

everything is changing -  
everything  
else, even  
myself

# 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 2017, the Council consisted of the following members:

President: Mr Gaston Reinesch

Members: Mr Pierre Beck  
Mr Pit Hentgen  
Mr Jacques F. Poos  
Ms Simone Retter  
Mr Romain Schintgen  
Mr Roland Weyland  
Mr Michel Wurth  
Mr Claude Zimmer

During 2017, the Council held six meetings. The Council approved the financial accounts as per 31 December 2016, the budget orientations and subsequently the budget for the 2018 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 15 December 2017, the Council appointed 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 2017, 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 BCL for a six-year period as of 1 January 2013.

## 2.1.3 The Executive Board

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

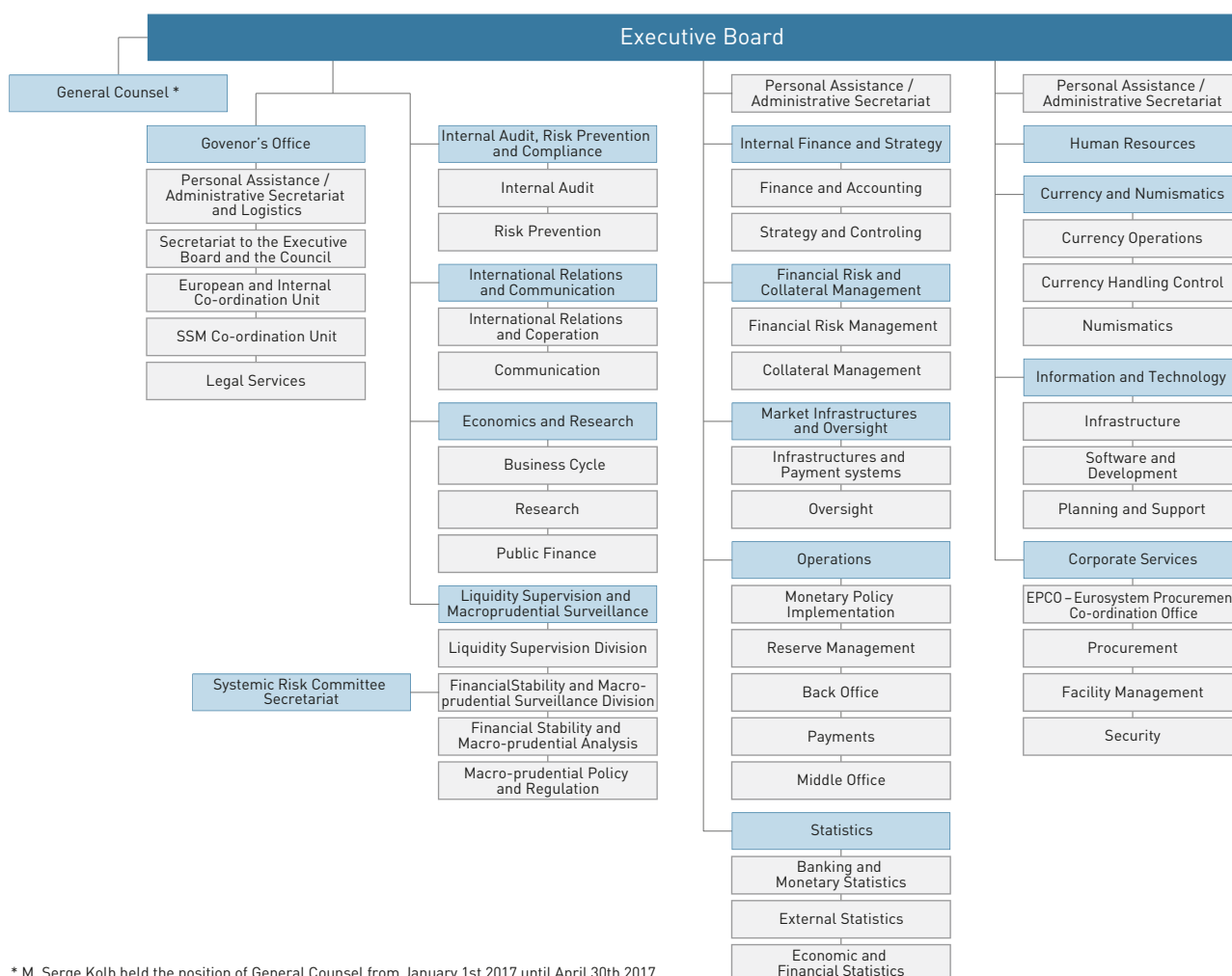
Without prejudice to the independence of the Director-General from instructions in his capacity as a member of the Governing Council of the ECB, the decisions of the Executive Board shall be taken collectively.

The Executive Board consists of a Director-General and two Directors. The composition consists of the following members as of 31 December 2017:

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 Organisation Chart as of 31 December 2017



\* M. Serge Kolb held the position of General Counsel from January 1st 2017 until April 30th 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.

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, of the surveillance of the implementation of decisions taken by the internal committees and by the Executive Board, of the surveillance of the investment limits and of 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 is in charge of the independent and objective evaluation of the internal control system and 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 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 was granted the mandate of statutory auditor of the BCL for the financial years 2014 to 2018, at the end of the appointment and approval process provided for by the Statute of the ESCB and of the ECB (Article 27.1).

### **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 Code of Conduct was updated in 2017, in particular to take account of two ECB guidelines on ethics.

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 latter, the Director General does not take part in the deliberations of the Executive Board of the BCL. His responsibilities are limited, as the President of the Council, 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.

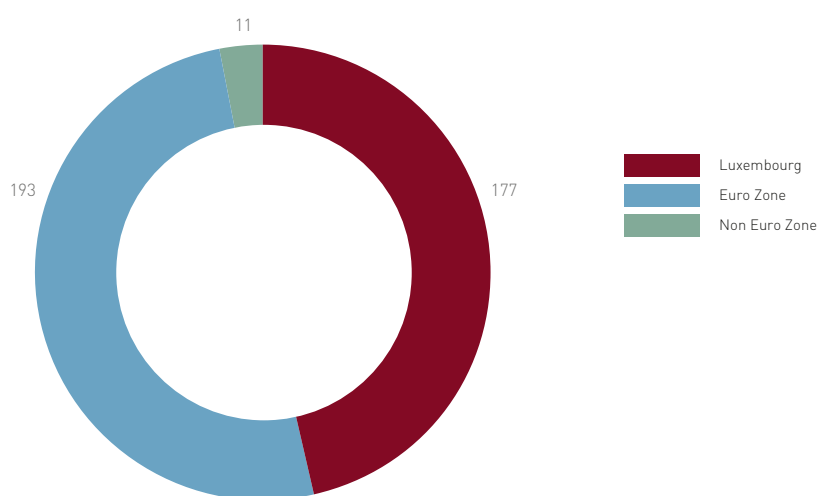
The Governors are advised to exercise particular caution with respect to individual invitations. The same rules apply to their spouses or partners who are equally obliged to respect the generally accepted practices concerning inter-national relations. Any activities outside the ESCB of the members of 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.

## 2.2 HUMAN RESOURCES

### 2.2.1 Evolution of the workforce

As of 31 December 2017, BCL had 381 employees, representing 366.25 full-time equivalents. This workforce consisted of 19 different nationalities, a source of enrichment of the human capital of the institution.

Graph 18:  
Distribution of staff by nationality



The BCL is undergoing a gradual renewal of its teams: 28 entries against 9 exits and 3 retirements during the year 2017.

### 2.2.2 Human Resources Management

In 2017, a review of all processes underlying the action of Human Resources was started, aiming to increase efficiency, redefine procedures and modernise processes and information systems. The BCL has also sought to increase its visibility as an employer, particularly through partnerships. The year 2017 was also an opportunity for the members of the Human Resources Department to welcome their counterparts from the Eurosystem central banks in order to discuss the positioning of the HR function within the central banks.

The BCL has also begun to reflect on the policy of encouraging the performance and development of its employees and has offered them training and mobility opportunities.

### 2.2.3 Pension fund of the BCL

Due to the special status reserved by the legislator for the BCL, the latter set up a pension fund to finance the statutory pension commitments (1st pillar) of its staff in 2001. The BCL affiliates to this fund agents of different statutes in accordance with the provisions of its organic law.

The pension fund is set up within the Bank and is managed independently. To guarantee its financial situation is fully transparent, the pension fund has its own accounting system, with its assets and liabilities identified on the BCL balance sheet.

To ensure its good governance, the pension fund is steered by a Steering Committee, which designates the participants in charge of the fund's day-to-day management and validates the strategic orientations and general principles governing the fund's investment and cash management policy. These strategic orientations are proposed to the Steering Committee by an advisory body, the ALCO Committee.

Since the State does not intervene in financing the statutory pensions (1st pillar) of BCL staff, the pension fund is funded exclusively by, on the one hand, pension deductions made from staff salaries in accordance with the rules of the pension scheme applicable to them according to their status and, on the other hand, by 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 in order 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 2017 budget of the BCL was prepared in accordance with the budget procedure and guidelines set out by the BCL's Council on 8 July 2016. It was approved by the Council of the BCL on 16 December 2016.

In particular, it incorporates the following key elements:

- the Eurosystem's unconventional monetary policy operations were prolonged in 2017 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 production 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 as well as statistical data collection. The activities of the Systemic Risk Committee, for which the BCL provides the secretariat, are under development, which generates an additional burden for the BCL;
- the BCL must fill a significant number of vacancies, which implies that recruitment remains paramount. In view of the development of its activities, an additional reinforcement of staff is necessary;
- the BCL continued its additional contributions to the Bank's pension fund and to the general risk provisions;
- 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.

As of 31 December 2017, operating and investment expenses were 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 that are 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 2017, the PMO team focused on project governance and portfolio management as well as on redesigning the methodological framework.

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 monitor the progress of individual 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 activity (Activity Based Costing). 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 in 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.



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 performance. In addition, reports containing both financial and operational indicators establish, on the one hand, the correspondence between tasks and activities and, on the other hand, the strategic orientations and objectives defined.

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. In order to monitor its capital adequacy in the context of its financial independence, the BCL makes regular projections of its long-term financial situation. It carries out forward-looking analyses based on internal factors, such as costs and revenues, as well as external factors such as interest rates, exchange rates and other variables relating to the Eurosystem and the economic 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)

	2017	2016	Change in % 2017/2016
Total assets	207 562 911 982	200 850 919 830	3
Liabilities to credit institutions	102 875 299 078	97 433 067 129	6
Lending to credit institutions	5 632 440 000	4 907 440 027	15
Own funds <sup>(1)</sup> , revaluation accounts, administrative provisions and specific banking risks provisions	1 268 035 526	1 300 725 096	-3
Net result from banking activities <sup>(2)</sup>	414 997 346	295 856 554	40
Net result from banking activities adjusted by net monetary income allocation	85 197 776	78 089 666	9
Total net income	80 453 167	83 068 393	-3
Administrative expenses	72 516 592	75 101 535	-3
Net profit	1 960 764	1 810 813	8
Staff	378	360	5
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	0.737%	0.823%	

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

<sup>(2)</sup> 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 December 31, 2017, 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 December 31, 2017, 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'Entreprise Agréé*  
Partner

March 14, 2018

### 2.4.3 Balance sheet as at 31 December 2017

ASSETS	Notes	2017 EUR	2016 EUR
Gold and gold receivables	3	78 133 143	79 341 312
Claims on non-euro area residents denominated in foreign currency	4	654 133 058	843 295 653
- Receivables from the IMF	4.1.	509 900 086	662 048 036
- Balances with banks, security investments, external loans and other external assets	4.2.	144 232 972	181 247 617
Claims on euro area residents denominated in foreign currency	5	1 415 921 242	1 336 829 690
Claims on non-euro area residents denominated in euro	6	493 805 352	805 947 591
- Balances with banks, security investments and loans		493 805 352	805 947 591
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	5 632 440 000	4 907 440 027
- Main refinancing operations	7.1.	-	800 000 000
- Longer-term refinancing operations	7.2.	5 632 440 000	4 107 440 000
- Marginal lending facility	7.5.	-	27
Other claims on euro area credit institutions denominated in euro	8	430 223 045	320 107 567
Securities of euro area residents denominated in euro	9	6 307 769 313	4 653 662 908
- Securities held for monetary policy purposes	9.1.	5 721 670 418	3 543 927 349
- Other securities	9.2.	586 098 895	1 109 735 559
Intra-Eurosystem claims	10	191 952 175 637	187 320 186 464
- 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.	191 798 138 382	187 166 149 209
Other assets	11	598 311 192	584 108 618
- Tangible and intangible assets	11.1.	57 248 337	59 870 857
- Other financial assets	11.2.	451 680 164	441 446 178
- Accruals and prepaid expenses	11.3.	79 375 282	80 619 900
- Sundry	11.4.	10 007 409	2 171 683
<b>Total assets</b>		<b>207 562 911 982</b>	<b>200 850 919 830</b>

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

LIABILITIES	Notes	2017 EUR	2016 EUR
Banknotes in circulation	12	3 108 250 980	2 990 103 480
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	102 875 299 078	97 433 067 129
- Current accounts (covering the minimum reserve system)	13.1.	60 489 399 078	60 290 467 129
- Deposit facility	13.2.	42 385 900 000	37 142 600 000
Liabilities to other euro area residents denominated in euro	14	2 803 067 555	2 758 368 960
- General government	14.1.	809 375 261	843 165 095
- Other liabilities	14.2.	1 993 692 294	1 915 203 865
Liabilities to non-euro area residents denominated in euro	15	807 205 982	716 136 021
Liabilities to non-euro area residents denominated in foreign currency	16	1 394 622 755	1 335 556 066
Counterpart of special drawing rights allocated by the IMF	17	292 888 832	314 344 986
Intra-Eurosystem liabilities	18	94 582 973 510	93 600 099 230
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	18.1., 12	94 582 973 510	93 600 099 230
Items in course of settlement		67 410	67 410
Other liabilities	19	42 986 383	36 381 452
- Accruals and income collected in advance		35 727 602	18 982 015
- Sundry		7 258 781	17 399 437
Provisions	20	1 338 194 021	1 299 922 166
- Provision for banking risks	20.1.	950 691 664	933 683 166
- Provision for pensions	20.2.	387 315 357	366 070 000
- Other provisions		187 000	169 000
Revaluation accounts	21	121 691 906	173 170 124
Capital and reserves	22	193 702 806	191 891 993
- Capital	22.1.	175 000 000	175 000 000
- Reserves	22.2.	18 702 806	16 891 993
Profit for the year	40	1 960 764	1 810 813
<b>Total liabilities</b>		<b>207 562 911 982</b>	<b>200 850 919 830</b>

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

#### 2.4.4 Off-balance sheet as at 31 December 2017

	Notes	2017 EUR	2016 EUR
Securities received as collateral	23	133 757 720 885	122 356 265 453
Foreign currency reserve assets managed on behalf of the ECB	24	365 247 152	412 511 469
Futures - Purchases	25	-	62 800 000
Futures - Sales	25	-	88 100 000

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

## 2.4.5 Profit and loss account for the year ending 31 December 2017

	Notes	2017 EUR	2016 EUR
Interest income	26	426 820 087	313 552 785
Interest expense	26	(34 036 416)	(25 700 277)
<b>Net interest income</b>	26	<b>392 783 671</b>	<b>287 852 508</b>
Realised gains/(losses) arising from financial operations	27	23 536 156	10 335 854
Write-downs on financial assets and positions	28	(687 761)	(879 423)
Transfer (to)/from provisions for risks	29	(16 827 884)	(5 535 017)
<b>Net result of financial operations, write-downs and risk provisions</b>		<b>6 020 511</b>	<b>3 921 414</b>
Fees and commissions income	30	9 687 004	9 255 958
Fees and commissions expense	30	(10 321 724)	(10 708 343)
<b>Net result from fees and commissions</b>	30	<b>(634 720)</b>	<b>(1 452 385)</b>
Income from participating interests	31	4 724 676	4 282 553
Net result of pooling of monetary income	32	(329 799 570)	(217 766 888)
Other income	33	7 358 599	6 231 191
<b>Total net income</b>		<b>80 453 167</b>	<b>83 068 393</b>
Staff costs	34	(42 491 348)	(39 318 938)
- Gross salaries		(40 455 012)	(37 060 345)
- Other staff costs		(2 036 336)	(2 258 593)
BCL's contribution to the legal pension scheme	35	(11 256 836)	(19 090 636)
Other administrative expenses	36	(15 762 401)	(13 653 425)
Depreciation of tangible and intangible assets	11.1., 37	(5 975 811)	(6 156 045)
Banknote production services	38	(1 132 056)	(1 430 217)
Other expenses	39	(1 873 951)	(1 608 319)
<b>Result of the year</b>	40	<b>1 960 764</b>	<b>1 810 813</b>

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

## 2.4.6 Notes to the financial statements as at 31 December 2017

### 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 policy<sup>1</sup>. 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.

<sup>1</sup> 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](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 bank-note 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 (1<sup>st</sup> 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.

In accordance with the prudence principle, the management body of the BCL has decided to gradually follow the measurement method from IAS 19 standard.

### 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 2017, the BCL holds 72 219.72 ounces of fine gold amounting to 78.1 million euro (72 256.82 ounces of fine gold amounting to 79.3 million euro on 31 December 2016).

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 29 December 2017.

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

	2017 EUR	2016 EUR
Receivables from the IMF	509 900 086	662 048 036
Balances with banks, security investments, external loans and other external assets	144 232 972	181 247 617
	<b>654 133 058</b>	<b>843 295 653</b>

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 130 million euro as at 31 December 2017 (148 million euro on 31 December 2016), 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 2017, their value at market prices included a negative net revaluation adjustment amounting to 0.8 million euro (negative net revaluation adjustment amounting to 0.7 million euro on 31 December 2016).

Balances with banks amounted to 14.6 million euro as at 31 December 2017 (33.5 million euro on 31 December 2016).

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

This item contains balances in foreign currency held by the BCL on accounts with euro area counterparties which amounts to 1 416 million euro as at 31 December 2017 (1 337 million euro on 31 December 2016).

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

	2017 EUR	2016 EUR
Balances with banks	409 951	886 691
Available-for-sale securities portfolio	493 395 401	805 060 900
	<b>493 805 352</b>	<b>805 947 591</b>

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 2017, the market value of the latter comprised a negative net revaluation adjustment amounting to 5.3 million euro including the premium and discount amortisation (negative net revaluation adjustment amounting to 4.9 million euro on 31 December 2016).

## 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:

	2017 EUR	2016 EUR
Main refinancing operations	-	800 000 000
Longer-term refinancing operations	5 632 440 000	4 107 440 000
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	27
Credits related to margin calls	-	-
	<b>5 632 440 000</b>	<b>4 907 440 027</b>

As at 31 December 2017, the total Eurosystem holding of monetary policy assets amounts to 764 310 million euro of which the BCL holds 5 632 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 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 2017 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. The applicable interest rate for TLTRO II operations depends on the individual lending benchmark of the respective counterparty between the date of allotment and January 2018. The actual rate will be set in 2018 and will be between the MRO rate and the deposit facility rate at the time of the allotment. Given that the actual rate is only known in 2018 and a reliable estimate is not possible at this juncture, the deposit facility rate has been used for calculating the TLTRO II interest for 2017, as this is deemed a prudent approach.

### 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

	2017 EUR	2016 EUR
Securities held for monetary policy purposes	5 721 670 418	3 543 927 349
Other securities	586 098 895	1 109 735 559
- <i>available-for-sale securities portfolio</i>	461 393 735	915 563 105
- <i>held-to-maturity securities portfolio</i>	124 705 160	194 172 454
	<b>6 307 769 313</b>	<b>4 653 662 908</b>

### 9.1 Securities held for monetary policy purposes

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

Purchases under the first covered bond purchase programme were completed on 30 June 2010, while the second covered bond purchase programme ended on 31 October 2012. The Securities Markets Programme was terminated on 6 September 2012.

In 2017 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 80 billion euro on average until March 2017 and 60 billion euro from April 2017 until the end of the year 2017. Based on the Governing Council decision in October 2017, these purchases are intended to continue at a monthly pace of 30 billion euro from January 2018 to September 2018 or beyond, if necessary, and, in any case, until the Governing Council sees a sustained adjustment in the path of inflation that is consistent with its inflation aim.

The net purchases will be made alongside reinvestments of the principal payments from maturing securities purchased under the APP.

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	2017 EUR		2016 EUR	
	Amortised cost	Market value	Amortised cost	Market value
Second covered bond purchase programme	-	-	14 497 404	14 625 380
Third covered bond purchase programme	1 117 063 949	1 128 287 383	554 453 057	562 358 581
Securities markets programme	120 028 853	131 851 835	153 412 053	169 896 930
Public sector purchase programme	4 484 577 616	4 479 389 911	2 821 564 835	2 826 953 659
	<b>5 721 670 418</b>	<b>5 739 529 129</b>	<b>3 543 927 349</b>	<b>3 573 834 550</b>

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 639.0 billion euro as at 31 December 2017, of which the BCL holds 3 960.8 million euro.

In the context of the impairment test conducted as at the end of 2017 on securities purchased under the third covered bond purchase programme, the Governing Council identified one impairment indicator for one issuer which was subject to restructuring measures due to financial difficulties. 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 Statute, losses 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 as at the end of 2017 on securities purchased under the CSPP programme, the Governing Council identified one impairment indicator relating to the holdings of a security, which was triggered in the course of 2017. As a result of the impairment test conducted on the above-mentioned security, the Governing Council has deemed it appropriate to establish a buffer against credit risks in monetary policy operations during 2017 (see note 20, "Provisions"). The concerned security was sold in January 2018.

## **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 461.4 million euro as at 31 December 2017 (915.6 million euro on 31 December 2016). 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 2017, the market value of the latter comprised a negative net revaluation adjustment amounting to 0.8 million euro including premium and discount amortisation (positive net revaluation adjustment amounting to 6.5 million euro on 31 December 2016). 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 2017, these securities amount to 124.7 million euro (194.2 million euro on 31 December 2016). In this portfolio, the BCL does not hold any security issued by the State of the Grand Duchy of Luxembourg.

## 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 are subject to adjustment every five years.

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

Country	Capital key in ESCB	Eurosystem 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	-
<b>Total</b>	<b>100.0000</b>	<b>100.00000</b>

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
<b>Subtotal for euro area NCB</b>	<b>7 619 884 851</b>	<b>7 619 884 851</b>
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
<b>Subtotal for non-euro area NCB</b>	<b>3 205 122 218</b>	<b>120 192 083</b>
<b>Total</b>	<b>10 825 007 070</b>	<b>7 740 076 935</b>

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 2017, the claim of the BCL amounts to 117 640 617 euro (117 640 617 euro on 31 December 2016).



### 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 191.8 billion euro as at 31 December 2017 (187.2 billion euro on 31 December 2016). 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 2017	116 447 231	18 334 614	9 982 971	2 266 750	147 031 566
Disposals/Transfers	-	-	1 970 635	(1 975 035)	(4 400)
Acquisitions	464 569	472 834	231 906	2 188 382	3 357 691
<b>Cost as at 31 December 2017</b>	<b>116 911 800</b>	<b>18 807 448</b>	<b>12 185 512</b>	<b>2 480 097</b>	<b>150 384 857</b>
Accumulated depreciation as at 1 January 2017	62 204 737	16 051 419	8 904 553	-	87 160 709
Disposals	-	-	-	-	-
Depreciation	4 250 722	1 029 395	695 694	-	5 975 811
<b>Accumulated depreciation as at 31 December 2017</b>	<b>66 455 459</b>	<b>17 080 814</b>	<b>9 600 247</b>	<b>-</b>	<b>93 136 520</b>
<b>Net book value as at 31 December 2017</b>	<b>50 456 341</b>	<b>1 726 634</b>	<b>2 585 265</b>	<b>2 480 097</b>	<b>57 248 337</b>

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:

	2017 EUR	2016 EUR
Other participating interests	85 251 623	91 542 852
Pension fund	366 428 541	349 903 326
	<b>451 680 164</b>	<b>441 446 178</b>

The other participating interests comprise the BCL's investments held in 2017 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 29 December 2017.

### 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 2018.

### 11.4 Sundry

	2017 EUR	2016 EUR
Others	10 007 409	2 171 683
	<b>10 007 409</b>	<b>2 171 683</b>

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

As at 31 December 2016, the BCL noted a non-realised gain on SDR (see Note 19 "Other liabilities").

## NOTE 12 - BANKNOTES IN CIRCULATION

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

During 2017, the total value of banknotes in circulation within the Eurosystem increased by 4%. According to the allocation key, the BCL had euro banknotes in circulation worth 3 108.3 million euro at the end of 2017 compared with 2 990.1 million euro at the end of 2016.

The value of the euro banknotes actually issued by the BCL in 2017 increased by 1% and worth 97.7 billion euro as at 31 December 2017 (96.6 billion euro as at 31 December 2016). As this was more than the allocated amount, the difference of 94.6 billion euro (93.6 billion euro as at 31 December 2016) 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

	2017 EUR	2016 EUR
Current accounts (including the minimum reserves)	60 489 399 078	60 290 467 129
Deposit facility	42 385 900 000	37 142 600 000
Fixed-term deposits	-	-
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	<b>102 875 299 078</b>	<b>97 433 067 129</b>

### 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 January 1, 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:

	2017 EUR	2016 EUR
Current accounts	1	-
Account related to euro coins issued by the Treasury	289 841 435	280 991 031
Specific account of the State	382 174 064	422 174 064
Fixed-term deposit	137 359 761	140 000 000
	<b>809 375 261</b>	<b>843 165 095</b>

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

	2017 EUR	2016 EUR
Other liabilities	1 993 692 294	1 915 203 865
	<b>1 993 692 294</b>	<b>1 915 203 865</b>

As at 31 December 2017, 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, 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 292.9 million euro as at 31 December 2017 (SDR 246.6 million, or 314.3 million euro on 31 December 2016).

## 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.

As at 31 December 2016, the item "Other liabilities" also comprised the counterpart of the gains on SDR for 10.6 million euro. In 2017, the BCL noted a loss on SDR as explained in item "Other assets" (see Note 11.4).

The Luxembourg franc banknotes still circulating as at 31 December 2017 amount to 5.0 million euro (5.0 million euro on 31 December 2016).

## NOTE 20 - PROVISIONS

Provisions are as follows:

	2017 EUR	2016 EUR
Provision for banking risks	950 691 664	933 683 166
Provision for pensions	387 315 357	366 070 000
Other provisions	187 000	169 000
	<b>1 338 194 021</b>	<b>1 299 922 166</b>

## 20.1 Provision for banking risks

Provision for banking risks includes the following items:

Provisions for specific banking risks	2017 EUR	2016 EUR
Provision covering credit and market risk	580 594 982	542 444 999
Buffer against counterparty risks in Eurosystem	198 614	-
Provision covering operational risk	14 590 000	18 560 000
Provision covering liquidity risk	18 392 699	17 012 798
	<b>613 776 295</b>	<b>578 017 797</b>
Provisions for general banking risks	2017 EUR	2016 EUR
Provision for liabilities resulting from monetary agreements	32 341 954	32 341 954
Other provision for general banking risks	304 573 415	323 323 415
	<b>336 915 369</b>	<b>355 665 369</b>
	<b>950 691 664</b>	<b>933 683 166</b>

### 20.1.1 Provision covering credit and market risk

The provision of 580.6 million euro as at 31 December 2017 (542.4 million euro on 31 December 2016) corresponds to:

- 8.18% (8.18% on 31 December 2016) of the BCL's own securities portfolio existing as at 31 December 2017 and participations other than the participating interest in the capital of the ECB;
- 8.18% (8.18% on 31 December 2016) 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 (2016: 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 68 870 710 euro against losses in monetary policy operations, in relation to a security held by an NCB of the Eurosystem. The size of this provision has been calculated taking into account the information regarding the security sale in January 2018. This is in line with the framework for accounting and financial reporting in the ESCB for post balance sheet events.

In accordance with Article 32.4 of the ESCB Statute, this buffer will be funded by 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.

### 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 2017, 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 2017.

### 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 2017 for an amount of 18.75 million euro.

## 20.2 Provision for pensions

Provision for pensions include the following items:

	2017 EUR	2016 EUR
Provision for pensions	387 315 357	366 070 000
	<b>387 315 357</b>	<b>366 070 000</b>

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.

The pension liabilities of the employer vis-à-vis all its staff members amounted to 387.3 million euro at 31 December 2017 compared with 366.1 million euro at 31 December 2016.

The demographic, economic and financial assumptions applied as part of the assessment of pension liabilities at 31 December 2017 are as follows:

Discount rate		3.45%
Wage growth rate (incl. index)		3.30%
Expected return on plan assets		3.75%
Pension growth rate (incl. index)		2.35%
Mortality table	German DAV 2004 tables	
Disability rate		0.50%
Staff turnover		0.00%

Pension liabilities have been assessed based on the principles of the IAS 19 accounting standard. This standard requires both the use of actuarial method of projected unit credit 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 2017, this rate was estimated at 2.10%.

The full adoption of the measurement features from IAS 19 standard for the fiscal year 2017 would have resulted in pension fund liabilities of a total of 567.8 million euro. As a consequence, this would have amounted in a total 180.5 million euro to make up for in 2017.

It should be noted that the adoption of this method is not mandatory for the BCL. However, in order to best reflect the economic and financial reality and to be able to meet the requirement of its Organic Law to bear all the expenses for pensions of its staff members, the BCL has decided to progressively increase its pension provisions in line with the application of the measurement features from IAS 19, thus smoothing the major burden over several years.

The difference of 21.2 million euro in pension liabilities between 387.3 million euro as at 31 December 2017 and 366.1 million euro as at 31 December 2016 includes:

- salary and wage deductions (employees' share) accounting for 3.2 million euro;
- a transfer from the "Booking reserve of the pension fund" account (adjustment of the actuarial value of the pension fund assets) to the account "Provision for pensions" for 9.5 million euro;
- a contribution of 11.2 million euro borne by the BCL;
- pension payments for retired staff members of 1.6 million euro;
- a payment to the CNAP (Caisse Nationale d'Assurance Pension) for 1.1 million euro. This amount is due to the CNAP for retroactive insurance in the general regime for staff members who left the BCL.

## NOTE 21 - REVALUATION ACCOUNTS

	2017 EUR	2016 EUR
Gold	62 561 936	63 762 854
Foreign Currency	32 110 825	61 003 115
Securities and other instruments	27 019 145	48 404 155
	<b>121 691 906</b>	<b>173 170 124</b>

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 18.7 million euro (16.9 million euro on 31 December 2016). This amount was increased by 1.8 million euro following the allocation of profit for 2016 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 2017, the market value of these securities amounts to 133.8 billion euro (122.4 billion euro on 31 December 2016).

## **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.

As at 31 December 2017, the BCL does not hold any outstanding futures.



## NOTE 26 - NET INTEREST INCOME

This item includes interest income and expense.

Interest income and expense are as follows:

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
<b>Total</b>	<b>20 313 291</b>	<b>406 506 796</b>	<b>426 820 087</b>

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)
<b>Total</b>	<b>(13 604 527)</b>	<b>(20 431 889)</b>	<b>(34 036 416)</b>

Composition of interest income	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2016	2016	2016
IMF	543 848	-	543 848
Lending to euro area credit institutions related to monetary policy operations	-	24 875	24 875
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	236 565 400	236 565 400
Intra-Eurosystem claims	-	15 547 993	15 547 993
Securities held for monetary policy purposes	-	10 942 915	10 942 915
Other securities	1 529 122	33 312 596	34 841 718
Other	12 152 157	2 933 879	15 086 036
<b>Total</b>	<b>14 225 127</b>	<b>299 327 658</b>	<b>313 552 785</b>

Composition of interest expense	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2016	2016	2016
IMF	(271 004)	-	(271 004)
Lending to euro area credit institutions related to monetary policy operations	-	(6 595 853)	(6 595 853)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	(9 654 765)	(9 654 765)
Other liabilities	(7 417 860)	(1 460 921)	(8 878 781)
Interest on swap operation	-	(299 874)	(299 874)
<b>Total</b>	<b>(7 688 864)</b>	<b>(18 011 413)</b>	<b>(25 700 277)</b>

## 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 2017, they amount to 28.0 million euro (17.7 million euro on 31 December 2016) and to 4.5 million euro (7.4 million euro on 31 December 2016) respectively, giving a net gain of 23.5 million euro (a net gain of 10.3 million euro on 31 December 2016).

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

This item includes revaluation losses on securities for 0.7 million euro (revaluation losses on securities for 0.9 million euro in 2016).

## 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	
	2017	2016	2017	2016
Securities	8 327 363	7 981 198	(9 385 392)	(10 253 370)
Others	1 359 641	1 274 760	(936 332)	(454 973)
<b>Total</b>	<b>9 687 004</b>	<b>9 255 958</b>	<b>(10 321 724)</b>	<b>(10 708 343)</b>

## 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 due to the euro area NCBs in the financial year in which it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim distribution of profit.

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 2017, the BCL received 3.6 million euro from the ECB.

In 2017, the BCL also received a dividend of 0.9 million SDR (1.1 million euro) due to the participating interest held in the Bank for International Settlements (BIS).

In total, this item amounts to 4.7 million euro as at 31 December 2017 (4.3 million euro on 31 December 2016).

## 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 2017 representing an expense amounting to 329 600 956 euro (expense of 217 766 888 euro on 31 December 2016).

As at 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 an NCB of the Eurosystem in its CSPP portfolio (see Note 20 "Provisions").

### 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

	2017 EUR	2016 EUR
Gross wages and salaries	(40 455 012)	(37 060 345)
Other staff costs	(2 036 336)	(2 258 593)
	<b>(42 491 348)</b>	<b>(39 318 938)</b>

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 727 237 euro for the year 2017 (726 196 euro for the year 2016).

As at 31 December 2017, the BCL employed 378 persons (360 on 31 December 2016). The average number of persons working for the BCL from 1 January to 31 December 2017 was 368 (355 for the year 2016).

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

	2017 EUR	2016 EUR
Notional employer's share	(6 466 083)	(5 938 502)
Adjustments to the pension liabilities	(4 790 753)	(13 152 134)
	<b>(11 256 836)</b>	<b>(19 090 636)</b>

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 6.5 million euro as well as the contribution of the BCL for an amount of 4.8 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 13.2 million euro in 2016.

### 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 initiated in 2017, 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 99 389 euro for 2017, of which 91 557 euro for indemnities paid to the members of the Council (93 445 euro for 2016, of which 89 356 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**

	2017 EUR	2016 EUR
Profit for the year	1 960 764	1 810 813

The fiscal year 2017 shows a profit of 1 960 764 euro (profit of 1 810 813 euro in 2016).

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.