique	261 705 370.91	261 010 384.68	261 705 370.91	261 010 384.68
Deutsche Bundesbank	2 030 803 801.28	2 037 777 027.43	2 030 803 801.28	2 037 777 027.43
Eesti Pank	19 268 512.58	19 261 567.80	19 268 512.58	19 261 567.80
Central Bank of Ireland	120 276 653.55	119 518 566.24	120 276 653.55	119 518 566.24
Banque de Grèce	210 903 612.74	211 436 059.06	210 903 612.74	211 436 059.06
Banco de España	893 420 308.48	893 564 575.51	893 420 308.48	893 564 575.51
Banque de France	1 530 028 149.23	1 530 293 899.48	1 530 028 149.23	1 530 293 899.48
Banca d'Italia	1 348 471 130.66	1 344 715 688.14	1 348 471 130.66	1 344 715 688.14
Central Bank of Cyprus	14 429 734.42	14 731 333.14	14 429 734.42	14 731 333.14
Banque centrale du Luxembourg	18 824 687.29	18 798 859.75	18 824 687.29	18 798 859.75
Central Bank of Malta	6 873 879.49	6 800 732.32	6 873 879.49	6 800 732.32
De Nederlandsche Bank	429 352 255.40	429 156 339.12	429 352 255.40	429 156 339.12
Oesterreichische Nationalbank	209 680 386.94	208 939 587.70	209 680 386.94	208 939 587.70
Banco de Portugal	190 909 824.68	188 354 459.65	190 909 824.68	188 354 459.65
Banka Slovenije	35 397 773.12	35 381 025.10	35 397 773.12	35 381 025.10
Národná banka Slovenska	74 486 873.65	74 614 363.76	74 486 873.65	74 614 363.76
Suomen Pankki – Banque de Finlande	134 836 288.06	134 927 820.48	134 836 288.06	134 927 820.48
Subtotal for euro area NCBs	7 529 669 242.48	7 529 282 289.36	7 529 669 242.48	7 529 282 289.36
Българска народна банка (Bulgarian National Bank)	93 571 361.11	93 467 026.77	3 508 926.04	3 505 013.50
Česká národní banka	157 384 777.79	155 728 161.57	5 901 929.17	5 839 806.06
Danmarks Nationalbank	159 712 154.31	159 634 278.39	5 989 205.79	5 986 285.44
Latvijas Banka	29 682 169.38	30 527 970.87	1 113 081.35	1 144 798.91
Lietuvos bankas	44 306 753.94	45 797 336.63	1 661 503.27	1 717 400.12
Magyar Nemzeti Bank	148 735 597.14	149 099 599.69	5 577 584.89	5 591 234.99
Narodowy Bank Polski	525 889 668.45	526 776 977.72	19 720 862.57	19 754 136.66
Banca Națională a României	264 660 597.84	265 196 278.46	9 924 772.42	9 944 860.44
Sveriges Riksbank	244 775 059.86	242 997 052.56	9 179 064.74	9 112 389.47
Bank of England	1 562 265 020.29	1 562 145 430.59	58 584 938.26	58 580 453.65
Hrvatska narodna banka	64 354 667.03	-	2 413 300.01	-
Subtotal for non-euro area NCBs	3 295 337 827.14	3 231 370 113.25	123 575 168.51	121 176 379.24
Total	10 825 007 069.62	10 760 652 402.61	7 653 244 410.99	7 650 458 668.60

The share that the BCL held in the accumulated net profits of the ECB reflects the repayment of € 5.8 million of ECB reserves (€ 5.7 million on 31 December 2012).

10.2 Claims equivalent to the transfer of foreign reserves

This sub-item represents the euro-denominated claims on the ECB with respect to the transfer of part of the 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 at 31 December 2013, the claim of the BCL amounts to € 100 776 864 (€ 100 638 597 on 31 December 2012).

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 € 103.5 billion as at 31 December 2013 (€ 105.8 billion on 31 December 2012).

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 assets are as follows:

	Buildings EUR	Furniture and equipment EUR	Software EUR	Other EUR	Total EUR
Cost as at 1 January 2013	107 707 676	13 872 305	6 232 283	2 981 605	130 793 869
Disposals/Transfers	-	25 083	2 145 692	(2 211 378)	(40 603)
Acquisitions	623 454	815 220	162 816	970 505	2 571 995
Cost as at 31 December 2013	108 331 130	14 712 608	8 540 791	1 740 732	133 325 261
Accumulated depreciation as at 1 January 2013	46 870 919	12 947 332	5 925 671	-	65 743 922
Disposals	-	(40 603)	-	-	(40 603)
Depreciation	3 584 777	498 403	611 526	-	4 694 706
Accumulated depreciation as at 31 December 2013	50 455 696	13 405 132	6 537 197	-	70 398 025
Net book value as at 31 December 2013	57 875 434	1 307 476	2 003 594	1 740 732	62 927 236

The sub-item "Buildings" comprises:

- the acquisition cost of the two premises located on 2, boulevard Royal;
- the renovations made to the main building ("Siège Royal");
- the costs incurred in relation to the reconstruction and transformation of the "Pierre Werner" building;
- the costs incurred in relation to the reconstruction and transformation of the "Monterey" building;
- the acquisition cost of the building "7 boulevard Royal";
- the renovations made to the building "7 boulevard Royal".

11.2 Other financial assets

The components of this item are as follows:

	2013 EUR	2012 EUR
Other participating interests	80 357 237	83 586 031
Pension fund	153 931 484	133 763 277
	234 288 721	217 349 308

The other participating interests comprise the BCL's investments in Swift, ATTF, LuxCSD SA., BCL's Fondation, Islamic Liquidity Management Corporation and 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 at 31 December 2013.

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. Also included under this item are the commissions receivables, prepaid expenses, including salaries paid for January 2014, and other income receivables.

11.4 Sundry

	2013 EUR	2012 EUR
Others	22 203 699	12 338 336
	22 203 699	12 338 336

This item also consists of the counterpart of the unrealised loss on SDR 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 (€ 18 million as at 31 December 2013; € 8 million as at 31 December 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 totalled € 2 199.2 million (€ 2 094.4 million on 31 December 2012).

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

	2013 EUR	2012 EUR
Current accounts (including the minimum reserves)	11 580 392 606	18 366 964 668
Deposit facility	7 849 600 000	18 089 623 546
Fixed-term deposits	5 135 400 000	2 022 100 000
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	24 565 392 606	38 478 688 214

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 comprises accounts denominated in euro of credit institutions which mainly serve to meet minimum reserve requirements. These requirements have to be respected over a maintenance period starting the Wednesday following the Governing Council's meeting when the interest rate is set.

13.2 Deposit facility

This sub-item comprises the standing facility allowing credit institutions to make overnight deposits with the BCL at a pre-specified interest rate.

13.3 Fixed-term deposits

This sub-item comprises deposits made at the BCL for the purpose of absorbing market liquidity in connection with fine-tuning operations in the Eurosystem.

13.4 Fine-tuning reverse operations

This sub-item comprises other monetary policy operations aimed at tightening liquidity.

13.5 Deposits related to margin calls

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

NOTE 14 – LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

14.1 Liabilities to general government

This item records the amounts as follows:

	2013 EUR	2012 EUR
Current accounts	488 412	3 502 282
Account related to euro coins issued by the Treasury	248 753 723	236 565 589
Specific account	187 125 000	172 595 000
Fixed-term deposit	140 000 000	140 000 000
	576 367 135	552 662 871

The item current accounts records an amount of € 488 412 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 realise operations with the IMF.

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

14.2 Other liabilities

As at 31 December 2012, this item included 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 NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

This item includes current accounts in foreign currency held by central banks outside the euro area.

NOTE 17 – COUNTERPART OF SPECIAL DRAWING RIGHTS ALLOCATED BY THE IMF

The amount shown under this item represents the countervalue of SDR, converted to euro at the same rate as applied to the SDR assets, which should be returned to the IMF in the event of the SDR being cancelled, the SDR Department established by the IMF being closed or if Luxembourg decides to withdraw from it. This liability, of unlimited duration, amounts to SDR 246.6 million, or € 275.8 million as at 31 December 2013 [SDR 246.6 million, or € 287.5 million on 31 December 2012].

NOTE 18 – INTRA-EUROSISTEM LIABILITIES

18.1 Net liabilities related to the allocation of euro banknotes within the Eurosystem

This item consists of the liabilities of the BCL vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem. The net position bears interest at the marginal interest rate applying to the main refinancing operations.

NOTE 19 – OTHER LIABILITIES

This item comprises mainly the accrued interest, including accrued interest on intra-Eurosystem liabilities, as well as miscellaneous expenses payable, including suppliers, and the Luxembourg francs banknotes not yet returned.

The Luxembourg franc banknotes still circulating as at 31 December 2013 amount to € 5.1 million (€ 5.1 million on 31 December 2012).

NOTE 20 - PROVISIONS

Provisions developed as follows:

	2013 EUR	2012 EUR
Provision for banking risks	839 402 326	603 852 779
Provision for pensions	201 372 283	147 680 011
Other provisions	50 000	50 000
	1 040 824 609	751 582 790

20.1 Provision for banking risks

Provision for banking risks include the following items:

Provisions for specific banking risks	2013 EUR	2012 EUR
Provision covering credit and market risk	464 700 622	390 013 909
Buffer against counterparty risks in Eurosystem	-	700 538
Provision covering operational risk	29 370 000	17 850 000
Provision covering liquidity risk	16 489 922	16 302 115
Provision for doubtful debts	1 863 863	1 411 994
	512 424 407	426 278 556
Provisions for general banking risks	2013 EUR	2012 EUR
Provision for liabilities resulting from monetary agreements	32 341 954	32 341 954
Other provision for general banking risks	294 635 965	145 232 269
	326 977 919	177 574 223
	839 402 326	603 852 779

20.1.1 Provision covering credit and market risk

The provision of € 464.7 millions (€ 390.0 million on 31 December 2012) corresponds to:

- 7.69% of the BCL's own securities portfolio existing as at 31 December 2013 (4.00% on 31 December 2012) and participations other than the participating interest in the ECB;
- 7.69% (4.00% on 31 December 2012) of the amount lent by the Eurosystem (main and longer-term refinancing operations) as at year-end for monetary policy purposes multiplied by the BCL's capital key in Eurosystem including securities held in the framework of the Securities Markets Programme (excluding securities held by the ECB).

The BCL's guideline is to target a rate of 12% on all items above in the medium term.

20.1.2 Buffer against counterparty risks in Eurosystem

In accordance with Article 32.4 of the ESCB Statute, buffer was established in 2008 against counterparty risks in monetary policy operations. This buffer was funded among all national central banks of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing at the time of default. This provision amounted to € 310 million on 31 December 2012. In accordance with the general accounting principles and the principle of prudence, the Governing Council of the ECB decided to dissolve the provision as at 31 December 2013. The provision decrease is reflected in the BCL's profit and loss account. For the BCL, the buffer decreased from € 700 538 as at 31 December 2012 to zero as at 31 December 2013.

20.1.3 Provision covering operational risk

This provision is intended to cover the risk of losses resulting from the inadequacy or fault attributable to procedures, to the human factor or to the BCL's systems or to external causes. Because of a lack of relevant statistics on the dimension of risk, the transfer to the provision is based on the Basic Indicator Approach described in the consultative working paper of the Basel Committee as being 15% of the average for the last three years of the net banking product (including payments allocated on monetary income).

In 2013, the average has been based on previous years in accordance with these rules.

20.1.4 Provision for doubtful debts

The provision for doubtful debts covers non paid debts amounting to € 1.9 million as at 31 December 2013 (€ 1.4 million on 31 December 2012).

20.1.5 Provision for liabilities resulting from monetary agreements

The provision for liabilities resulting from monetary treaties created in order to face any future monetary liabilities monetary liabilities was replenished after partial use in 2013.

20.1.6 Other provision for general banking risks

This provision is intended to cover non-specific risks of losses resulting from central bank's activities. Since the beginning of the financial crisis, financials risks incurred by the central banks have significantly increased due to the extraordinary measures taken to address the dysfunctional markets. Those risks cannot be quantified in advance.

The provision increased from € 145.2 million as at 31 December 2012 to € 294.6 million as at 31 December 2013.

20.2 Provisions for pensions

Provisions for pensions include the following items:

	2013 EUR	2012 EUR
Provision for pensions	201 372 283	147 680 011
	201 372 283	147 680 011

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 € 201.4 million as at 31 December 2013 (€ 147.7 million as at 31 December 2012).

The variance of the provisions during the year results from:

- monthly deductions from the gross salaries of BCL agents (employee contribution) as well as the employer's contribution;
- 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 21 - REVALUATION ACCOUNTS

This item includes positive revaluation differences related to the spread between the exchange rate as at year-end and the average exchange rate of the BCL's currency and gold positions, as well as positive revaluation differences related to the spread between the market value as at year-end and the amortised cost for securities positions.

NOTE 22 - CAPITAL AND RESERVES

22.1 Capital

The State of Luxembourg is the sole shareholder of the BCL's capital for an amount of € 175 million (unchanged compared to 2012).

22.2 Reserves

The reserves amount to € 11.6 million (€ 9.7 million on 31 December 2012). In 2013 this amount was increased by € 1.8 million following the allocation of profit for 2012 according to the decision of the BCL's Council in application of its Founding Law (Article 31).

	Capital EUR	Reserves EUR
As at 1 January 2013	175 000 000	9 710 345
Allocation of profit for 2012 (art 31)	-	1 847 800
As at 31 December 2013	175 000 000	11 558 145

NOTE 23 – 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 at 31 December 2013, the market value of these securities amounts to € 146.9 billion (€ 140.2 billion on 31 December 2012).

NOTE 24 - FOREIGN RESERVE ASSETS MANAGED ON BEHALF OF THE ECB

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

NOTE 25 – FORWARD CONTRACTS

The BCL can be engaged in bond and stock index futures. These instruments are mainly held for hedging purposes of interest rate risks related to the securities portfolio and for the purpose of adjusting the duration of the existing portfolio depending on market conditions.

As at 31 December 2012, the total liabilities related to these forward contracts amounted to € 32.6 million.

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 as at 31 December 2013, unchanged compared with 2012.

NOTE 26 – 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
	2013	2013	2013
IMF	413 983	-	413 983
Monetary policy	-	16 895 482	16 895 482
Intra-Eurosystem claims	-	577 943 845	577 943 845
Securities	596 086	250 361 047	250 957 133
Gold	-	-	-
Other	3 903 519	1 867 798	5 771 317
Total	4 913 588	847 068 172	851 981 760

Composition of interest expense	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2013	2013	2013
IMF	(226 175)	-	(226 175)
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	(25 942 352)	(25 942 352)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	(435 705 930)	(435 705 930)
Other intra-Eurosystem liabilities	-	(225 386)	(225 386)
Interests on term deposits	-	-	-
Other liabilities	(2 083 630)	(171 807)	(2 255 437)
Interest on swap operation	-	-	-
Total	(2 309 805)	(462 045 475)	(464 355 280)

Composition of interest income	Amounts in foreign currency EUR	Montants en euros 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	Montants en devises EUR	Montants en euros 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)

NOTE 27 – REALISED GAINS / (LOSSES) ARISING FROM FINANCIAL OPERATIONS

This item includes the results from transactions in foreign currencies, from securities and from financial instruments linked to interest rates and market prices, i.e. realised gains minus realised losses on these transactions. In 2013, they amount to € 58.2 million (€ 110.0 million on 31 December 2012) and to € 0.2 million (€ 2.7 million on 31 December 2012) respectively, giving a net gain of € 58 million (a net gain of € 107.3 million on 31 December 2012).

NOTE 28 - WRITE-DOWNS ON FINANCIAL ASSETS AND FOREIGN CURRENCY POSITIONS

This item includes revaluation losses on securities for € 2.8 million (revaluation losses on securities for € 4.7 million in 2012).

NOTE 29 - 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 32).

NOTE 30 - 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	
	2013	2012	2013	2012
Securities	9 796 265	11 242 000	(11 317 525)	(12 521 367)
Others	1 215 768	1 165 609	(566 229)	(676 490)
Total	11 012 033	12 407 609	(11 883 754)	(13 197 857)

NOTE 31 - INCOME FROM PARTICIPATING INTEREST

The ECB's income on euro banknotes in circulation and income arising from securities purchased under the Securities Markets Programme is due to the euro area NCBs in the financial year in which it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim profit distribution. It is distributed in full unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation and securities purchased under the Securities Markets Programme, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks.

In 2013, the BCL received € 3.5 million from the ECB.

In 2013, the BCL also received a dividend of 0.9 million SDR (€ 1.1 million) due to the participating interest held in the Bank for International Settlements (BIS).

In total, this item amounts to € 4.6 million as at 31 December 2013 (€ 3.5 million on 31 December 2012).

NOTE 32 - 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 the main refinancing operations.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed capital key (0.25001% for the BCL as at 31 December 2013).

This item includes the net monetary income allocated to the BCL for 2013 representing an expense amounting to € 126 557 878 (expense of € 404 519 970 on 31 December 2012).

As at 31 December 2013, this item also includes the amount of € 700 538 due to the decrease of the buffer against counterparty risks in Eurosystem, as described in note 20.1.2. (decrease of this buffer amounting to € 1 444 012 as at 31 December 2012).

NOTE 33 - OTHER INCOME

Other income includes revenue for services rendered to third parties, transfers from administrative provisions, rental income from buildings "Monterey" and "7 Royal", 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 agreements between the Government of Luxembourg and the BCL.

NOTE 34 – STAFF COSTS

This item includes the salaries and compensations as well as the employer's share of contributions to the pension and social security schemes. The compensations paid to the Board of Directors amounted to € 575 124 for the year 2013 (€ 566 668 for the year 2012).

As at 31 December 2013, the BCL employed 306 persons (303 on 31 December 2012). The average number of persons working for the BCL from 1 January to 31 December 2013 was 306 (294 for the year 2012).

NOTE 35 – 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 € 83 241 in 2013 (€ 85 344 in 2012).

NOTE 36 – DEPRECIATION OF TANGIBLE AND INTANGIBLE ASSETS

This item shows the depreciation applied on buildings, renovations on buildings, furniture and office equipment, computer hardware and software.

NOTE 37 – BANKNOTE PRODUCTION SERVICES

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

NOTE 38 – OTHER EXPENSES

In 2013, this item contains an amount of € 33.1 million corresponding to the adjustments of parameters (mainly the discount rate) included in the actuarial calculation of the pension fund's Pension Benefit Obligation (PBO). This item includes also costs related to numismatic activities, to administrative provisions and to consultancy.

In 2012, this item includes mainly costs related to numismatic activities and to consultancy.

NOTE 39 – EVENTS AFTER THE REPORTING PERIOD

On 1 January 2014, following the five-yearly adjustment of the key for capital subscription based on GDP and population size and the entry of Latvia in the Eurosystem, the BCN's participations key in ESCB and in the Eurosystem changed as follows:

Country	Capital key in ESCB (in %)		Eurosystem key (in %)	
	from 1 January 2014	until 31 December 2013	from 1 January 2014	until 31 December 2013
Belgium	2.4778	2.4176	3.54081	3.47566
Denmark	1.4873	1.4754	-	-
Germany	17.9973	18.7603	25.71840	26.97069
Greece	2.0332	1.9483	2.90547	2.80097
Spain	8.8409	8.2533	12.63377	11.86533
France	14.1792	14.1342	20.26228	20.31999
Ireland	1.1607	1.1111	1.65866	1.59737
Italy	12.3108	12.4570	17.59231	17.90877
Luxembourg	0.2030	0.1739	0.29009	0.25001
Netherlands	4.0035	3.9663	5.72106	5.70214
Austria	1.9631	1.9370	2.80530	2.78472
Portugal	1.7434	1.7636	2.49134	2.53543
Finland	1.2564	1.2456	1.79541	1.79073
Sweden	2.2729	2.2612	-	-
United Kingdom	13.6743	14.4320	-	-
Czech Republic	1.6075	1.4539	-	-
Estonia	0.1928	0.1780	0.27551	0.25590
Cyprus	0.1513	0.1333	0.21621	0.19164
Latvia	0.2821	0.2742	0.40312	-
Lithuania	0.4132	0.4093	-	-
Hungary	1.3798	1.3740	-	-
Malta	0.0648	0.0635	0.09260	0.09129
Poland	5.1230	4.8581	-	-
Slovenia	0.3455	0.3270	0.49372	0.47011
Slovak Republic	0.7725	0.6881	1.10391	0.98924
Bulgaria	0.8590	0.8644	-	-
Romania	2.6024	2.4449	-	-
Croatia	0.6023	0.5945	-	-
Total	100.0000	100.0000	100.00000	100.00000