







# 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 2019, the Council consisted of the following members:

President: Mr Gaston Reinesch

Members: Mr Pierre Beck

Mr Pit Hentgen

Ms Nadia Manzari

Ms Martine Reicherts

Mr Romain Schintgen

Mr Roland Weyland

Mr Michel Wurth

Mr Claude Zimmer

During 2019, the Council held six meetings. The Council approved the financial accounts as at 31 December 2018, the budgetary trends and subsequently the budget for the 2020 financial year.

## Audit Committee

Since 2001, the Audit Committee, composed of members of the Council, has assisted 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 to assist in carrying out its work.

At its meeting on 14 December 2018, the Council reappointed the members of the Audit Committee for the 2019 financial year: Mr. Pit Hentgen, Mr. Romain Schintgen and Mr. Claude Zimmer. The Audit Committee, which was chaired by Mr. Claude Zimmer in 2019, met four times.

### **2.1.2 The Governor**

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

### **2.1.3 The Executive Board**

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

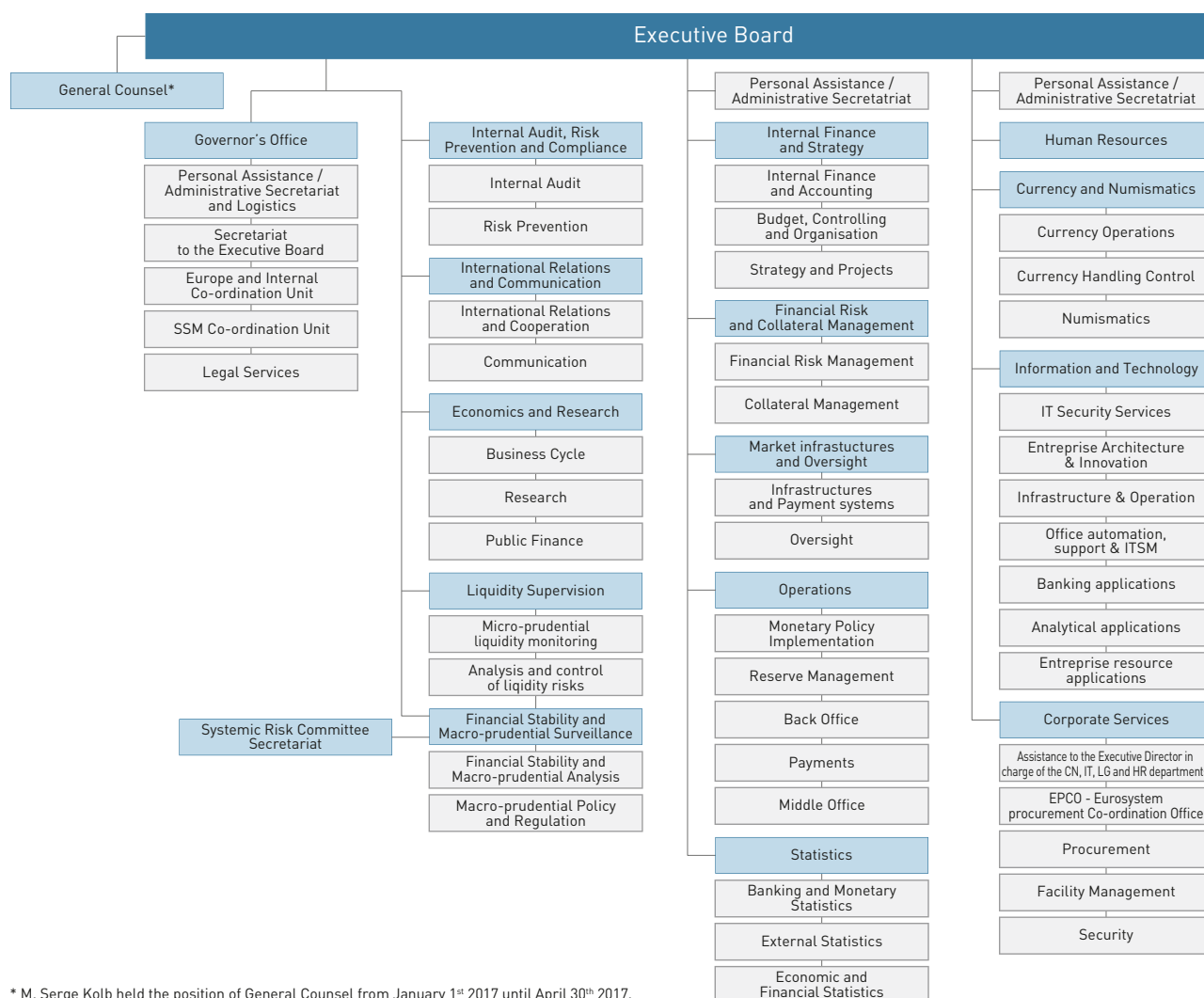
Without prejudice to the independence of the Director General from any instructions in his capacity as a member of the Governing Council of the European Central Bank (ECB), the decisions of the Executive Board shall be taken collectively.

The Executive Board consists of a Director General and two Directors. The composition consists of the following members as at 31 December 2019:

- 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 at 31 December 2019



\* M. Serge Kolb held the position of General Counsel from January 1<sup>st</sup> 2017 until April 30<sup>th</sup> 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 first line of defense composed of the management and its employees.

The second line of defense consists of the entities responsible for specific areas of expertise 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 and Project Management Office (PMO):

- The Financial Risk Management section is responsible for the analysis of financial risks, the surveillance of the implementation of decisions taken by the committees and the Executive Board, the surveillance of the investment limits and reporting on these matters;
- 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, risks related to information systems and non-compliance risks.

While operational departments are responsible for identifying the risks associated with their activities and for implementing appropriate measures to mitigate those 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. Since the end of 2019, the manager in charge of the Risk Prevention section also serves as the *Chief Information Security Officer (CISO)* and is entrusted with the BCL's cyber resilience programme.

The Compliance function, which is administratively attached to the Risk Prevention section, aims to identify, evaluate 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 the available resources are used effectively and any misuse is detected without delay. It ensures the proper functioning of the budgetary procedure and supervises the execution of the budget. It reports on a regular basis on the follow-up thereof. The Project Management Office (PMO) is entrusted with the same responsibilities in the area of project management.

As the third line of defense, the Internal Audit unit is in charge of the independent and objective evaluation of the internal control system and of its operation. The Internal Audit unit is independent from the other administrative units and reports directly to the President of the Council.

The Internal Audit unit relies on internationally accepted professional standards, as applied by the ESCB/SSM. The annual internal audit plan includes audit engagements at 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 ensures their follow-up.

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

### **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 BCL's accounts. Moreover, the external auditor is mandated by the BCL's Council to perform additional reviews and specific controls.

At European level, the nomination of BCL's statutory auditor 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.

In accordance with the appointment and approval process provided for by the Statute of the ESCB and of the ECB (Article 27.1), a procedure for selecting the next auditor for the period 2019 to 2023 was launched in 2018, following an open call for tenders at European level. As of 14 February 2019, the Governing Council of the ECB recommended Ernst & Young S.A. to the Council of the European Union, which issued its approval on 19 March 2019. The Government nominated Ernst & Young S.A. as the BCL's external auditor following a ministerial decree dated 14 May 2019.

### **2.1.7 Codes of Conduct**

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

The application of the Code of Conduct, in respect of the Director General, on 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's investment committees responsible for managing the BCL's portfolios. In addition, as regards the Executive Board, the Director General does not take part in the deliberations on this subject. As the President of the Council, his responsibilities are limited to those of an administrator.

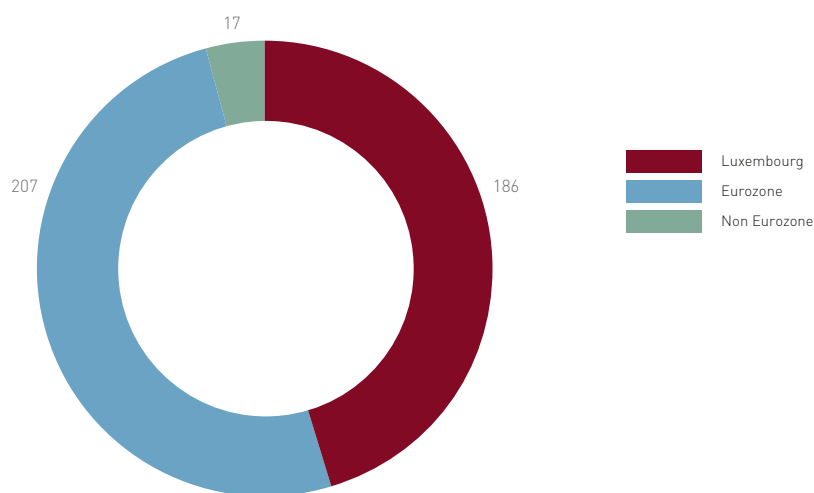
As of 1 January 2019, the ECB's Single Code of Conduct became applicable, replacing the Codes applicable to the Governing Council and the Supervisory Board. This new Code establishes a harmonised system of rules for members of the *High Level ECB bodies*.

## 2.2 HUMAN RESOURCES

### 2.2.1 Evolution of the workforce

The workforce at the Banque centrale du Luxembourg (BCL) has continued to grow. As of 31 December 2019, the BCL employed 410 people, representing 396.47 full-time equivalents. This workforce was made up of 26 different nationalities, which represents a source of enrichment for the institution's human capital.

Chart 20:  
Distribution of agents according to their nationality



The BCL is experiencing a gradual renewal of its teams: in 2019, 35 new staff members were hired, 6 staff members left and 11 staff members retired.

### 2.2.2 Human Resources Management

In 2019, the HR department put in place a framework and an organisation of the department that meets the current and future needs of the Bank:

- HR team organisation and structure: redefinition of the team's roles and responsibilities and establishment of an HR partnership with the Bank's various departments;
- process modelling for continuous improvement and automation of certain tasks;
- upgrading of available HR tools and their deployment.

In the area of recruitment, BCL pays particular attention to developing its employer brand. It takes regular action and maintains a regular presence at recruitment fairs and on social networks.

The Graduate Programme, introduced in 2018, has enabled four young graduates to be integrated into a training programme dedicated to the specific professions of central bankers.

The training policy has been defined in such a way as to enable BCL employees to perform their duties in an optimal manner through an adequate mastery of the required knowledge.

The training catalogue is continually enriched by offers of introductory, continuing and specialised training to ensure that it is in line with the required skills, which are constantly evolving.



### 2.2.3 BCL Pension Fund

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

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

In order to ensure good governance, the pension fund is supervised by a decision-making body, the Steering Committee which appoints the stakeholders and validates the strategic axis and the general principles governing the investment and treasury policy of the pension fund. These strategic axes are proposed to the Steering Committee by an advisory Committee, the ALCO Committee.<sup>145</sup>

Since the State does not intervene in the financing of the statutory pensions (1<sup>st</sup> pillar) of BCL staff members, the pension fund is exclusively financed, on the one hand, by pension deductions made on the salaries of the staff members in compliance with the rules of the pension scheme applicable to them according to their status and, on the other hand, by the regular and ad hoc 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 monitors the evolution 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, satisfies the continuous need to oversee 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 determine future targets and actions.

<sup>145</sup> Assets and Liabilities Committee.

### 2.3.2 Budget

The preparation of the budget, in accordance with the BCL's organic law, 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 2019 BCL budget has been drawn up in accordance with the budget procedure and the guidelines set out by the BCL's Council on 17 July 2018. It was approved by the Council of the BCL on 14 December 2018. On 5 July 2019, the BCL's Council approved an extension to the budget for a property project.

In particular, the 2019 BCL budget incorporates the following key elements:

- the Eurosystem's unconventional monetary policy measures have been prolonged in 2019 with an impact on the BCL's business volume;
- the Eurosystem's key interest rates remain at a historically low level, which has a negative impact on the BCL's net income;
- at Eurosystem level, cooperation continues with the ongoing consolidation of systems in operation, a significant number of joint projects and joint procurement procedures between national central banks under the aegis of the Eurosystem Procurement Coordination Office;
- at national level, the specialisation of the tasks to be performed also continues, in particular in macro-prudential supervision, the oversight of payment systems and securities settlement and statistical collection. The activities of the Systemic Risk Committee, for which the BCL provides the secretariat, generate an additional burden for the BCL;
- in view of a significant number of vacant positions and retirements, recruitment remains paramount. In view of the development of the Bank's activities, additional reinforcement of staff is necessary;
- the digitisation of operations and the strengthening of IT security continue;
- the BCL has continued its additional contributions to the Bank's pension fund;
- historically low interest rates combined with a constantly increasing workforce make it increasingly difficult to cover operating expenses with recurring income.

The Internal Finance and Strategy Department oversees budget execution and prepares quarterly reports for the attention of the Executive Board. At the end of each financial year, a detailed analysis of the variances between budgeted and actual expenditures is established. This analysis is submitted to the Management and the Executive Board and Council of the BCL for information purposes and approval. The conclusions that can be drawn from it are taken into account for the preparation of future budgets.

As at 31 December 2019, operating and investment expenses remained below budget.

### 2.3.3 Strategic Planning and Management Control

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

In addition, the BCL also participated in several project controlling activities at Eurosystem and 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. In addition, it is used to establish financial data for the invoicing of services provided. The methodology used is compliant with the harmonised set of rules at Eurosystem level. It consists of allocating 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 planning and monitoring of the use of the necessary resources, the BCL has an analytical tool for measure and evaluating the allocation of human resources and material for the various missions of a central bank. Combined with the cost accounting system, it enables the Executive Board to better monitor the Bank's operational and organisational performance. In addition, reports containing both financial and operational indicators establish the correspondence between tasks and activities on the one hand, and the defined strategic axes and objectives on the other.

As for the new Strategy and Projects section, through its Project Management Office (PMO) function, it is in charge of coordinating and prioritising projects and managing BCL's project portfolio. The PMO assists the BCL Internal Steering Committee (BISC) and the Executive Board in the preparation of project decisions. In 2019, a new project methodology was finalised and approved.

The BISC, whose secretariat is provided by the PMO, monitors the progress of all ongoing projects as well as the launch of new projects. The Overall Project Monitoring Report (OPMR), prepared by the PMO 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 matters.

As the BCL continues to develop its activities, a more comprehensive medium- and long-term planning remains a necessity. In 2019, BCL continued to develop a scorecard to identify areas of activity that need to be strengthened. Strategic planning efforts are being stepped up to ensure optimal alignment of the BCL with the current economic, financial and institutional environment.

## 2.4 FINANCIAL STATEMENTS

### *Preamble*

Only the French version of the present financial statements has been reviewed by the Independent Auditor. Consequently, the present financial statements only refer to the French version of the financial statements; other versions result from a conscientious translation made under the responsibility of the Executive Board. In case of differences between the French version and this translation, only the French version is legally binding.

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

	2019	2018	Change in % 2019/2018
Total assets	207 256 558 436	227 941 615 519	-9%
Liabilities to credit institutions	100 531 528 383	119 841 344 531	-16%
Lending to credit institutions	4 724 610 000	5 141 440 000	-8%
Own funds <sup>(1)</sup> , revaluation accounts, administrative provisions and specific banking risks provisions	1 295 474 562	1 270 346 840	2%
Net result from banking activities <sup>(2)</sup>	514 288 141	496 144 708	4%
Net result from banking activities adjusted by net monetary income allocation	71 105 371	70 543 874	1%
Total net income	86 481 525	86 244 300	0.3%
Administrative and operational expenses	84 491 422	84 256 015	0.3%
Net profit	1 990 103	1 988 284	0.1%
Staff	407	389	5%
BCL's weighting in the capital of the ESCB	0.2270%	0.2030%	
BCL's weighting in lending to credit institutions related to monetary policy operations	0.757%	0.700%	

<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 accounts of Banque centrale du Luxembourg, which comprise the balance sheet as at 31 December 2019, and the profit and loss account for the year then ended, and the notes to the financial accounts, including a summary of significant accounting policies.

In our opinion, the accompanying financial accounts give a true and fair view of the financial position of the Banque centrale du Luxembourg as at 31 December 2019, and of the results of its operations for the year then ended in accordance with accounting principles generally accepted in Luxembourg 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 (the 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 responsibilities under those Law and standards are further described in the "responsibilities of the "Réviseur d'entreprises agréé" for the audit of the financial accounts" 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 accounts, 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.

### *Other matter*

The financial accounts of the Banque centrale du Luxembourg as at 31 December 2018 have been audited by another "Réviseur d'entreprises agréé" who expressed an unqualified opinion on these financial accounts on 20 March 2019.

### *Responsibilities of the Management for the financial accounts*

The financial accounts are prepared by the Management and approved by the Council. The Management is responsible for the preparation and fair presentation of these financial accounts in accordance with accounting principles generally accepted in Luxembourg and those defined by the European System of Central Banks, and for such internal control as the Management determines is necessary to enable the preparation of financial accounts that are free from material misstatement, whether due to fraud or error.

In preparing the financial accounts, the Management is responsible for using the going concern basis of accounting.

### *Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the financial accounts*

Our objectives are to obtain reasonable assurance about whether the financial accounts 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 accounts.

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 accounts, 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 Management;
- Conclude on the appropriateness of Management's 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 would be required to draw attention in our report of the "Réviseur d'entreprises agréé" to the related disclosures in the financial accounts 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 accounts, including the disclosures, and whether the financial accounts 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.

Ernst & Young  
Société anonyme  
Cabinet de révision agréé

Sylvie Testa

Luxembourg, 20 March 2020



### 2.4.3 Balance sheet as at 31 December 2019

ASSETS	Notes	2019 EUR	2018 EUR
Gold and gold receivables	3	97 890 020	80 763 435
Claims on non-euro area residents denominated in foreign currency	4	839 875 979	740 507 367
- Receivables from the IMF	4.1.	627 715 115	583 385 660
- Balances with banks, security investments, external loans and other external assets	4.2.	212 160 864	157 121 707
Claims on euro area residents denominated in foreign currency	5	392 908 218	622 778 652
Claims on non-euro area residents denominated in euro	6	346 403 995	409 923 881
- Balances with banks, security investments and loans		346 403 995	409 923 881
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	4 724 610 000	5 141 440 000
- Main refinancing operations	7.1.	-	45 000 000
- Longer-term refinancing operations	7.2.	4 724 610 000	5 096 440 000
Other claims on euro area credit institutions denominated in euro	8	598 656 935	628 395 386
Securities of euro area residents denominated in euro	9	7 406 458 328	7 014 310 249
- Securities held for monetary policy purposes	9.1.	7 062 893 372	6 596 941 266
- Other securities	9.2.	343 564 956	417 368 983
Intra-Eurosystem claims	10	192 150 082 767	212 689 661 346
- Participating interest in the ECB	10.1.	51 256 492	36 396 638
- Claims equivalent to the transfer of foreign reserves to the ECB	10.2.	131 548 868	117 640 617
- Other claims within the Eurosystem	10.3.	191 967 277 407	212 535 624 091
Other assets	11	699 672 194	613 835 203
- Tangible and intangible assets	11.1.	110 438 231	54 707 733
- Other financial assets	11.2.	504 192 311	471 893 118
- Accruals and prepaid expenses	11.3.	78 711 285	83 259 995
- Sundry	11.4.	6 330 367	3 974 357
<b>Total assets</b>		<b>207 256 558 436</b>	<b>227 941 615 519</b>

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

LIABILITIES	Notes	2019 EUR	2018 EUR
Banknotes in circulation	12	3 878 226 000	3 268 660 770
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	100 531 528 383	119 841 344 531
- Current accounts (covering the minimum reserve system)	13.1.	81 314 028 383	69 766 448 907
- Deposit facility	13.2.	19 217 500 000	50 074 895 624
Other liabilities on euro area credit institutions denominated in euro		-	10
Liabilities to other euro area residents denominated in euro	14	2 850 181 041	2 988 649 105
- General government	14.1.	795 220 864	801 617 708
- Other liabilities	14.2.	2 054 960 177	2 187 031 397
Liabilities to non-euro area residents denominated in euro	15	2 071 037 576	4 041 904 009
Liabilities to non-euro area residents denominated in foreign currency	16	524 545 623	598 130 381
Counterpart of special drawing rights allocated by the IMF	17	304 307 452	299 744 937
Intra-Eurosystem liabilities	18	95 291 292 570	95 166 762 155
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	18.1., 12	95 291 292 570	95 166 762 155
Items in course of settlement		20	140 364
Other liabilities	19	75 726 610	65 073 398
- Accruals and income collected in advance		68 667 567	56 839 002
- Sundry		7 059 043	8 234 396
Provisions	20	1 384 006 812	1 348 923 888
- Provision for banking risks	20.1.	949 820 296	948 332 888
- Provision for pensions	20.2.	433 980 816	400 394 500
- Other provisions		205 700	196 500
Revaluation accounts	21	146 064 392	124 630 117
Capital and reserves	22	197 651 854	195 663 570
- Capital	22.1.	175 000 000	175 000 000
- Reserves	22.2.	22 651 854	20 663 570
Profit for the year	40	1 990 103	1 988 284
<b>Total liabilities</b>		<b>207 256 558 436</b>	<b>227 941 615 519</b>

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

#### 2.4.4 Off-balance sheet as at 31 December 2019

	Notes	2019 EUR	2018 EUR
Securities received as collateral	23	130 031 953 392	127 455 615 176
Foreign currency reserve assets managed on behalf of the ECB	24	430 850 043	391 624 275
Futures - Purchases	25	-	87 336 200
Futures - Sales	25	-	65 200 000

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

## 2.4.5 Profit and loss account for the year ending 31 December 2019

	Notes	2019 EUR	2018 EUR
Interest income	26	562 139 521	540 879 791
Interest expense	26	(47 837 615)	(47 445 718)
<b>Net interest income</b>	26	<b>514 301 906</b>	<b>493 434 073</b>
Realised gains/(losses) arising from financial operations	27	1 152 838	13 938 270
Write-downs on financial assets and positions	28	(429 403)	(10 841 265)
Transfer (to)/from provisions for risks	29	(1 703 343)	2 615 180
<b>Net result of financial operations, write-downs and risk provisions</b>		<b>(979 908)</b>	<b>5 712 185</b>
Fees and commissions income	30	10 115 925	9 840 956
Fees and commissions expense	30	(10 853 124)	(10 227 325)
<b>Net result from fees and commissions</b>	30	<b>(737 199)</b>	<b>(386 369)</b>
Income from participating interests	31	8 694 108	5 444 391
Net result of pooling of monetary income	32	(443 182 770)	(425 600 834)
Other income	33	8 385 390	7 640 854
<b>Total net income</b>		<b>86 481 527</b>	<b>86 244 300</b>
Staff costs	34	(47 160 539)	(44 797 585)
-Gross salaries		(44 980 322)	(42 686 187)
-Other staff costs		(2 180 217)	(2 111 398)
BCL's contribution to the legal pension scheme	35	(9 887 056)	(12 119 599)
Other administrative expenses	36	(19 506 233)	(18 083 297)
Depreciation of tangible and intangible assets	11.1., 37	(4 634 564)	(6 295 275)
Banknote production services	38	(882 899)	(346 581)
Other expenses	39	(2 420 133)	(2 613 679)
<b>Result of the year</b>	40	<b>1 990 103</b>	<b>1 988 284</b>

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

## 2.4.6 Notes to the financial statements as at 31 December 2019

### 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.

When necessary, 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 (purchase or transfer price adjusted by pro rata of premiums and discounts) (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 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. 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.



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)”.

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.

There are other claims or 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.

The “Participating interest in the ECB” sub-item includes:

- (i) the NCBs’ paid-up share in the ECB’s subscribed capital, and
- (ii) any net amount paid by the NCBs due to the increase in their shares in the ECB’s equity value resulting from all previous ECB’s capital key adjustments.

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”.

## **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	50
Renovation of buildings	10
Furniture and equipment	3-5
Computer hardware and software	4

The buildings are owned by the BCL in the perspective of a durable and very long-term use. The estimated useful life of the buildings was reviewed in 2019 and align to this principle. Therefore, the economic benefits expected from the buildings is now fixed over a period of 50 years, instead of 25 years previously, this is in line with the practices recommended at the Eurosystem level according to the methodology established by the committee in charge of cost controlling (COMCO).

This revision of the amortisation plan for the buildings is considered as a change in estimates, which takes effect starting from the 2019 financial year.

## 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.

## 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 2019, the BCL holds 72 291.36 ounces of fine gold amounting to 97.9 million euro (72 048.39 ounces of fine gold amounting to 80.8 million euro on 31 December 2018).

On the balance sheet date, gold is valued on the basis of the euro price per fine ounce derived from the quotation in US dollars established at the London fixing on 31 December 2019.

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

	2019 EUR	2018 EUR
Receivables from the IMF	627 715 115	583 385 660
Balances with banks, security investments, external loans and other external assets	212 160 864	157 121 707
	<b>839 875 979</b>	<b>740 507 367</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 and the foreign currency investment security portfolio.

The US dollar portfolio, which amounts to 161.3 million euro as at 31 December 2019 (140.8 million euro on 31 December 2018), 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 2019, their value at market prices included a positive net revaluation adjustment amounting to 2.0 million euro (negative net revaluation adjustment amounting to 0.5 million euro on 31 December 2018).

The foreign currency investment securities portfolio amounts to 10.2 million euro at 31 December 2019 (nil in 2018). As at 31 December 2019, their market value includes a negative net valuation adjustment of 0.1 million euro (nil in 2018).

Balances with banks amounted to 40.7 million euro as at 31 December 2019 (16.4 million euro on 31 December 2018).

#### **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 393 million euro as at 31 December 2019 (623 million euro on 31 December 2018).

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

	2019 EUR	2018 EUR
Balances with banks	1 514	440 997
Available-for-sale securities portfolio	346 402 481	409 482 884
	<b>346 403 995</b>	<b>409 923 881</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 2019, the market value of the latter comprised a negative net revaluation adjustment amounting to 10.6 million euro including the premium and discount amortisation (negative net revaluation adjustment amounting to 7.7 million euro on 31 December 2018).

## 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:

	2019 EUR	2018 EUR
Main refinancing operations	-	45 000 000
Longer-term refinancing operations	4 724 610 000	5 096 440 000
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	-
Credits related to margin calls	-	-
	<b>4 724 610 000</b>	<b>5 141 440 000</b>

As at 31 December 2019, the total Eurosystem holding of monetary policy assets amounts to 624 233 million euro (734 382 million euro as at 31 December 2018) of which the BCL holds 4 725 million euro (5 141 million euro as at 31 December 2018).

In accordance with Article 32.4 of the Statute of the ESCB, any risks from monetary policy operations, if they were to materialise, may be shared, by decision of the Governing Council, in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

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

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

### 7.1 Main refinancing operations

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

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

### 7.2 Longer-term refinancing operations

These operations aim to provide counterparties with additional longer-term refinancing. In 2019 operations were conducted with maturities equal to the reserve maintenance period and with maturities between 36 and 48 months. These operations were conducted at fixed rate with allotment of the total amount bid.

In 2016, the Governing Council introduced a series of four targeted longer-term refinancing operations (TLTRO II). These operations have a four-year maturity, with a possibility of repayment after two years. According to the decisions taken by the Governing Council, the final interest rate applicable to each TLTRO-II operation depended on the lending behaviour of the counterparties for the period between 1 February 2016 and 31 January 2018 and would be between the MRO rate and the deposit facility rate at the time of the allotment.

Additionally, in 2019 the Governing Council introduced a new series of seven quarterly targeted longer-term refinancing operations (TLTRO III). These operations have a three-year maturity, with a possibility of repayment after two years. According to the decisions taken by the Governing Council, the final interest rate applicable to each TLTRO-III operation can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. Given that the rate for accruing interest will only be known starting from 2021 and that a reliable estimate is not possible until that time, the deposit facility rate is used for calculating the TLTRO III interest for 2019, as this was 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**

	2019 EUR	2018 EUR
Securities held for monetary policy purposes	7 062 893 372	6 596 941 266
Other securities	343 564 956	417 368 983
- <i>available-for-sale securities portfolio</i>	298 262 467	371 919 994
- <i>held-to-maturity securities portfolio</i>	45 302 489	45 448 989
	<b>7 406 458 328</b>	<b>7 014 310 249</b>

### **9.1 Securities held for monetary policy purposes**

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

The SMP was terminated on 6 September 2012.



On 1 November 2019 the Eurosystem restarted its net purchases of securities under the asset purchase programme (APP) at a monthly pace of 20 billion euro on average. This restart of net purchases followed a period of ten months since end-2018 during which the Eurosystem only reinvested, in full, the principal payments from maturing securities purchased under the APP. The Governing Council expects net purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council also intends to continue the reinvestments for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

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

Securities held for monetary policy purposes	2019 EUR		2018 EUR	
	Amortised cost	Market value	Amortised cost	Market value
Third covered bond purchase programme	2 119 233 536	2 196 278 890	1 651 208 628	1 661 989 692
Securities markets programme	55 675 328	61 002 850	65 604 078	72 542 650
Public sector purchase programme	4 887 984 508	5 000 986 644	4 880 128 560	4 891 276 796
	<b>7 062 893 372</b>	<b>7 258 268 384</b>	<b>6 596 941 266</b>	<b>6 625 809 138</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. Impairment tests are conducted on an annual basis, using data as at the year-end and are approved by the Governing Council. In these tests, impairment indicators are assessed separately for each programme.

The total Eurosystem NCB's holding of securities held in the context of the Asset Purchase Programme (SMP, CBPP3, corporate sector purchase programme – CSPP, and the securities issued by international or supranational institutions held in the public sector purchase programme) amounts to 695.8 billion euro as at 31 December 2019 (710.9 billion euro as at 31 December 2018), of which the BCL holds 5 137.0 million euro (4 706.8 million euro as at 31 December 2018).

As a result of an impairment test conducted as at 31 December 2019 on securities purchased under SMP and PSPP, the Governing Council decided that all future cash flows on these securities are expected to be received. No impairment loss was recorded at the end of the 2019 financial year in the SMP and PSPP portfolios.

In the context of the impairment test conducted as at the end of 2019 on securities purchased under the third covered bond purchase programme ("CBPP3"), the Governing Council identified in the portfolio one impairment indicator for one issuer which had significant financial difficulties in 2019. The Governing Council considered that the identified impairment indicator had not affected the estimated future cash flows. No impairment losses were therefore recorded at the year-end under the third covered bond purchase programme.

In the context of the impairment test conducted on securities purchased under the CSPP programme, it was concluded that the holding of one security owned by one NCB is impaired. In accordance with the principle of prudence, the Governing Council deemed it appropriate to establish a provision for monetary policy operations (see note 20 Provisions). In accordance with Article 32.4 of the ESCB Statute, losses materialising from securities holdings purchased under the Corporate Sector purchase programme ("CSPP") are shared in full by the Eurosystem NCBs, in proportion to their prevailing ECB capital key shares.

## 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 298.3 million euro as at 31 December 2019 (371.9 million euro on 31 December 2018). 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 2019, the market value of the latter comprised a negative net revaluation adjustment amounting to 10.0 million euro including premium and discount amortisation (negative net revaluation adjustment amounting to 7.6 million euro on 31 December 2018). 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 2019, these securities amount to 45.3 million euro (45.4 million euro on 31 December 2018). In this portfolio, the BCL does not hold any security issued by the State of the Grand Duchy of Luxembourg.

### **NOTE 10 – INTRA-EUROSISTEM CLAIMS**

#### **10.1 Participating interest in ECB**

Pursuant to Article 28 of the ESCB Statute, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29 of the ESCB Statute and are subject to adjustment every five years or whenever there is a change in composition of the ESCB national central banks.

Based on Council Decision of 15 July 2003 on the statistical data to be used for the adjustment of the key for subscription of the capital of the ECB, the NCBs' capital key shares were adjusted on 1 January 2019, by means of transfers among the NCBs as a result of the quinquennial revision.

On 1 January 2019, the share that BCL held in the subscribed capital of the ECB increased by 0.03768%, amounting to 0.32607 % and asset item "10.1 Participating interest in the ECB" increased by 2.6 million euro, amounting to 24.6 million euro held as subscribed and paid-up capital.

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

Country	Capital key in ESCB	Eurosystem key
	from 1 January 2019	from 1 January 2019
Belgium	2.5280	3.63127
Germany	18.3670	26.38270
Estonia	0.1968	0.28269
Ireland	1.1754	1.68837
Greece	1.7292	2.48385
Spain	8.3391	11.97844
France	14.2061	20.40590
Italy	11.8023	16.95304
Cyprus	0.1503	0.21589
Latvia	0.2731	0.39229
Lithuania	0.4059	0.58304
Luxembourg	0.2270	0.32607
Malta	0.0732	0.10515
Netherlands	4.0677	5.84292
Austria	2.0325	2.91952
Portugal	1.6367	2.35099
Slovenia	0.3361	0.48278
Slovak Republic	0.8004	1.14971
Finland	1.2708	1.82540
Bulgaria	0.8511	-
Czech Republic	1.6172	-
Denmark	1.4986	-
Croatia	0.5673	-
Hungary	1.3348	-
Poland	5.2068	-
Romania	2.4470	-
Sweden	2.5222	-
United Kingdom	14.3374	-
<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 2019	Paid-up since 1 January 2019
Banque Nationale de Belgique	273 656 179	273 656 179
Deutsche Bundesbank	1 988 229 048	1 988 229 048
Eesti Pank	21 303 614	21 303 614
Central Bank of Ireland	127 237 133	127 237 133
Banque de Grèce	187 186 022	187 186 022
Banco de España	902 708 165	902 708 165
Banque de France	1 537 811 329	1 537 811 329
Banca d'Italia	1 277 599 809	1 277 599 809
Central Bank of Cyprus	16 269 986	16 269 986
Latvijas Banka	29 563 094	29 563 094
Lietuvos bankas	43 938 704	43 938 704
Banque centrale du Luxembourg	24 572 766	24 572 766
Central Bank of Malta	7 923 905	7 923 905
De Nederlandsche Bank	440 328 813	440 328 813
Oesterreichische Nationalbank	220 018 269	220 018 269
Banco de Portugal	177 172 891	177 172 891
Banka Slovenije	36 382 849	36 382 849
Národná banka Slovenska	86 643 357	86 643 357
Suomen Pankki – Banque de Finlande	137 564 190	137 564 190
<b>Subtotal for euro area NCB</b>	<b>7 536 110 122</b>	<b>7 536 110 122</b>
Българска народна банка (Bulgarian National Bank)	92 131 635	3 454 936
Česká národní banka	175 062 014	6 564 826
Danmarks Nationalbank	162 223 556	6 083 383
Hrvatska narodna banka	61 410 265	2 302 885
Magyar Nemzeti Bank	144 492 194	5 418 457
Narodowy Bank Polski	563 636 468	21 136 368
Banca Națională a României	264 887 923	9 933 297
Sveriges Riksbank	273 028 328	10 238 562
Bank of England	1 552 024 564	58 200 921
<b>Subtotal for non-euro area NCB</b>	<b>3 288 896 948</b>	<b>123 333 636</b>
<b>Total</b>	<b>10 825 007 070</b>	<b>7 659 443 757</b>

Totals may not add up due to rounding.

## 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.

The adjustments to the capital key weightings of the ECB also resulted in the adjustment of the claim of BCL with respect to the foreign reserve assets transferred to the ECB. In order to reflect its increased capital key share, the euro-denominated claim of BCL increased by 13.9 million euro to 131.5 million euro on 1 January 2019 (117.6 million euro on 31 December 2018).

## 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 192.0 billion euro as at

31 December 2019 (212.5 billion euro on 31 December 2018). This decrease results from the drop of the current accounts and of the deposit facilities related to the supply 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 2019	117 910 717	19 662 023	13 544 469	3 022 318	154 139 527
Disposals/Transfers	-	96 720	2 113 107	(2 209 827)	-
Acquisitions	58 097 737	1 000 457	293 492	973 376	60 365 062
<b>Cost as at 31 December 2019</b>	<b>176 008 454</b>	<b>20 759 200</b>	<b>15 951 068</b>	<b>1 785 867</b>	<b>214 504 589</b>
Accumulated depreciation as at 1 January 2019	70 804 084	18 109 544	10 518 166	-	99 431 794
Disposals/Transfers	-	-	-	-	-
Depreciation	2 188 268	913 659	1 532 637	-	4 634 564
<b>Accumulated depreciation as at 31 December 2019</b>	<b>72 992 352</b>	<b>19 023 203</b>	<b>12 050 803</b>	<b>-</b>	<b>104 066 358</b>
<b>Net book value as at 31 December 2019</b>	<b>103 016 102</b>	<b>1 735 997</b>	<b>3 900 265</b>	<b>1 785 867</b>	<b>110 438 231</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”;
- the acquisition cost of the building “1, Boulevard Royal”.

### 11.2 Other financial assets

The components of this item are as follows:

	2019 EUR	2018 EUR
Other participating interests	88 552 887	87 253 250
Pension fund	415 639 424	384 639 868
	<b>504 192 311</b>	<b>471 893 118</b>

The other participating interests comprise the BCL’s investments held in 2019 in SWIFT, LuxCSD SA., Islamic Liquidity Management Corporation and Bank for International Settlements.

The assets of the pension fund are recorded in the accounts under “Pension fund”. The balance of this account corresponds to the net asset value of the fund as calculated by the depositary bank as at 31 December 2019.

### 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 2020.



#### 11.4 Sundry

	2019 EUR	2018 EUR
Others	6 330 367	3 974 357
	<b>6 330 367</b>	<b>3 974 357</b>

As at 31 December 2019, this sub-item mainly comprises the counterpart of the unrealised loss on SDR recorded in the financial statements of the BCL amounting to 1.1 million euro, which is guaranteed by the Government according to the agreement signed in May 1999 establishing the financial relationship between the Government of Luxembourg and the BCL (unrealised loss on SDR of 1.9 million euro as at 31 December 2018).

#### NOTE 12 – BANKNOTES IN CIRCULATION

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

During 2019, the total value of banknotes in circulation within the Eurosystem increased by 5.0%. According to the allocation key, the BCL had euro banknotes in circulation worth 3 878.2 million euro at the end of 2019 compared with 3 268.7 million euro at the end of 2018.

The value of the euro banknotes actually issued by the BCL in 2019 increased by 0.7% and worth 99.2 billion euro as at 31 December 2019 (98.4 billion euro as at 31 December 2018). As this was more than the allocated amount, the difference of 95.3 billion euro (95.2 billion euro as at 31 December 2018) 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

	2019 EUR	2018 EUR
Current accounts (including the minimum reserves)	81 314 028 383	69 766 448 907
Deposit facility	19 217 500 000	50 074 895 624
Fixed-term deposits	-	-
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	<b>100 531 528 383</b>	<b>119 841 344 531</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. Starting on 30 October 2019, the Governing Council introduced a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from negative remuneration at the rate applicable on the deposit facility. The volume of reserve holdings in excess of minimum reserve requirements that was exempt at year-end from the deposit facility rate – the exempt tier – was determined as a multiple of six on an institution's minimum reserve requirements. The non-exempt tier of excess liquidity holdings continues to be remunerated at the lower of either zero percent or the deposit facility rate. This new reserve remuneration system has a significant downward impact on Eurosystem monetary income and, therefore, on BCL income.

### 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:

	2019 EUR	2018 EUR
Current accounts	1	1
Account related to euro coins issued by the Treasury	309 758 446	300 063 980
Specific account of the State	353 334 064	366 719 064
Fixed-term deposit	132 128 353	134 834 663
	<b>795 220 864</b>	<b>801 617 708</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

	2019 EUR	2018 EUR
Other liabilities	2 054 960 177	2 187 031 397
	<b>2 054 960 177</b>	<b>2 187 031 397</b>

As at 31 December 2019, this item included mainly a current account held by an European institution.

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

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

## NOTE 16 – LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

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

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

The amount shown under this item represents the countervalue of SDR, converted to euro at the same rate as applied to the SDR assets, which should be returned to the IMF in the event of the SDR being cancelled, the SDR Department established by the IMF being closed or if Luxembourg decides to withdraw from it. This liability, of unlimited duration, amounts to SDR 246.6 million, or 304.3 million euro as at 31 December 2019 (SDR 246.6 million, or 299.7 million euro on 31 December 2018).

## NOTE 18 – INTRA-EUROSISTEM LIABILITIES

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

This item consists of the liabilities of the BCL vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem as explained in Note 12. The net position bears interest at the marginal interest rate applying to the main refinancing operations.

## NOTE 19 – OTHER LIABILITIES

This item comprises mainly the accrued interest, miscellaneous expenses payable, including suppliers, and the Luxembourg francs banknotes not yet returned.

The Luxembourg franc banknotes still circulating as at 31 December 2019 amount to 5.0 million euro (5.0 million euro on 31 December 2018).

## NOTE 20 – PROVISIONS

Provisions are as follows:

	2019 EUR	2018 EUR
Provision for banking risks	949 820 296	948 332 888
Provision for pensions	433 980 816	400 394 500
Other provisions	205 700	196 500
	<b>1 384 006 812</b>	<b>1 348 923 888</b>

### 20.1 Provision for banking risks

Provision for banking risks includes the following items:

Provisions for specific banking risks	2019 EUR	2018 EUR
Provision covering credit and market risk	587 001 204	581 316 320
Provision for monetary policy operations	257 784	464 519
Provision covering operational risk	11 360 000	11 710 000
Provision covering liquidity risk	23 585 939	20 576 680
	<b>622 204 927</b>	<b>614 067 519</b>
Provisions for general banking risks	2019 EUR	2018 EUR
Provision for liabilities resulting from monetary agreements	-	32 341 954
Other provision for general banking risks	327 615 369	301 923 415
	<b>327 615 369</b>	<b>334 265 369</b>
	<b>949 820 296</b>	<b>948 332 888</b>

### 20.1.1 Provision covering credit and market risk

The provision of 587.0 million euro as at 31 December 2019 (581.3 million euro on 31 December 2018) corresponds to:

- 8.18% (8.18% on 31 December 2018) of the BCL's own securities portfolio existing as at 31 December 2019 and participations other than the participating interest in the capital of the ECB;
- 8.18% (8.18% on 31 December 2018) 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 1.3 billion euro (2018: 1.1 billion 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 Provision for monetary policy operations

In accordance with Article 32.4 of the ESCB Statute, this provision is allocated between the NCB of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in the year when the initial impairment occurred. As a result of the annual impairment test conducted on its CSPP portfolio, the Governing Council has reviewed the appropriateness of the volume of this provision and decided to reduce the provision from a total amount of 161 million euro as at 31 December 2018 to an amount of 89 million euro as at 31 December 2019. The BCL's share in this provision amounts to 257 784 euro (2018: 464 519 euro).

The respective adjustments are reflected in the BCL's profit and loss accounts, the resulting net income amounted to 206 735 euro in 2019.

### 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 2019, the average has been based on previous years in accordance with these rules.

### 20.1.4 Provision for liabilities resulting from monetary agreements

Given its nature, this provision, intended to face any future monetary liabilities, has been transferred to the provision for general banking risks as at 31 December 2019.

### 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.

After the provision transfer mentioned in note 20.1.4 above, the BCL reversed a part of its provision for general banking risks in 2019 for an amount of 6.7 million euro.

### 20.2 Provision for pensions

Provision for pensions include the following items:

	2019 EUR	2018 EUR
Provision for pensions	433 980 816	400 394 500
	<b>433 980 816</b>	<b>400 394 500</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.

In line with the obligation of its Organic Law to support the entirety of legal pension costs (first pillar) of its staff members, the BCL bodies decided for 2019 to increase the provision for pensions by an additional contribution of 2.6 million euro.

The pension liabilities of the employer vis-à-vis all its staff members amounted to 434.0 million euro at 31 December 2019 compared with 400.4 million euro at 31 December 2018.

The increase of 33.6 million euro in pension liabilities in 2019 includes mainly:

- salary and wage deductions (employees' share) accounting for 3.5 million euro;
- a transfer from the Pension fund reserve account (adjustment of the actuarial value of pension fund assets) to the provision for pensions account for 23.2 million euro;
- notional employer's share calculated on gross salary and wage for 7.3 million euro;
- an additional contribution from the BCL of 2.6 million euro resulting from the pension liabilities' revaluation;
- pension payments for retired staff members of 3.0 million euro.

The demographic, economic and financial assumptions applied as part of the assessment of pension liabilities at 31 December 2019 are as follows:

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

For all practical purposes, it should be noted with the application of the measurement features from IAS 19 accounting standard, which do not apply to the BCL to determine the pension liabilities, these would be increased to reach an amount of 847.7 million euro.

This standard requires both the use of actuarial method of projected unit credit, as applied by the BCL, and the use of a discount rate corresponding to the Eurozone "corporate" bond rate with an AA rating and a duration - at value date - reflecting those of the liabilities. For the fiscal year 2019, this rate was estimated at 1.30%.

**NOTE 21 – REVALUATION ACCOUNTS**

	2019 EUR	2018 EUR
Gold	81 989 894	65 198 565
Foreign Currency	47 212 518	42 227 355
Securities and other instruments	16 861 980	17 204 197
	<b>146 064 392</b>	<b>124 630 117</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 22.7 million euro (20.7 million euro on 31 December 2018). This amount was increased by 2.0 million euro following the allocation of profit for 2018 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 2019, the market value of these securities amounts to 130.0 billion euro (127.5 billion euro on 31 December 2018).

**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 contained as at 31 December 2018 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 2019, no future transaction was contracted.

**NOTE 26 – NET INTEREST INCOME**

This item includes interest income and expense.

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

Interest income and expense are as follows:

Composition of interest income	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2019	2019	2019
IMF	6 050 692	-	6 050 692
Lending to euro area credit institutions related to monetary policy operations	-	2 861	2 861
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	482 087 166	482 087 166
Securities held for monetary policy purposes	-	22 962 462	22 962 462
Interest on swap operation	-	2 628 084	2 628 084
Other securities	4 040 961	7 454 482	11 495 443
Other	13 675 840	23 236 973	36 912 813
<b>Total</b>	<b>23 767 493</b>	<b>538 372 028</b>	<b>562 139 521</b>
Composition of interest expense	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2019	2019	2019
IMF	(3 041 433)	-	(3 041 433)
Lending to euro area credit institutions related to monetary policy operations	-	(20 161 040)	(20 161 040)
Other liabilities	(14 138 341)	(10 496 801)	(24 635 142)
<b>Total</b>	<b>(17 179 774)</b>	<b>(30 657 841)</b>	<b>(47 837 615)</b>

Composition of interest income	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2018	2018	2018
IMF	4 961 131	-	4 961 131
Lending to euro area credit institutions related to monetary policy operations	-	13 510	13 510
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	466 780 150	466 780 150
Securities held for monetary policy purposes	-	19 065 024	19 065 024
Other securities	2 651 680	12 162 265	14 813 945
Other	22 744 974	12 501 057	35 246 031
<b>Total</b>	<b>30 357 785</b>	<b>510 522 006</b>	<b>540 879 791</b>
Composition of interest expense	Amounts in foreign currency EUR	Amounts in euro EUR	Total EUR
	2018	2018	2018
IMF	(2 777 150)	-	(2 777 150)
Lending to euro area credit institutions related to monetary policy operations	-	(20 482 784)	(20 482 784)
Other liabilities	(18 914 787)	(4 629 901)	(23 544 688)
Interest on swap operation	-	(641 096)	(641 096)
<b>Total</b>	<b>(21 691 937)</b>	<b>(25 753 781)</b>	<b>(47 445 718)</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 2019, they amount to 4.5 million euro (15.4 million euro on 31 December 2018) and to 3.4 million euro (1.4 million euro on 31 December 2018) respectively, giving a net rounded gain of 1.2 million euro (a net rounded gain of 13.9 million euro on 31 December 2018).



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

This item includes revaluation losses on securities for 0.1 million euro (revaluation losses on securities for 10.8 million euro in 2018) and revaluation losses on foreign currency positions for 0.3 million euro (nil in 2018).

## 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	
	2019	2018	2019	2018
Securities	8 665 039	8 262 654	[9 575 436]	[9 158 977]
Others	1 450 886	1 578 302	[1 277 688]	[1 068 348]
<b>Total</b>	<b>10 115 925</b>	<b>9 840 956</b>	<b>(10 853 124)</b>	<b>(10 227 325)</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 distributed in January of the following year by means of an interim profit distribution, unless otherwise decided by the Governing Council.

It is distributed in full unless it is higher than the ECB's net profit for the year, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to reduce the amount of the income on euro banknotes in circulation, to be distributed in January, by the amount of the costs incurred by the ECB in connection with the issue and handling of euro banknotes.

In 2019, the BCL received 7.8 million euro from the ECB (4.6 million euro as at 31 December 2018).

In 2019 and 2018, the BCL also received a dividend of 0.7 million SDR (0.9 million euro) due to the participating interest held in the Bank for International Settlements (BIS).

In total, this item amounts to 8.7 million euro as at 31 December 2019 (5.4 million euro on 31 December 2018).

## 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 0.32607% since 1 January 2019.

This item includes the net monetary income allocated to the BCL for 2019 representing an expense amounting to 443 389 505 euro (expense of 425 136 314 euro on 31 December 2018).

This item also contains the BCL's share in the variation of the provision for monetary policy operations with an income of 206 735 euro in 2019 (see Note 20.1.2 "Provision for monetary policy operations").

### 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

	2019 EUR	2018 EUR
Gross wages and salaries	(44 980 322)	(42 686 187)
Other staff costs	(2 180 217)	(2 111 398)
	<b>(47 160 539)</b>	<b>(44 797 585)</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 753 945 euro for the year 2019 (742 452 euro for the year 2018).

As at 31 December 2019, the BCL employed 407 persons (389 on 31 December 2018). The average number of persons working for the BCL from 1 January to 31 December 2019 was 393 (377 for the year 2018).

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

	2019 EUR	2018 EUR
Notional employer's share	(7 256 122)	(6 778 644)
Adjustments to the pension liabilities	(2 630 934)	(5 340 955)
	<b>(9 887 056)</b>	<b>(12 119 599)</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 7.3 million euro as well as the contribution of the BCL for an amount of 2.6 million euro as a result of the revaluation of pension liabilities (see also Note 20.2 "Provisions for pensions").

#### **NOTE 36 – OTHER ADMINISTRATIVE EXPENSES**

This item includes indemnities incurred in order to align the BCL's workforce to its needs from both a recruitment and a qualification perspective, indemnities for hierarchical responsibility, expenses for external consultants, leasing, cleaning and repairing of buildings and equipment, small goods and materials, other services and supplies. It also includes expenses in relation to the Council meeting amounted to 172 817 euro for 2019, of which 167 905 euro for indemnities and attendance fees paid to the 9 members of the Council (95 558 euro for 2018, attendance fees not included).

#### **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**

	2019 EUR	2018 EUR
Profit for the year	1 990 103	1 988 284

The fiscal year 2019 shows a profit of 1 990 103 euro (profit of 1 988 284 euro in 2018).

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

## NOTE 41 – EVENTS AFTER THE REPORTING PERIOD

### 41.1 Adjustment of the ECB's capital key following a departure of a Member State from the EU

As a result of the departure of the United Kingdom from the European Union and consequent withdrawal of the Bank of England from the ESCB, the weightings assigned to the remaining NCBs in the key for subscription to the ECB's capital were adjusted with effect from 1 February 2020, as follows:

Country	Capital key in ESCB (in %)		Eurosystem key (in %)	
	from 1 February 2020	Until 31 January 2020	from 1 February 2020	Until 31 January 2020
Belgium	2.9630	2.5280	3.64324	3.63127
Germany	21.4394	18.3670	26.36145	26.38270
Estonia	0.2291	0.1968	0.28170	0.28269
Ireland	1.3772	1.1754	1.69338	1.68837
Greece	2.0117	1.7292	2.47355	2.48385
Spain	9.6981	8.3391	11.92459	11.97844
France	16.6108	14.2061	20.42430	20.40590
Italy	13.8165	11.8023	16.98849	16.95304
Cyprus	0.1750	0.1503	0.21518	0.21589
Latvia	0.3169	0.2731	0.38965	0.39229
Lithuania	0.4707	0.4059	0.57876	0.58304
Luxembourg	0.2679	0.2270	0.32940	0.32607
Malta	0.0853	0.0732	0.10488	0.10515
Netherlands	4.7662	4.0677	5.86042	5.84292
Austria	2.3804	2.0325	2.92689	2.91952
Portugal	1.9035	1.6367	2.34051	2.35099
Slovenia	0.3916	0.3361	0.48150	0.48278
Slovak Republic	0.9314	0.8004	1.14523	1.14971
Finland	1.4939	1.2708	1.83687	1.82540
Bulgaria	0.9832	0.8511	-	-
Czech Republic	1.8794	1.6172	-	-
Denmark	1.7591	1.4986	-	-
Croatia	0.6595	0.5673	-	-
Hungary	1.5488	1.3348	-	-
Poland	6.0335	5.2068	-	-
Romania	2.8289	2.4470	-	-
Sweden	2.9790	2.5222	-	-
United Kingdom	0.0000	14.3374	-	-
<b>Total</b>	<b>100.0000</b>	<b>100.0000</b>	<b>100.00000</b>	<b>100.00000</b>

### 41.2 Impact on the BCL share in the ECB's capital

The ECB kept its subscribed capital unchanged at 10 825 million euro after Bank of England's withdrawal from the European System of Central Banks (ESCB). The share of the Bank of England in the ECB's subscribed capital, which stood at 14.3%, was reallocated among both the euro area national central banks (NCBs) and the remaining non-euro area NCBs. As a result, the BCL share in the ECB's subscribed capital increased by 0.04%

The ECB's paid-up capital will also remain unchanged at 7 659 million euro in the year of the United Kingdom's departure from the EU, i.e. in 2020, as the remaining NCBs cover the withdrawn Bank of England's paid-up capital of 58 million euro. Euro area NCBs will then pay up in full their increased subscriptions to the ECB capital following Bank of England's withdrawal from the ESCB in two additional annual instalments in 2021 and 2022. As a result, the BCL transferred to the ECB an amount of 0.4 million euro on 1 February 2020, and will transfer to the ECB an amount of 2.0 million euro in 2021 and 2.0 million euro in 2022.

#### **41.3     Impact on NCBs' claims equivalent to the foreign reserve assets transferred to the ECB**

Pursuant to Article 30.2 of the Statute of the ESCB, the contributions of the NCBs to the transfer of foreign reserve assets to the ECB are fixed in proportion to their share in the ECB's subscribed capital. Following (a) the increase in the weighting of the euro area NCBs (which have transferred foreign reserve assets to the ECB) in the ECB's subscribed capital resulting from Bank of England's withdrawal from the ESCB and (b) a decision of the Governing Council to reduce the proportion of the euro area NCBs' contributions, so that the total amount of foreign reserve assets already transferred by the euro area NCBs will remain at the current level, the claim equivalent to this transfer was marginally adjusted. This resulted in a minor increase in the BCL's claim of 1.3 million euro, which was paid to the ECB on 1 February 2020.

#### **41.4.     Assessment of the impact of the COVID-19 virus on the continuation of the BCL's activities**

The BCL proactively and constantly monitors the developments related to the spread of the COVID-19 virus and its consequences for the Bank's activity. Going far beyond the minimum recommendations issued by the public authorities, the Bank prepares for contingency measures in order to be able to continuously ensure its key operations while respecting its missions specified in the organic law, as well as its participation to the ESCB. These developments are not likely to affect the 2019 financial accounts.