

4. THE BCL AS AN ORGANISATION

4.1 The BCL's organisation

4.1.1 The Council and the Audit Committee

The Council

Article 6 of the law of 23 December 1998 defines the powers of the Council of the Bank.

The members of the Board are ex officio members of the Council; in 2004, the members of the Council were:

- President: Yves Mersch
- Members: Andrée Billon
Jean Hamilius
Pit Hentgen
Mathias Hinterscheid
Serge Kolb
Patrice Pieretti
Nico Reyland
Michel Wurth

On 4 June 2004, the appointment of Mr Patrice Pieretti as a member of the Council has been renewed for a period of 6 years by the Government.

The emoluments of Council members amount to 100 index points (employee value) for the President and 40 index points (employee value) for other members.

During 2004, the Council held 5 meetings.

- Within the framework of **monitoring the financial situation** of the Bank, the Council has approved the financial accounts as of 31 December 2003, the budgetary trends and, subsequently, the budget and the organisation chart of the Bank for the 2005 financial exercise. At its meeting of 16 April 2004, the Government in Cabinet has decided to give its discharge to the organs of the Bank for the financial exercise 2003. The Council has proposed the appointment of the external auditor to the Government and has appointed the members of the Audit Committee for 2005. The Council has also assisted in the drafting of this Central Bank annual report.
- Regarding the **business policy of the Bank**, the Council has decided on a broad outline for the BCL asset management policy and has been kept informed of the outcome of BCL business cases, i.e. coin minting and the marketing of Luxembourg numismatic products, international cooperation and service providing for third parties, training policy and the remuneration of oversight of payment and securities settlement systems.

- In its role as an **observer of ESCB missions**, the Council regularly observed and commented on economic and financial evolution at national and international levels and has been kept informed of the decisions made by the Governing Council of the ECB.

The Audit Committee

The Audit Committee was created by the Council at its meeting of 13 December 2001. Its objective is to assist the Council in the performance of its missions related to the approval of the financial accounts (articles 6 (c) and 29 (1) of the law) and to the work of the statutory auditors of the BCL (article 6 (f) and 16 of the law).

The Committee has a preparatory role only and thus has no decision-making power. It reports to the Council and is composed of 3 non-executive members of the Council and the President of the Council. It may invite the head of the internal audit unit and the statutory auditor of the Bank to participate in its work. Each member of the Council has the right to request invitation to the committee's meetings.

Members are appointed by the Council for a renewable mandate of one year. Being chaired by one of its non-executive members, the Committee has several missions:

- It assists the Council in its choice of the statutory auditor to be proposed to the Government;
- In addition to the legal mandate of the statutory auditor, the Committee assists the Council in specifying the scope of the potential specific controls to be performed by the statutory auditor (article 16 of the Law);
- It is kept informed of the audit programme of the statutory auditor in order to assist the Council in its analysis of the reports issued by the statutory auditor;
- It is kept informed of the internal audit plan in order to assist the Council in the analysis of the internal audit activity report;
- It is kept informed of the follow-up of the statutory auditor's and internal audit's recommendations.

The Committee holds at least three meetings a year. The logistical support necessary for the tasks of the Committee is provided by the BCL.

In 2004, the Audit Committee held three meetings. During its meeting on 9 December 2004, the Council renewed the mandates of the non-executive members of the Audit Committee for 2005: Messrs. Mathias Hinterscheid, Pit Hentgen and Nico Reyland. Mr. Mersch is an ex officio member in his function as President of the Council.

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4.1.2 The Board of Directors

The Board of Directors is the superior executive authority of the BCL. It draws up the measures and takes the decisions required for the fulfilment of the tasks of the Central Bank.

The Board of Directors comprises of the Director-General and two Directors. The three members of the Board are appointed by the Grand Duke, on a proposal from the Government in Cabinet for a six-year period and their appointments shall be renewable (art 11). During 2004, the appointments of the members of the Board have been renewed for a period of 6 years. In accordance with the decree of the Grand Duke of 8 June 2004, the appointment of the Director general due, on the 31 of May, has been renewed. The appointments of the two Directors have also been renewed by decree of the Grand Duke of 21 December 2004.

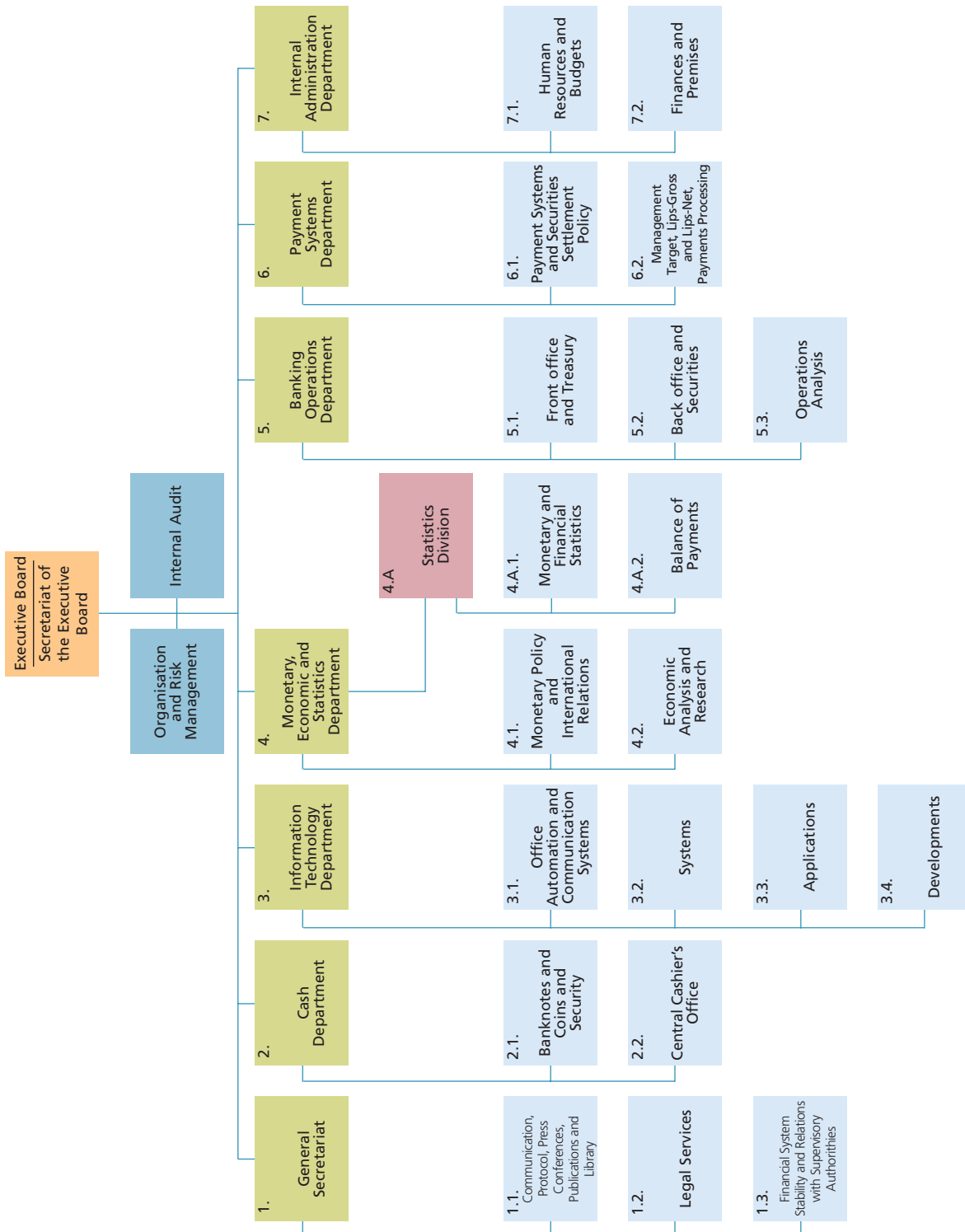
Article 7 (1) of the law of 23 December 1998, which provides that the Board members are ex officio members of the Council has been renewed by degree also, as have the appointments of the Board members as members of the Council.

The salaries of members of the Board are classed respectively in Grade 18 of Heading "I. General Administration" of appendix A "classification of functions" for the Directors and in grade S1 of Heading "VI. Functions with fixed index", for the Director-General. Besides a basic salary, the two Directors are entitled to receive an allowance for representation purposes of 131 index points (employee value) and the Director-General is entitled to receive an allowance of 122 index points.

Director-General: Mr. Yves Mersch

Directors: Mrs. Andrée Billon and Mr. Serge Kolb

4.1.3 The BCL's organisation chart



4. THE BCL AS AN ORGANISATION

4.2 The BCL staff

4.2.1 Growth of staff

During 2004, the BCL staff increased by 3% to reach a total of 209 on 31 December 2004 (including Executive Board members), equivalent to 198.5 full time positions (+1% from 2003). The introduction of part-time work in 2004 explains why the increase in staff exceeded the increase in the number of positions.

At the end of December 2004, 14 staff members worked part-time:

- Part-time work (50%): 5 staff members
- Part-time work (75%): 4 staff members
- Leave for half-time work: 5 staff members

During 2004, the BCL welcomed 10 new staff members, 9 of whom were offered a contract for an unlimited period of time and one a fixed-term contract. Six staff members have been recruited into the higher career bracket, 3 staff members into the intermediate career bracket, and 1 staff member into the junior career bracket. Four staff members have left the bank: of these 2 have been granted special leave and 1 benefits from unpaid leave.

Furthermore, 3 staff members were on part-time parental leave, and 3 more were on full-time parental leave.

Finally, 2 staff members were granted unpaid leave and 3 were on special leave.

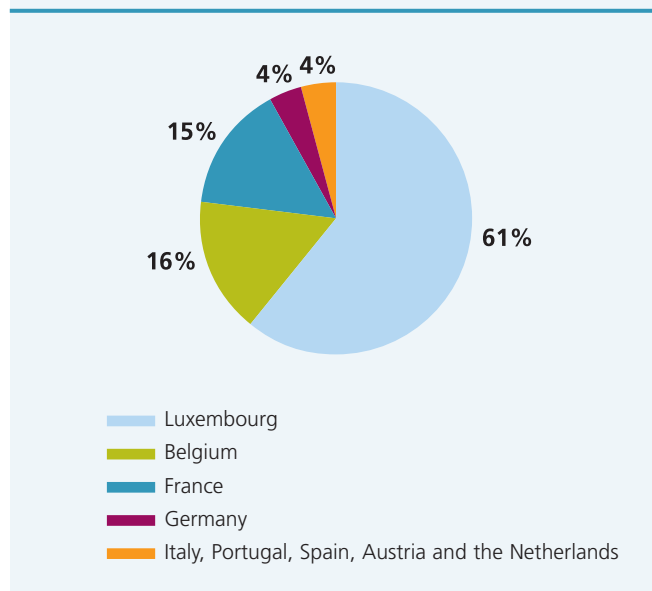
As a result of new activities, the Bank's organisational chart shows an increase of 6 posts relative to 2003.

A competitive entrance examination was held on 24 and 25 June 2004, for which 150 candidates applied. Additionally, the BCL received approximately 460 spontaneous applications and some 270 applications for internships or student jobs.

As in former years, the recruitment procedure mainly focused on university graduates as well as the applicants' potential.

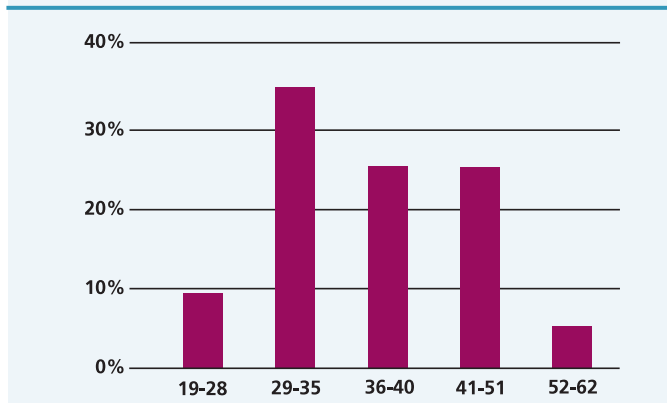
Staff members are of nine different nationalities, thus contributing to the diversity of the Bank's human capital and its cultural enrichment.

GRAPH 1: STAFF MEMBERS BY NATIONALITY

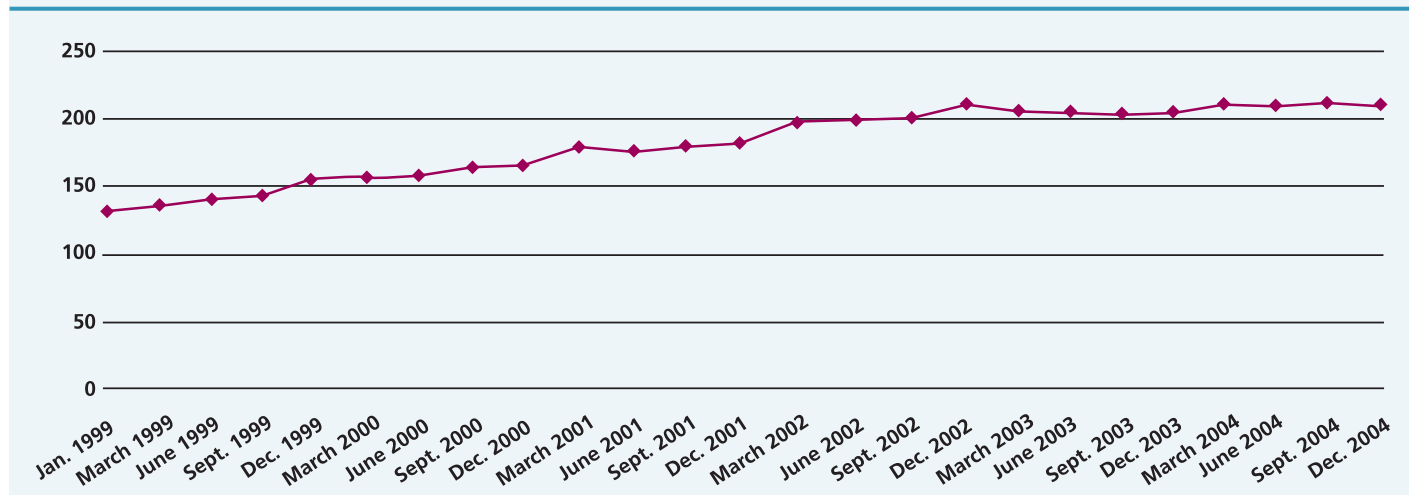


The average age of BCL staff members has slightly increased from 36.45 years in 2003 to 37.30 years at the end of December 2004. On this date, the staff numbered 34% women and 66% men.

GRAPH 2: BREAKDOWN OF STAFF MEMBERS PER AGE GROUP



GRAPH 3: STAFF NUMBERS SINCE JANUARY 1999



4.2.2 Human resources management

The annual assessment was introduced in 2003, and in 2004 the whole appraisal exercise was further developed. This exercise has allowed each staff member to establish clearly defined individual objectives for the year to come, in line with the corporate objectives of the Bank as defined in the Corporate Balanced Scorecard. Moreover, the introduction of a retrospective part allows an assessment of the extent to which the fixed objectives have been met.

Practical aspects of daily human resource management have also been improved thanks to the integration of HR software. After a series of tests and adaptations to the specificities of the Bank in terms of, for example, status and payment system, new HR software now allows staff members to forward their holiday and training requests on-line to their superior for approval.

4.2.3 Staff training

The Bank positions itself as a centre of competence, and by means of a constant quest for excellence it aims at gaining the public's confidence. The Bank's corporate values should enable it to adapt easily to the trends and needs of its environment. In order to meet these requirements, great emphasis has been given to the training of new recruits and the continuing education of the staff.

2004 has seen the consolidation of the Bank's training policy, which makes a distinction between the basic training programme, management training and continuing education.

The choice of internal training courses has been considerably broadened to reach a total of 16 by the end of 2004. The establishment of these courses called for extensive effort on the part of all those responsible. The courses on offer at the BCL concentrate on central bank activities. The objective pursued is to share the Bank's know-how with as many as possible of Luxembourg's financial specialists. Opening up these courses - which are already available for internal training needs - to third parties, provides considerable economies of scale. Thus, negotiations in order to strengthen cooperation with the "Agence de transfert de technologie financière" (ATTF) and the "Institut de formation bancaire, Luxembourg" (IFBL) have been held.

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Following a detailed analysis of management skills, management-training courses have been organised. A total of 39 staff members attended this training programme, which had a total duration of 6.5 days. The first 2-day module tackled questions of staff supervision, the second module (2.5 days) dealt with communication and assertiveness, and the last (2-day) module deepened the study of teamwork and motivation.

All new recruits must follow the basic internal training programme, and all staff members are also encouraged to carry out external training, mainly with other central banks of the ESCB so as to consolidate their professional skills.

Within this context, it should be noted that during 2004 a total number of 5 475 training hours were registered, representing an average of 3.3 days per staff member.

Throughout 2004, some staff members were temporarily seconded to the ECB to carry out missions requested by the European Central Bank.

4.2.4 The Pension Fund

The statute¹ of the BCL provides that legal pension entitlements of BCL agents are determined by their status (i.e. civil servant, State employee, private employee or worker). The costs and financing of pensions are also governed by this statute, which reads as follows:

"Costs of pensions of BCL agents are incurred by the Bank. This charge shall be financed by a Central Bank pension fund. The pension fund shall be financed, on the one hand, by statutory deductions from agents' salaries in accordance with the rules governing the pension scheme corresponding to their status, and, on the other hand, by contributions from the Central Bank."

The statute² also organises the transitory regime applicable to BCL agents, who contributed previously to another pension fund, as follows: "Luxembourg pension funds which have received contributions for persons who are or become agents of the Central Bank on the day on which this law enters into force, shall pay those contributions to the Central Bank pension fund". In addition, "the periods within which these agents contributed to these pension funds are automatically validated as contribution periods with the BCL." With regard to the default on payment of the "*Caisse de Pensions des Employés Privés*" and the "*Etablissement d'Assurance contre la Vieillesse et l'Invalidité*", the BCL sued these two bodies before the Luxembourg court³, in order to obtain the payment of the contributions owed. At the time of the drafting of this report, the trial is still in progress.

¹ Article 14, indent (4) (b) of the statute of 23 December 1998 relating to the monetary status of the BCL.

² Article 35, indent (4) (a).

³ *Tribunal d'arrondissement de Luxembourg*.

⁴ According to article 35 (a) (c) of the law.

The BCL pension fund, which became operational in 2001, adopted internal rules and created both a decision-making Executive Committee (*Comité directeur*) and a consultative Tactical Benchmark Committee. The Executive Committee is composed of the BCL Executive Board members, two elected representatives of BCL agents, two co-opted members acting as delegated managers and one member designated by the Staff committee.

The Bank manages the assets of its pension fund in accordance with the rules of the said fund. The pension fund's guidance is set by the Executive Committee. The asset manager is appointed by the Executive Committee and this mandate is carried out in-house.

The Tactical Benchmark Committee determines the investment policy in strict compliance with parameters specified by the Executive Committee, especially with regard to the strategic composition of the global portfolio of the pension fund by currency and by asset class. It is a mixed pension fund, mainly holding bonds, liquidities and shares. It can also contain other financial tools. The pension fund's management is done in order to generate a minimal performance such as is determined by a long-term actuarial calculation. The fund's assets have been put in the care of an external bank assuming the function of custodian. The actual transfer of the fund's assets, equalling an amount of 44.4 million euro, was completed on 27 July 2001. The fund has the benefit of monthly capital inflows.

With regard to the default on payment of the "*Caisse de Pensions des Employés Privés*" and the "*Etablissement d'Assurance contre la Vieillesse et l'Invalidité*" and the legal duty imposed by article 14 upon the BCL, the latter withheld an amount of 33.8 million euro, in addition to the withdrawal from its reserve fund⁴.

During 2004, one BCL staff member has been granted a disability pension.

4.3 Buildings/Facilities

In 2004, the BCL made further efforts to reduce costs as well as manage and maintain its buildings.

The BCL received the necessary permission to tear down the former building of the National Bank of Belgium and to construct a new one. The objective is to create a backup solution for the bank's vital e.g. computer systems, payment systems, monetary policy and the issuing of banknotes and coins.

On 29 October 2004, Mr. Yves Mersch, the Governor of the BCL and Mr. Paul Helminger, the city's mayor, placed the first symbolic brick of the new building situated on the "Prince Henri" boulevard.

The building is planned to be completed by end-2006, within the projected budget and timetable.

4.4 Accounting and the Budget

4.4.1 Accounting and Finance

The BCL continued to strengthen its accounting system and its procedures in order to meet its internal quality standards and those of the Eurosystem. During the year, the control systems in place have shown to be efficient.

The Bank regularly checks the development of balance sheet, off-balance-sheet and profit & loss items. Investments, revenues and expenses are particularly closely monitored with respect to the internal procedures of authorised signatures.

The implementation of a cost accounting system was continued in 2004. At this stage, the methodology consists of allocating the BCL's operational expenses according to their destination, e.g. to the respective sections and entities. An activity-based costing system developed in 2004 will be finalised in 2005.

The monthly balance sheet of the Bank is published on its internet site. The Eurosystem requires daily reports of the Eurosystem members' balance sheet data according to harmonised rules.

The "management information system" allows for the monitoring of the Bank's activities. It is based on a set of indicators, which are calculated daily, weekly, monthly, quarterly and annually. These tables include all Bank activities. The analysis of the profit & loss items is completed by a result analysis of the various activities. The Bank strictly controls the development of the interest margin and compares the profitability of its investments to benchmarks.

The BCL regularly checks its risk exposure and controls the appropriateness of its own funds and of its short-, middle- and long-term provisions. The Bank has adopted a prudent policy of constituting and maintaining provisions for general and specific bank risks.

The Bank performs static and dynamic assessments of its long-term financial situation and carries out prospective analyses of external factors like interest rates, exchange rates and other variables of the Eurosystem.

The council and the management are regularly informed of the results in order to be in a position to decide on the Bank's future orientation and the actions to be undertaken.

The asset/liability committee monitors more closely the risk exposure and the financial situation during the year, and in particular the risk resulting from the appropriateness of assets and liabilities. This committee checks the investment limits imposed by the respective NCBs and the ECB's balance sheet positions.

4. THE BCL AS AN ORGANISATION

4.4.2 Budget

Every year in December, the BCL's Council approves the budget for the coming year. The elaboration of the 2004 budget was done in accordance with the budgetary procedure that aims to manage the Bank's resources in a rational manner.

The budgetary procedure ensures that the limit set beforehand will not be exceeded. Within this limit, expenses can be engaged only as far as they are abiding by the Bank's rules regarding profitability and economic efficiency. The operational costs for 2004 have stayed within the budgetary limit approved by the Council.

The elaboration of the 2005 budget, just like the previous year, was completely done using specific software for electronic data processing, which has considerably reduced the reaction time regarding all last minute changes and therefore to produce an updated version of the amended budget enabling the decision-makers to take appropriate measures.

Furthermore, the access to budgetary data for users via their computers represents a simplification in budget monitoring. Indeed, the software allows for daily monitoring in real time. The data listed in the accounting system is injected on a daily basis in the software, which allows an immediate charging of the invoices to a budgetary item, thus shortening considerably the margin for possible overspending.

The budgetary planning is perfectly in line with the Bank's management cycle and takes the strategic objectives, as fixed within the Balanced Scorecard, fully into account. This BSC defines the Bank's main task and the ensuing objectives. While respecting the financial constraints imposed by a difficult economic context, the budgetary directives that have underlain the elaboration of the budget should enable the Bank to fulfil all its assigned missions.

4.5 The internal audit activities

The BCL's internal control system is based on generally accepted standards adapted to its activity prevailing in the financial sector. The principles of internal control as well as the various responsibilities resulting thereof are described in the internal Manual of Procedures.

The main activity of the internal audit function is to assess the internal control system. The Internal Audit unit reports directly to the President of the Bank. Its mission statement is based on the rules and regulations prevailing in Luxembourg's financial center, as well as on the standards promoted by the Institute of Internal Auditors (IIA) and the ESCB Audit Policy.

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

Based on the annual internal audit plan, comprising audit engagements that are coordinated by the Internal Auditor's Committee at the level of the ESCB, as well as audit engagements at a national level, the Internal Audit unit performed during the year 2004 various reviews. These covered the fields of minimum reserves and foreign reserve management, oversight related to payment systems, banknotes and coins, accounting, as well as information systems.

4.6 Financial statements as at 31 December 2004

Preamble

"Only the French version of the present financial statements has been reviewed by the Independent Auditor. Consequently, the financial statements only refer to the French version of the financial statements; other versions result from a conscientious translation made under the responsibility of the Directors. In case of differences between the French version and the translation, the French version should be retained."

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

	2003	2004	Change in % 2004/2003
Total assets	27 856 509 647	34 795 519 545	25%
Banks' current accounts	6 765 571 187	5 063 321 077	-25%
Claims on credit institutions	23 402 735 897	28 353 710 277	21%
Own funds (1), revaluation accounts, administrative provisions and specific banking risks	416 004 599	456 816 923	10%
Net result of banking activities (2)	99 947 756	81 998 162	-18%
Total net revenues	39 119 616	36 851 687	-6%
Administrative expenses	27 282 863	29 225 981	7%
Net profit	3 105 175	2 605 967	-16%
Cash Flow (3)	74 171 100	56 200 003	-24%
Personnel	200	206	3%
BCL's part in the capital of the ECB	0.15%	0.16%	
BCL's part in the Eurosystem's monetary policy operations	7.85%	8.21%	

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

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

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

4. THE BCL AS AN ORGANISATION

4.6.2 Report of the Independent Auditor

To the Council of the Banque centrale du Luxembourg

To the Government

To the Chamber of Representatives

We have audited the attached financial statements of the Banque centrale du Luxembourg for the year ended December 31, 2004. The financial statements are the responsibility of the Directors and are approved by the Council. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached financial statements give, in conformity with the generally accepted accounting principles and those defined by the European System of central banks, a true and fair view of the financial position of the Banque centrale du Luxembourg as at December 31, 2004 and of the results of its operations for the year then ended.

DELOITTE S.A.
Réviseur d'entreprises

Luxembourg, March 3, 2005

Pascal Pincemin
Partner

Vafa Moayed
Partner

4.6.3 Balance sheet as at 31 December 2004

(IN EURO)

	Note	2004 EUR	2003 EUR
ASSETS			
Gold and gold receivables	3	23 860 617	24 880 800
Claims on non-euro area residents denominated in foreign currency	4	218 661 158	221 599 940
- Receivables from the IMF		113 377 895	151 431 221
- Balances with banks, security investments, external loans and other external assets		105 283 263	70 168 719
Claims on euro area residents denominated in foreign currency	5	51 831 953	19 794 150
Claims on non-euro area residents denominated in euro	6	466 612 637	290 550 224
- Balances with banks, security investments and loans		466 612 637	290 550 224
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	28 353 620 150	23 402 139 150
- Main refinancing operations	7.1	21 478 000 000	20 368 177 200
- Long-term refinancing operations	7.2	6 875 620 150	3 033 961 950
Other claims on euro area credit institutions denominated in euro	8	90 127	596 747
Securities of euro area residents denominated in euro	9	1 463 985 126	828 959 524
Intra-Eurosystem claims	10	3 488 282 255	2 408 352 832
- Participating interest in ECB	10.1	9 660 235	7 460 000
- Claims related to the transfer of foreign reserves	10.2	87 254 014	74 600 000
- Other claims within the Eurosystem	10.3	3 391 368 006	2 326 292 832
Items in course of settlement		192	42
Other assets	11	728 575 330	659 636 238
- Tangible and intangible fixed assets	11.1	58 365 712	58 701 026
- Other financial assets	11.2	582 682 793	530 602 520
- Off-balance sheet instruments revaluation differences		607 500	-
- Accruals and prepaid expenses	11.3	60 940 395	44 790 875
- Sundry	11.4	25 978 930	25 541 817
Total assets		34 795 519 545	27 856 509 647

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

4. THE BCL AS AN ORGANISATION

Balance sheet as at 31 December 2004 (continued)

(IN EURO)

	Note	2004 EUR	2003 EUR
LIABILITIES			
Banknotes in circulation	12	1 012 539 140	739 426 800
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	5 063 321 077	6 765 571 187
- Current accounts (covering the minimum reserve system)		5 063 321 077	6 765 571 187
Liabilities to other euro area residents denominated in euro	14	554 852 262	592 064 411
- General government	14.1	554 852 262	592 064 411
Liabilities to non-euro area residents denominated in euro	15	58 327 526	51 907 491
Liabilities to non-euro area residents denominated in foreign currency	16	51 854 230	19 796 162
Counterpart of special drawing rights allocated by the IMF	17	19 321 918	19 972 990
Intra-Eurosystem liabilities	18	27 341 616 355	19 077 543 570
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	18.1	27 341 616 355	19 077 543 570
Items in course of settlement	19	3 947 631	6 812 500
Other liabilities	20	160 572 809	104 097 466
- Off-balance sheet instruments revaluation differences		664 000	346 300
- Accruals and income collected in advance		141 871 653	89 766 149
- Sundry		18 037 156	13 985 017
Provisions	21	355 941 192	305 678 333
Revaluation accounts	22	27 802 136	30 821 436
Capital and reserves	23	142 817 302	139 712 126
- Capital	23.1	25 000 000	25 000 000
- Reserves	23.2	117 817 302	114 712 126
Profit for the year		2 605 967	3 105 175
Total liabilities		34 795 519 545	27 856 509 647

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

4.6.4 Off-balance sheet as at 31 December 2004

(IN EURO)

	Note	2004 EUR	2003 EUR
Custody deposits	24	132 113 030 126	106 433 616 407
Commitments and similar instruments	25	1 900 000 000	1 400 000 000
Foreign currency reserve assets administrated on behalf of the ECB	26	76 187 489	69 213 290
Forward transactions	27	694 214 750	43 355 000
Numismatic collection		122 709	107 972
		134 783 555 074	107 946 292 669

4.6.5 Profit and loss account for the year 2004

(IN EURO)

	Note	2004 EUR	2003 EUR
Interest income	28	669 225 751	610 386 573
Interest expense	28	(585 693 474)	(512 430 452)
Net interest income	28	83 532 277	97 956 121
Realised gains/(losses) arising from financial operations	29	5 951 518	9 072 330
Write-downs on financial assets and positions	30	(7 422 706)	(6 542 502)
Transfer to/from provisions for foreign exchange rate and price risks	31	(41 498 079)	(55 865 813)
Net result of financial operations, write-downs and risk provisions		(42 969 267)	(53 335 985)
Fees and commissions income	32	7 648 934	6 524 275
Fees and commissions expense	32	(7 711 862)	(7 062 469)
Net result from fees and commissions	32	(62 928)	(538 194)
Income from participating interest	33	-	1 131 889
Net result of pooling of monetary income	34	(14 320 344)	(18 641 870)
Other income	35	10 671 948	12 547 655
Total net income		36 851 686	39 119 616
Staff costs	36	(17 858 894)	(16 524 525)
Other administrative expenses	37	(7 622 472)	(7 777 336)
Depreciation of tangible and intangible fixed assets	11.1, 38	(5 019 739)	(6 984 340)
Banknote production services	39	(497 560)	(316 697)
Other expenses	40	(3 247 054)	(4 411 543)
Profit for the year		2 605 967	3 105 175

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

4. THE BCL AS AN ORGANISATION

4.6.6 Notes to the financial statements as at 31 December 2004

Note 1 - General

The Banque centrale du Luxembourg ("BCL") was founded on 1 June 1998 in accordance with the law of 22 April 1998. The law of 23 December 1998 provides that the main task of the BCL shall be to take part in the accomplishment of the tasks of the European System of Central Banks ("ESCB") so as to achieve the objectives of the ESCB. The BCL is a public institution, endowed with legal personality and financial independence.

Note 2 - Accounting policies

The accounting policies applied in preparing the financial statements are described below:

2.1 Layout of the financial statements

The financial statements of the BCL have been prepared and drawn up in accordance with the generally accepted accounting principles and the rules adopted by the ESCB.

2.2 Accounting principles

The following accounting principles have been applied:

- economic reality and transparency;
- prudence;
- recognition of post-balance sheet events;
- accruals principle;
- consistency and comparability.

2.3 Basic principles

The financial statements are based on historical cost and are adjusted to take account of the valuation at market prices of securities, financial instruments, gold and of all the elements, both on-balance-sheet and off-balance-sheet denominated in foreign currencies.

Transactions in financial assets and liabilities are reflected in the accounts of BCL on their settlement date.

2.4 Gold, assets and liabilities in foreign currencies

Assets and liabilities denominated in foreign currencies (including gold) are converted into euro at the exchange rate in force on the balance sheet closing date. Proceeds and costs are converted at the exchange rate prevailing on the date of the transaction.

Foreign currencies are revalued on a currency-by-currency basis including on-balance-sheet and off-balance-sheet items.

Securities are revalued at market prices separately from the revaluation of foreign exchange for securities denominated in foreign currencies.

Gold is revalued on the basis of the euro price per fine ounce as derived from the quotation in US dollars established at the time of the London fixing on the last working day of the year.

2.5 Securities

Negotiable securities denominated in foreign currencies and in euro are valued at the market price prevailing on the balance sheet date. The revaluation took place item-by-item on the basis of their ISIN code.

2.6 Recognition of gains and losses

Income and expenses are assigned to the financial year during which they are earned or incurred.

Realised gains and losses on foreign exchange transactions, securities and financial instruments linked to interest rates and market prices are taken to the profit and loss account.

At the end of the year, unrealised revaluation gains on foreign currencies, securities and financial instruments were not considered in the profit and loss account, but transferred to a revaluation account on the liabilities side of the balance sheet.

Unrealised losses were recognized in the profit and loss account when they exceeded 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 were 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 were calculated and presented on a pro rata basis as part of interest income and amortised over the remaining life of the securities.

2.7 *Post balance sheet events*

Assets and liabilities are adjusted to take account of events occurring between the balance sheet date and the date on which the BCL's Council approves the annual accounts if such events have a material effect on the assets and liabilities on the balance sheet date.

2.8 *Banknotes in circulation*

The European Central Bank ("ECB") and the 12 participating National Central Banks ("NCBs"), which together comprise the Eurosystem, have issued euro banknotes as from 1 January 2002. The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with the banknote allocation key.

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation from 2002, whereas the remaining 92% has been allocated to NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to each NCB is disclosed under the balance sheet liability item "Banknotes in circulation".

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest, are disclosed under the sub-item "Intra-Eurosystem: Net claim/liability related to the allocation of euro banknotes within the Eurosystem" (see "Intra-ESCB balances" in the notes on accounting policies).

From 2002 until 2007 the intra-system balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in NCBs' relative income positions as compared to previous years. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the period from July 1999 to June 2001 and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments will be reduced in annual stages until the end of 2007 after which income on banknotes will be allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital.

The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under "Net interest income."

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, shall be distributed separately to the NCBs in the form of an interim distribution of profit. It shall be so distributed in full unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation and subject to any decision by the Governing Council to reduce this income in respect of costs incurred by the ECB in connection with the issue and handling of euro banknotes. With respect to 2004, the Governing Council decided in the light of their estimate that the full amount of such income should be retained by the ECB.

2.9 *Intra-Eurosystem claims and liabilities*

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a net single asset or liability under "Net claim/liability related to the allocation of euro banknotes within the Eurosystem".

Intra-Eurosystem claims and liabilities arising from TARGET balances and counterparties accounts are shown as a single net asset or liability on the balance sheet.

4. THE BCL AS AN ORGANISATION

2.10 Treatment of tangible and intangible assets

The tangible and intangible assets are recorded at their acquisition cost less depreciation. Depreciation was calculated on a straight-line basis over the expected economic lifetime of the assets:

	Years
Buildings	25
Renovation of buildings	10
Furniture and equipment	3-5
Computer hardware and software	4

2.11 Pension fund

As at 1st January 1999, after the introduction of the law of 23 December 1998, the pension claims of its agents are fully supported by the BCL. A pension fund, whose aim it is to cover the risks related to aging, infirmity or survival, has been created in 2000. The actuarial method for determining the BCL's liabilities towards its agents has been approved by the pension fund's board as at 12 February 2001.

The actuarial method determines the pension fund's liability related to aging, infirmity or survival for each agent. The model is based on each agent's personal and career data, on the level of inflation for the next sixty years as well as 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 increase of the provision results from the regular transfer of the employee's part and the BCL's employer's part. In addition, if necessary, periodic transfers from the account "Booking reserve of the pension fund", equivalent to the revenues generated by the fund's assets, to adjust the account "Provision for pensions" to its actuarial value are booked. In the case of insufficient transfers in order to cover the BCL's pension liabilities, the difference between the existing provision and the real claim is covered by a special transfer to be supported by the BCL.

2.12 Provision for banking risks

The BCL's provision policy is intended to cover specific and general risks resulting from the Bank's activities.

Note 3 - Gold and gold receivables

As at 31 December 2004, the BCL holds 2 202.23 ounces of fine gold amounting to 0.7 million euro (3 313.29 ounces of fine gold amounting to 1.1 million euro as at 31 December 2003) and a first rated gold bond issued by the International Bank for Reconstruction and Development purchased in 2002 and valued at 23.2 million euro (23.8 million euro as at 31 December 2003).

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 2004.

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

	2004 EUR	2003 EUR
Receivables from the IMF	113 377 895	151 431 221
Balances with banks, security investments, external loans and other external assets	105 283 263	70 168 719
	218 661 158	221 559 940

Under this item are recorded the BCL's foreign exchange reserve holdings with counterparties situated outside the euro area (including international and supranational institutions and central banks that are not members of the Eurosystem).

This item is broken down into two sub-items:

- receivables from the International Monetary Fund ("IMF") are made up of reserve tranche position and SDR holdings. SDR are reserve assets created *ex nihilo* by the IMF and allocated by it to its members. A country's SDR holdings initially amount to the SDR allocated. Afterwards, SDR holdings are subject to fluctuations as a result of encashments and transactions with others SDR's holder. The reserve tranche position corresponds to the net amount of the quota and the IMF's currency holding and takes into account the revaluation of the general account.
- balances held on accounts with banks which do not belong to the euro area as well as securities, loans and other foreign currency assets issued by non-residents of the euro area. This sub-item includes in particular the US Dollar securities portfolio, built up from 2003, which could be used, if needed, for monetary policy operations.

This portfolio, which amounts to 52.8 million euro as at 31 December 2004 (39.9 million euro as at 31 December 2003), only contains government bonds and first rated bonds issued by international and supranational institutions denominated in US Dollars. Securities are valued at market prices. As at 31 December 2004, their value at market prices included an unrealised loss amounting to 0.2 million euro (compared to an unrealised loss amounting to 0.4 million euro on 31 December 2003).

Balances with banks amount to 52.5 million euro as at 31 December 2004 (30.2 million euro as at 31 December 2003).

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

This item comprises the BCL's balances denominated in foreign currency with counterparties which belong to the euro area.

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

	2004 EUR	2003 EUR
Balances with banks	589 696	1 240 587
Security investments	466 022 941	289 309 637
	466 612 637	290 550 224

This item contains balances held on accounts with banks which do not belong to the euro area as well as securities, loans and other euro-denominated assets issued by non-residents of the euro area.

This portfolio only contains government bonds and first rated bonds issued by companies which do not belong to the euro area denominated in euro. Securities are valued at market prices. As at 31 December 2004, their value at market prices included an unrealised loss amounting to 4.9 million euro (unrealised gain amounting to 0.6 million euro as at 31 December 2003).

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:

	2004 EUR	2003 EUR
Main refinancing operations	21 478 000 000	20 368 177 200
Longer-term refinancing operations	6 875 620 150	3 033 961 950
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	-
Credits related to margin calls	-	-
	28 353 620 150	23 402 139 150

4. THE BCL AS AN ORGANISATION

7.1 *Main refinancing operations*

This sub-item records the amount of liquidity provided to credit institutions by way of weekly one-week tenders (two weeks in 2003).

7.2 *Long-term refinancing operations*

This sub-item records the amount of credit extended to credit institutions by way of monthly 3-month tenders. These operations were growing fast in the Eurosystem in 2004.

7.3 *Fine-tuning reverse operations*

This sub-item records open market operations carried out on a non-regular basis, intended primarily to meet unexpected fluctuations in market liquidity.

7.4 *Structural reverse operations*

These are open market operations carried out with the primary intention of bringing about a lasting change in the structural liquidity position of the financial sector vis-à-vis the Eurosystem.

No such operations took place during the year just ended.

7.5 *Marginal lending facility*

A standing facility enabling counterparties to obtain 24 hours credit from the Bank at a pre-specified interest rate, against eligible collateral.

7.6 *Credits related to margin calls*

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.

No such operations took place during the year just ended.

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 which belong to the euro area.

Note 9 - Securities of euro area residents denominated in euro

This item covers the BCL's portfolio in euro issued by residents of the euro area which could be used, if needed, for monetary policy operations. This amounts to 1 464 million euro as at 31 December 2004 (829 million euro as at 31 December 2003).

This portfolio only contains government bonds in euro issued by member states of the European Union and first rated bonds issued by companies of the euro area. Securities are valued at market prices. As at 31 December 2004, their value at market prices included an unrealised loss amounting to 1.5 million euro (unrealised gain amounting to 0.3 million euro as at 31 December 2003).

Note 10 - Intra-Eurosystem claims

10.1 *Participating interest in ECB*

Pursuant to Article 28 of the ESCB Statute, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which must be adjusted every five years. The first such adjustment following the establishment of the ECB took effect on 1 January 2004. On 1 May 2004 a second change of the ECB's capital key followed as a result of the accession of 10 Member States.

Based on the Council Decision of 15 July 2003 on the statistical data to be used for the determination of the key for subscription of the capital of the European Central Bank, the capital keys of NCBs were adjusted as follows on 1 January 2004 and 1 May 2004, by means of transfers among the NCBs:

	Key for subscription of the ECB's capital		
	until 31 December 2003	from 1 January 2004 au 30 avril 2004	From 1 May 2004
Nationale Bank van België/Banque Nationale de Belgique	2.8658	2.8297	2.5502
Deutsche Bundesbank	24.4935	23.4040	21.1364
Bank of Greece	2.0564	2.1614	1.8974
Banco de España	8.8935	8.7801	7.7758
Banque de France	16.8337	16.5175	14.8712
Central Bank and Financial Services Authority of Ireland	0.8496	1.0254	0.9219
Banca d'Italia	14.8950	14.5726	13.0516
Banque centrale du Luxembourg	0.1492	0.1708	0.1568
De Nederlandsche Bank	4.2780	4.4323	3.9955
Oesterreichische Nationalbank	2.3594	2.3019	2.0800
Banco de Portugal	1.9232	2.0129	1.7653
Suomen Pankki - Finlands Bank	1.3970	1.4298	1.2887
Total euro area NCBs	80.9943	79.6384	71.4908
Ceská národní banka	0.0000	0.0000	1.4584
Danmarks Nationalbank	1.6709	1.7216	1.5663
Eesti Pank	0.0000	0.0000	0.1784
Central Bank of Cyprus	0.0000	0.0000	0.1300
Latvijas Banka	0.0000	0.0000	0.2978
Lietuvos bankas	0.0000	0.0000	0.4425
Magyar Nemzeti Bank	0.0000	0.0000	1.3884
Central Bank of Malta/Bank Centrali ta' Malta	0.0000	0.0000	0.0647
Narodowy Bank Polski	0.0000	0.0000	5.1380
Banka Slovenije	0.0000	0.0000	0.3345
Národná banka Slovenska	0.0000	0.0000	0.7147
Sveriges Riksbank	2.6537	2.6636	2.4133
Bank of England	14.6811	15.9764	14.3822
Total non-euro area NCBs	19.0057	20.3616	28.5092
Total euro area and non-euro area NCBs	100.0000	100.0000	100.0000

Consequently, on 1 January 2004, the share that the BCL held in the subscribed capital of the ECB (5 billion euro in total) increased from 0.1492% to 0.1708% and participating interest in the ECB increased by 7.5 million to 8.5 million euro.

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In accordance with Article 49.3 of the Statute of the ESCB, which was added to the Statute by the Treaty of Accession, the ECB's subscribed capital is automatically increased when a new member joins the EU and its NCB joins the ESCB. The increase is determined by multiplying the prevailing amount of the subscribed capital (5 billion euro) by the ratio, within the expanded capital key, between the weighting of the entering NCBs and the weighting of those NCBs that are already members of the ESCB. Therefore, on 1 May 2004 the subscribed capital of the ECB was increased to 5.565 billion euro. Consequently, on 1 May 2004, the share that the BCL held in the increased subscribed capital of the ECB (5.565 billion euro in total) decreased from 0.1708% to 0.1568% and participating interest in the ECB increased by 8.5 million euro to 8.7 million euro.

As a result of the aforementioned capital key changes, the relative shares of NCBs in the accumulated net profits of the ECB as at 31 December 2003 and 30 April 2004 changed. Sub-item "participating interest in ECB" also reflects the net increase of the BCL's share in this respect (repayment of 0.9 million euro part of the capital contribution by the ECB), this participation amounts to 9.7 million euro from 1 May 2004.

10.2 Claims equivalent to the transfer of foreign reserves

This sub-item represents the euro-denominated claims on the ECB in respect of the transfer of part of 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 rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component.

The adjustments to the capital key weightings of the ECB on 1 January 2004 and 1 May 2004 also resulted in the adjustment of the claim of the BCL with respect to the foreign reserve assets transferred to the ECB. In order to reflect its increased capital key share, the euro-denominated claim of the BCL increased by 74.6 million to 85.4 million euro on 1 January 2004 and increased by 85.4 million to 87.3 million euro on 1 May 2004.

10.3 Other claims within the Eurosystem

This sub-item represents the BCL's net claims towards the Eurosystem, mostly from transactions resulting from cross-border payments initiated for monetary or financial operations, made via the TARGET system, between the BCL and the other NCBs as well as the ECB. This claim amounts to 3.4 billion euro as at 31 December 2004 (2.3 billion euro as at 31 December 2003).

Net position vis-à-vis the ECB is remunerated at the marginal interest rate on the main refinancing operations.

Note 11 - Other assets

11.1 Tangible and intangible assets

Tangible and intangible fixed assets developed as follows:

	Buildings	Furniture and equipment	Software	Total
	EUR	EUR	EUR	EUR
Cost as at 01.01.2004	70 261 360	8 909 654	3 560 229	82 731 243
Acquisitions	3 530 348	780 192	373 885	4 684 425
Cost as at 31.12.2004	73 791 708	9 689 846	3 934 114	87 415 668
Accumulated depreciation as at 01.01.2004	15 942 366	5 687 981	2 399 870	24 030 217
Depreciation	3 118 003	1 320 149	581 587	5 019 739
Accumulated depreciation as at 31.12.2004	19 060 369	7 008 130	2 981 457	29 049 956
Net book value as at 31.12.2004	54 731 339	2 681 716	952 657	58 365 712

The sub-item "Buildings" comprises the acquisition cost of the premises located on the 2, boulevard Royal, the costs incurred in relation to the reconstruction and transformation of the new site ("Pierre Werner" building) and the renovations made on the main building ("Siège Royal"). The building located on the boulevard Prince Henri has been completely amortised in 2003 because of its destruction in order to construct a new one. Construction started in 2004 and after having organised tenders, the Bank reached agreements with suppliers.

The "Pierre Werner" is considered as a new building and is amortised over a period of 25 years while the costs incurred in relation to the transformation of the "Siège Royal" are considered as renovations and are amortised over 10 years.

11.2 Other financial assets

The components of this item are as follows:

	2004 EUR	2003 EUR
Other participating interests	162 033	153 657
Pension fund	64 005 693	56 828 975
Securities portfolio	518 515 067	473 619 888
	582 682 793	530 602 520

The other participating interests comprise the entry fees in LIPS-Net together with the BCL's investments in RTGS-L GIE, Swift and ATTF.

The assets of the pension fund are recorded in the accounts under "Pension fund BCL". The balance of this account corresponds to the net asset value of the fund as it was calculated by the depositary bank as at 31 December 2004.

The securities portfolio recorded under this heading corresponds to the securities held by the BCL for the purpose of the investment of the own funds and amounts owed to third parties amounting to a total of 518.5 million euro (473.6 million euro as at 31 December 2003). Securities are valued at market prices. As at 31 December 2004, their value at market prices included an unrealised gain amounting to 14.0 million euro (unrealised gain amounting to 13.3 million euro as at 31 December 2003).

11.3 Accruals and prepaid expenses

Most of this item consists of the accrued interests on monetary policy operations, securities and receivables from the IMF.

Are also included under this item the commissions receivables, prepaid expenses of which salaries for January 2005 and other income receivable.

11.4 Sundry

	2004 EUR	2003 EUR
Withdrawals in advance	3 947 500	6 812 500
Others	22 031 430	18 729 317
	25 978 930	25 541 817

The sub-item "Withdrawals in advance" corresponds to the amount of euro banknotes ordered by the credit institutions as at 31 December 2004 and which were not yet put into circulation on that date.

The sub-item "Others" consists mainly of the counterpart of the unrealised loss on SDR recorded in the financial statements of the BCL which is guaranteed by the State according to the agreement signed in May 1999 establishing the financial relationship between the State of Luxembourg and the BCL.

Note 12 - Banknotes in circulation

This caption includes the BCL's share of the total euro banknotes put into circulation by the 12 central banks of the Eurosystem according to their weightings in the capital of the ECB, which totalled 1 012.5 million euro (739.4 million euro as at 31 December 2003).

4. THE BCL AS AN ORGANISATION

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

	2004 EUR	2003 EUR
Current accounts (including minimum reserves)	5 063 321 077	6 765 571 187
Deposit facility	-	-
Fixed-term deposits	-	-
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	5 063 321 077	6 765 571 187

This item primarily comprises credit institutions' accounts held within the framework of the requirements of the minimum reserve system.

13.1 Current accounts (covering the minimum system)

Accounts denominated in euro of the financial institutions, which mainly serve to meet minimum reserve requirements. These requirements have to be respected over an average unsettled period starting the Wednesday following the Governing Council fixing interest rate.

13.2 Deposit facility

Standing facility allowing credit institutions to make 24-hour deposits with the bank at a pre-specified interest rate.

13.3 Fixed-term deposits

Deposits made at the Bank for the purpose of absorbing market liquidity in connection with fine-tuning operations in the Eurosystem.

13.4 Fine-tuning reverse operations

Other monetary policy operations aimed at tightening liquidity.

No such operations took place during the year just ended.

13.5 Deposits related to margin calls

Deposits made by credit institutions to compensate for the decrease in the value of securities pledged as collateral for other credits granted to these same institutions.

No such operations took place during the year just ended.

Note 14 - Liabilities to other euro area residents denominated in euro

14.1 Liabilities to general government

This caption records the amounts owed to the Luxembourg Treasury including the following items:

	2004 EUR	2003 EUR
Current account	597 552	291 581
Account related to euro coins issued by the Treasury	104 254 710	81 772 830
Fixed-term deposit	450 000 000	510 000 000
	554 852 262	592 064 411

In accordance with the amendment of 10 April 2003 to the agreement between the State of Luxembourg and the BCL on their financial relations, the "Account related to euro coins issued by the Treasury" corresponds to the amount of coins issued by the BCL in the name and for the account of the Treasury.

The fixed-term deposit relates to the agreement between the State of Luxembourg and the BCL which originally specified that the State should maintain at the BCL a deposit equivalent to the BCL's claim on BNB in relation to Belgian banknotes circulating in Luxembourg. The fixed-term deposit matured on 1 March 2002 and was replaced, following agreement between parties, by a term deposit renewed on a monthly basis.

In order to reinforce the BCL's own funds and in accordance with the articles of the agreement which foresee this possibility, the State renounced on the remuneration of its term deposit for the financial year 2004. An equivalent income amounting to 4.9 million euro (4.9 million euro as at 31 December 2003) is recorded under "Other income".

Note 15 - Liabilities to non-euro area residents denominated in euro

This item includes current accounts held by central banks, international and supranational institutions and other account holders outside the euro area.

Note 16 - Liabilities to non-euro area residents denominated in foreign currency

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

Note 17 - Counterpart of special drawing rights allocated by the IMF

The amount shown under this caption represents the countervalue of SDR, converted to euro at the same rate as applied to the SDR assets, which should be returned to the IMF if SDR are cancelled, if the SDR Department established by the IMF is closed or if Luxembourg decides to withdraw from it. This liability, of unlimited duration, amounts to SDR 17.0 million, or 19.3 million euro as at 31 December 2004 (SDR 17.0 million, or 20.0 million euro as at 31 December 2003).

Note 18 - Intra-Eurosystem liabilities

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

This item consists of the liabilities of the BCL towards the Eurosystem in relation to the allocation of euro banknotes within the Eurosystem. The net position bears interest at the marginal interest rate applying to the main refinancing operation.

Note 19 - Items in course of settlement

This item contains mainly the counterpart of the euro banknotes ordered by credit institutions as at 31 December which were not yet put into circulation on that date.

Note 20 - Other liabilities

This item comprises mainly the negative revaluation differences on financial instruments linked to interest rates and market prices, accrued interest, of which accrued interest on intra-Eurosystem liabilities, as well as miscellaneous expenses payable, of which suppliers, and the Luxembourg banknotes not yet returned.

The Luxembourg banknotes still circulating as at 31 December 2004 amount to 5.8 million euro (6.0 million euro as at 31 December 2003).

Note 21 - Provisions

Provisions developed as follows:

	2004 EUR	2003 EUR
Provisions for banking risks	281 149 648	239 651 570
Provisions for pensions	71 758 670	65 342 291
Other provisions	3 032 874	684 472
	355 941 192	305 678 333

4. THE BCL AS AN ORGANISATION

21.1 Provisions for banking risks

Provisions for banking risks include the following items:

	2004 EUR	2003 EUR
Provisions for specific banking risks		
Provision covering credit risk	112 937 113	87 236 373
Provision covering operational risk	13 000 000	14 400 000
Provision covering liquidity risk	11 658 367	9 826 033
Provision covering interest rate risk	200 000	200 000
	137 795 480	111 262 406
Provisions for general banking risks		
Provision for liabilities resulting from monetary agreements	32 341 954	35 324 827
Other provision for general banking risks	111 012 214	93 064 337
	143 354 168	128 389 164
	281 149 648	239 651 570

21.1.1 Provision covering credit risk

The provision for 112.9 million euro (87.2 million euro as at 31 December 2003) corresponds to:

- 4% of the BCL's own securities portfolio existing as at 31 December 2003 and still kept as at 31 December 2004, valued at market price (portfolio affected to monetary policy operations if necessary and structural portfolio) and participations other than the participating interest in the ECB;
- 2% of the increase, between 31 December 2003 and 31 December 2004, of the BCL's own securities portfolio and participations other than the participating interest in the ECB;

- 4% of the total amount lent by the Eurosystem as at year-end for monetary policy reasons multiplied by the capital key corresponding to the BCL (0.21933%).

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

21.1.2 Provision covering operational risk

This provision is intended to cover the risk of losses resulting from the inadequacy or the default of procedures and processes, and relating to human factor and the BCL's systems or external causes. Because of a lack of relevant statistics on the measure of risk, the transfer to the provision is based on the Basic Indicator Approach described by the consultative working-paper of the Basle Committee as being 15% of the average of the last three years of the net banking product.

21.1.3 Provision for liabilities resulting from monetary agreements

The provision for liabilities resulting from monetary treaties was initially created in 1984 by the Institut Monétaire Luxembourgeois ("IML") together with the Ministry of Treasury to be able to face any future monetary liabilities.

During the year 2004, the Bank reversed 3 million euro of this provision to cover the BCL's participation in ECB's loss for the accounting year 2004.

21.1.4 Other provision for general banking risks

For prudence's sake and to safeguard its assets, the BCL has transferred 17.9 million euro (31.1 million euro for the financial year 2003) to the provision for general banking risks to cover any inherent risks related to central bank activities.

21.2 Provisions for pensions

Provisions for pensions include the following items:

	2004 EUR	2003 EUR
Provision for pensions	69 366 800	62 678 000
Provision for equalisation and financial risks	850 252	850 252
Provision for increase of PBO	1 541 618	1 814 039
	71 758 670	65 342 291

21.2.1 Provision for pensions

The pensions claims of its agents are fully supported by the BCL. The corresponding liability is calculated on the basis of the actuarial method described in note 2.11 in consideration of current factors and amounts to 69.4 million euro as at 31 December 2004 (62,7 million euro as at 31 December 2003).

The increase of the provision during the year results from:

- monthly withdrawals on the gross salaries of the BCL employees (employee's part) and the employer's part;
- periodic transfers from the account "Booking reserve of the pension fund" to adjust the account "Provision for pensions" to its actuarial value;
- a transfer, if needed, to adjust the account "Provision for pensions" to its actuarial value.

During the year 2001 and according to article 35 paragraph 4(c) of its institutional law, the BCL operated a unique transfer from its reserves in order to adjust the pension fund to the required amount as at 31 December 2001. In addition, article 35 paragraph 4(a) of the same law indicates that "the Luxembourg pension offices that received contributions from persons that are or become BCL agents, pay these amounts to the BCL's pension fund".

As of today, the Luxembourg pension funds did not fulfill their obligations mentioned in article 35 paragraph 4(a). Consequently, the unique transfer from the reserves in 2001 for 33.8 million euro was determined without considering the claim on the pension funds, which will be used for the reconstitution of the reserves.

21.2.2 Provision for equalisation and financial risks

A provision of 3 million euro for equalisation and financial risks has been created in 2001 to cover fluctuations in the pension fund's liabilities in the beginning years and/or to compensate a lower return on assets. During the year 2002, an amount of 2,1 million euro has been used. The provision did not change in 2003 and 2004.

21.2.3 Provision for increase of PBO

The provision of 1.5 million euro (1.8 million euro as at 31 December 2003) is based on the average expense in relation with pensions, infirmity and death for agents already being part of BCL personnel or included in the budgeted figures of 2004 but not included in the pension fund's liabilities calculation as at 31 December 2004. The liability ("Projected Benefit Obligation" or "PBO") equals the potential payments at their present value considering individual parameters and the actuarial method used. During the year 2004, this provision was reduced to 1.5 million euro by a reversal of 0.3 million euro resulting from less recruitment cost in 2004.

21.3 Other provisions

Pursuant to Article 33.2 of the ESCB Statute, the Governing Council of the ECB may decide to offset a loss incurred by the ECB against its general reserve fund, and if necessary, against the monetary income of the relevant financial year in proportion and up to the amounts allocated to the national central banks. At its meeting on 13 January 2005 the Governing Council decided in principle to retain 1 360 million euro of NCBs' monetary income pooled in January 2005 to offset the ECB's loss for 2004.

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The BCL accordingly established a provision of 3 million euro in respect of its allocated monetary income for 2004 to be used to offset the ECB's loss, equivalent to its weighting in the capital key of the ECB (0.21933% as from 1 May 2004) relative to the other NCBs within the Eurosystem. The final decision on the precise amount of monetary income will be taken by the Governing Council on 17 March 2005.

Note 22 - Revaluation accounts

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

Note 23 - Capital and reserves

23.1 Capital

The State of Luxembourg is the unique shareholder of the BCL's capital which is fixed to 25 million euro (25 million euro as at 31 December 2003).

23.2 Reserves

The reserves amount to 117.8 million euro (114.7 million euro as at 31 December 2003). This amount has been increased by 3.1 million euro during the year following the allocation of profit of the year 2003 according to the decision of the BCL's Council and its institutional law (article 31).

Note 24 - Custody deposits

This item includes the securities given into custody by Luxembourg financial institutions to cover their liabilities related to refinancing operations, marginal lending facilities and intra-day credits.

This caption also includes the securities given into custody in Luxembourg and used as a guarantee by commercial banks incorporated in other member states according to the agreement "Correspondent Central Banking Model" ("CCBM"). This agreement allows commercial banks to obtain funding with their country of residence's central bank by using the securities held in another member state as a guarantee.

As at 31 December 2004, the market value of these securities amounts to 132.1 billion euro (106.4 billion euro as at 31 December 2003).

Note 25 - Commitments and similar instruments

	2004 EUR	2003 EUR
Commitments and similar instruments	1 900 000 000	1 400 000 000

This item corresponds to the guarantee issued by the BCL for the project "Night Time Link". This liability is guaranteed by assets received in custody for the same amount.

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

This caption includes the foreign currency reserves at market value that have been transferred to the ECB and are managed by BCL on behalf of the ECB. These reserves are shown under asset item "Claims related to the transfer of foreign reserves".

Note 27 - Forward contracts

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

As at 31 December 2004, the total liabilities related to these forward contracts amount to 694.2 million euro (43.4 million euro as at 31 December 2003). One security has been given as a guarantee in order to cover the initial margin deposit. This security remains on the balance sheet of BCL for an amount of 5.2 million euro as at 31 December 2004 (5.3 million euro as at 31 December 2003).

Note 28 - Net interest income

This item includes interest income, after deduction of interest expense, on assets and liabilities in currency and in euro. Interest income and expense are detailed as follows:

Composition of interest income

	Amounts in foreign currency		Amounts in euro	
	EUR		EUR	
	2004	2003	2004	2003
IMF	2 201 200	2 262 546	-	-
Monetary policy	-	-	537 611 506	542 844 349
Intra-Eurosystem claims	-	-	67 627 565	6 870 656
Securities	846 835	331 513	59 758 435	57 424 382
Gold	371 258	402 602	-	-
Other	667 778	100 226	141 174	150 299
Total	4 087 071	3 096 887	665 138 680	607 289 686

Composition of interest expense

	Amounts in foreign currency		Amounts in euro	
	EUR		EUR	
	2004	2003	2004	2003
IMF	(368 866)	(343 789)	-	-
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	-	(136 206 536)	(159 682 971)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	-	(441 887 406)	(281 518 341)
Other Intra-Eurosystem liabilities	-	-	(919 153)	(65 299 502)
Interests on term deposits	-	-	(4 903 472)	(4 863 958)
Other liabilities	(538 813)	(7 930)	(869 228)	(713 961)
Total	(907 679)	(351 719)	(584 785 795)	(512 078 733)

The increase in interests results from an increase in amounts rather than a change in the interest rates.

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Note 29 - Realised gains/(losses) arising from financial operations

This item includes the result on transactions in foreign currencies, on securities and on financial instruments linked to interest rates and market prices, that is gains realised minus loss realised on this transactions. In 2004, they amounted to 15.4 million euro (24.1 million euro as at 31 December 2003) and to 9.4 million euro (15.0 million euro as at 31 December 2003) respectively, making a net income of 6.0 million euro (9 million euro as at 31 December 2003).

Note 30 - Write-downs on financial assets and positions

This item includes revaluation losses on foreign currencies for 6.0 million euro, on securities for 0.7 million euro and on financial instruments linked to interest rates and market prices for 0.7 million euro in 2004 (5.5, 0.9 and 0.1 million euro respectively in 2003).

Note 31 - Transfer to/from provisions for foreign exchange rate and price risks

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

Note 32 - Net result from fees and commissions

Fees and commissions income and expense are detailed as follows:

	Fees and commissions income		Fees and commissions expense	
	EUR		EUR	
	2004	2003	2004	2003
Titres	7 309 392	6 262 926	(7 610 313)	(6 870 605)
Autres	339 542	261 349	(101 549)	(191 864)
Total	7 648 934	6 524 275	(7 711 862)	(7 062 469)

Note 33 - Income from participating interest

This item includes the dividend distributed by the European Central Bank.

No dividend was distributed in 2004 (dividend of 1.1 million euro for the year 2003). In 2004, the ECB's income on euro banknotes in circulation amounting to 733 million euro was fully retained by the ECB in accordance with a decision of the Governing Council and in view of the ECB 2004 result.

Note 34 - Net result of pooling of monetary income

From 2003 onwards, the amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income that derives from the earmarkable assets held against its liability base. The liability base consists of the following items:

- banknotes in circulation;
- liabilities to credit institutions related to monetary policy operations denominated in euro;
- net intra-Eurosystem liabilities resulting from TARGET transactions;
- net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem.

Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

The earmarkable assets consist of the following items:

- lending to euro area credit institutions related to monetary policy operations denominated in euro;
- intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB;
- net intra-Eurosystem claims resulting from TARGET transactions;
- net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem;
- a limited amount of each NCBs' gold holdings in proportion to each NCB's capital key.

Gold is considered to generate no income.

Where the value of a 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 average rate of return on the earmarkable assets of all NCBs taken together.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed capital key (0.21933% for the BCL).

Calculation of net monetary income allocated to the BCL (in million euro):

	(in million euro)	
	2004	2003
Monetary income pooled by BCL	(29.2)	(32.9)
Monetary income reallocated to BCL	17.9	14.3
Retained monetary income by the ECB	(3.0)	0
Net result arising from the calculation of monetary income	(14.3)	(18.6)

The pooled net result of monetary income shows also the BCL'S share in the monetary income retained to cover the ECB's loss in 2004 (see Note 21.3).

Note 35 - Other income

Other income includes revenues for 4.9 million euro (4.9 million euro for 2003) that reflect the renunciation by the State of Luxembourg on the interests due for 2004 on its term deposit with BCL (see also note 14.1). This item also includes revenues for services rendered to third parties, transfers from administrative provisions and income from numismatic activities.

Note 36 - Staff costs

This item includes the salaries and compensations as well as the employer's part of the contributions to the pension and social security regimes. The compensations paid to the Directors amount to 456 830 euro for the year 2004 (440 366 euro for the year 2003).

As at 31 December 2004, BCL's personnel amounts to 206 agents (200 as at 31 December 2003). The average number of persons working for BCL from 1 January to 31 December 2004 amounted to 205 agents (201 for the year 2003).

Note 37 - Administrative expenses

This caption includes all general and recurring expenses, meaning rents, cleaning and reparations of buildings and equipment, small goods and materials, fees paid and other services and furniture as well as training expenses. The compensations paid to the members of the Council amount to 68 237 euro in 2004 (66 147 euro in 2003).

Note 38 - Depreciation of tangible and intangible fixed assets

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

Note 39 - Banknote production services

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

Note 40 - Other expenses

The bulk of other expenses are related to the transfer to the administrative provisions.

