



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 (until 31.7.2020)

Ms Nadia Manzari

Ms Martine Reicherts

Mr Romain Schintgen (until 31.7.2020)

Mr Roland Weyland

Mr Michel Wurth

Mr Claude Zimmer (until 31.7.2020)

During 2020, the Council held seventeen meetings. The Council approved the financial accounts as at 31 December 2020, the budgetary guidelines and subsequently the budget for the 2022 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, 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 contribute to its work.

At its meeting on 20 March 2020, the Council reappointed the members of the Audit Committee (Mr Pit Hentgen, Mr Romain Schintgen and Mr Claude Zimmer) for the 2020 financial year. The Audit Committee, which was chaired by Mr Claude Zimmer in 2020, met once during the year, as its members whose terms expired on 31 July 2020 have not been renewed, or replaced in 2020. The topics under the remit of the audit committee were addressed by the Council.

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.

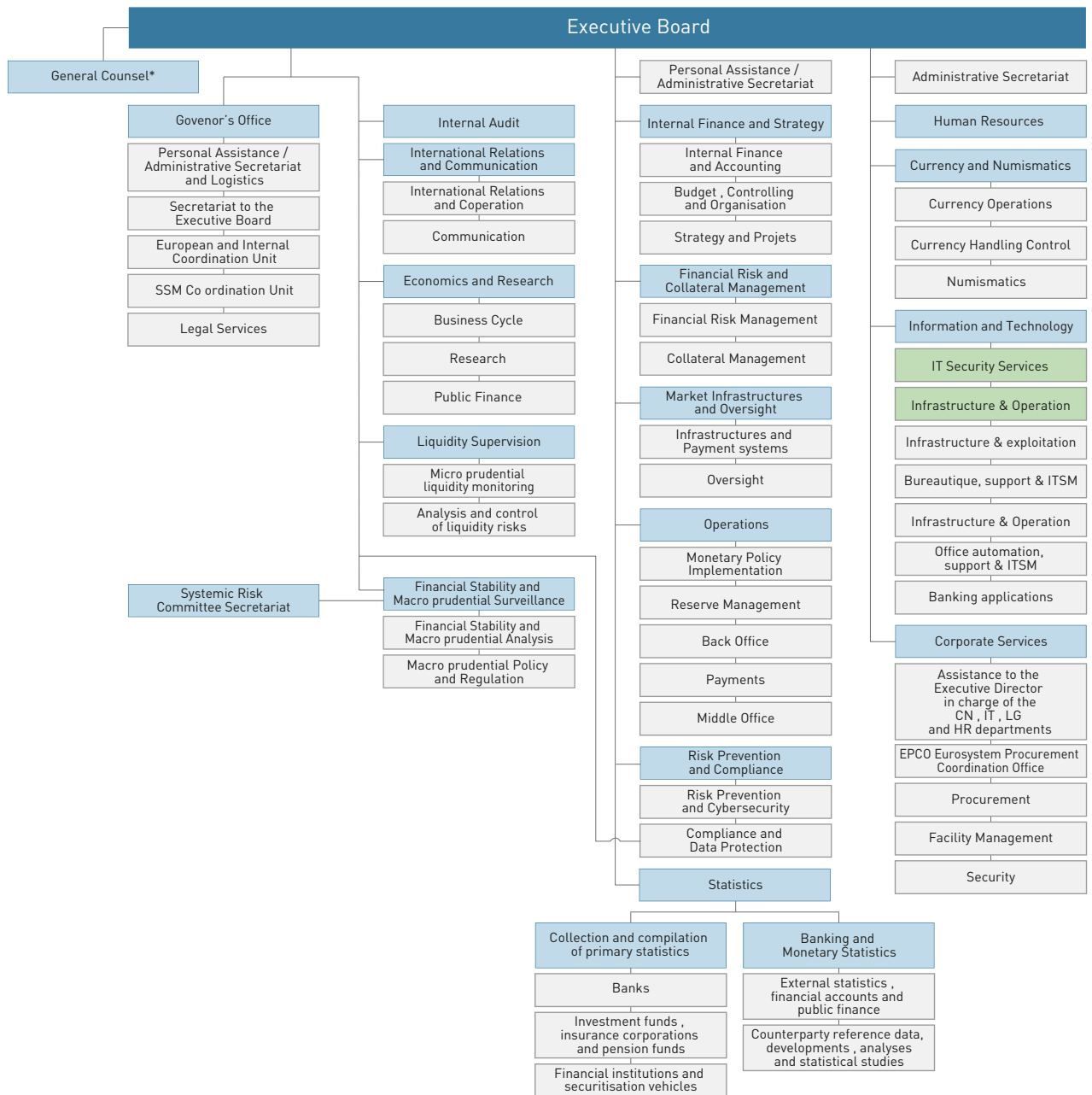
Without prejudice to the independence of the Director General from any instructions in his capacity as member of the Governing Council of the European Central Bank (ECB), the decisions of the Executive Board shall be taken collectively.

The Executive Board consists of a Director General and two Directors. It consists of the following members as at 31 December 2020:

- 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 2020



* M . Serge Kolb held the position of General Counsel from January 1 st 2017 until April 30 th 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, consisting of the management and its employees.

The second line of defense consists of the entities responsible for specific areas of expertise to ensure the segregation of duties appropriate to the BCL's activities. These units are the Financial Risk Management and Collateral Management sections, the Risk Prevention department 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 monitoring of the implementation of decisions taken by the committees and the Executive Board, the monitoring of the investment limits and reporting on these aspects;
- The Collateral Management section is responsible for the risk management in the field of collateral, and in particular for ABS (asset-backed securities);
- The Cybersecurity and Risk Prevention section, reports to the Risk Prevention and Compliance department, which was created in 1 August 2020, and ensures the management and monitoring of operational risks and risk related to information systems.

While operational departments are responsible for identifying the risks associated with their activities and for putting in place appropriate measures to mitigate those risks, the Cybersecurity and 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 Cybersecurity and Risk Prevention section is also in charge of coordinating the Business Continuity Plan and the related testing. Since the end of 2019, the Cybersecurity and Risk Prevention section has also undertaken the Chief Information Security Officer (CISO) role and is entrusted with the BCL's cyber resilience programme.

The Compliance and Privacy section, part of the Risk prevention department, is responsible for identifying, assessing and managing the risk of non-compliance for the BCL. Its areas of intervention are:

- Fight against money laundering and terrorism financing;
 - Ethics and deontology;
 - Market abuse;
 - Conflicts of interests;
 - Professional secrecy and confidentiality;
 - Data privacy;
 - Public procurement.
- The Controlling function provides assurance that available resources are used effectively and that any misuse is detected without delay. It ensures the proper functioning of the budgetary procedure and it supervises the execution of the budget. It reports on a regular basis on the follow-up thereof. 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 department is in charge of the independent and objective evaluation of the internal control system and its functioning. The Internal Audit unit is independent from the other administrative units and reports directly to the President of the Council.

The Internal Audit department relies on internationally accepted professional standards, as applied by the ESCB/SSM. The annual internal audit plan includes audit commitments 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 Department may issue recommendations to be implemented by the relevant entities. The Internal Audit ensures their follow-up.

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

2.1.6 External control

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

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

The Government has nominated Ernst & Young S.A. as the BCL's external auditor for the financial years 2019 to 2023, following a ministerial decree dated 14 May 2019 and as the result of a designation and accreditation process laid down by the ECB and ESCB's statute (Article 27.1).

2.1.7 Code of conduct

A code of conduct defining internal and external rules of conduct applies to all BCL employees. Without prejudice to the provisions of Civil Service Law, labor legislation and pre-existing contractual commitments, this Code sets out the ethical standards, in particular with regard to non-discrimination, integrity, independence and professional secrecy, which must be strictly observed by all those to whom it is addressed.

The application of the Code of conduct, as far as the Director General is concerned, at the latter's request, is reinforced at his own expense. Furthermore, in order to avoid any suspicion of conflict of interests in connection with his function as a member of the ECB Governing Council, the Director General does not participate in the BCL investment committees in charge of managing the BCL's portfolios. Moreover, within the framework of the BCL Council, he does not participate in the deliberations on this matter. As Chairman of the Council, his responsibilities in this respect are limited to those of a director.

On 1 January 2019, the ECB's Single Code of Conduct came into force, replacing the specific Codes previously applicable to the Governing Council and the Supervisory Board. This new Code establishes a harmonized system of rules for members of the High Level ECB bodies.

2.2 HUMAN RESOURCES

2.2.1 Evolution of the workforce

In 2020, the workforce at the *Banque centrale du Luxembourg* (BCL) increased by 2.20% compared to 2019. As of 31 December 2020, the BCL employed 419 people, representing 405.5 full-time equivalents. This workforce was made up of 25 different nationalities, which reflects the diversity and a source of enrichment for the institution's human capital.

The BCL is experiencing a gradual renewal of its teams: in 2020, 25 new staff members were hired, 12 staff members left and 4 staff members retired.

2.2.2 Human Resources Management

2020 was affected by the Covid-19 pandemic. In order to protect the health and safety of its workforce, the BCL developed a range of measures aimed at protecting its staff members and guaranteeing the continuity of its missions. In this regard and during the peak periods of the pandemic, the BCL encouraged its staff member to carry out their missions remotely as much as possible.

The Human Resources department was actively mobilised to support BCL staff members during the pandemic. In this context, a guide of best practices and recommendations relating to remote working was published on BCL's intranet. In the same vein, the BCL also maintained regular communications with its staff members via its intranet as well as other alternative channels.

In addition, line managers organised regular virtual meetings with their staff members in order to maintain contact with their teams. In this regard, the BCL offered line managers the opportunity to participate in a dedicated coaching focusing on remote team management during the health crisis. Likewise, virtual coffee breaks were also organised, inviting those who wished to meet virtually once a week in a non-formal context.

Furthermore, the BCL ensured that staff members were aware of the existence of an internal unit providing psychological support if needed as well as external psychological and mental health support organisations, which staff members could call upon, if necessary.

In terms of learning and development, a huge transformation has taken place due to the considerable increase in the provision of virtual training courses and seminars. In this regard, BCL experimented with e-learning courses for staff (on a voluntary and selected basis) to allow them to take part in courses according to their needs. In the same vein, most of the existing courses are now available in virtual mode. Training needs have also evolved and now cover topics relating to digital tools and the gradual impact of digitalization of skills. In 2021, the BCL intends to continue on the path of digitizing its training offering, through among other measures, the adaptation of the ESCB Learning & Development strategy at BCL.

Finally, recruitment activities have also evolved and become more flexible in 2020. In addition to the recruitment interviews carried out mainly remotely during the year, the BCL also participated in virtual recruitment fairs.

2.2.3 BCL pension fund

Owing to 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 (first 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 with regard to its financial situation, the pension fund has its own separate accounts with an identification of its assets and its liabilities in the balance sheet of the BCL.

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

Since the State does not intervene in the financing of the statutory pensions (first 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 provides for specific harmonised rules on the daily reporting of balance sheet data by each central bank.

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

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

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

The management information system, in the form of dashboard reports, meets the continuous need to follow the Bank's activities. These tables include all of the Bank's activities. 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.

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 expenditure that the BCL may incur during a financial year.

The BCL's 2020 budget has been drawn up in accordance with the budget procedure and the guidelines set out by the BCL Council on 5 July 2019. It was approved by the Council of the BCL on 20 December 2019.

In particular, the 2020 BCL budget incorporates the following key elements:

- following the decisions taken by the Governing Council, the extension of the Eurosystem's unconventional monetary policy measures was foreseen in the 2020 budget, impacting, inter alia, the BCL's business volume;
- in line with the budgetary assumptions, the Eurosystem's key interest rates remain at a historically low level, which continued to have a negative impact on the BCL's net income;
- at Eurosystem level, cooperation continues with the ongoing consolidation of systems in production, a significant number of joint projects and joint procurement procedures between national central banks are carried out under the aegis of the Eurosystem Procurement Coordination Office;
- at national level, the specialisation of tasks to be performed also continues, particularly in the areas of macro-prudential supervision, the oversight of payment systems and securities settlement systems and statistical collection. The activities of the Systemic Risk Board, 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. The continued development of the Bank's activities requires additional staffing;
- the digitisation of operations continues, with a significant number of internal projects underway, and IT security is being strengthened through the implementation of the Cyber Resilience Programme, which has been approved by the BCL Board;
- apart from the notional contribution to the BCL pension fund, the budget includes additional contributions resulting from the projected benefit obligation (PBO) calculations;
- all these elements make it increasingly difficult to cover operating expenses with recurrent income. Therefore, the budget included a reversal of provisions in order to close the year with a positive result.

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 expenditure is established. This analysis is submitted to the Executive Board and the Council of the BCL for information and approval. The conclusions that can be drawn from it are taken into account for the establishment of future budgets.

As at 31 December 2020, the actual operating and investment expenses remained below the limits set by the budget. Unbudgeted operating expenses caused by the COVID-19 pandemic, such as the implementation of teleworking for all BCL staff, additional cleaning of buildings, acquisition of protective masks and disinfectants, remained inferior to the savings caused by the COVID-19 pandemic, especially in travel expenses, training expenses and expenses related to the organisation of meetings. The COVID-19 pandemic also caused delays in some activities, such as the implementation of projects, some building work and recruitment.

2.3.3 Strategic Planning and Management Control

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

In addition, the BCL has also participated in several project controlling activities at the 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 controlling 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 rules determined at Eurosystem level. It consists of allocating the BCL's operating expenses according to their purpose (i.e. to the entities concerned) and determining the expenses inherent to each of BCL's activities.

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

The Strategy and Projects Section, through its Project Management Office (PMO) function, is responsible for the coordination and prioritisation of projects and the management of the BCL's project portfolio. The PMO assists the BCL Internal Steering Committee (BISC) and the Management 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 and the launch of new projects. The Overall Project Monitoring Report (OPMR), drawn up by the PMO on the basis of the individual project progress reports, enables the BISC to better monitor the progress of the various projects and to ensure communication with the Management on projects.

As the BCL continues to develop its activities, further medium- and long-term planning remains a necessity. In 2020, the BCL continued to develop a scorecard to identify areas of activity that need to be strengthened. Strategic planning efforts are being stepped up in order to ensure the 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)

	2020	2019	Change in % 2020/2019
Total assets	286 490 751 971	207 256 558 436	38%
Liabilities to credit institutions	178 299 739 280	100 531 528 383	77%
Lending to credit institutions	15 617 970 000	4 724 610 000	231%
Own funds ⁽¹⁾ , revaluation accounts, administrative provisions and specific banking risks provisions	1 240 062 662	1 295 474 562	-4%
Net result from banking activities ⁽²⁾	528 098 058	514 288 141	3%
Net result from banking activities adjusted by net monetary income allocation	57 272 807	71 105 371	-19%
Total net income	109 802 247	86 481 525	27%
Administrative and operational expenses	108 131 161	84 491 422	28%
Net profit	1 671 086	1 990 103	-16%
Staff	416	407	2%
BCL's weighting in the capital of the ESCB	0.2679%	0.2270%	
BCL's weighting in lending to credit institutions related to monetary policy operations	0.871%	0.757%	

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

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

2.4.2 Report of the Réviseur d'Entreprises agréé

Opinion

We have audited the financial accounts of Banque centrale du Luxembourg, which comprise the balance sheet as at 31 December 2020, 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 2020, 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 Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for 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.

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, 5 March 2021

2.4.3 Balance sheet as at 31 December 2020

ASSETS	Notes	2020 EUR	2019 EUR
Gold and gold receivables	3	111 999 675	97 890 020
Claims on non-euro area residents denominated in foreign currency	4	801 610 693	839 875 979
- Receivables from the IMF	4.1.	642 567 543	627 715 115
- Balances with banks, security investments, external loans and other external assets	4.2.	159 043 150	212 160 864
Claims on euro area residents denominated in foreign currency	5	464 019 193	392 908 218
Claims on non-euro area residents denominated in euro	6	203 672 858	346 403 995
- Balances with banks, security investments and loans		203 672 858	346 403 995
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	15 617 970 000	4 724 610 000
- Main refinancing operations	7.1.	20 000 000	-
- Longer-term refinancing operations	7.2.	15 597 970 000	4 724 610 000
Other claims on euro area credit institutions denominated in euro	8	114 501	598 656 935
Securities of euro area residents denominated in euro	9	9 555 431 456	7 406 458 328
- Securities held for monetary policy purposes	9.1.	9 326 730 173	7 062 893 372
- Other securities	9.2.	228 701 283	343 564 956
Intra-Eurosystem claims	10	259 023 103 318	192 150 082 767
- Participating interest in the ECB	10.1.	52 981 556	51 256 492
- Claims equivalent to the transfer of foreign reserves to the ECB	10.2.	132 894 723	131 548 868
- Other claims within the Eurosystem	10.3.	258 837 227 039	191 967 277 407
Other assets	11	712 830 277	699 672 194
- Tangible and intangible assets	11.1.	108 273 194	110 438 231
- Other financial assets	11.2.	511 616 180	504 192 311
- Accruals and prepaid expenses	11.3.	74 293 132	78 711 285
- Sundry	11.4.	18 647 771	6 330 367
Total assets		286 490 751 971	207 256 558 436

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

LIABILITIES	Notes	2020 EUR	2019 EUR
Banknotes in circulation	12	4 346 571 360	3 878 226 000
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	178 299 739 267	100 531 528 383
- Current accounts (covering the minimum reserve system)	13.1.	102 693 604 385	81 314 028 383
- Deposit facility	13.2.	75 606 134 882	19 217 500 000
Other liabilities on euro area credit institutions denominated in euro	14	-	-
Liabilities to other euro area residents denominated in euro	14	2 549 910 662	2 850 181 041
- General government		1 797 957 585	2 183 296 436
- Other liabilities		751 953 077	666 884 605
Liabilities to non-euro area residents denominated in euro	15	3 958 749 893	2 071 037 576
Liabilities to non-euro area residents denominated in foreign currency	16	2 952 171	524 545 623
Counterpart of special drawing rights allocated by the IMF	17	290 669 230	304 307 452
Intra-Eurosystem liabilities	18	95 186 127 215	95 291 292 570
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	12, 18.1.	95 186 127 215	95 291 292 570
Items in course of settlement	19	35	20
Other liabilities	19	149 874 404	75 726 610
- Accruals and income collected in advance		141 019 218	68 667 567
- Sundry		8 855 186	7 059 043
Provisions	20	1 379 223 401	1 384 006 812
- Provision for banking risks	20.1.	912 955 342	949 820 296
- Provision for pensions	20.2.	466 095 059	433 980 816
- Other provisions		173 000	205 700
Revaluation accounts	21	125 621 275	146 064 392
Capital and reserves	22	199 641 958	197 651 854
- Capital	22.1.	175 000 000	175 000 000
- Reserves	22.2.	24 641 958	22 651 854
Profit for the year	40	1 671 086	1 990 103
Total liabilities		286 490 751 971	207 256 558 436

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

2.4.4 Off-balance sheet as at 31 December 2020

	Notes	2020 EUR	2019 EUR
Securities received as collateral	23	180 740 089 163	130 031 953 392
Foreign currency reserve assets managed on behalf of the ECB	24	401 917 985	430 850 043
Futures - Purchases	25	3 100 000	-
Futures - Sales	25	4 200 000	-

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

2.4.5 Profit and loss account for the year ending 31 December 2020

	Notes	2020 EUR	2019 EUR
Interest income	26	596 624 744	562 139 521
Interest expense	26	(77 728 762)	(47 837 615)
Net interest income	26	518 895 982	514 301 906
Realised gains/(losses) arising from financial operations	27	10 984 698	1 152 838
Write-downs on financial assets and positions	28	(1 207 438)	(429 403)
Transfer (to)/from provisions for risks	29	36 639 870	(1 703 343)
Net result of financial operations, write-downs and risk provisions		46 417 130	(979 908)
Fees and commissions income	30	12 435 961	10 115 925
Fees and commissions expense	30	(13 011 145)	(10 853 124)
Net result from fees and commissions	30	(575 184)	(737 199)
Income from participating interests	31	5 444 178	8 694 108
Net result of pooling of monetary income	32	(470 825 252)	(443 182 770)
Other income	33	10 445 393	8 385 390
Total net income		109 802 247	86 481 527
Staff costs	34	(50 384 203)	(47 160 539)
-Gross salaries		(48 101 623)	(44 980 322)
-Other staff costs		(2 282 580)	(2 180 217)
BCL's contribution to the legal pension scheme	35	(28 527 129)	(9 887 056)
Other administrative expenses	36	(20 470 344)	(19 506 233)
Depreciation of tangible and intangible assets	11.1., 37	(5 489 003)	(4 634 564)
Banknote production services	38	(1 371 420)	(882 899)
Other expenses	39	(1 889 062)	(2 420 133)
Result of the year	40	1 671 086	1 990 103

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

2.4.6 Notes to the financial statements as at 31 December 2020

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 banknote allocation key and the value of the euro banknotes that it actually puts into circulation also gives rise to intra-Eurosystem balances. These claims or liabilities are disclosed under the sub-item "Intra-Eurosystem: Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem".

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

2.10 Intra-Eurosystem claims and liabilities

Intra-Eurosystem balances result primarily from cross-border payments in the European Union (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:

- the NCBs' paid-up share in the ECB's subscribed capital, and
- 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).

2.12 Pension fund

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

The actuarial method determines the pension fund's liability related to old age, disability or survival for each member of staff. The actuarial model is based, among other things, on each member of staff's personal and past and foreseeable career data, on the forecast of the cost and standard of living as well as on an average rate of return generated by the fund's assets.

The BCL's liabilities related to pensions are shown in the account "Provisions for pensions". The provision increases as a result of regular transfers from the wage share and from the notional employer's share and decrease by pension payments to retirees. At the year-end, the provision is adjusted in the light of the new actuarial calculation. In addition, if necessary, periodic transfers from the account "Booking reserve of the pension fund", equivalent to the gains generated by the fund's assets, to adjust the account "Provision for pensions".

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

2.13 Provision for banking risks

In accordance with the prudence principle, the BCL's provision policy intends to cover specific and general risks resulting from the Bank's activities.

2.14 Changes in accounts classification

The BCL accepts deposits of an European institution, which, in the 2019 financial accounts, were presented in note 14.2 under the heading "Liabilities to other euro area residents denominated in euro - Other liabilities".

With effect from 1 July 2020, Eurostat revised the statistical classification of these institutions to the "Liabilities to other euro area residents denominated in euro - general government sector".

The comparative amounts as at 31 December 2019 have been adjusted as follows:

	Published in 2019 EUR	Adjustment due to reclassification EUR	Restated amount 2019 EUR
Liabilities to other euro area residents denominated in EUR	2 850 181 041	-	2 850 181 041
General government	795 220 864	1 388 075 572	2 183 296 436
Other liabilities	2 054 960 177	(1 388 075 572)	666 884 605

NOTE 3 – GOLD AND GOLD RECEIVABLES

As at 31 December 2020, the BCL holds 72 544.10 ounces of fine gold amounting to 112.0 million euro (72 291.36 ounces of fine gold amounting to 97.9 million euro on 31 December 2019).

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 2020.

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

	2020 EUR	2019 EUR
Receivables from the IMF	642 567 543	627 715 115
Balances with banks, security investments, external loans and other external assets	159 043 150	212 160 864
	801 610 693	839 875 979

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, Special Drawing Rights (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 119.0 million euro as at 31 December 2020 (161.3 million euro as at 31 December 2019), mainly consists of government bonds and bonds issued by international and supranational institutions denominated in US dollars. Securities are valued at market price. As at 31 December 2020, their value at market price included a positive net revaluation adjustment amounting to 0.7 million euro (positive net revaluation adjustment amounting to 2.0 million euro on 31 December 2019).

The foreign currency investment securities portfolio amounts to 6.6 million euro at 31 December 2020 (10.2 million euro in 2019). As at 31 December 2020, their market value includes a negative net valuation adjustment of 0.02 million euro (negative net valuation adjustment of 0.1 million euro in 2019).

Balances with banks amounted to 33.4 million euro as at 31 December 2020 (40.7 million euro on 31 December 2019).

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 464 million euro as at 31 December 2020 (393 million euro on 31 December 2019).

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

	2020 EUR	2019 EUR
Balances with banks	604	1 514
Available-for-sale securities portfolio	203 672 254	346 402 481
	203 672 858	346 403 995

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 2020, the market value of the latter comprised a negative net revaluation adjustment amounting to 3.1 million euro including the premium and discount amortisation (negative net revaluation adjustment amounting to 10.6 million euro on 31 December 2019).

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:

	2020 EUR	2019 EUR
Main refinancing operations	20 000 000	-
Longer-term refinancing operations	15 597 970 000	4 724 610 000
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	-
Credits related to margin calls	-	-
	15 617 970 000	4 724 610 000

As at 31 December 2020, the total Eurosystem holding of monetary policy assets amounts to 1 793 194 million euro (624 233 million euro as at 31 December 2019) of which the BCL holds 15 618 million euro (4 725 million euro as at 31 December 2019).

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 (see note 20 "Provisions").

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 2020 operations were conducted with maturities equal to the reserve maintenance period and with maturities between 3 and 48 months. These operations were conducted at fixed rate with allotment of the total amount bid.

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 and from September 2021 repayment is possible one year after the settlement of each operation. On 10 December 2020 the Governing Council added three further operations to this series, which will be conducted between June and December 2021. According to the initial decisions taken by the Governing Council, the final interest rate applicable to each TLTRO-III operation could be as low as the average interest rate on the deposit facility prevailing over the life of the operation.

Furthermore, in response to the COVID-19 shock, in 2020, the Governing Council decided that for the period between 24 June 2020 and 23 June 2022 – referred to as the *special interest rate period* – the interest rate applicable can be as low as 50 basis points below the average interest rate on the deposit facility prevailing over the same period, but in any case may not become higher than -1%. Given that the actual interest rate will only be known at the maturity of each operation and that a reliable estimate is not possible until that time, the deposit facility rate minus 50 basis points, with a ceiling of -1% is used for calculating the TLTRO-III interest over the special interest period, and, the deposit facility rate is used for calculating the TLTRO-III interest over the rest of the life of an operation, as this was deemed a prudent approach.

Additionally, on 30 April 2020 the Governing Council decided to conduct a new series of seven additional longer-term refinancing operations which mature in the third quarter of 2021, called pandemic emergency longer-term refinancing operations (PELTROs). These operations provide liquidity support to the euro area financial system and contribute to preserving the smooth functioning of money markets by providing an effective backstop after the expiry of the bridge longer-term refinancing operations (LTROs) that have been conducted since March 2020. The PELTROs are conducted as fixed rate tender procedures with full allotment. The interest rate is 25 basis points below the average rate applied in the Eurosystem's main refinancing operations over the life of the respective PELTRO.

In December 2020, the Governing Council decided to offer four additional PELTROs on a quarterly basis during 2021.

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

	2020 EUR	2019 EUR
Securities held for monetary policy purposes	9 326 730 173	7 062 893 372
Other securities	228 701 283	343 564 956
- available-for-sale securities portfolio	183 544 914	298 262 467
- held-to-maturity securities portfolio	45 156 369	45 302 489
	9 555 431 456	7 406 458 328

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), the public sector purchase programme (PSPP) and the pandemic emergency purchase programme (PEPP).

	Start Date	End Date	Decision	Universe of eligible securities
Completed / Terminated programmes				
Securities Markets Programme (SMP)	May 2010	September 2012	ECB/2010/5	Private and public debt securities issued in the euro area
Asset Purchase programme (APP)				
Third covered bond purchase programme (CBPP3)	October 2014	active	ECB/2020/8 (recast)	Covered bonds of euro area residents
Public sector purchase programme (PSPP)	March 2015	active	ECB/2020/9 (recast)	Bonds issued by euro-area central, regional or local government or recognised agencies as well as issued by international organisations and multi-lateral development banks located in the euro area
Pandemic emergency purchase programme (PEPP)				
Pandemic emergency purchase programme (PEPP)	March 2020	active	ECB/2020/17	All asset categories eligible under the APP

In 2020, the Eurosystem continued its net purchases under the asset purchase programme (APP) at a monthly pace of 20 billion euro on average. In March 2020, a temporary envelope of additional net assets purchases of 120 billion euro was added until the end of the year. 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.

Additionally, in March 2020 the Eurosystem launched a temporary pandemic emergency purchase programme (PEPP) with an envelope of 750 billion euro, to ease the overall monetary policy stance and to counter the severe risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus pandemic. Purchases include all the asset categories eligible under the APP and were initially foreseen until the end of 2020. In June 2020, the Governing Council increased the envelope for the PEPP by 600 billion euro and in December 2020 by an additional 500 billion euro, bringing it to a total of 1 850 billion euro. The horizon for net purchases was also extended to at least the end of March 2022 and

in any case, until the Governing Council judges that the coronavirus crisis phase is over. Furthermore, the Governing Council intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2023. The future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

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	2020 EUR		2019 EUR		CHANGE EUR	
	Amortised cost	Market value	Amortised cost	Market value	Amortised cost	Market value
Completed / Terminated programmes						
Securities Markets Programme (SMP)	45 584 682	48 595 800	55 675 328	61 002 850	(10 090 646)	(12 407 050)
Sub-total	45 584 682	48 595 800	55 675 328	61 002 850	(10 090 646)	(12 407 050)
Asset Purchase programme (APP)						
Third covered bond purchase programme (CBPP3)	3 179 872 376	3 321 058 343	2 119 233 536	2 196 278 890	1 060 638 840	1 124 779 453
Public sector purchase programme (PSPP)	4 984 316 066	5 165 717 505	4 887 984 508	5 000 986 644	96 331 558	164 730 861
Sub-total	8 164 188 442	8 486 775 848	7 007 218 044	7 197 265 534	1 156 970 398	1 289 510 314
Pandemic emergency purchase programme (PEPP)						
PEPP - covered bonds	90 788 546	93 642 524	-	-	90 788 546	93 642 524
PEPP - public sector securities	1 026 168 503	1 035 756 505	-	-	1 026 168 503	1 035 756 505
Sub-total	1 116 957 049	1 129 399 029	-	-	1 116 957 049	1 129 399 029
Total	9 326 730 173	9 664 770 677	7 062 893 372	7 258 268 384	2 263 836 801	2 406 502 293

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 asset purchase which risks are shared in full by the Eurosystem NCBs (SMP, CBPP3, corporate sector purchase programme – CSPP, securities issued by international or supranational institutions held in the PSPP and PEPP, and PEPP – covered bonds) amounts to 883.4 billion euro as at 31 December 2020 (695.8 billion euro as at 31 December 2019), of which the BCL holds 6 255.3 million euro (5 137.0 million euro as at 31 December 2019).

As a result of an impairment test conducted as at 31 December 2020 on securities purchased under the programmes SMP, CBPP3, PSPP and PEPP, 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 2020 financial year in the SMP, CBPP3, PSPP and PEPP portfolios.

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 183.5 million euro as at 31 December 2020 (298.3 million euro on 31 December 2019). 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 2020, the market value of the latter comprised a negative net revaluation adjustment amounting to 11.6 million euro including premium and discount amortisation (negative net revaluation adjustment amounting to 10.0 million euro on 31 December 2019). 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 impairments. As at 31 December 2020, these securities amount to 45.2 million euro (45.3 million euro on 31 December 2019). In this portfolio, the BCL does not hold any security issued by the State of the Grand Duchy of Luxembourg.

NOTE 10 – INTRA-EUROSISTEM CLAIMS

10.1 Participating interest in ECB

Pursuant to Article 28 of the ESCB Statute, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and are subject to adjustment every five years.

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.

As a result of the departure of the United Kingdom from the European Union on 31 January 2020 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 as per the table below with effect from 1 February 2020. As a result the BCL's share in the key for subscription to the ECB's capital was increased from 0.2270% to 0.2679%.

The subscribed capital of the ECB is 10 825 million euro. The ECB kept its subscribed capital unchanged after Bank of England's withdrawal from the ESCB. The share of the Bank of England in the ECB's subscribed capital, which stood at 14.3374%, was reallocated among both the euro area NCBs and the remaining non-euro area NCBs.

The ECB's paid-up capital also remained unchanged at 7 659 million euro in 2020, as the remaining NCBs were required to cover the withdrawn Bank of England's paid-up capital of 58 million euro. As a result, the BCL's paid 0.4 million euro to the ECB on 1 February 2020.

Euro area NCBs will then be required to pay up in full their increased subscriptions to the ECB capital following Bank of England's withdrawal from the ESCB in two annual instalments. As a result, the BCL's will be required to pay up 2 million euro in 2021 and 2 million euro in 2022.

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

	BCL's weighting in the capital of the ESCB (in %)	
	until 31 st January 2020	from 1 st February 2020
Nationale Bank van België / Banque Nationale de Belgique	2.5280	2.9630
Deutsche Bundesbank	18.3670	21.4394
Eesti Pank	0.1968	0.2291
Central Bank of Ireland	1.1754	1.3772
Bank of Greece	1.7292	2.0117
Banco de España	8.3391	9.6981
Banque de France	14.2061	16.6108
Banca d'Italia	11.8023	13.8165
Central Bank of Cyprus	0.1503	0.1750
Latvijas Banka	0.2731	0.3169
Lietuvos bankas	0.4059	0.4707
Banque centrale du Luxembourg	0.2270	0.2679
Central Bank of Malta	0.0732	0.0853
De Nederlandsche Bank	4.0677	4.7662
Oesterreichische Nationalbank	2.0325	2.3804
Banco de Portugal	1.6367	1.9035
Banka Slovenije	0.3361	0.3916
Národná banka Slovenska	0.8004	0.9314
Suomen Pankki – Finlands Bank	1.2708	1.4939
Sub-total for euro area NCB	69.6176	81.3286
Българска народна банка (Bulgarian National Bank)	0.8511	0.9832
Česká národní banka	1.6172	1.8794
Danmarks Nationalbank	1.4986	1.7591
Hrvatska narodna banka	0.5673	0.6595
Magyar Nemzeti Bank	1.3348	1.5488
Narodowy Bank Polski	5.2068	6.0335
Banca Națională a României	2.4470	2.8289
Sveriges Riksbank	2.5222	2.9790
Bank of England	14.3374	0.0000
Sub-total for non-euro area NCB	30.3824	18.6714
Total	100.0000	100.0000

Totals may not add up due to rounding.

The subscribed and paid-up capital of the NCBs in the ECB are shown in the following table (in euro):

	Subscribed capital until 31 st January 2020 EUR	Paid-up capital until 31 st January 2020 EUR	Subscribed capital from 1 st February 2020 EUR	Paid-up capital from 1 st February 2020 EUR
Nationale Bank van België/ Banque Nationale de Belgique	273 656 179	273 656 179	320 744 959	276 290 917
Deutsche Bundesbank	1 988 229 048	1 988 229 048	2 320 816 566	1 999 160 135
Eesti Pank	21 303 614	21 303 614	24 800 091	21 362 892
Central Bank of Ireland	127 237 133	127 237 133	149 081 997	128 419 794
Bank of Greece	187 186 022	187 186 022	217 766 667	187 585 028
Banco de España	902 708 165	902 708 165	1 049 820 011	904 318 913
Banque de France	1 537 811 329	1 537 811 329	1 798 120 274	1 548 907 580
Banca d'Italia	1 277 599 809	1 277 599 809	1 495 637 102	1 288 347 435
Central Bank of Cyprus	16 269 986	16 269 986	18 943 762	16 318 228
Latvijas Banka	29 563 094	29 563 094	34 304 447	29 549 980
Lietuvos bankas	43 938 704	43 938 704	50 953 308	43 891 372
Banque centrale du Luxembourg	24 572 766	24 572 766	29 000 194	24 980 876
Central Bank of Malta	7 923 905	7 923 905	9 233 731	7 953 971
De Nederlandsche Bank	440 328 813	440 328 813	515 941 487	444 433 941
Oesterreichische Nationalbank	220 018 269	220 018 269	257 678 468	221 965 204
Banco de Portugal	177 172 891	177 172 891	206 054 010	177 495 700
Banka Slovenije	36 382 849	36 382 849	42 390 728	36 515 533
Národná banka Slovenska	86 643 357	86 643 357	100 824 116	86 850 273
Suomen Pankki – Finlands Bank	137 564 190	137 564 190	161 714 781	139 301 721
Sub-total for euro area NCB	7 536 110 122	7 536 110 122	8 803 826 699	7 583 649 493
Българска народна банка (Bulgarian National Bank)	92 131 635	3 454 936	106 431 470	3 991 180
Česká národní banka	175 062 014	6 564 826	203 445 183	7 629 194
Danmarks Nationalbank	162 223 556	6 083 383	190 422 699	7 140 851
Hrvatska narodna banka	61 410 265	2 302 885	71 390 922	2 677 160
Magyar Nemzeti Bank	144 492 194	5 418 457	167 657 709	6 287 164
Narodowy Bank Polski	563 636 468	21 136 368	653 126 802	24 492 255
Banca Națională a României	264 887 923	9 933 297	306 228 625	11 483 573
Sveriges Riksbank	273 028 328	10 238 562	322 476 961	12 092 886
Bank of England	1 552 024 564	58 200 921	-	-
Sub-total for non-euro area NCB	3 288 896 948	123 333 636	2 021 180 371	75 794 264
Total	10 825 007 070	7 659 443 757	10 825 007 070	7 659 443 757

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.

Pursuant to Article 30.2 of the Statute of the ESCB, these contributions are fixed in proportion to NCBs' share in the subscribed capital of the ECB.

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.

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.

As at 31 December 2020, the claims equivalent to the transfer of foreign reserves to the ECB amounts to 132.9 million euro (131.5 million euro on 31 December 2019).

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 258.8 billion euro as at 31 December 2020 (192.0 billion euro on 31 December 2019). This increase results from the rise 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 2020	176 008 454	20 759 200	15 951 068	1 785 867	214 504 589
Disposals/Transfers	-	-	130 792	(41 209)	89 583
Acquisitions	635 630	713 712	443 250	1 441 791	3 234 383
Cost as at 31 December 2020	176 644 084	21 472 912	16 525 110	3 186 449	217 828 555
Accumulated depreciation as at 1 January 2020	72 992 352	19 023 203	12 050 803	-	104 066 358
Disposals/Transfers	-	-	-	-	-
Depreciation	2 985 182	832 571	1 671 250	-	5 489 003
Accumulated depreciation as at 31 December 2020	75 977 534	19 855 774	13 722 053	-	109 555 361
Net book value as at 31 December 2020	100 666 550	1 617 138	2 803 057	3 186 449	108 273 194

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:

	2020 EUR	2019 EUR
Other participating interests	84 542 888	88 552 887
Pension fund	427 073 292	415 639 424
	511 616 180	504 192 311

The other participating interests comprise the BCL's investments held in 2020 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" and are valued at the net asset value.

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 2021.

11.4 Sundry

	2020 EUR	2019 EUR
Others	18 647 771	6 330 367
	18 647 771	6 330 367

As at 31 December 2020, this sub-item mainly comprises the counterpart of the unrealised loss on SDR recorded in the financial statements of the BCL amounting to 15.4 million euro, which is guaranteed by the Government of Luxembourg 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 1.1 million euro as at 31 December 2019).

NOTE 12 – BANKNOTES IN CIRCULATION

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

During 2020, the total value of banknotes in circulation within the Eurosystem increased by 10.98%. According to the allocation key, the BCL had euro banknotes in circulation worth 4 346.6 million euro at the end of 2020 compared with 3 878.2 million euro at the end of 2019.

The value of the euro banknotes actually issued by the BCL in 2020 increased by 0.4% and worth 99.5 billion euro as at 31 December 2020 (99.2 billion euro as at 31 December 2019). As this was more than the allocated amount, the difference of 95.2 billion euro (95.3 billion euro as at 31 December 2019) 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

	2020 EUR	2019 EUR
Current accounts (including the minimum reserves)	102 693 604 385	81 314 028 383
Deposit facility	75 606 134 882	19 217 500 000
Fixed-term deposits	-	-
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	178 299 739 267	100 531 528 383

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

This item records the amounts as follows:

	2020 EUR	2019 EUR
Liabilities to general government	1 797 957 585	2 183 296 436
<i>Current accounts</i>	-	1
<i>Account related to euro in coins issued by the Treasury</i>	315 581 290	309 758 446
<i>Specific account of the State</i>	341 094 064	353 334 064
<i>Fixed-term deposit of the State</i>	128 666 774	132 128 353
<i>Other liabilities to general government</i>	1 012 615 457	1 388 075 572
Other liabilities	751 953 077	666 884 605
	2 549 910 662	2 850 181 041

As at 31 December 2020, this position amounted to 2 549.9 million euro (2019: 2 850.2 million euro).

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 State of Luxembourg’s fixed-term deposit relates to the above-mentioned agreement.

The other liabilities to general government mainly include a current account of an European institution (see note 2.14 “Changes in accounts classification”).

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 290.7 million euro as at 31 December 2020 (SDR 246.6 million, or 304.3 million euro on 31 December 2019).

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 2020 amount to 5.0 million euro (5.0 million euro on 31 December 2019).

NOTE 20 - PROVISIONS

Provisions are as follows:

	2020 EUR	2019 EUR
Provision for banking risks	912 955 342	949 820 296
Provision for pensions	466 095 059	433 980 816
Other provisions	173 000	205 700
	1 379 223 401	1 384 006 812

20.1 Provision for banking risks

Provision for banking risks includes the following items:

Provisions for specific banking risks	2020 EUR	2019 EUR
Provision for market and credit risk	166 030 000	587 001 204
Provision for monetary policy operations	-	257 784
Provision covering operational risk	9 940 000	11 360 000
Provision covering liquidity risk	24 244 973	23 585 939
	200 214 973	622 204 927
Provisions for general banking risks	2020 EUR	2019 EUR
Other provision for general banking risks	712 740 369	327 615 369
	712 740 369	327 615 369
	912 955 342	949 820 296

The total financial base of the BCL composed of provision for banking risks and the BCL equity (capital and reserves) amounts to 1 114.3 million (31 December 2019: 1 149.5 million euro), which represents only 0.39% of the total assets (31 December 2019: 0.55% of the total assets).

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.”*

20.1.1 Provision for market and credit risk

In 2020, the BCL decided to change its methodology for the calibration of the provision for the market and credit risk, from a flat rate method to a new one based on the calculation of the “Values at Risk” of the invested assets, to better align the provision to the considered assets risks.

Taking into account the new methodology, the provision for the market and credit risk amounts to 166 million euro as at 31 December 2020 (587 million euros as at 31 December 2019).

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 at 31 December 2020, following the result of the annual impairment test, the Governing Council concluded that no impairment losses occurred for the monetary policy portfolios.

With respect to the provisions established in 2018 and adjusted in 2019 by all the national central banks of participating Member States with regard to credit risks in monetary policy operations, an amount of 64 million euro was used to cover the loss realised after the sale in 2020 of impaired securities held by one of the Eurosystem NCBs under the CSPP. Out of this amount, 183 424 euro were covered by the provision established in 2019 by the BCL.

The residual amount of the provisions established by the national central banks of participating Member States after the coverage of the realised loss resulted in a cumulative unused balance of 26 million euro which is reflected in the profit and loss accounts of the national central banks of participating Member States (NCBs) in proportion to their subscribed capital key shares in the ECB prevailing in 2018 (the year when the initial impairment occurred). For the BCL, this amount was 74 360 euro.

As at 31 December 2020, the provision for monetary policy operations is nil (2019: 257 784 euro).

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 2020, the average has been based on previous years in accordance with these rules.

20.1.4 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 cannot be quantified in advance.

The BCL decided to allocate as at 31 December 2020 an amount of 385.1 million euro to the Other provision for general banking risks, which increased from 327.6 million euro as at 31 December 2019 to 712.7 million euro as at 31 December 2020.

20.2 Provision for pensions

Provision for pensions include the following items:

	2020 EUR	2019 EUR
Provision for pensions	466 095 059	433 980 816
	466 095 059	433 980 816

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 2020 to increase the provision for pensions by an additional contribution of 20.7 million euro.

The pension liabilities of the employer vis-à-vis all its staff members amounted to 466.1 million euro at 31 December 2020 compared with 434.0 million euro at 31 December 2019.

The increase of 32.1 million euro in pension liabilities in 2020 includes mainly:

- salary and wage deductions (employees' share) accounting for 3.8 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 3.5 million euro;
- notional employer's share calculated on gross salary and wage for 7.8 million euro;
- an additional contribution from the BCL of 20.7 million euro resulting from the pension liabilities' revaluation;
- pension payments for retired staff members of 3.7 million euro.

The demographic, economic and financial assumptions applied as part of the assessment of pension liabilities at 31 December 2020 are as follows:

Discount rate	3.70%
Wage growth rate (incl. index)	3.30%
Expected return on plan assets	4.00%
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 1 038.6 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 2020, this rate was estimated at 0.90%.

NOTE 21 – REVALUATION ACCOUNTS

	2020 EUR	2019 EUR
Gold	95 215 025	81 989 894
Foreign Currency	19 410 343	47 212 518
Securities and other instruments	10 995 907	16 861 980
	125 621 275	146 064 392

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 24.6 million euro (22.7 million euro on 31 December 2019). This amount was increased by 1.99 million euro following the allocation of profit for 2019 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 2020, the market value of these securities amounts to 180.7 billion euro (130.0 billion euro on 31 December 2019).

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 2020 the purchases and sales of interest rate futures presented at notional amount. These transactions are conducted in the context of the management of the BCL's own investments.

NOTE 26 – NET INTEREST INCOME

This item includes interest income and expense.

For harmonised presentational purposes in the Eurosystem, interest income and interest expense on monetary policy operations are netted on a balance sheet sub-item level either as "interest income" or as "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	Amounts in euro	Total
	EUR 2020	EUR 2020	EUR 2020
IMF	1 283 891	-	1 283 891
Lending to euro area credit institutions related to monetary policy operations	-	3 509	3 509
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	536 418 458	536 418 458
Securities held for monetary policy purposes	-	19 739 416	19 739 416
Other securities	3 105 631	6 501 991	9 607 622
Other	4 901 070	24 670 778	29 571 848
Total	9 290 592	587 334 152	596 624 744

Composition of interest expense	Amounts in foreign currency	Amounts in euro	Total
	EUR 2020	EUR 2020	EUR 2020
IMF	(624 856)	-	(624 856)
Lending to euro area credit institutions related to monetary policy operations	-	(69 550 470)	(69 550 470)
Interest on swap operation	-	(1 224 824)	(1 224 824)
Other liabilities	(3 070 231)	(3 258 381)	(6 328 612)
Total	(3 695 087)	(74 033 675)	(77 728 762)

Composition of interest income	Amounts in foreign currency	Amounts in euro	Total
	EUR 2019	EUR 2019	EUR 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
Total	23 767 493	538 372 028	562 139 521

Composition of interest expense	Amounts in foreign currency	Amounts in euro	Total
	EUR 2019	EUR 2019	EUR 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)
Total	(17 179 774)	(30 657 841)	(47 837 615)

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 2020, they amount to 12.9 million euro (4.5 million euro on 31 December 2019) and to 1.9 million euro (3.4 million euro on 31 December 2019) respectively, giving a net rounded gain of 11.0 million euro (a net rounded gain of 1.2 million euro on 31 December 2019).

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

This item includes revaluation losses on securities for 0.5 million euro (revaluation losses on securities for 0.1 million euro in 2019) and revaluation losses on foreign currency positions for 0.7 million euro (0.3 million euro in 2019).

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		Fees and commissions expense	
	EUR 2020	EUR 2019	EUR 2020	EUR 2019
Securities	10 786 219	8 665 039	(11 871 248)	(9 575 436)
Others	1 649 742	1 450 886	(1 139 897)	(1 277 688)
Total	12 435 961	10 115 925	(13 011 145)	(10 853 124)

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, (d) PSPP and (e) PEPP 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 2020, the BCL received 5.5 million euro from the ECB (7.8 million euro in 2019).

In 2020, the BCL did not receive dividend from its participating interest held in the Bank for International Settlements (BIS) (0.7 million SDR i.e.0.9 million euro in 2019).

In total, this item amounts to 5.4 million euro as at 31 December 2020 (8.7 million euro as at 31 December 2019).

NOTE 32 - NET RESULT OF POOLING OF MONETARY INCOME

Net result of monetary income pooling	2020 EUR	2019 EUR
Net monetary income pooled by the BCL in the Eurosystem	(485 120 742)	(480 192 031)
Net monetary income allocated to the BCL by the Eurosystem	14 215 180	36 848 619
Monetary income reallocation for the year	(470 905 562)	(443 343 412)
Corrections to monetary income reallocation of previous years	(177 474)	(46 093)
Share of provision related to monetary policy operations	257 784	206 735
	(470 825 252)	(443 182 770)

This item contains the monetary income reallocation for 2020, amounting to an expense of 470 905 562 euro (2019: expenses of 443 343 412 euro). In addition there are corrections to monetary income reallocation of previous years amounting to an expense of 177 474 euro (2019: expenses of 46 093 euro), together with the BCL's share of the realised loss in relation to the sale in 2020 of the securities held by an NCB of the Eurosystem in its CSPP portfolio as well as the release of the provision established in 2019 against losses in monetary policy operations portfolio and amounting to 257 784 euro (see note 20.1.2, "Provision for monetary policy operations"), release of 206 735 euro in 2019.

The net expense shown in the net result of monetary income pooling amounted to 470 825 252 euro in comparison to a net expense of 443 182 770 euro in 2019.

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/2020/9 of 3 February 2020 on the implementation of a secondary markets public sector asset purchase programme or Decision ECB/2020/17 of 24 March 2020 on a temporary pandemic emergency 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.

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

	2020 EUR	2019 EUR
Gross wages and salaries	(48 101 623)	(44 980 322)
Other staff costs	(2 282 580)	(2 180 217)
	(50 384 203)	(47 160 539)

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 775 219 euro for the year 2020 (753 945 euro for the year 2019).

As at 31 December 2020, the BCL employed 416 persons (407 on 31 December 2019). The average number of persons working for the BCL from 1 January to 31 December 2020 was 410 (393 for the year 2019).

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

	2020 EUR	2019 EUR
Notional employer's share	(7 795 858)	(7 256 122)
Adjustments to the pension liabilities	(20 731 271)	(2 630 934)
	(28 527 129)	(9 887 056)

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 7.8 million euro as well as the contribution of the BCL for an amount of 20.7 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 303 556 euro for 2020, of which 302 241 euro for indemnities and attendance fees paid to the 9 members of the Council (172 817 euro for 2019, of which 167 905 euro for indemnities and attendance fees).

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

	2020 EUR	2019 EUR
Profit for the year	1 671 086	1 990 103
	1 671 086	1 990 103

The fiscal year 2020 shows a profit of 1 671 086 euro (profit of 1 990 103 euro in 2019).

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.