



bâtiment
PIERRE WERNER



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. In 2018, the Council consisted of the following members:

President : Mr Gaston Reinesch

Members : Mr Pierre Beck

Mr Pit Hentgen

Ms Nadia Manzari (since 1st July 2018)

Ms Martine Reicherts (since 1st February 2018)

Mr Romain Schintgen

Mr Roland Weyland

Mr Michel Wurth

Mr Claude Zimmer

During 2018, the Council held eight meetings. The Council approved the financial accounts as per 31 December 2017, the budget orientations and subsequently the budget for the 2019 financial exercise.

Audit Committee

Since 2001, the Audit Committee, composed of members of the Council, assists the BCL Council in selecting the statutory auditor to be proposed to the Government, in determining the scope of the specific controls to be performed by the statutory auditor and in the approval of the financial accounts by the Council. The Audit Committee is informed of the internal audit plan. It may invite the head of Internal Audit and the BCL's statutory auditor in its work.

At its meeting on 14 December 2018, the Council reappointed the members of the Audit Committee for the 2018 financial year: Mr Pit Hentgen, Mr Romain Schintgen and Mr Claude Zimmer. The Audit Committee, which was chaired by Mr Claude Zimmer in 2018, met four times.

2.1.2 The Governor

His Royal Highness Grand Duke Henri of Luxembourg, based on a proposal by the Government in Cabinet, appointed Mr Gaston Reinesch as the Director General (Governor) of the Banque centrale du Luxembourg for a renewed six-year period as of 1 January 2019.

2.1.3 The Executive Board

The Executive Board is the superior executive authority of the BCL. It takes the decisions and draws up the measures necessary for the institution to carry out its tasks.

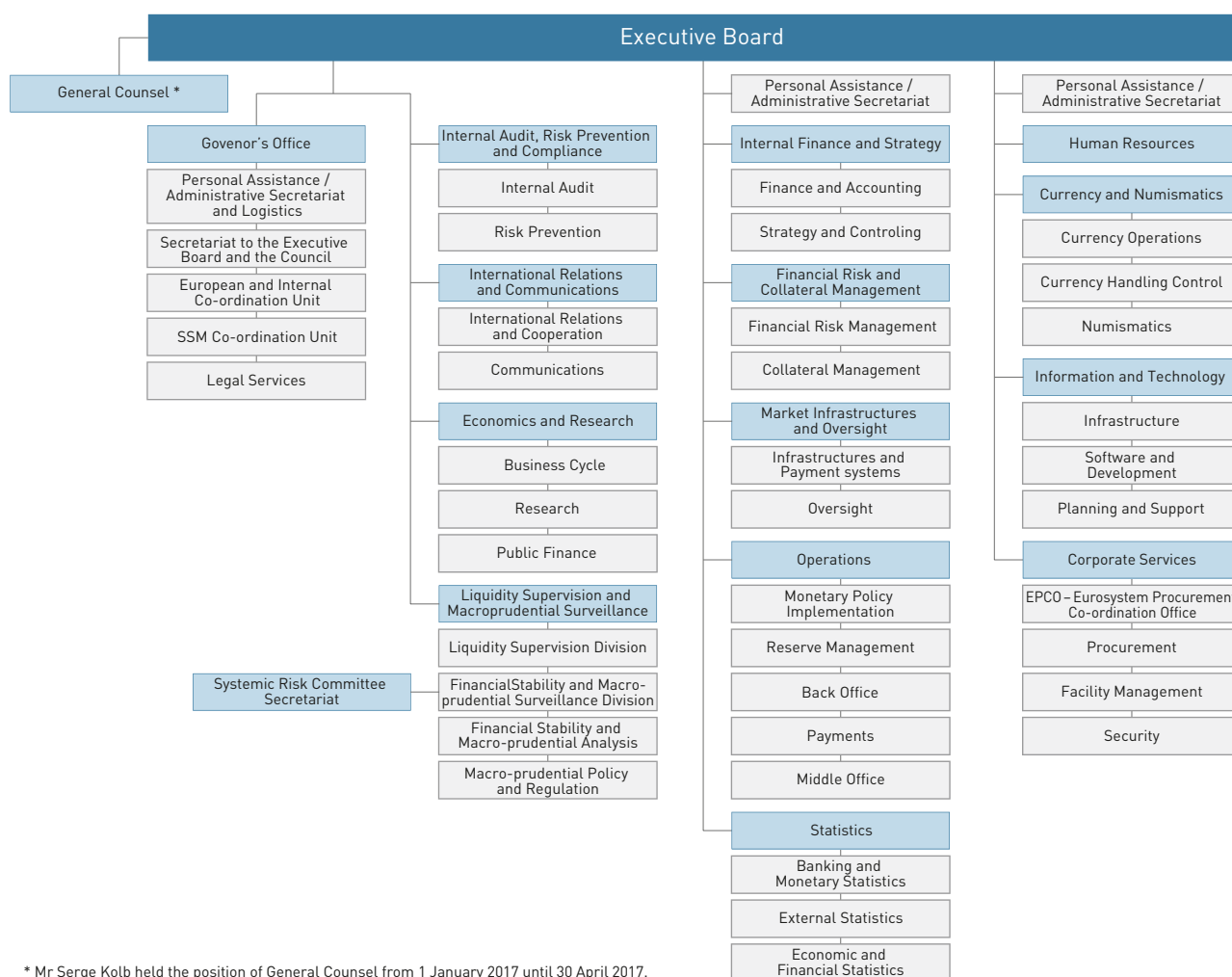
Without prejudice to the independence of the Director General from instructions in his capacity as a member of the Governing Council of the European Central Bank (ECB), the decisions of the Executive Board shall be taken collectively.

The Executive Board consists of a Director General and two Directors. The composition consists of the following members as of 31 December 2018:

- Director General: Mr Gaston Reinesch;
- Directors: Mr Pierre Beck and Mr Roland Weyland.

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.

2.1.4 Organisational Chart as of 31 December 2018



* Mr Serge Kolb held the position of General Counsel from 1 January 2017 until 30 April 2017.

2.1.5 Internal control and risk management

The BCL's internal control and risk management system is based on generally accepted principles in the financial sector and within the European System of Central Banks and the Single Supervisory Mechanism (ESCB/SSM), taking into consideration the specific central banking activities.

The Executive Board has defined the general framework and the principles of the internal control system, which is based on the three lines of defense model. Responsibility for the effective operation of the internal control rests with the management and its employees.

The first line of defense is made up of employees and their line managers who are in charge of identifying risks that could compromise the achievement of "business objectives" related to their field of activity, their evaluation and their management by taking adequate measures.

The second line of defense consists of the entities responsible for areas of expertise and cross-functional functions with the objective to structure and maintain the internal control system. Within the 2nd line of defense, some functional verifications are performed by specific administrative units to ensure segregation of duties appropriate to the BCL's activities. These units are the Financial Risk Management and Collateral Management sections, the Risk Prevention section as well as the Controlling function:

- The Financial Risk Management section is responsible for the analysis of financial risks, for the surveillance of the implementation of decisions taken by the internal committees and by the Executive Board, for the surveillance of the investment limits and for the issuance of regular reports on these aspects;
- The Collateral Management section is entrusted with the risk management responsibility in the field of collateral, and 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.

While operational departments are responsible for identifying the risks associated with their activities and for putting in place appropriate measures 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 on the residual operational risks.

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

The Compliance function, which is administratively attached to the Risk prevention section, aims to identify, assess and monitor the risk of non-compliance within the BCL. The Compliance function's role is to intervene in the following areas:

- anti-money laundering (AML) and financing of terrorist activities,
 - professional code of ethics,
 - prevention of market abuse,
 - conflicts of interests,
 - professional secrecy and confidentiality,
 - privacy and protection of personal data,
 - regulation of public markets.
- The Controlling function provides assurance that available resources are used effectively and that any misuse is detected without delay. It ensures the proper functioning of the budgetary procedure and it supervises the execution of the budget. It reports on a regular basis on the follow-up thereof.

For its part, the Internal Audit unit, as the 3rd line of defense, is in charge of the independent and objective evaluation of the internal control system and of its functioning. The Internal Audit unit is independent from the other administrative units and reports directly to the President of the Council.

The Internal Audit unit complies with internationally accepted professional standards, as applied by the ESCB/SSM. The annual internal audit plan includes audit engagements on a national level, as well as audits that are coordinated by the Internal Auditors Committee, in compliance with the ESCB/SSM audit charter. The Internal Audit unit may issue recommendations to be implemented by the entities in charge. The Internal Audit follows-up on the implementation of its recommendations.

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

2.1.6 External Control

In accordance with article 15 of the organic law of the BCL, the statutory auditor, appointed by the Government for a period of five years, is responsible for verifying and certifying the accuracy and completeness of the BCL's accounts. Moreover, the external auditor is mandated by the Bank's Council to perform additional reviews and specific controls.

At European level, the BCL's statutory auditor's nomination is approved by the Council of Ministers of the EU, upon recommendation of the Governing Council of the ECB. In this context, the statutory auditor is also entrusted with the performance of specific engagements at Eurosystem level.

Deloitte Audit S. à r. l. Luxembourg has exercised the mandate of auditor of the BCL for the financial years 2014 to 2018. In accordance with the appointment and approval process provided for by the Statute of the ESCB and of the ECB (Article 27.1), a procedure for selecting the next auditor from for the 2019 financial year was launched in 2018, following an open call for tenders at European level. As of 14 February 2019, the Governing Council of the ECB recommended Ernst & Young S.A. to the Council of the European Union, which granted the agreement on 19 March 2019. Following the publication of the decision in the Official Journal of the EU on 21 March 2019, the file on the appointment of the auditor was submitted to the Luxembourg Government; the relevant ministerial order was adopted on 14 May 2019.

2.1.7 Codes of Conduct

A Code of Conduct defining internal and external rules of conduct is applicable to all BCL staff. Without prejudice to the provisions of civil service legislation, social legislation and existing contractual commitments, this Code provides for ethical standards of non-discrimination, integrity, independence and professional secrecy, to which all addressees have to strictly adhere.

The application of the Code of Conduct, in respect of the Director General, at his request, has been further strengthened at his own expense. Furthermore, in order to avoid any suspicion of conflict of interest in connection with his function as a member of the Governing Council of the ECB, the Director General does not participate in the BCL investment committees responsible for managing the BCL's portfolios. In addition, as regards the Executive Board, the Director General does not take part in the deliberations on this subject. As President of the Council, his responsibilities are limited to those of an administrator.

Moreover, the ECB requires the Members of the Governing Council to adhere individually to its Code of Conduct, which provides for high standards of professional and ethical conduct. The members of the Governing Council shall act with honesty, independence, impartiality and discretion, disregard their personal interests and avoid any situation which might give rise to a personal conflict of interest. These duties shall continue to apply for one year after they cease to hold office. The conditions for accepting gifts or other benefits are specified, as are the conditions for attending conferences, receptions or cultural events.

The Governors are advised to exercise particular caution with respect to individual invitations. The same rules apply to their spouses or partners who are equally obliged to respect the generally accepted practices concerning international relations. Any activities outside the ESCB of the members of the Governing Council are also strictly regulated. Finally, they are required not to disclose confidential information or use it in private financial transactions, either directly or through third parties.

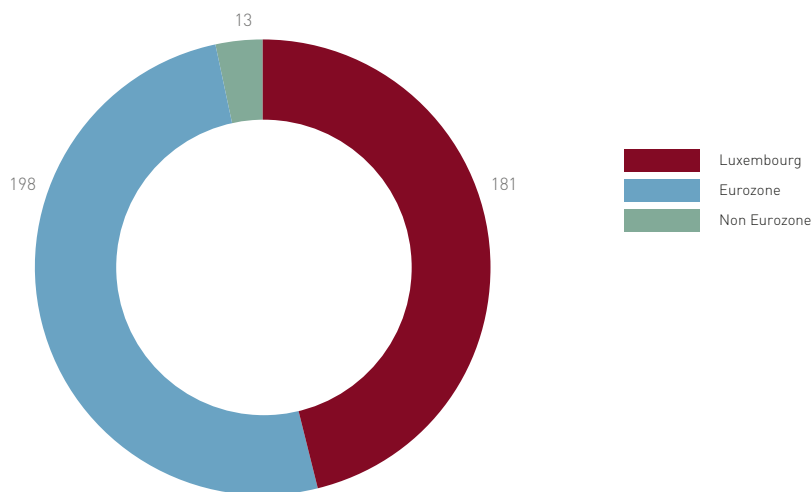
As of 1 January 2019, the ECB's Single Code of Conduct became applicable, replacing the Codes applicable to the Governing Council and the Prudential Supervisory Board. This new Code establishes a harmonised system of rules for members of the ECB's high-level bodies, and in particular subjects them to the ECB's stricter rules on private financial transactions.

2.2 HUMAN RESOURCES

2.2.1 Evolution of the workforce

The staff of the Central Bank of Luxembourg (BCL) continued to evolve. As of 31 December 2018, the BCL employed 392 people, representing 379.75 full-time equivalents. This staff consisted of 22 different nationalities, a source of enrichment of the human capital of the institution.

Chart 20 :
Distribution of agents according to their nationality



The BCL is experiencing a gradual renewal of its teams: 24 entries against 8 exits and 5 retirements during the year 2018.

2.2.2 Human Resources Management

The year 2018 was an opportunity for the Human Resources department to work on three main areas: operations, recruitment, training & development.

With regard to the operational axis, the processes optimization approach has been extended to all HR processes as part of a constant search for efficiency. Based on a Lean Management approach, current processes were analyzed to better identify areas for improvement. The end of the year also marked the change of working time management systems.

In the area of recruitment, the BCL has launched different actions to increase its attractiveness. The Graduate Program of the BCL has also been implemented with the aim to better train young university graduates in the professions of central bankers. At the same time, the process of integrating new agents has been strengthened and improved.

For training and development, 2018 saw the launch of an in-house training catalogue. Made up of tailor-made training courses for BCL staff, mainly with external service providers, the catalog focuses on general and personal skills. Because of its evolving nature, the catalogue will be continuously enriched with new training opportunities.

2.2.3 Pension Fund of the BCL

Because of the special status reserved by the legislator to the BCL, the institution established, in 2001, a pension fund in order to finance the statutory pension liabilities (1st pillar) of its staff members. The BCL affiliates to this fund staff members of different statuses according to the provisions of its organic law.

The pension fund is set up within the Bank and is managed autonomously. In order to ensure exemplary transparency in its financial situation, the pension fund has its own separate accounts with an identification of its assets and its liabilities in the balance sheet of the BCL.

In order to ensure good governance, the pension fund is supervised by a decision-making body, the Steering Committee, which appoints the stakeholders and validates the strategic axis and the general principles governing the investment and treasury policy of the pension fund. These strategic axes are proposed to the Steering Committee by an advisory committee, the ALCO Committee.

Since the State does not intervene in the financing of the statutory pensions (1st pillar) of the BCL staff members, the pension fund is exclusively financed on the one hand by the pension deductions made on the salaries of the staff members in compliance with the rules of the pension scheme applicable to them according to their status and on the other hand by the payments made by the Bank itself.

2.3 INTERNAL FINANCE AND STRATEGY

2.3.1 Accounting and reporting

The BCL regularly updates its accounting system and its procedures in order to meet the quality standards of the Eurosystem. As in previous years, the BCL has participated in the Working Groups on ESCB's financial framework and has transposed the accounting revisions accordingly.

The Eurosystem imposes specific harmonised rules on the daily reporting of balance sheet data by each central bank.

The control systems are adapted to changes in the operations carried out during the period under review.

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

The monthly balance sheet of the BCL is published on its website.

The management information system, in the form of dashboard reports, meets the continuous need to follow the Bank's activities. These tables include all activities of the Bank. The BCL strictly monitors the development of the interest margin and compares the profitability of its investments to set benchmarks.

The BCL's decision-making bodies are regularly informed of the results of these activities to be able to determine future targets and actions.

2.3.2 Budget

The preparation of the budget, in accordance with the Organic Law of the BCL, is part of the multi-year results planning framework, the primary aim of which is to ensure long-term financial equilibrium. The budget also determines the upper threshold of operational and investment expenses that the BCL may incur during a financial year.

The 2018 budget of the BCL was prepared in accordance with the budget procedure and guidelines set out by the BCL's Council on 30 June 2017. It was approved by the Council of the BCL on 15 December 2017.

In particular, it incorporates the following key elements:

- the Eurosystem’s unconventional monetary policy operations were prolonged in 2018 with an impact on the BCL’s business volume;
- the Eurosystem’s key interest rates remain at historically low levels, which has a negative impact on the BCL’s net income;
- at Eurosystem level, cooperation continues through the continuous consolidation of systems in operation, a significant number of joint projects and joint procurement procedures between national central banks under the aegis of the Eurosystem Procurement Coordination Office;
- at national level, the tasks to be carried out also continue to grow, in particular in macro-prudential supervision, the oversight of payment systems and securities settlement and statistical data collection. The activities of the Systemic Risk Committee, for which the BCL provides the secretariat, generate an additional burden for the BCL;
- the BCL must fill a significant number of vacant positions and also prepare for the replacement of more and more retiring employees, which implies that recruitment remains paramount. In view of the development of its activities, an additional reinforcement of staff remains necessary;
- the BCL continued its additional contributions to the Bank’s pension fund;
- historically low interest rates combined with a constantly increasing workforce make it increasingly difficult to cover operating expenses with recurring income.

The Internal Finance and Strategy Department oversees budget execution and prepares quarterly reports for the Executive Board. At the end of each financial year, a detailed gap analysis of the budgeted vs. the actual expenditure is elaborated. This analysis is submitted to the Executive Board and Council of the Bank for information and approval. The conclusions that can be drawn are taken into account in the preparation of future budgets.

At 31 December 2018, operating and investment expenses remained below budget.

2.3.3 Strategic Planning and Management Control

The purpose of Management Control is to strengthen efficiency and accountability within the BCL, allowing the Executive Board to focus more on strategic decisions. To this end, Management Control assists the Executive Board by providing quantitative and qualitative analyses useful for decision-making.

Through its Project Management Office (PMO) function, Management Control is responsible for coordinating and prioritising projects and managing the BCL’s project portfolio. The PMO assists the BCL’s Internal Steering Committee (BISC) and the Executive Board in the preparation of project related decisions. In 2018, the PMO team continued to improve the governance framework for project and project portfolio management.

The BISC, whose secretariat is provided by Management Control, monitors the progress of all ongoing projects as well as the launch of new projects. The Overall Project Monitoring Reports (OPMR), prepared by Management Control on the basis of individual project progress reports, enables the BISC to better control the progress of the different projects and to ensure communication with the Executive Board on project related matters.

In addition, the BCL also participated in a series of project controlling activities at the Eurosystem/ESCB level in connection with the preparation and monitoring of joint projects and the underlying methodology.

Cost accounting, as an integral part of the Management Control function, identifies, analyses and monitors the costs associated with each activity¹⁵⁵. In addition, it is used to establish financial figures for the invoicing of services provided. The methodology used is compliant with the harmonised set of rules determined at Eurosystem level. It consists of allocating the BCL’s operating expenses according to their purpose, i.e. to the entities concerned, and determining the expenses inherent to each of BCL’s activities.

¹⁵⁵ Based on an Activity Based Costing approach.

To facilitate the planning and monitoring of the use of the necessary resources, the BCL has at its disposal an analysis tool for measuring and evaluating the allocation of human resources and material for the various missions of a central bank. Combined with the cost accounting system, it enables the Executive Board to better monitor the Bank's operational and organisational performance. In addition, reports containing both financial and operational indicators establish the correspondence between tasks and activities on one hand and the strategic axes and objectives defined on the other hand.

As the BCL continues to develop its activities, a more comprehensive medium and long-term planning remains a necessity. Strategic planning efforts are being strengthened to ensure optimal alignment of the BCL with the current economic, financial and institutional environment.

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)

	2018	2017	Change in % 2018/2017
Total assets	227 941 615 519	207 562 911 982	10%
Liabilities to credit institutions	119 841 344 541	102 875 299 078	16%
Lending to credit institutions	5 141 440 000	5 632 440 000	-9%
Own funds ⁽¹⁾ , revaluation accounts, administrative provisions and specific banking risks provisions	1 270 346 840	1 268 035 526	0.2%
Net result from banking activities ⁽²⁾	496 144 709	414 997 346	20%
Net result from banking activities adjusted by net monetary income allocation	70 543 875	85 197 776	-17%
Total net income	86 244 300	80 453 167	7%
Administrative and operational expenses	84 256 015	78 492 404	7%
Net profit	1 988 284	1 960 764	1.4%
Staff	390	378	3%
BCL's weighting in the capital of the ECB	0.2030%	0.2030%	
BCL's weighting in lending to credit institutions related to monetary policy operations	0.700%	0.737%	

⁽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

2.4.2 Report of the Réviseur d'Entreprises agréé

Opinion

We have audited the financial statements of Banque centrale du Luxembourg, which comprise the balance sheet as at 31 December 2018, and the profit and loss account for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are regular and fair and give a true and fair view of the financial position of Banque centrale du Luxembourg as at 31 December 2018, 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.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our audit was carried out by considering generally accepted accounting principles in Luxembourg as well as the accounting specificities applicable within the System of European Central Banks. Our responsibilities under those laws and standards are further described in the "Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the financial statements" section of our report. We are also independent of the Banque centrale du Luxembourg in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Directors' responsibilities for the financial statements

The financial statements are prepared by 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.

In preparing the financial statements, the Directors are responsible for using the going concern basis of accounting.

Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Banque centrale du Luxembourg's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banque centrale du Luxembourg's ability to continue as a going concern. If we concluded that a material uncertainty exists, we are required to draw attention in our report of the "Réviseur d'Entreprises Agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "Réviseur d'Entreprises Agréé".
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For Deloitte Audit, *Cabinet de Révision Agréé*

Martin Flaunet, *Réviseur d'Entreprises Agréé*
Partner

20 March 2019

2.4.3 Balance sheet as at 31 December 2018

ASSETS	Notes	2018 EUR	2017 EUR
Gold and gold receivables	3	80 763 435	78 133 143
Claims on non-euro area residents denominated in foreign currency	4	740 507 367	654 133 058
- Receivables from the IMF	4.1.	583 385 660	509 900 086
- Balances with banks, security investments, external loans and other external assets	4.2.	157 121 707	144 232 972
Claims on euro area residents denominated in foreign currency	5	622 778 652	1 415 921 242
Claims on non-euro area residents denominated in euro	6	409 923 881	493 805 352
- Balances with banks, security investments and loans		409 923 881	493 805 352
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	5 141 440 000	5 632 440 000
- Main refinancing operations	7.1.	45 000 000	-
- Longer-term refinancing operations	7.2.	5 096 440 000	5 632 440 000
Other claims on euro area credit institutions denominated in euro	8	628 395 386	430 223 045
Securities of euro area residents denominated in euro	9	7 014 310 249	6 307 769 313
- Securities held for monetary policy purposes	9.1.	6 596 941 266	5 721 670 418
- Other securities	9.2.	417 368 983	586 098 895
Intra-Eurosystem claims	10	212 689 661 346	191 952 175 637
- Participating interest in the ECB	10.1.	36 396 638	36 396 638
- Claims equivalent to the transfer of foreign reserves to the ECB	10.2.	117 640 617	117 640 617
- Other claims within the Eurosystem	10.3.	212 535 624 091	191 798 138 382
Other assets	11	613 835 203	598 311 192
- Tangible and intangible assets	11.1.	54 707 733	57 248 337
- Other financial assets	11.2.	471 893 118	451 680 164
- Accruals and prepaid expenses	11.3.	83 259 995	79 375 282
- Sundry	11.4.	3 974 357	10 007 409
Total assets		227 941 615 519	207 562 911 982

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

LIABILITIES	Notes	2018 EUR	2017 EUR
Banknotes in circulation	12	3 268 660 770	3 108 250 980
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	119 841 344 531	102 875 299 078
- Current accounts (covering the minimum reserve system)	13.1.	69 766 448 907	60 489 399 078
- Deposit facility	13.2.	50 074 895 624	42 385 900 000
Other liabilities on euro area credit institutions denominated in euro		10	-
Liabilities to other euro area residents denominated in euro	14	2 988 649 105	2 803 067 555
- General government	14.1.	801 617 708	809 375 261
- Other liabilities	14.2.	2 187 031 397	1 993 692 294
Liabilities to non-euro area residents denominated in euro	15	4 041 904 009	807 205 982
Liabilities to non-euro area residents denominated in foreign currency	16	598 130 381	1 394 622 755
Counterpart of special drawing rights allocated by the IMF	17	299 744 937	292 888 832
Intra-Eurosystem liabilities	18	95 166 762 155	94 582 973 510
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	18.1., 12	95 166 762 155	94 582 973 510
Items in course of settlement		140 364	67 410
Other liabilities	19	65 073 398	42 986 383
- Accruals and income collected in advance		56 839 002	35 727 602
- Sundry		8 234 396	7 258 781
Provisions	20	1 348 923 888	1 338 194 021
- Provision for banking risks	20.1.	948 332 888	950 691 664
- Provision for pensions	20.2.	400 394 500	387 315 357
- Other provisions		196 500	187 000
Revaluation accounts	21	124 630 117	121 691 906
Capital and reserves	22	195 663 570	193 702 806
- Capital	22.1.	175 000 000	175 000 000
- Reserves	22.2.	20 663 570	18 702 806
Profit for the year	40	1 988 284	1 960 764
Total liabilities		227 941 615 519	207 562 911 982

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

2.4.4 Off-balance sheet as at 31 December 2018

	Notes	2018 EUR	2017 EUR
Securities received as collateral	23	127 455 615 176	133 757 720 885
Foreign currency reserve assets managed on behalf of the ECB	24	391 624 275	365 247 152
Futures - Purchases	25	87 336 200	-
Futures - Sales	25	65 200 000	-

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

2.4.5 Profit and loss account for the year ending 31 December 2018

	Notes	2018 EUR	2017 EUR
Interest income	26	540 879 791	426 820 087
Interest expense	26	(47 445 718)	(34 036 416)
Net interest income	26	493 434 073	392 783 671
Realised gains/(losses) arising from financial operations	27	13 938 270	23 536 156
Write-downs on financial assets and positions	28	(10 841 265)	(687 761)
Transfer (to)/from provisions for risks	29	2 615 180	(16 827 884)
Net result of financial operations, write-downs and risk provisions		5 712 185	6 020 511
Fees and commissions income	30	9 840 956	9 687 004
Fees and commissions expense	30	(10 227 325)	(10 321 724)
Net result from fees and commissions	30	(386 369)	(634 720)
Income from participating interests	31	5 444 391	4 724 676
Net result of pooling of monetary income	32	(425 600 834)	(329 799 570)
Other income	33	7 640 854	7 358 599
Total net income		86 244 300	80 453 167
Staff costs	34	(44 797 585)	(42 491 348)
-Gross salaries		(42 686 187)	(40 455 012)
-Other staff costs		(2 111 398)	(2 036 336)
BCL's contribution to the legal pension scheme	35	(12 119 599)	(11 256 836)
Other administrative expenses	36	(18 083 297)	(15 762 401)
Depreciation of tangible and intangible assets	11.1., 37	(6 295 275)	(5 975 811)
Banknote production services	38	(346 581)	(1 132 056)
Other expenses	39	(2 613 679)	(1 873 951)
RESULT OF THE YEAR	40	1 988 284	1 960 764

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

2.4.6 Notes to the financial statements as at 31 December 2018

NOTE 1 – GENERAL INFORMATION

The Banque centrale du Luxembourg ("the BCL" or "the 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 single supervisory mechanism, the macro-prudential authority, the single resolution mechanism, and the deposit guarantee scheme have resulted and continue to entail new missions and responsibilities for the BCL.

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 and those held for monetary policy purposes), 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 and foreign currency assets and liabilities

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.

Assets and liabilities denominated in foreign currencies are revalued on a currency by currency basis including on-balance sheet and off-balance sheet items.

Revaluation to the market price for assets and liabilities denominated in foreign currency is treated separately from the exchange rate revaluation.

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 Rules applicable to the portfolios held by the BCL

Securities currently held for monetary policy purposes are accounted for at amortised cost (subject to impairment).

Marketable securities other than securities held for monetary policy purposes and those classified as held-to-maturity are valued at the market price prevailing on the balance sheet date. Marketable securities classified as held-to-maturity are valued at amortised cost (purchase or transfer price adjusted by premiums and discounts) subject to impairment.

The revaluation of securities takes place item-by-item on the basis of their ISIN code.

Off-balance-sheet instruments are revalued on an item-by-item basis. Daily changes in the variation margin of open interest rate futures contracts are recorded in the Profit and Loss Account.

The Agreement on Net Financial Assets (ANFA) is an agreement between the National Central Banks (NCBs) of the euro area and the European Central Bank (ECB), which together form the Eurosystem. The objective of this agreement is for the Governing Council of the ECB to ensure a full control of the consolidated balance sheet of the Eurosystem. The agreement sets rules and limits for holdings of financial assets which are related to national tasks of the NCBs other than the monetary policy¹⁵⁵. As part of this agreement, the principle of a dynamic exemption is foreseen in relation to the maximum amount of net financial assets (NFA). This dynamic exemption, which applies to the BCL, adjusts the historical waiver (ensuring that the NCBs do not have to reduce their NFA below a level which is linked to their historical starting position) over time in proportion to the growth or decline of Eurosystem maximum NFA.

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 Presentation of interest income and expense

With a view to harmonizing at Eurosystem level, the interest income and expense arising from monetary policy operations are presented on a net basis on a balance sheet (sub-) item level under either "Interest income" or "Interest expenses", depending on whether the net amount is positive or negative.

2.8 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.

2.9 Banknotes in circulation

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes. The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with the banknote allocation key.

¹⁵⁵ The annual average Net Financial Assets of the NCBs is published on the website of the ECB at the following address: https://www.ecb.europa.eu/explainers/tell-me-more/shared/data/annual_average_nfa.en.xlsx. The most recent data are published during the semester starting the next financial year.

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, 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 in the balance sheet under 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 also gives rise to intra-Eurosystem balances. These claims or liabilities are disclosed under the sub-item "Intra-Eurosystem: Net claims/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" in the profit and loss account.

2.10 Intra-Eurosystem claims and liabilities

Intra-Eurosystem balances result primarily from cross-border payments in the EU that are settled in central bank money in euro. They are settled in TARGET2 (Trans-European Automated Real-time Gross settlement Express Transfer system) and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-à-vis the ECB only. Intra-Eurosystem balances of the BCL vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro are presented on the balance sheet of the BCL as a single net asset position and disclosed under "Other claims within the Eurosystem (net)".

There are other claims and liabilities of the BCL vis-à-vis the Eurosystem due to its participation in the capital of the ECB (see the sub-item "Participating interest in the ECB"), the transfer of a part of foreign reserves (see the sub-item "Claims equivalent to the transfer of foreign reserves"), the interim profit distributions and accrued liabilities from the ECB resulting from the distribution of the monetary income results and the allocation of euro banknotes between the NCBs and the ECB.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a single net position 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 position on the balance sheet of the BCL.

2.11 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

2.12 Pension fund

Since 1 January 1999, after the entry into force of the Founding Law of 23 December 1998, as modified, the legal pension claims (1st pillar) of the BCL's staff are fully borne by the BCL. The pension fund was set up in 2000.

The actuarial method determines the pension fund's liability related to old age, disability or survival for each member of staff. The actuarial model is based, among other things, on each member of staff's personal and past and foreseeable career data, on the forecast of the cost and standard of living 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 from the wage share and from the notional employer's share and decrease by pension payments to retirees. At the year end, the provision is adjusted in the light of the new actuarial calculation. In addition, if necessary, periodic transfers from the account "Booking reserve of the pension fund", equivalent to the gains generated by the fund's assets, to adjust the account "Provision for pensions".

In cases where regular transfers and the results of the pension fund would be insufficient to cover the BCL's pension liabilities, the difference between the existing provision and the accrued liabilities valued by the actuary is covered in the same trend by an additional contribution from the BCL. The BCL applies the method of projected unit credit in line with international standards.

2.13 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 at 31 December 2018, the BCL holds 72 048.39 ounces of fine gold amounting to 80.8 million euro (72 219.72 ounces of fine gold amounting to 78.1 million euro on 31 December 2017).

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 2018.

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

	2018 EUR	2017 EUR
Receivables from the IMF	583 385 660	509 900 086
Balances with banks, security investments, external loans and other external assets	157 121 707	144 232 972
	740 507 367	654 133 058

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).

4.1 Receivables from the IMF

This sub-item contains receivables from the International Monetary Fund (IMF) 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. 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.

4.2 Balances with banks, security investments, external loans and other external assets

This sub-item contains 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. It includes in particular the US dollar securities portfolio which could be used, if needed, for monetary policy operations.

This portfolio, which amounts to 140.8 million euro as at 31 December 2018 (130 million euro on 31 December 2017), 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 2018, their value at market prices included a negative net revaluation adjustment amounting to 0.5 million euro (negative net revaluation adjustment amounting to 0.8 million euro on 31 December 2017).

Balances with banks amounted to 16.4 million euro as at 31 December 2018 (14.6 million euro on 31 December 2017).

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 623 million euro as at 31 December 2018 (1 416 million euro on 31 December 2017).

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

	2018 EUR	2017 EUR
Balances with banks	440 997	409 951
Available-for-sale securities portfolio	409 482 884	493 395 401
	409 923 881	493 805 352

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 available-for-sale 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 2018, the market value of the latter comprised a negative net revaluation adjustment amounting to 7.7 million euro including the premium and discount amortisation (negative net revaluation adjustment amounting to 5.3 million euro on 31 December 2017).

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:

	2018 EUR	2017 EUR
Main refinancing operations	45 000 000	-
Longer-term refinancing operations	5 096 440 000	5 632 440 000
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	-
Credits related to margin calls	-	-
	5 141 440 000	5 632 440 000

As at 31 December 2018, the total Eurosystem holding of monetary policy assets amounts to 734 382 million euro of which the BCL holds 5 141 million euro.

In accordance with Article 32.4 of the Statute of the ESCB, any risks from monetary policy operations, if they were to materialise, may be shared, by decision of the Governing Council, 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

Main refinancing operations are executed through liquidity providing reverse transactions with a weekly frequency and a maturity of normally one week, on the basis of standard 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

These operations aim to provide counterparties with additional longer-term refinancing. In 2018 operations were conducted with maturities equal to the reserve maintenance period and with maturities between 3 and 48 months. These operations were conducted at fixed rate with allotment of the total amount bid. Additionally, in 2016, the Governing Council introduced a new series of four targeted longer-term refinancing operations (TLTRO II).

These operations have a four-year maturity, with a possibility of repayment after two years. According to the decisions taken by the Governing Council, the final interest rate applicable to each TLTRO-II operation depended on the lending behaviour of the counterparties for the period between 1 February 2016 and 31 January 2018 and would be between the MRO rate and the deposit facility rate at the time of the allotment. Given that the actual rate could only be known in 2018 and a reliable estimate was not possible until this time, the deposit facility rate was used for calculating the TLTRO II interest up to the end of 2017, as this was deemed a prudent approach. Interest income for that period resulting from the difference between the deposit facility rate and the actual rate is recorded in the profit and loss account under "interest expense".

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

	2018 EUR	2017 EUR
Securities held for monetary policy purposes	6 596 941 266	5 721 670 418
Other securities	417 368 983	586 098 895
- <i>available-for-sale securities portfolio</i>	371 919 994	461 393 735
- <i>held-to-maturity securities portfolio</i>	45 448 989	124 705 160
	7 014 310 249	6 307 769 313

9.1 Securities held for monetary policy purposes

This item contains securities acquired by the BCL within the scope of the third purchase programme for covered bonds (CBPP3), the securities markets programme (SMP) and the public sector purchase programme (PSPP).

The SMP was terminated on 6 September 2012.

In 2018 the Eurosystem continued its securities purchases under the expanded asset purchase programme (APP), which includes the third covered bond purchase programme (CBPP3), the asset-backed security purchase programme (ABSPP), the PSPP and the corporate sector purchase programme (CSPP).

The monthly pace of combined net APP purchases by the NCBs and the ECB was 30 billion euro on average until September 2018 and 15 billion euro from October 2018 until the end of the year when the net purchases ended. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rate, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The securities purchased under all of these programmes are valued on an amortised cost basis subject to impairment. The amortised cost of the securities held by BCL, as well as their market value (which is provided for comparison purposes only), are as follows:

Securities held for monetary policy purposes	2018 EUR		2017 EUR	
	Amortised cost	Market value	Amortised cost	Market value
Third covered bond purchase programme	1 651 208 628	1 661 989 692	1 117 063 949	1 128 287 383
Securities markets programme	65 604 078	72 542 650	120 028 853	131 851 835
Public sector purchase programme	4 880 128 560	4 891 276 796	4 484 577 616	4 479 389 911
	6 596 941 266	6 625 809 138	5 721 670 418	5 739 529 129

Market values are indicative and were derived on the basis of market quotes. When market quotes were not available, the amortised cost was used for the evaluation of the securities portfolio.

The Governing Council assesses on a regular basis the financial risks associated with the securities held under these programmes. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year-end and are approved by the Governing Council.

The total Eurosystem NCB's holding of securities held in the securities markets programme, in the third covered bond purchase programme, in the corporate sector purchase programme and securities issued by international or supranational institutions held in the public sector purchase programme amounts to 710.9 billion euro as at 31 December 2018, of which the BCL holds 4 706.8 million euro.

In the context of the impairment test conducted as at the end of 2018 on securities purchased under the third covered bond purchase programme, the Governing Council identified one impairment indicator for one issuer which had significant financial difficulties in 2018. The Governing Council considered that the identified impairment indicator had not affected the estimated future cash flows. No impairment losses were therefore recorded at the year-end on the BCL's covered bonds holdings under the third covered bond purchase programme.

In accordance with Article 32.4 of the ESCB Statute, losses materialising from securities holdings purchased under the CSPP programme are shared in full by the Eurosystem NCBs, in proportion to their prevailing ECB capital key shares. In the context of the impairment test conducted on securities purchased under the CSPP programme, it was concluded that the holding of one security is impaired. In accordance with the principle of prudence, the Governing Council deemed it appropriate to establish a provision against losses in monetary policy operations (see Note 20.1.2, "Buffer against counterparty risks in Eurosystem").

9.2 Other securities

The securities recorded under this item include:

- the available-for-sale securities portfolio in euro issued by residents of the euro area amount to 371.9 million euro as at 31 December 2018 (461.4 million euro on 31 December 2017). This portfolio contains government bonds in euro issued by Member States of the euro area and bonds issued by companies of the euro area. Securities are valued at market value. As at 31 December 2018, the market value of the latter comprised a negative net revaluation adjustment amounting to 7.6 million euro including premium and discount amortisation (negative net revaluation adjustment amounting to 0.8 million euro on 31 December 2017). In this portfolio, the BCL does not hold any security issued by the State of the Grand Duchy of Luxembourg;
- the held-to-maturity securities 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 2018, these securities amount to 45.4 million euro (124.7 million euro on 31 December 2017). In this portfolio, the BCL does not hold any security issued by the State of the Grand Duchy of Luxembourg.

NOTE 10 – INTRA-EUROSISTEM 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 are subject to adjustment every five years.

The NCBs' capital key shares are as follows (in percentage):

Country	Capital key in ESCB	Eurosistem key
	from 01/01/2014	from 01/01/2015
Belgium	2.4778	3.52003
Germany	17.9973	25.56743
Estonia	0.1928	0.27390
Ireland	1.1607	1.64892
Greece	2.0332	2.88842
Spain	8.8409	12.55961
France	14.1792	20.14334
Italy	12.3108	17.48904
Cyprus	0.1513	0.21494
Latvia	0.2821	0.40076
Lithuania	0.4132	0.58700
Luxembourg	0.2030	0.28839
Malta	0.0648	0.09206
Netherlands	4.0035	5.68748
Austria	1.9631	2.78883
Portugal	1.7434	2.47672
Slovenia	0.3455	0.49083
Slovak Republic	0.7725	1.09743
Finland	1.2564	1.78487
Bulgaria	0.8590	-
Czech Republic	1.6075	-
Denmark	1.4873	-
Croatia	0.6023	-
Hungary	1.3798	-
Poland	5.1230	-
Romania	2.6024	-
Sweden	2.2729	-
United Kingdom	13.6743	-
Total	100.0000	100.00000

The capital shares of the NCBs in the ECB are shown in the following table (in euro):

	Subscribed capital since 1 January 2015	Paid-up capital since 1 January 2015
Banque Nationale de Belgique	268 222 025	268 222 025
Deutsche Bundesbank	1 948 208 997	1 948 208 997
Eesti Pank	20 870 614	20 870 614
Central Bank of Ireland	125 645 857	125 645 857
Banque de Grèce	220 094 044	220 094 044
Banco de España	957 028 050	957 028 050
Banque de France	1 534 899 402	1 534 899 402
Banca d'Italia	1 332 644 970	1 332 644 970
Central Bank of Cyprus	16 378 236	16 378 236
Latvijas Banka	30 537 345	30 537 345
Lietuvos bankas	44 728 929	44 728 929
Banque centrale du Luxembourg	21 974 764	21 974 764
Central Bank of Malta	7 014 605	7 014 605
De Nederlandsche Bank	433 379 158	433 379 158
Oesterreichische Nationalbank	212 505 714	212 505 714
Banco de Portugal	188 723 173	188 723 173
Banka Slovenije	37 400 399	37 400 399
Národná banka Slovenska	83 623 180	83 623 180
Suomen Pankki – Banque de Finlande	136 005 389	136 005 389
Subtotal for euro area NCB	7 619 884 851	7 619 884 851
Българска народна банка (Bulgarian National Bank)	92 986 811	3 487 005
Česká národní banka	174 011 989	6 525 450
Danmarks Nationalbank	161 000 330	6 037 512
Hrvatska narodna banka	65 199 018	2 444 963
Magyar Nemzeti Bank	149 363 448	5 601 129
Narodowy Bank Polski	554 565 112	20 796 192
Banca Națională a României	281 709 984	10 564 124
Sveriges Riksbank	246 041 586	9 226 559
Bank of England	1 480 243 942	55 509 148
Subtotal for non-euro area NCB	3 205 122 218	120 192 083
Total	10 825 007 070	7 740 076 935

Totals may not add up due to rounding.

The share that the BCL held in the accumulated net profits of the ECB reflects the repayment of 14.4 million euro of ECB reserves.

10.2 Claims equivalent to the transfer of foreign reserves to the ECB

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 2018, the claim of the BCL amounts to 117 640 617 euro (117 640 617 euro on 31 December 2017).

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 212.5 billion euro as at 31 December 2018 (191.8 billion euro on 31 December 2017). This increase results from the growth of the current accounts and of the deposit facilities related to the provision of liquidities by the Eurosystem.

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:

	Lands and Buildings EUR	Furniture and equipment EUR	Software EUR	Other EUR	Total EUR
Cost as at 1 January 2018	116 911 800	18 807 447	12 185 512	2 480 098	150 384 857
Disposals/Transfers	-	-	1 228 264	(1 228 264)	-
Acquisitions	998 917	854 576	130 693	1 770 484	3 754 670
Cost as at 31 December 2018	117 910 717	19 662 023	13 544 469	3 022 318	154 139 527
Accumulated depreciation as at 1 January 2018	66 455 458	17 080 814	9 600 247	-	93 136 519
Disposals/Transfers	-	-	-	-	-
Depreciation	4 348 626	1 028 730	917 919	-	6 295 275
Accumulated depreciation as at 31 December 2018	70 804 084	18 109 544	10 518 166	-	99 431 794
Net book value as at 31 December 2018	47 106 633	1 552 479	3 026 303	3 022 318	54 707 733

The sub-item "Lands and 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:

	2018 EUR	2017 EUR
Other participating interests	87 253 250	85 251 623
Pension fund	384 639 868	366 428 541
	471 893 118	451 680 164

The other participating interests comprise the BCL's investments held in 2018 in SWIFT, LuxCSD SA., Islamic Liquidity Management Corporation and Bank for International Settlements.

The assets of the pension fund are recorded in the accounts under "Pension fund". The balance of this account corresponds to the net asset value of the fund as calculated by the depositary bank as at 31 December 2018. Under its asset management framework, including its pension fund, an amount of 20.8 million euro was transferred to the assets of the pension fund.

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 commission receivables and the prepaid expenses, including salaries paid for January 2019.

11.4 Sundry

	2018 EUR	2017 EUR
Others	3 974 357	10 007 409
	3 974 357	10 007 409

As at 31 December 2018, this sub-item mainly comprises the counterpart of the unrealised loss on SDR recorded in the financial statements of the BCL amounting to 1.9 million euro, 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 (unrealised loss on SDR of 8.0 million euro as at 31 December 2017).

NOTE 12 – BANKNOTES IN CIRCULATION

This item consists of the BCL's share of the total euro banknotes in circulation.

During 2018, the total value of banknotes in circulation within the Eurosystem increased by 5.2%. According to the allocation key, the BCL had euro banknotes in circulation worth 3 268.7 million euro at the end of 2018 compared with 3 108.3 million euro at the end of 2017.

The value of the euro banknotes actually issued by the BCL in 2018 increased by 0.8% and worth 98.4 billion euro as at 31 December 2018 (97.7 billion euro as at 31 December 2017). As this was more than the allocated amount, the difference of 95.2 billion euro (94.6 billion euro as at 31 December 2017) is shown under liability sub-item "Net liabilities related to the allocation of euro banknotes within the Eurosystem".

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

	2018 EUR	2017 EUR
Current accounts (including the minimum reserves)	69 766 448 907	60 489 399 078
Deposit facility	50 074 895 624	42 385 900 000
Fixed-term deposits	-	-
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	119 841 344 531	102 875 299 078

13.1 Current accounts (covering the minimum reserve system)

Current accounts contain the credit balances on the transaction accounts of credit institutions that are required to hold minimum reserves. Banks' minimum reserve balances have been remunerated since 1 January 1999 at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. Since June 2014 the reserve holdings exceeding the required minimum reserves are remunerated at zero per cent or the deposit facility rate, whichever is lower.

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, below an established trigger point, 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:

	2018 EUR	2017 EUR
Current accounts	1	1
Account related to euro coins issued by the Treasury	300 063 980	289 841 435
Specific account of the State	366 719 064	382 174 064
Fixed-term deposit	134 834 663	137 359 761
	801 617 708	809 375 261

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 relates to the above-mentioned agreement.

14.2 Other liabilities

	2018 EUR	2017 EUR
Other liabilities	2 187 031 397	1 993 692 294
	2 187 031 397	1 993 692 294

As at 31 December 2018, this item included mainly a current account held by an European institution.

NOTE 15 – LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

This item includes current accounts and deposits held by central banks, 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 and deposits 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 299.7 million euro as at 31 December 2018 (SDR 246.6 million, or 292.9 million euro on 31 December 2017).

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 as explained in Note 12. 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, miscellaneous expenses payable, including suppliers, and the Luxembourg francs banknotes not yet returned.

The Luxembourg franc banknotes still circulating as at 31 December 2018 amount to 5.0 million euro (5.0 million euro on 31 December 2017).

NOTE 20 – PROVISIONS

Provisions are as follows:

	2018 EUR	2017 EUR
Provision for banking risks	948 332 888	950 691 664
Provision for pensions	400 394 500	387 315 357
Other provisions	196 500	187 000
	1 348 923 888	1 338 194 021

20.1 Provision for banking risks

Provision for banking risks includes the following items:

Provisions for specific banking risks	2018 EUR	2017 EUR
Provision covering credit and market risk	581 316 320	580 594 982
Buffer against counterparty risks in Eurosystem	464 519	198 614
Provision covering operational risk	11 710 000	14 590 000
Provision covering liquidity risk	20 576 680	18 392 699
	614 067 519	613 776 295
Provisions for general banking risks	2018 EUR	2017 EUR
Provision for liabilities resulting from monetary agreements	32 341 954	32 341 954
Other provision for general banking risks	301 923 415	304 573 415
	334 265 369	336 915 369
	948 332 888	950 691 664

20.1.1 Provision covering credit and market risk

The provision of 581.3 million euro as at 31 December 2018 (580.6 million euro on 31 December 2017) corresponds to:

- 8.18% (8.18% on 31 December 2017) of the BCL's own securities portfolio existing as at 31 December 2018 and participations other than the participating interest in the capital of the ECB;
- 8.18% (8.18% on 31 December 2017) 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, the third covered bond purchase programme and the corporate sector purchase programme, and the securities issued by international or supranational institutions held in the public sector purchase programme (excluding securities held by the ECB).

According to the BCL's guidelines of the Bank's Council, the objective is to target a rate of 12% on all items above. In order to achieve this objective in the light of non-conventional measures, this provision should be progressively increased by an additional amount of more than 1 100 million euro (2017: 1 100 million euro) over the next years in order to cover the potential liabilities. It is worth noting that the current financial capacity of the BCL is insufficient to generate the required level of income.

Yet this situation goes against the ECB recommendations on 7 September 2012 in relation to the capital increase of the BCL (CON/2012/69) in which it is noted that: *"The principle of financial independence requires a national central bank (NCB) within the European System of Central Banks (ESCB) to have sufficient means not only to perform its ESCB or Eurosystem-related tasks, but also its national tasks, e.g. financing its administration and own operations. [...] Financial independence primarily implies that an NCB should always be sufficiently capitalised. [...] In particular, the ECB is of the view that the higher the level of capital, reserves and provisions against financial risks is, the higher the safeguards against future losses are."*

20.1.2 Buffer against counterparty risks in Eurosystem

As a result of the impairment test conducted on its CSPP portfolio, the Governing Council has deemed it appropriate to establish a provision totalling 161 million euro relating to losses in monetary policy operations in 2018. In accordance with Article 32.4 of the ESCB Statute, this buffer is allocated between all the NCB of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in 2018. As a result, for the BCL, a provision amounting to 464 519 euro, equivalent to 0.28839% of the total provision, was created.

In 2017, a provision totalling 68.9 million euro against losses in monetary policy operations, in relation to a security held by a NCB of the Eurosystem on its CSPP portfolio. In accordance with Article 32.4 of the ESCB Statute, this provision was allocated between all the NCB of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in 2017. As a result, for the BCL, a provision amounting to 198 614 euro, equivalent to 0.28839% of the total provision, was created. The size of the provision in the financial statements 2017 was calculated taking into account the information regarding the sale of the security in January 2018 and therefore the loss realised in 2018 was fully covered by usage of the provision.

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 2018, the average has been based on previous years in accordance with these rules.

20.1.4 Provision for liabilities resulting from monetary agreements

The provision created in order to face any future monetary liabilities did not change in 2018.

20.1.5 Other provision for general banking risks

This provision is intended to cover non-specific risks of losses resulting from central bank's activities. Due to the uncertainties of the financial markets, those risks can not be quantified in advance.

The BCL reversed a part of its provision for general banking risks in 2018 for an amount of 2.65 million euro.

20.2 Provision for pensions

Provision for pensions include the following items:

	2018 EUR	2017 EUR
Provision for pensions	400 394 500	387 315 357
	400 394 500	387 315 357

In accordance with its Organic Law, the statutory pensions (first pillar) of its staff members are fully borne by the BCL.

The financing of pension obligations is provided on the one hand through deductions from wages and salaries in accordance with the rules governing the pension regime at the BCL and the other hand by payments made by the BCL.

In line with the obligation of its Organic Law to support the entirety of legal pension costs (first pillar) of its staff members, the BCL bodies decided for 2018 to increase the provision for pensions by an additional contribution of 5.3 million euro.

The pension liabilities of the employer vis-à-vis all its staff members amounted to 400.4 million euro at 31 December 2018 compared with 387.3 million euro at 31 December 2017.

The increase of 13.1 million euro in pension liabilities in 2018 includes mainly:

- salary and wage deductions (employees' share) accounting for 3.3 million euro;
- notional employer's share calculated on gross salary and wage for 6.8 million euro;
- an additional contribution from the BCL of 5.3 million euro resulting from the pension liabilities' revaluation;
- pension payments for retired staff members of 2.1 million euro.

The demographic, economic and financial assumptions applied as part of the assessment of pension liabilities at 31 December 2018 are as follows:

Discount rate	3.65%
Wage growth rate (incl. index)	3.30%
Expected return on plan assets	3.95%
Pension growth rate (incl. index)	2.35%
Mortality table	German DAV 2004 tables
Disability rate	0.50%
Staff turnover	0.00%

For all practical purposes, it should be noted with the application of the measurement features from IAS 19 accounting standard, which do not apply to the BCL to determine the pension liabilities, these would be increased to reach an amount of 580 million euro.

This standard requires both the use of actuarial method of projected unit credit, as applied by the BCL, and the use of a discount rate corresponding to the Eurozone "corporate" bond rate with an AA rating and a duration - at value date - reflecting those of the liabilities. For the fiscal year 2018, this rate was estimated at 2.30%.

NOTE 21 - REVALUATION ACCOUNTS

	2018 EUR	2017 EUR
Gold	65 198 565	62 561 936
Foreign Currency	42 227 355	32 110 825
Securities and other instruments	17 204 197	27 019 145
	124 630 117	121 691 906

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 euro (unchanged since June 2009).

22.2 Reserves

The reserves amount to 20.7 million euro (18.7 million euro on 31 December 2017). This amount was increased by 2.0 million euro following the allocation of profit for 2017 according to the decision of the BCL's Council in application of its Founding Law (Article 31).

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 2018, the market value of these securities amounts to 127.5 billion euro (133.8 billion euro on 31 December 2017).

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 – FUTURES

These items contain, if any, the purchases and sales of interest rate futures presented at notional amount. These transactions were conducted in the context of the management of the BCL's own investments.

NOTE 26 – NET INTEREST INCOME

This item includes interest income and expense.

For harmonised presentational purposes in the Eurosystem, interest income and interest expense on monetary policy operations are netted on a balance sheet sub-item level either as “interest income” or “interest expense”, according on the positive or negative net amount.

Interest income and expense are as follows:

Composition of interest income	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2018	2018	2018
IMF	4 961 131	-	4 961 131
Lending to euro area credit institutions related to monetary policy operations	-	13 510	13 510
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	466 780 150	466 780 150
Securities held for monetary policy purposes	-	19 065 024	19 065 024
Other securities	2 651 680	12 162 265	14 813 945
Other	22 744 974	12 501 057	35 246 031
Total	30 357 785	510 522 006	540 879 791

Composition of interest expense	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2018	2018	2018
IMF	(2 777 150)	-	(2 777 150)
Lending to euro area credit institutions related to monetary policy operations	-	(20 482 784)	(20 482 784)
Other liabilities	(18 914 787)	(4 629 901)	(23 544 688)
Interest on swap operation	-	(641 096)	(641 096)
Total	(21 691 937)	(25 753 781)	(47 445 718)

Composition of interest income	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2017	2017	2017
IMF	2 956 456	-	2 956 456
Lending to euro area credit institutions related to monetary policy operations	-	20 598	20 598
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	369 227 860	369 227 860
Securities held for monetary policy purposes	-	12 240 681	12 240 681
Other securities	1 892 053	17 879 726	19 771 779
Other	15 464 782	7 137 931	22 602 713
Total	20 313 291	406 506 796	426 820 087

Composition of interest expense	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2017	2017	2017
IMF	(1 576 555)	-	(1 576 555)
Lending to euro area credit institutions related to monetary policy operations	-	(18 941 257)	(18 941 257)
Other liabilities	(12 027 972)	(1 489 235)	(13 517 207)
Interest on swap operation	-	(1 397)	(1 397)
Total	(13 604 527)	(20 431 889)	(34 036 416)

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 2018, they amount to 15.4 million euro (28.0 million euro on 31 December 2017) and to 1.4 million euro (4.5 million euro on 31 December 2017) respectively, giving a net gain of 13.9 million euro (a net gain of 23.5 million euro on 31 December 2017).

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

This item includes revaluation losses on securities for 10.8 million euro (revaluation losses on securities for 0.7 million euro in 2017).

NOTE 29 – TRANSFER (TO)/FROM PROVISIONS FOR RISKS

This item includes the transfers to and from provisions for banking risks and other provisions.

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	
	2018	2017	2018	2017
Securities	8 262 654	8 327 363	[9 158 977]	[9 385 392]
Others	1 578 302	1 359 641	[1 068 348]	[936 332]
Total	9 840 956	9 687 004	(10 227 325)	(10 321 724)

NOTE 31 – INCOME FROM PARTICIPATING INTERESTS

The ECB's seigniorage income, which arises from the 8% share of euro banknotes allocated to the ECB, as well as the income arising from the securities held under (a) SMP, (b) CBPP3, (c) ABSPP and (d) PSPP is distributed in January of the following year by means of an interim profit distribution, unless otherwise decided by the Governing Council.

It is distributed in full unless it is higher than the ECB's net profit for the year, 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. The Governing Council may also decide to reduce the amount of the income on euro banknotes in circulation, to be distributed in January, by the amount of the costs incurred by the ECB in connection with the issue and handling of euro banknotes.

In 2018, the BCL received 4.6 million euro from the ECB.

In 2018, the BCL also received a dividend of 0.7 million SDR (0.9 million euro) due to the participating interest held in the Bank for International Settlements (BIS).

In total, this item amounts to 5.4 million euro as at 31 December 2018 (4.7 million euro on 31 December 2017).

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 mainly 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;
- accrued interest recorded at quarter-end by each NCB on monetary policy liabilities the maturity of which is one year or longer.

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;
- securities held for monetary policy purposes;
- intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB;
- net intra-Eurosystem claims resulting from TARGET2 transactions;
- net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem;
- accrued interest recorded at quarter-end by each NCB on monetary policy assets the maturity of which is one year or longer;
- a limited amount of each NCBs' gold holdings in proportion to each NCB's capital key share.

The amount of each NCB's monetary income shall be determined by measuring the actual income that derives from the earmarkable assets recorded in its books. As an exception to this, gold is considered as generating no income and the following are considered to generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations: (i) securities held for monetary purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bonds purchase programme, (ii) securities held for monetary policy purposes under Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bonds purchase programme and (iii) debt instruments issued by central, regional and local governments and recognised agencies and substitute debt instruments issued by public non-financial corporations under Decision ECB/2015/10 of 4 March 2015 on the implementation of a secondary markets public sector asset purchase programme.

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 the value of the difference the latest available marginal rate for the Eurosystem's main refinancing operations.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed capital key set at 0.28839% since 1 January 2015.

This item includes the net monetary income allocated to the BCL for 2018 representing an expense amounting to 425 136 314 euro (expense of 329 600 956 euro on 31 December 2017).

This item also contains the BCL's share in the provision against losses in monetary policy operations, which was established in relation to a security held by a NCB of the Eurosystem in its CSPP portfolio in 2018 (see Note 20.1.2 "Buffer against counterparty risks in Eurosystem").

This item also contains the BCL's share in the realised loss related to the sale in 2018 of a security held by a NCB of the Eurosystem in its CSPP portfolio and the dissolution of the provision created in 2017 for losses on monetary policy operations (see Note 20.1.2 "Buffer against counterparty risks in Eurosystem").

NOTE 33 – OTHER INCOME

Other income includes revenue for services rendered to third parties, adjustments to prior years' accruals, income from numismatic activities and the recovered functioning costs of EPCO (Eurosystem Procurement Co-ordination Office).

Other income includes also, when appropriate, the BCL's revenue from financial agreements between the Government of Luxembourg and the BCL.

NOTE 34 – STAFF COSTS

	2018 EUR	2017 EUR
Gross wages and salaries	(42 686 187)	(40 455 012)
Other staff costs	(2 111 398)	(2 036 336)
	(44 797 585)	(42 491 348)

This item includes the gross wages and salaries, compensations as well as other staff costs (the employer's share of contributions to the social security scheme and meal vouchers).

The amount relevant to the Board of Directors, including the amounts of the representation expenses as decided by Government in council, amounted to 742 452 euro for the year 2018 (727 237 euro for the year 2017).

As at 31 December 2018, the BCL employed 390 persons (378 on 31 December 2017). The average number of persons working for the BCL from 1 January to 31 December 2018 was 377 (368 for the year 2017).

NOTE 35 – BCL'S CONTRIBUTION TO THE LEGAL PENSION SCHEME OF ITS STAFF

	2018 EUR	2017 EUR
Notional employer's share	(6 778 644)	(6 466 083)
Adjustments to the pension liabilities	(5 340 955)	(4 790 753)
	(12 119 599)	(11 256 836)

This item includes the notional employer's share of the BCL determined on the basis of the gross wages and salaries for an amount of 6.8 million euro as well as the contribution of the BCL for an amount of 5.3 million euro as a result of the revaluation of pension liabilities (see also Note 20.2 "Provisions for pensions"). It is worth noting that the BCL contribution amounted to 4.8 million euro in 2017.

NOTE 36 – OTHER ADMINISTRATIVE EXPENSES

This item includes indemnities incurred in order to align the BCL's workforce to its needs from both a recruitment and a qualification perspective, indemnities for hierarchical responsibility, expenses for external consultants, leasing, cleaning and repairing of buildings and equipment, small goods and materials, other services and supplies. It also includes expenses in relation to the Council meeting amounted to 95 558 euro for 2018, of which 88 774 euro for indemnities paid to the members of the Council (99 389 euro for 2017, of which 91 557 euro for indemnities).

NOTE 37 – 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 38 – BANKNOTE PRODUCTION SERVICES

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

NOTE 39 – OTHER EXPENSES

This item includes in particular costs relating to numismatic activities.

NOTE 40 – RESULT FOR THE YEAR

	2018 EUR	2017 EUR
Profit for the year	1 988 284	1 960 764

The fiscal year 2018 shows a profit of 1 988 284 euro (profit of 1 960 764 euro in 2017).

When taking into consideration the BCL's obligation or objective respectively relating to pension (see Note 20.2) and the provision for banking risks (see Note 20.1), the provisional results indicate a trend towards a significant structural loss.

NOTE 41 – EVENTS AFTER THE REPORTING PERIOD

On 1 January 2019, following the five-yearly adjustment of the key for ECB's capital subscription based on GDP and population size, the NCB's participations key in ESCB and in the Eurosystem changed as follows:

Country	Capital key in ESCB (in %)		Eurosystem key (in %)	
	from 01/01/2019	until 31/12/2018	from 01/01/2019	until 31/12/2018
Belgium	2.5280	2.4778	3.63127	3.52003
Germany	18.3670	17.9973	26.38270	25.56743
Estonia	0.1968	0.1928	0.28269	0.27390
Ireland	1.1754	1.1607	1.68837	1.64892
Greece	1.7292	2.0332	2.48385	2.88842
Spain	8.3391	8.8409	11.97844	12.55961
France	14.2061	14.1792	20.40590	20.14334
Italy	11.8023	12.3108	16.95304	17.48904
Cyprus	0.1503	0.1513	0.21589	0.21494
Latvia	0.2731	0.2821	0.39229	0.40076
Lithuania	0.4059	0.4132	0.58304	0.58700
Luxembourg	0.2270	0.2030	0.32607	0.28839
Malta	0.0732	0.0648	0.10515	0.09206
Netherlands	4.0677	4.0035	5.84292	5.68748
Austria	2.0325	1.9631	2.91952	2.78883
Portugal	1.6367	1.7434	2.35099	2.47672
Slovenia	0.3361	0.3455	0.48278	0.49083
Slovakia	0.8004	0.7725	1.14971	1.09743
Finland	1.2708	1.2564	1.82540	1.78487
Bulgaria	0.8511	0.8590	-	-
Czech Republic	1.6172	1.6075	-	-
Denmark	1.4986	1.4873	-	-
Croatia	0.5673	0.6023	-	-
Hungary	1.3348	1.3798	-	-
Poland	5.2068	5.1230	-	-
Romania	2.4470	2.6024	-	-
Sweden	2.5222	2.2729	-	-
United Kingdom	14.3374	13.6743	-	-
Total	100.0000	100.0000	100.00000	100.00000