



## 4. The BCL as an organisation

### 4.1 The Council and the Executive Board

#### 4.1.1 The Council

Article 6 of the Founding Law of 23 December 1998 defines the powers of the Council of the Bank. In 2007, the Council consisted of the following members:

**Governor:** *Yves Mersch*  
**Members:** *Andrée Billon*  
*Jean Hamilius*  
*Pit Hentgen*  
*Mathias Hinterscheid*  
*Serge Kolb*  
*Patrice Pieretti*  
*Jacques F. Poos*  
*Michel Wurth*



Row 1, from l. to r.: Mr. Pit Hentgen, Mr. Yves Mersch, Mrs Andrée Billon, Mr. Jean Hamilius; Row 2, from l. to r.: Mr. Jacques F. Poos, Mr. Serge Kolb; Row 3, from l. to r.: Mr. Michel Wurth, Mr. Mathias Hinterscheid, Mr. Patrice Pieretti.

During 2007, the Council held six meetings. Within the framework of monitoring the financial situation of the Bank, the Council approved the financial accounts as per 31 December 2006, the budgetary trends and subsequently, the budget and the organisation chart of the Bank for the 2008 financial exercise.

The Council also observed and commented on economic and financial developments on a national and international basis and was kept informed of the decisions taken by the Governing Council of the ECB.

#### *The Audit Committee*

Created by the Council in 2001, the Audit Committee's objective is to assist the Council in its choice of the statutory auditor to be proposed to the Government, in specifying the scope of the potential specific controls to be performed by the statutory auditor and in the approval of the financial accounts by the Council. It is kept informed on the internal audit plan. It may invite the head of the internal audit unit and the statutory auditor of the Bank to participate in its work.

At its meeting on 13 December 2007, the Council nominated the non-executive members of the Audit Committee for 2008: Mr Pit Hentgen, Mr Patrice Pieretti and Mr Jacques F. Poos. Mr Yves Mersch is an *ex officio* member in his capacity as President of the Council. The Audit Committee is chaired by Mr Pit Hentgen.

The Audit Committee held six meetings in 2007.

#### 4.1.2 The Board of Directors

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

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

The Board of Directors consists of a Director-General and two Directors:

**Director-General:** *Yves Mersch*  
**Directors:** *Andrée Billon and Serge Kolb*

## 4. THE BCL AS AN ORGANISATION

### THE BCL'S ORGANISATION CHART 2007

Executive Board		
Executive Board Secretariat		
Unit	Unit	General Secretariat
Internal Audit	OR - Organisation and Controlling	GS - General Secretariat
		Sections
		GS1 Governor's Office GS2 Legal Services GS3 External Relations and Communication
General Department A	General Departments	
	General Department B	General Department C
	Sections	
	B0.1 Procurement	
Department	Department	Department
A1 - Economics and Research	B1 - Human Resources	C1 - IT
Sections		Sections
A1.1 Monetary Analysis and Economic Research A1.2 Economic and Business Cycle Analysis		C1.1 Infrastructure C1.2 Software and Development C1.3 IT Security, Planning and Support
Department	Department	Department
A2 - Cashier's Office	B2 - Internal Finance	C2 - Statistics
Sections		Sections
A2.1 Cashier's Services A2.2 Banking Relations		C2.1 Banking and Monetary Statistics C2.2 External Statistics C2.3 Economic and Financial Statistics
Department	Department	Department
A3 - Operations	B3 - Numismatics and Logistics	C3 - Financial Stability
Sections	Sections	Sections
A3.1 Front Office A3.2 Investments A3.3 Back Office - Securities A3.4 Payments	B3.1 Numismatics B3.2 Administration B3.3 Security	C3.1 Supervision and Oversight C3.2 Market Infrastructures

The members of the Board of Directors receive a salary according to the wage scale in the public sector as well as different allowances. They receive, in accordance with the legal provisions of the law of 22 June 1963 determining the salary scheme for civil servants, a family allowance depending on their domestic situation and a thirteenth month's allowance.

Besides, in relation to their function within the Bank, board members are entitled to the payment of a representation allowance (for a total amount of 66 955 euro in 2007) and to a BCL's Council allowance (for a total amount of 31 390 euro in 2007).

The salary components are subject to the current legal tax rates in Luxembourg. Contributions to the pension system are neither due with regard to the thirteenth month's allowance nor with the representation and BCL's Council allowances.

The basic salary paid to the board members is as follows:

	2007 €	2006 €
Yves Mersch (Director-General)	151 788	147 330
Andrée Billon (Director)	141 118	136 974
Serge Kolb (Director)	141 118	136 974
<b>Total</b>	<b>434 024</b>	<b>421 278</b>

## 4.2 The Corporate Governance

### 4.2.1 The restructuring of the BCL in 2007

Based on a detailed analysis of the existing structure by a consulting company, the Executive Board decided to change the internal organisation of the Bank, in order to strengthen its efficiency and its accountability.

The internal reorganisation, which came into effect on 1 May 2007 transformed the seven departments into three general departments. In order to assist the Executive Board in the decision making process, an Executive Committee was created. It comprises the Board members and the heads of the general departments.

Senior management was granted more autonomy and larger responsibilities, but with reinforced control mechanisms. To this end, new positions for a controller and a compliance officer were created.

Concerning Eurosystem/ESCB matters, the main tasks of the Eurosystem/ESCB Coordination Committee have been restructured and are now performed by three coordinators/experts. The Committee assists the Governor in his capacity as a member of the Governing Council of the ECB.

Three other existing units have undergone no changes: the Secretariat general, the Internal Audit and the Organisation and Risk Management unit.

The new structure of the bank also lead to changes within the general departments, i.e. various tasks being reallocated among different sections and new sections being created like a procurement office.

### 4.2.2 The internal supervisory mechanisms

The BCL's internal supervisory system is based on general rules and regulations, which are widely accepted as standards by the financial sector, and also takes into consideration the BCL's specific needs as a central bank.

An initial internal supervisory system concerning the general management of the BCL has been put in place by the Executive Board. The senior management of the BCL and their staff are responsible for the proper functioning of this supervision. Some functional checks are carried out by specific administrative units, ensuring a separation of the tasks to be carried out by the BCL.

The **risk management** section is now part of the Organisation and Risk Management unit. Whereas the senior supervisors from the general departments are responsible for identifying the risks linked to their fields of activities and for taking appropriate actions to mitigate these risks, the risk manager has the following responsibilities:

- Establish a common methodology for risk analysis;
- Evaluate (quantify) the risks taken;
- Check whether risks are sufficiently mitigated;
- Deliver periodic reports to the Executive Board; concerning the general situation.

On a regular basis, the risk management section evaluates different types of risk (credit, liquidity, solvency, funds, operational risk, IT risks) to which the Bank is exposed and checks the mitigation measures.

Moreover, the section is in charge of controlling financial risks linked to investment operations and the analysis and follow-up of operational risks.

Daily and independently from the investment department, it monitors and reports on the various investment positions within the portfolio of the bank.

The **Controlling** section, also managed by the Organisation and Risk management unit, includes the following tasks:

- Ensure the good execution of the budgetary procedures
- Supervise the execution of the budget
- Authorise certain expenditures and accounting
- Evaluate new activities

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- Provide budgetary and financial follow-up of projects
- Provide operational performance follow-up

The purpose of the **Compliance** function is to assist the central bank in managing its compliance risk, defined as the risk the bank may suffer from as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.

The scope of intervention of the Compliance Officer has been substantially enlarged. The Compliance Officer is currently responsible for the implementation of the compliance policy of the central Bank. In addition to the implementation of AML/CFT policies and regulations, the scope of his function includes ethics and integrity, the prevention of insider trading operations, the prevention of misuse of confidential information, compliance with internal procurement rules and data protection. The Compliance Officer has been certified as Data Protection Officer by the *Commission Nationale de Protection des Données* in November 2007.

The BCL's strategic orientations are defined on the basis of performance measurement according to the Balanced Scorecard method and of the principles laid out in the Official Stance, a document describing the Bank's positioning which has been approved by the Council and published on the BCL's website.

The Internal Audit analyses and evaluates, on the basis of predefined objectives and a precise methodology, the appropriateness and efficiency of the existing supervision. Internal Audit is a supervisory unit independent of the BCL's other administrative units and reports directly to the President of the Council.

The Head of Internal Audit may also be involved in the work of the Audit Committee. Generally speaking, the Internal Audit pursues the objectives and follows the reporting procedure of the ESCB.

### 4.2.3 The external supervisory mechanisms

An initial external supervision of the BCL's activities, namely the checking of its accounts, is carried out by the Bank's independent external Auditor, who is nominated yearly in a proposal sent by the Council of the Bank to the government. At the request of the Council, the independent Auditor carries out specific complementary checks and analyses during the year. At the European level, the Auditor of the Bank is approved by the Council of Ministers upon the recommendation of the Governing Council of the ECB. In this context, the Auditor is given responsibility for particular tasks with regard to the Eurosystem.

### 4.2.4 The code of conduct

In 2001, the BCL established a code of conduct, which defines internal and external rules of conduct applicable to all its staff. Without prejudice to public service law, social legislation or pre-existing contractual obligations, the code of conduct provides for ethical standards based on nondiscrimination, solidarity, efficiency and independence which are to be strictly observed by all staff members. The code of conduct is currently being revised and a new version will be available in 2008.

The ECB has required, since 2002, that all members of the Governing Council observe a code of conduct which lays down the highest standards of professional ethics. The members are expected to act honestly, independently, impartially, with discretion and without regard to self-interest and to avoid any situation liable to give rise to a personal conflict of interests. They must continue to abide by these standards for one year after leaving office.

The code has been revised at the end of 2006. Participation in conferences, receptions or other events are subject to clear conditions. Governors should carefully handle personal invitations and their spouses or partners should behave according to accepted standards in international relations.



#### 4.2.5 The Eurosystem Procurement Co-ordination Office (EPCO)

In December 2007, the Governing Council of the ECB decided that the BCL should host and implement the Eurosystem Procurement Co-ordination Office (EPCO).

EPCO has been mandated with three main tasks :

- co-ordinating the Eurosystem procurement agenda ;
- facilitating the adoption of best practices within the Eurosystem ;
- developing the infrastructure to enable the pooling of purchasing power.

### 4.3 The BCL staff

#### 4.3.1 Quantitative evolution

During 2007, the BCL staff increased by 5.3 % to reach a total of 219 members of staff on 31 December 2007, equivalent to 204.5 full time positions and representing a 6 % increase compared to 2006. Staff members are of ten different nationalities, thus contributing to the diversity of the human capital and to its cultural enrichment.

On December 31, 2007, twenty-five staff members worked part-time:

- Part-time work (50%) : **10 staff members**
- Part-time work (75%) : **8 staff members**
- Leave for part-time work : **7 staff members**

Three staff members were on full-time parental leave and two staff members were on part-time parental leave.

Finally, two staff members were on unpaid leave on this date and two staff members were on special leave.

The average number of staff members working at the BCL in 2007 was of 211, compared to 206.5 in 2006.

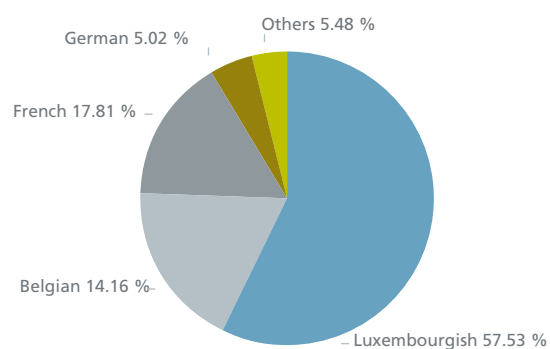
The overall approved headcount for the year 2007 was of 217 full time equivalent positions. This ceiling was increased to 226 full time equivalent positions for the year 2008.

During 2007, six staff members left the BCL while eighteen new staff members joined the Bank. The BCL received 300 spontaneous job applications and 210 applications for internships or student jobs.

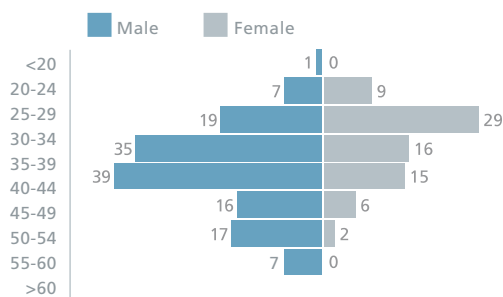
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The average age of BCL staff members has slightly increased from 38.8 years in 2006 to 39.3 years on December 31, 2007. On this date, the staff counted 35 % females and 65 % males.

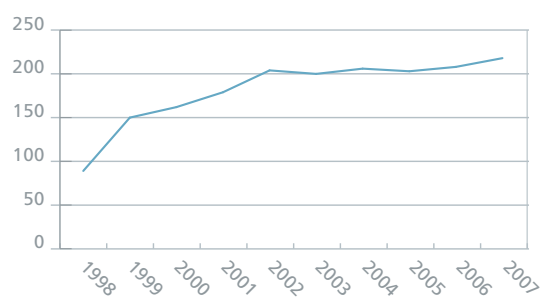
**CHART 1:**  
**STAFF MEMBERS BY NATIONALITY**



**CHART 2:**  
**DISTRIBUTION OF STAFF MEMBERS PER AGE GROUP**



**CHART 3:**  
**EVOLUTION IN STAFF NUMBERS SINCE 1998**



The BCL offered internships for a period from six weeks to two months to nine students attending university studies in relation with the bank's activities as well as a one-year internship within the Economic and Research Department to a PhD student.

The staff evolution in full time equivalent during 2007 was as follows:

	2007	2006
On 1 <sup>st</sup> of January	196.00	197.50
Recruitments	17.25	14.00
Resignations <sup>1</sup>	5.75	15.50
On 31 December	207.50	196.00
Average head-count	197.96	196.83

#### 4.3.2 Human resources management

The year 2007 was mainly focused on the implementation of the new organisational structure for the Bank. In the framework of this reorganisation, it should be mentioned that a certain number of staff members was lead to carry out new functions and therefore a particular attention was put on aligning the staff members' skills to the requirement of their new function. The BCL is very conscious that such efforts have to continue and identified different working tracks potentially leading to a more active human resources management. Hence particular importance is given to the performance appraisal of staff members as regards their career development. During 2007, some of these considerations were carefully examined. Finally, the implementation of the competencies management system within the BCL represents a priority insofar as it is a crucial tool of the future human capital management around which other tools such as training plans, career plans as well as mobility plans will be developed.

During 2007, the recruitment policy was slightly amended in order to allow for more flexibility. Until now, the recruitment process was based on a competitive entrance exam which was organised once or twice a year depending on staff requirements of the Bank. This recruitment process turned out to be too rigid, not allowing the Bank to react to unexpected situations, as it was necessary, in case of a vacancy to wait for

the next entrance exam. The aim of the new procedure is to react promptly so as to be able to initiate at any time the recruitment process which is composed of a theoretical written and modular part and of interviews. This new procedure will be assessed critically during 2008 to check whether the expected results have been reached.

#### 4.3.3 Staff training

From the point of view of the construction of a commune future orientation for the Bank, the BCL intends to develop its human resources. The Bank is determined to develop the capacities of its staff members by giving them opportunities at the appropriate time and by supporting them in their career development. In order to help the staff members in their career development and progress, a combination of levers may turn out to be available and relevant such as training and internal and external mobility. In addition to what was told in the above paragraph, it should be mentioned that the competencies management has been identified to be the tool improving the staff members' skills regarding the required competencies to carry out a specific job. The question therefore is essentially to favour the definition of training needs expressible in required competencies and goals to reach in order to make a decision on training. The identification of these training needs gives rise to the setting up of a training plan for each staff member which is considered to be a form of contract between the bank and the staff member as regards the training sessions the latter has to complete in order to obtain the competencies required for the function. The training plans are also going to play an essential part in the framework of the mobility policy within the BCL as they will determine the training sessions to be completed and therefore also the competencies to be acquired by a staff member to be able to align his skills to those of the position. All these initiatives could be completed with internship opportunities aiming to create an open environment where staff members have attractive opportunities inside and outside the bank.

<sup>1</sup> This item also takes into account the effects in relation to changes from full time work to part-time work.



## 4. THE BCL AS AN ORGANISATION

### 4.3.4 The Pension Fund

Article 14 of Founding Law of 23 December 1998 relating to the monetary status and the Banque centrale du Luxembourg provides that legal pension entitlements of BCL agents are determined by their status (i.e., civil servant, State employee, private employee or worker).

Paragraph 4(b) of this article provides that:

"The pensions of the Bank's agents shall be paid by the Bank. These costs shall be financed by a pension fund of the Bank. The pension fund shall be financed on the one hand by statutory deductions from agents' salaries in accordance with the rules governing the pension scheme corresponding to their status, on the other hand by contributions made by the Bank itself."

The BCL's pension fund, which started operating in 2001, is governed by a set of internal rules and two committees, one executive and one consultative. The executive committee is the *Comité directeur* composed of the BCL's Board of Directors, two elected representatives from the staff, two co-opted members acting as delegated managers and one member designated by the Staff Committee. The consultative committee is the Tactical Benchmark Committee.

The Bank meets the representatives of social security bodies as well as civil servants and administrative coordination Administration. The aim is to reconcile the need for workers' mobility with the principles of financial independence of the Bank and its functional autonomy.

It has been agreed that a draft law amending the law of 28 July 2000 coordinating the different national pension schemes and any other texts dealing with individual pension rights and beneficiaries of the BCL's pension fund be prepared by the government department responsible for monitoring social security and submitted to the national legislator in order to insure the recognition of the BCL's pension fund as social security body.

Until now, the draft law is not yet available as articles not related to BCL's pension fund are still in debate.

### 4.3.5 Legal disputes

By its decision of 12 June 2007 the Luxembourg Administrative Court of Appeal rejected the appeal lodged by a former staff member of BCL and member of the BCL staff representation A-BCL.

The Court confirmed the entire judgment of first instance which did not annul the decision of dismissal of this staff member by ruling: *"It follows from the foregoing elements that the BCL's Executive Board is not to be reproached concerning the dismissal of the appellant so that the appeal is declared unfounded and the judgment of 23 November 2006 is confirmed"*. (informal translation).

The Court concluded that the decision of dismissal was not due to the staff member's activity as a member of the staff representation, but to multiple professional faults, which had undermined BCL's Executive Board confidence in the appellant.



## 4.4 Facilities

Key elements of 2007 for the Facilities and Logistics section were cost reduction, the optimisation of energy consumption and consumables, the planning of investments and medium-term operational costs as well as the finalisation of the waste management concept to be established in 2008.

The review of BCL's organisation chart which was set up at the beginning of 2007, engendered moving some 85 staff within the 3 buildings of the BCL.

These moves were realised by considering both organisational needs as well as an optimal use of the available space.

The new building of the BCL, located 43, avenue Monterey, was operational during the full year. Its technical installations proved reliable.

## 4. THE BCL AS AN ORGANISATION

### 4.5 Internal finance

BCL continued to update its accounting system and its procedures in order to meet its internal quality standards and those of the Eurosystem. In 2007, the accounting techniques relating to the operations on financial assets were modified in the BCL's systems.

The Eurosystem requires the daily reporting of balance sheet data according to harmonised rules. The transmission techniques were modified in accordance to new reporting rules and the introduction of Target 2.

The controlling systems in place proved to be effective during the year.

The Bank regularly checks the development of balance sheet, off-balance-sheet and profit and loss items. Investments, revenues and expenses are in particular closely monitored with special attention paid to signing powers.

The cost accounting system gives an indication concerning costs and invoicing of services. The methodology follows the rules recommended by the Eurosystem. It consists of allocating BCL's operational expenses according to their destination, i.e. according to the respective sections and units, and it permits to allocate the costs of each of the Bank's activities. In 2008, harmonised techniques relative to project costs will be introduced.

The monthly balance sheet of the Bank is published on its Internet site.

The management information system meets the need to follow the Bank's activities. It is based on a set of indicators, which are calculated daily, weekly, monthly, quarterly and annually. These tables include all activities of the Bank. The analysis of the profit and loss items is complemented by an analysis concerning the net profit of the various activities. The Bank strictly controls the development of the interest margin and compares the profitability of its investments to benchmarks.

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

exchange rates and other variables of the Eurosystem and of the economic situation.

The Bank's decision-making bodies are regularly informed of the results in order to be in a position to decide on the future directions and actions to take.

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

As at 1 January 2008, Cyprus and Malta entered into the Eurosystem. Consequently, the BCL's key in the Eurosystem changed from 0.22659% to 0.22598%.

## 4.6 The budget

The establishing of the annual budget of the BCL is part of a long term planning exercise which aims to ensure the financial balance of the accounts of the Bank over a long term horizon. The budget of the BCL reflects the corporate values of the Bank, which are:

- professionalism;
- quality in the services provided;
- stability ensured by a long-term perspective;
- objectivity resulting from an impartial application of precise rules;
- integrity resulting from the transparency of its internal operations and the respect for professional ethics.

The 2007 budget of the Bank has been established in conformity with the budgetary procedures and the orientations formulated by the Council. The 2007 budget has been approved by the Council on 14 December 2006.

### *The main orientations for 2007 were:*

- Non structural revenues are hoarded in order to increase the Bank's own funds;
- An optimal output of the portfolio is targeted through diversified and high quality investments as well as by a meticulous management of the risks inherent to such investments;
- The development of new activities generating additional revenues for the Bank is emphasised;
- The strict control of cost is reinforced in 2007 by the implementation of a procurement office and a controlling entity;
- The recruitment of new staff is linked to the development of new activities generating revenues for the Bank.

The orientations formulated by the Council have been respected and the figures of the 2007 profit and loss account confirm that the operational costs have stayed within the budgetary limits.

## 4.7 The Internal Audit Activities

In accordance with internationally accepted professional standards, the internal audit is an independent and impartial activity designed to add value by improving an organisation's operations and the control thereof.

The Internal Audit helps the Bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and management processes.

The Internal Audit unit reports directly to the President of the Bank.

The annual internal audit plan comprises audit engagements on a national level, as well as audit objects that are coordinated by the Internal Auditors Committee of the ESCB in compliance with the ESCB audit policy.

During the year 2007, the Internal Audit unit performed various reviews in the areas of the management of business continuity/disaster recovery, the handling of euro banknotes and coins, monetary policy operations, numismatics, accounting, payments systems, information technology as well as in the context of various projects.

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

## 4. THE BCL AS AN ORGANISATION

### 4.8 Financial statements as at 31 December 2007

#### 4.8.1 Key figures

##### KEY FIGURES AS AT YEAR-END (IN EURO UNLESS OTHERWISE INDICATED)

	2006	2007	Change in % 2007/2006
Total assets	52 445 571 857	59 009 304 594	13%
Banks' current accounts	9 741 868 456	10 779 720 531	11%
Claims on credit institutions	41 511 620 450	32 914 774 230	-21%
Own funds (1), revaluation accounts, administrative provisions and specific banking risks	583 121 841	586 004 467	0.49%
Net result of banking activities (2)	89 252 485	54 540 273	-39%
Total net revenues	42 659 591	42 366 352	-1%
Administrative expenses	30 181 332	32 504 561	8%
Net profit	7 309 279	4 421 374	-40%
Cash Flow (3)	80 517 799	93 670 323	16%
Staff	208	219	5%
BCL's part in the capital of the ECB	0.1568%	0.1575%	
<b>BCL's part in the Eurosystem's monetary policy opérations</b>	<b>9.214%</b>	<b>5.166%</b>	

- (1) Capital, reserves, provisions for general banking risks and net profit to be affected to the reserves  
 (2) Net interest income, net result from fees and commissions, net result on financial operations  
 (3) Net profit plus depreciation of tangible / intangible assets and write-downs on financial assets, as well as net transfers to administrative provisions and provisions for banking risks

##### Preamble

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

#### **4.8.2 Report of the Independent Auditor**

**March 3, 2008**

**To the Council of the Banque centrale du Luxembourg**

**To the Government**

**To the Chamber of Representatives**

*We have audited the accompanying financial statements of Banque centrale du Luxembourg, which comprise the balance sheet as at December 31, 2007 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.*

##### **Directors' responsibility for the financial accounts**

*The financial statements are the responsibility of the Directors and are approved by the Council. The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles and those defined by the European System of Central Banks. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.*

##### **Responsibility of the réviseur d'entreprises**

*Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des réviseurs d'entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.*

*An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the réviseur d'entreprises, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control.*

*An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.*

##### **Opinion**

*In our opinion, the financial statements give a true and fair view of the financial position of Banque centrale du Luxembourg as of December 31, 2007, and of the results of its operations for the year then ended in accordance with generally accepted accounting principles and those defined by the European System of Central Banks.*

**Deloitte S.A.**

**Réviseur d'entreprises**

**Pascal Pincemin  
Partner**

**Vafa Moayed  
Partner**



## 4. THE BCL AS AN ORGANISATION

### 4.8.3 Balance sheet as at 31 December 2007

ASSETS			
	Note	2007 EUR	2006 EUR
Gold and gold receivables	3	42 228 333	35 923 514
Claims on non-euro area residents denominated in foreign currency	4	97 132 215	164 244 740
- Receivables from the IMF		33 809 923	47 085 746
- Balances with banks, security investments, external loans and other external assets		63 322 292	117 158 994
Claims on euro area residents denominated in foreign currency	5	1 305 521 707	37 207 591
Claims on non-euro area residents denominated in euro	6	1 254 267 732	1 301 410 536
- Balances with banks, security investments and loans		1 254 267 732	1 301 410 536
Lending to euro area credit institutions related to monetary policy operations denominated in euro	7	32 914 774 230	41 510 822 665
- Main refinancing operations	7.1	24 125 912 740	32 668 047 500
- Long-term refinancing operations	7.2	8 788 861 490	8 842 774 865
- Marginal lending facility	7.5	0	300
Other claims on euro area credit institutions denominated in euro	8	730 661 572	797 785
Securities of euro area residents denominated in euro	9	2 085 440 047	2 349 504 488
Intra-Eurosystem claims	10	18 399 192 673	5 314 683 608
- Participating interest in ECB	10.1	10 668 158	9 660 235
- Claims related to the transfer of foreign reserves	10.2	90 730 275	87 254 014
- Other claims within the Eurosystem	10.3	18 297 794 240	5 217 769 359
Items in course of settlement		0	35
Other assets	11	2 180 086 085	1 730 976 895
- Tangible and intangible fixed assets	11.1	65 289 790	66 243 324
- Other financial assets	11.2	1 818 366 874	1 500 684 573
- Off-balance sheet instruments revaluation differences		21 010 787	2 426 000
- Accruals and prepaid expenses	11.3	255 827 288	130 924 829
- Sundry	11.4	19 591 346	30 698 169
<b>Total assets</b>		<b>59 009 304 594</b>	<b>52 445 571 857</b>

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

LIABILITIES	Note	2007 EUR	2006 EUR
Banknotes in circulation	12	1 414 171 330	1 269 044 800
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	13	10 779 720 531	9 741 868 456
- Current accounts (covering the minimum reserve system)	13.1	10 779 720 531	9 741 868 456
Liabilities to other euro area residents denominated in euro	14	433 531 161	472 942 949
- General government	14.1	433 531 161	472 942 949
Liabilities to non-euro area residents denominated in euro	15	81 828 278	32 189 061
Liabilities to non-euro area residents denominated in foreign currency	16	296 404 985	37 757 173
Counterpart of special drawing rights allocated by the IMF	17	18 209 670	19 355 828
Intra-Eurosystem liabilities	18	44 786 358 600	39 811 803 645
- Net liabilities related to the allocation of euro banknotes within the Eurosystem	18.1	44 786 358 600	39 811 803 645
Items in course of settlement	19	23	12 605 068
Other liabilities	20	524 643 538	387 451 120
- Off-balance sheet instruments revaluation differences	-	0	2 940 000
- Accruals and income collected in advance		492 407 914	343 796 110
- Sundry	-	32 235 624	40 715 010
Provisions	21	470 849 312	461 392 192
Revaluation accounts	22	31 245 895	31 241 667
Capital and reserves	23	167 919 897	160 610 619
- Capital	23.1	25 000 000	25 000 000
- Reserves	23.2	142 919 897	135 610 619
<b>Profit of the year</b>		<b>4 421 374</b>	<b>7 309 279</b>
<b>Total liabilities</b>		<b>59 009 304 594</b>	<b>52 445 571 857</b>

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

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### 4.8.4 Off-balance sheet as at 31 December 2007

	Note	2007 EUR	2006 EUR
Foreign exchange swap	24	944 569 699	0
Custody deposits	25	219 720 485 682	189 738 667 501
Commitments and similar instruments	26	0	1 700 000 000
Foreign currency reserve assets managed on behalf of the ECB	27	236 640 755	117 520 445
Forward transactions	28	0	274 612 652
Numismatic collection		181 470	180 767
		<b>220 901 877 606</b>	<b>191 830 981 365</b>

### 4.8.5 Profit and loss account for the year 2007

	Note	2007 EUR	2006 EUR
Interest income	29	2 165 460 459	1 378 860 061
Interest expense	29	(2 028 764 753)	(1 276 252 841)
<b>Net interest income</b>	<b>29</b>	<b>136 695 706</b>	<b>102 607 220</b>
Realised gains / (losses) arising from financial operations	30	2 059 326	4 954 221
Write-downs on financial assets and positions	31	(85 351 506)	(18 874 943)
Transfer to/from provisions for foreign exchange rate and price risks	32	1 542 974	(54 336 253)
<b>Net result of financial operations, write-downs and risk provisions</b>		<b>(81 749 206)</b>	<b>(68 256 975)</b>
Fees and commissions income	33	14 820 860	11 605 170
Fees and commissions expense	33	(13 684 113)	(11 039 183)
<b>Net result from fees and commissions</b>	<b>33</b>	<b>1 136 747</b>	<b>565 987</b>
Income from participating interest	34	-	-
Net result of pooling of monetary income	35	(28 534 340)	(12 450 016)
Other income	36	14 817 445	20 193 375
<b>Total net income</b>		<b>42 366 352</b>	<b>42 659 591</b>
Staff costs	37	(20 965 916)	(19 751 606)
Other administrative expenses	38	(8 348 065)	(7 295 424)
Depreciation of tangible and intangible fixed assets	11.1, 39	(5 440 417)	(5 118 980)
Banknote production services	40	(901 044)	(840 406)
Other expenses	41	(2 289 536)	(2 343 896)
<b>Profit for the year</b>		<b>4 421 374</b>	<b>7 309 279</b>

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

#### **4.8.6 Notes to the financial statements as at 31 December 2007**

##### **Note 1 - General**

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

##### **Note 2 - Accounting policies**

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

###### **2.1 Layout of the financial statements**

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

###### **2.2 Accounting principles**

The following accounting principles have been applied:

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

###### **2.3 Basic principles**

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

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

###### **2.4 Gold, assets and liabilities in foreign currencies**

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

Income and expenses are converted at the exchange rate prevailing on the date of the transaction.

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

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

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

###### **2.5 Securities**

Negotiable securities denominated in foreign currencies and in euro are valued at the market price prevailing on the balance sheet date. Securities held to maturity are valued at purchase or transfer price adjusted by premiums and discounts.

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

###### **2.6 Recognition of gains and losses**

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

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

At the end of the year, unrealised revaluation gains on foreign currencies, securities and financial instruments 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

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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 Post-balance-sheet events**

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

### **2.8 Banknotes in circulation**

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

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

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest, are disclosed

under the sub-item "Intra-Eurosystem: Net claim/liability related to the allocation of euro banknotes within the Eurosystem".

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

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

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, shall not be distributed in 2007. This income has been allocated, in the ECB's accounts, to a provision for foreign exchange rate, interest rate and gold price risks.

### **2.9 Intra-Eurosystem claims and liabilities**

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

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

### **2.10 Treatment of tangible and intangible assets**

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

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

### 2.11 Pension fund

As at 1 January 1999, after the entry into force of the Founding Law of 23 December 1998, the pension claims of the BCL's staff members are fully supported by the BCL. The pension fund aims to cover the risks related to ageing, infirmity and survival, was set up in 2000. The actuarial method for determining the BCL's liabilities towards its agents was approved by the pension fund's Management Committee as at 12 February 2001.

The actuarial method determines the pension fund's liability related to ageing, infirmity or survival for each agent. The model is based on each agent's personal and career data, on the level of inflation for the next 60 years 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 by the agent and by the BCL as employer. In addition, if necessary, periodic transfers from the account "Booking reserve of the pension fund", equivalent to the revenues generated by the fund's assets, to adjust the account "Provision for pensions" to its actuarial value are booked. In cases where transfers are insufficient cover the BCL's pension liabilities, the difference between the existing provision and the effective claim is covered by a special transfer to be supported by the BCL.

### 2.12 Provision for banking risks

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

### Note 3 - Gold and gold receivables

As at 31 December 2007, BCL held 2 314.78 ounces of fine gold amounting to 1.3 million euro (2 423.88 ounces of fine gold amounting to 1.2 million euro as at 31 December 2006) and a top-rated gold bond issued by the International Bank for Reconstruction and Development purchased in 2002 and valued at 40.9 million euro (34.7 million euro as at 31 December 2006).

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 2007.

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

	2007 EUR	2006 EUR
Receivables from the IMF	33 809 923	47 085 746
Balances with banks, security investments, external loans and other external assets	63 322 292	117 158 994
	<b>97 132 215</b>	<b>164 244 740</b>

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

This item is broken down into two sub-items :

- receivables from the International Monetary Fund (IMF) are made up of reserve tranche position and SDR holdings. SDR are reserve assets created ex nihilo by the IMF and allocated by it to its members. A country's SDR holdings initially amount to the SDR allocated. Afterwards, SDR holdings are subject to fluctuations as a result of encashments and transactions with others SDR holders. 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.



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

This portfolio, which amounts to 59.8 million euro as at 31 December 2007 (115.3 million euro as at 31 December 2006), only contains government bonds and top-rated bonds issued by international and supranational institutions denominated in US dollars. Securities are valued at market prices. As at 31 December 2007, their value at market prices included an unrealised gain amounting to 1.2 million euro (unrealised gain amounted to 0.3 million euro as at 31 December 2006).

Balances with banks amounted to 3.5 million euro as at 31 December 2007 (1.9 million euro as at 31 December 2006).

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

This item includes mainly a claim arising from reverse operations with Eurosystem counterparties amounting to 940.8 million euro, in connection with the US dollar Term Auction Facility. Under this Programme, 20 billion USD were provided by the Federal Reserve to the ECB by means of temporary reciprocal currency arrangement (swap line) with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct liquidity-providing operations with the Eurosystem counterparties. These back-to-back swap transactions resulted in non-remunerated inter-Eurosystem balances between the ECB and the NCBs reported under "Other claims within the Eurosystem(net)".

This item includes also BCL's balances denominated in foreign currency with counterparties inside the euro area.

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

	2007 EUR	2006 EUR
Balances with banks	10 143 289	10 959 298
Security investments	1 244 124 443	1 290 451 238
	<b>1 254 267 732</b>	<b>1 301 410 536</b>

This item contains balances held on accounts with banks outside the euro area as well as securities, loans and other euro-denominated assets issued by non-residents of the euro area.

This portfolio only contains government bonds and first rated bonds issued by companies outside the euro area denominated in euro. Securities are valued at market prices. As at 31 December 2007, their value at market prices included an unrealised loss amounting to 39.0 million euro (unrealised loss amounting to 15.5 million euro as at 31 December 2006).

### *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 :

	2007 EUR	2006 EUR
Main refinancing operations	24 125 912 740	32 668 047 500
Longer-term refinancing operations	8 788 861 490	8 842 774 865
Fine-tuning reverse operations	-	-
Structural reverse operations	-	-
Marginal lending facility	-	300
Credits related to margin calls	-	-
	32 914 774 230	41 510 822 665

#### 7.1 Main refinancing operations

This sub-item records the amount of liquidity provided to credit institutions by way of weekly one-week tenders and of exceptional tenders allocated at year end.

#### 7.2 Long-term refinancing operations

This sub-item records the amount of credit extended to credit institutions by way of monthly three-month tenders and of exceptional tenders allocated at year end.

#### 7.3 Fine-tuning reverse operations

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

#### 7.4 Structural reverse operations

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

No such transactions were made during the year under review.

#### 7.5 Marginal lending facility

This sub-item records a standing facility enabling counterparties to obtain 24-hour credit from the Bank at a pre-specified interest rate, against eligible collateral.

#### 7.6 Credits related to margin calls

This sub-item records additional credit extended to credit institutions and resulting from the increase in the value of the securities pledged as collateral for other credits extended to these same institutions.

No such operation took place during the year just ended.

#### Note 8 - Other claims on euro area credit institutions denominated in euro

This item includes the BCL's current accounts and fixed-term deposits not related to monetary policy operation with credit institutions inside the euro area.

#### Note 9 - Securities of euro area residents denominated in euro

This item covers the BCL's portfolio in euro issued by residents of the euro area which could be used, if needed, for monetary policy operations. This amounted to 2 085.4 million euro as at 31 December 2007 (2 349.5 million euro as at 31 December 2006).

This portfolio only contains government bonds in euro issued by Member States of the European Union and first rated bonds issued by companies of the euro area. Securities are valued at market prices. As at 31 December 2007, their value at market prices included an unrealised loss amounting to 28.8 million euro (against 14.7 million euro as at 31 December 2006).

#### Note 10 - Intra-Eurosystem claims

##### 10.1 Participating interest in the ECB

Pursuant to Article 28 of the ESCB Statute, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which are subject to adjustment every five years. On 31 December 2007, the share that the BCL holds in the capital of the ECB was 0.1575%, which amounts to 10 668 158 euro, on a total of subscribed capital of the ECB of 5.761 billion euro (this corresponds to 0.1568% or 9 660 235 euro, on a total of subscribed capital of the ECB of 5.565 billion euro as at 31 December 2006).

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The share that the BCL held in the accumulated net profits of the ECB reflects the repayment of 0.9 million euro by the ECB.

On 1 January 2007 the national central banks of Bulgaria and Romania joined the ESCB while the national central bank of Slovenia joined the Eurosystem. As a result the BCL's capital keys changed in both systems. More over, the calculations on population and GDP were revised. BCL's key in the ESCB changed from 0.1568% to 0.1575% and BCL's key in the Eurosystem changed from 0.21933% to 0.22659%.

### **10.2** *Claims equivalent to the transfer of foreign reserves*

This sub-item represents the euro-denominated claims on the ECB in respect of the transfer of part of BCL's foreign reserves. The claims are denominated in euro at a value fixed at the time of their transfer.

They are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component.

On 31 December 2007, the claim of the BCL amounted to 90 730 275 euro (87 254 014 euro on 31 December 2006).

### **10.3** *Other claims within the Eurosystem*

This sub-item represents the BCL's net claims towards the Eurosystem, mostly from transactions resulting from cross-border payments initiated for monetary or financial operations, made via the TARGET system, between the BCL and the other NCBs as well as the ECB. This claim amounts to 18.3 billion euro as at 31 December 2007 (5.2 billion euro as at 31 December 2006).

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 fixed assets developed as follows:

	Buildings EUR	Furniture and equipment EUR	Software EUR	Total EUR
Cost as at 1 January 2007	87 695 681	11 447 327	5 583 458	104 726 466
Disposals	-	-	-	-
Acquisitions	3 609 069	701 145	176 669	4 486 883
<b>Cost as at 31 December 2007</b>	<b>91 304 750</b>	<b>12 148 472</b>	<b>5 760 127</b>	<b>109 213 349</b>
Accumulated depreciation as at 1 January 2007	26 147 057	8 435 710	3 900 375	38 483 142
Disposals	-	-	-	-
Depreciation	3 923 441	975 602	541 374	5 440 417
Accumulated depreciation as at 31 December 2007	30 070 498	9 411 312	4 441 749	43 923 559
<b>Net book value as at 31 December 2007</b>	<b>61 234 252</b>	<b>2 737 160</b>	<b>1 318 378</b>	<b>65 289 790</b>

The sub-item “Buildings” comprises the acquisition cost of the premises located on the 2, boulevard Royal, the costs incurred in relation to the reconstruction and transformation of the Pierre Werner building and the renovations made to the Siège Royal (main building). The building located on the avenue Monterey was completely written off in 2003, having been demolished in order to construct a new one. Construction of this new building was finished in 2006.

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

### 11.2 Other financial assets

The components of this item are as follows:

	2007 EUR	2006 EUR
Other participating interests	170 226	216 994
Pension fund	88 987 746	83 271 152
Securities portfolio	1 729 208 902	1 417 196 427
	<b>1 818 366 874</b>	<b>1 500 684 573</b>

The other participating interests comprise the BCL’s investments in RTGS-L GIE, in liquidation, Swift and ATTF.

The assets of the pension fund are recorded in the accounts under “Pension fund BCL”. The balance of this account corresponds to the net asset value of the fund as calculated by the depositary bank as at 31 December 2007.

**The securities portfolio recorded under this heading includes:**

1) As at 31 December 2007 the securities held by the BCL for the purpose of investment amounting to a total of 1 362.6 million euro (1 417.2 million euro as at 31 December 2006). Securities are valued at market

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prices. As at 31 December 2007, their value at market prices included an unrealised loss amounting to 32.3 million euro (unrealised loss amounting to 12.8 million euro as at 31 December 2006).

2) The "Hold to maturity" portfolio was created in 2007. These securities are held until maturity.

This portfolio is valued at amortised cost, purchase or transfer price adjusted by premiums and discounts. Securities already in portfolios as at 31 December 2006 were transferred at accounting value as at 1 January 2007. Securities bought in 2007 were transferred at acquisition value. Securities held to maturity are valued as described and not at market price.

As at 31 December 2007 these securities amounted to 366.6 million euro. An unrealised loss of 17.8 million is not booked as at 31 December 2007 but would be booked if the decline in value became permanent.

### 11.3 Accruals and prepaid expenses

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

Are also included under this item the commissions receivables, prepaid expenses (including salaries paid for January 2008) and other income receivable.

### 11.4 Sundry

	2007 EUR	2006 EUR
Withdrawals in advance	-	12 605 000
Others	19 591 346	18 093 169
	<b>19 591 346</b>	<b>30 698 169</b>

The sub-item "Withdrawals in advance" corresponds to the amount of euro banknotes ordered by the credit institutions as at 31 December 2006 and which were not put into circulation by that date.

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

financial relationship between the State of Luxembourg and the BCL as well as a claim in relation to the pension fund (17 726 152 euro as at 31 December 2007).

### Note 12 - Banknotes in circulation

This item includes the BCL's share of the total euro banknotes put into circulation by the central banks of the Eurosystem according to their weightings in the capital of the ECB, which totalled 1 414.2 million euro (1 269.0 million euro as at 31 December 2006).

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

	2007 EUR	2006 EUR
Current accounts (covering the minimum reserves)	10 779 720 531	9 741 868 456
Deposit facility	-	-
Fixed-term deposits	-	-
Fine-tuning reverse operations	-	-
Deposits related to margin calls	-	-
	<b>10 779 720 531</b>	<b>9 741 868 456</b>

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

### 13.1 Current accounts (covering the minimum reserves)

This sub-item records accounts denominated in euro of credit institutions which mainly serve to meet minimum reserve requirements. These requirements have to be respected over an average unsettled period starting the Wednesday following the Governing Council's meeting to set the interest rate.

### 13.2 Deposit facility

This sub-item records the standing facility allowing credit institutions to make 24-hour deposits with the bank at a pre-specified interest rate.

### 13.3 Fixed-term deposits

This sub-item records deposits made at the Bank for the purpose of absorbing market liquidity in connection with fine-tuning operation in the Eurosystem.

### 13.4 Fine-tuning reverse operations

This sub-item records other monetary policy operations aimed at tightening liquidity.

No such operation took place in 2007.

### 13.5 Deposits related to margin calls

This sub-item records deposits made by credit institutions to compensate for the decrease in the value of securities pledged as collateral for other credits granted to these same institutions.

### Note 14 – Liabilities to other euro area residents denominated in euro

#### 14.1 Liabilities to general government

This item records the amounts as follows:

	2007 EUR	2006 EUR
Current accounts	2 204 291	84 691
Account related to euro coins issued by the Treasury	161 326 870	142 858 258
Fixed-term deposit	270 000 000	330 000 000
	<b>433 531 161</b>	<b>472 942 949</b>

The item current accounts records an amount of 2 204 261 euro owed to the Luxembourg Treasury and an amount of 30 euro owed to the CCPL.

In accordance with the amendment of 10 April 2003 to the agreement between the State 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 fixed-term deposit renewed on a monthly basis relates to the above-mentioned agreement.

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

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

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

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

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

The amount shown under this 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 if SDR are cancelled, if the SDR Department established by the IMF is closed or if Luxembourg decides to withdraw from it. This liability, of unlimited duration, amounts to SDR 17.0 million, or 18.2 million euro as at 31 December 2007 (SDR 17.0 million, or 19.4 million euro as at 31 December 2006).

### Note 18 - Intra-Eurosystem liabilities

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

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

### Note 19 - Items in course of settlement

This item contains mainly the counterpart of the euro banknotes ordered by credit institutions as at 31 December 2006 which were not put into circulation by that date.



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### Note 20 - Other liabilities

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

The Luxembourg banknotes still circulating as at 31 December 2007 amount to 5.3 million euro (5.4 million euro as at 31 December 2006).



### Note 21 - Provisions

Provisions developed as follows :

	2007 EUR	2006 EUR
Provisions for banking risks	379 975 432	381 518 406
Provisions for pensions	90 823 880	79 823 786
Other provisions	50 000	50 000
	<b>470 849 312</b>	<b>461 392 192</b>

#### 21.1 Provisions for banking risks

Provisions for banking risks include the following items:

	2007 EUR	2006 EUR
Provision covering credit and market risk	176 811 696	178 365 669
Provision covering operational risk	8 840 000	10 925 000
Provision covering liquidity risk	14 829 513	14 318 659
Provision covering interest rate risk	200 000	200 000
	<b>200 681 209</b>	<b>203 809 328</b>

#### Provisions for general banking risks

	2007 EUR	2006 EUR
Provision for liabilities resulting from monetary agreements	32 341 954	32 341 954
Other provision for general banking risks	146 952 269	145 367 124
	<b>179 294 223</b>	<b>177 709 078</b>
	<b>379 975 432</b>	<b>381 518 406</b>

### 21.1.1 Provision covering credit and market risk

The provision for 176.8 million euro (178.4 million euro as at 31 December 2006) corresponds to :

- 4% of the BCL's own securities portfolio existing as at 31 December 2003 and still kept as at 31 December 2007 (portfolio allocated to monetary policy operations if necessary and structural portfolio) and participations other than the participating interest in the ECB ;
- 2% of the increase, between 31 December 2003 and 31 December 2007, of the BCL's own securities portfolio and participations other than the participating interest in the ECB ;
- 2% of firm commitments on stock exchange indexes existing as at 31 December 2007;
- 4% of the average amount lent by the Eurosystem as at year-end for monetary policy reasons multiplied by the capital key corresponding to the BCL.

Provision on stock exchange index was created in 2006. There was no outstanding amount at the end of 2007.

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

### 21.1.2 Provision covering operational risk

This provision is intended to cover the risk of losses resulting from the inadequacy or 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).

### 21.1.3 Provision for liabilities resulting from monetary agreements

The provision for liabilities resulting from monetary treaties created in order to face any future monetary liabilities monetary liabilities did not change in 2007.

### 21.1.4 Other provision for general banking risks

In 2006, for prudence's sake and to safeguard its assets, the BCL transferred 1.6 million euro (17.4 million euro for the financial year 2006) to the provision for

general banking risks to cover any inherent risks related to central bank activities.

### 21.2 Provisions for pensions

Provisions for pensions include the following items:

	2007 EUR	2006 EUR
Provision for pensions	88 432 010	77 431 916
Provision for equalisation and financial risks	850 252	850 252
Provision for increase of PBO	1 541 618	1 541 618
	<b>90 823 880</b>	<b>79 823 786</b>

#### 21.2.1 Provision for pensions

The pensions claims of its agents are fully supported by the BCL. The corresponding liability is calculated on the basis of the actuarial method described in note 2.11 in consideration of current factors and amounted to 88.4 million euro as at 31 December 2007 (77.4 million euro as at 31 December 2006).

The increase of the provision during the year results from :

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

#### 21.2.2 Provision for equalisation and financial risks

This provision for equalisation and financial risks was intended to cover fluctuations in the pension fund's liabilities in its early years and/or to compensate for a lower return on assets. The provision was partially used but did not changed in 2007.

#### 21.2.3 Provision for increase of Projected Benefit Obligation

This provision was intended to cover the liability (Projected Benefit Obligation or PBO) for new agents or the

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changes of present value of potential payments taking into account individual parameters and the actuarial method used. The provision did not change in 2006.

### *Note 22 – Revaluation accounts*

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

### *Note 23 – Capital and reserves*

#### **23.1 Capital**

The State of Luxembourg is the sole shareholder of the BCL's capital, which is fixed at 25 million euro.

#### **23.2 Reserves**

The reserves amount to 142.9 million euro (135.6 million euro as at 31 December 2006). This amount was increased by 7.3 million euro in 2007 following the allocation of profit for 2006 according to the decision of the BCL's Council and its Founding Law (Article 31).

### *Note 24 – Foreign exchange swap*

This item includes forward liabilities to the ECB as at 31 December 2007 which arose in connection with the US dollar Term Auction Facility established by the Federal Reserve (see also note 5 "Claims on euro area residents denominated in foreign currency").

### *Note 25 – Custody deposits*

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

This item also includes the securities given into custody in Luxembourg and used as a guarantee by commercial banks incorporated in other member states according to the 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 2007, the market value of these securities amounts to 219.7 billion euro (189.7 billion euro as at 31 December 2006).

### *Note 26 – Commitments and similar instruments*

	2007 EUR	2006 EUR
Commitments and similar instruments	-	1 700 000 000

This item corresponded to the guarantee issued by the BCL for the Night Time Link project. This commitment was guaranteed by assets received in custody for the same amount. This procedure was replaced by Target 2 at the end of 2007.

### *Note 27 – Foreign currency reserve assets administrated on behalf of the ECB*

This item includes the foreign currency reserves at market value managed by BCL on behalf of the ECB.

### *Note 28 – Forward contracts*

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

As at 31 December 2007, no such liabilities existed (274.6 million euro as at 31 December 2006). One security has been given as a guarantee in order to cover the initial margin deposit. This security remains on the BCL's balance sheet for an amount of 10.0 million euro as at 31 December 2007, no change compared to 2006.

### *Note 29 – Net interest income*

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

## COMPOSITION OF INTEREST INCOME

	Amounts in foreign currency EUR		Amounts in euro EUR	
	2007	2006	2007	2006
IMF	1 273 454	1 521 372	-	-
Monetary policy	-	-	1 468 637 585	1 062 362 643
Intra-Eurosystem claims	-	-	456 897 715	173 380 646
Securities	4 899 994	4 460 338	221 992 931	134 366 145
Gold	331 612	366 298	-	-
Other	7 550 781	2 127 297	3 876 387	275 322
<b>Total</b>	<b>14 055 841</b>	<b>8 475 305</b>	<b>2 151 404 618</b>	<b>1 370 384 756</b>

## COMPOSITION OF INTEREST EXPENSE

	Amounts in foreign currency EUR		Amounts in euro EUR	
	2007	2006	2007	2006
IMF	(762 600)	(726 090)	-	-
Current accounts (including minimum reserves) and deposits related to monetary policy operations	-	-	(341 757 536)	(226 747 634)
Liabilities related to the reallocation of euro banknotes in the Eurosystem	-	-	(1 667 852 566)	(1 039 347 699)
Other intra-Eurosystem liabilities	-	-	(41 847)	(35 255)
Interests on term deposits	-	-	(8 597 639)	(6 150 833)
Other liabilities	(5 755 533)	(1 573 198)	(3 042 037)	(1 672 132)
Interest on swap operation	(954 995)	-	-	-
<b>Total</b>	<b>(7 473 128)</b>	<b>(2 299 288)</b>	<b>(2 021 291 625)</b>	<b>(1 273 953 553)</b>

The increase in interest results from an increase in average amounts outstanding during the year and from a change in the interest rates.

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### *Note 30 - Realised gains / (losses) arising from financial operations*

This item includes the result from transactions in foreign currencies, from securities and from financial instruments linked to interest rates and market prices, i.e. gains realised minus loss realised on these transactions. In 2007, they amounted to 26.0 million euro (23.6 million euro as at 31 December 2006) and to 23.9 million euro (18.6 million euro as at 31 December 2006) respectively, making a net income of 2.1 million euro (5.0 million euro as at 31 December 2006).

### *Note 31 - Write-downs on financial assets and positions*

This item includes revaluation losses on securities for 74.6 million euro and on currency for 10.7 million euro (revaluation losses on securities for 15.9 million and on financial instruments linked to interest rates and market prices for 2.9 million euro in 2006).

### *Note 32 - Transfer to/from provisions for foreign exchange rate and price risks*

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

### *Note 33 - Net result from fees and commissions*

Fees and commissions income and expense are as follows :

	Fees and commissions income EUR		Fees and commissions expense EUR	
	2007	2006	2007	2006
Securities	13 705 964	10 812 837	(13 556 025)	(10 932 676)
Others	1 114 896	792 333	(128 088)	(106 507)
<b>Total</b>	<b>14 820 860</b>	<b>11 605 170</b>	<b>(13 684 113)</b>	<b>(11 039 183)</b>

### *Note 34 - Income from participating interest*

This item may include the dividend distributed by the European Central Bank.

No dividend was distributed in 2007.

In 2007, the ECB's income on euro banknotes in circulation amounting to 2 004 million euro was used in full by the ECB in accordance with a decision of the Governing Council with respect to the establishment of a provision for foreign exchange rate, interest rate and gold price risks.

### *Note 35 - Net result of pooling of monetary income*

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

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

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

The earmarkable assets consist of the following items:

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

Gold is considered as generating no income.

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 that difference the average rate of return on the earmarkable assets of all NCBs taken together.

The monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed capital key (0.22659% for the BCL in 2007).

**Calculation of net monetary income allocated to the BCL:**

	(EUR millions)	
	2007	2006
Monetary income pooled by BCL	(81.0)	(45.2)
Monetary income reallocated to BCL	52.5	32.7
Net result arising from the calculation of monetary income	(28.5)	(12.5)

**Note 36 - Other income**

Other income includes revenue for services rendered to third parties, transfers from administrative provisions, rents from the Monterey building renting and income from numismatic activities.

Other income includes also BCL's revenue from financial agreement between the State of Luxembourg and BCL.

**Note 37 - Staff costs**

This item includes the salaries and compensations as well as the employer's share of contributions to the pension and social security schemes. The compensations paid to the Board of Directors amounted to 500 980 euro for the year 2007 (486 737 euro for the year 2006).

As at 31 December 2007, the BCL employed 219 persons (208 as at 31 December 2006). The average number of persons working for the BCL from 1 January to 31 December 2007 was 211 (206 for the year 2006).

**Note 38 - Administrative expenses**

This item includes all general and recurring expenses, meaning leasing, cleaning and repair of buildings and equipment, small goods and materials, fees paid and other services and supplies as well as training expenses. The compensations paid to the members of the Council amounted to 74 493 euro in 2007 (72 289 euro in 2006).

**Note 39 - Depreciation of tangible and intangible fixed assets**

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

**Note 40 - Banknote production services**

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

**Note 41 - Other expenses**

This item shows mainly the transfer to the administrative provisions and costs related to numismatic activities.

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#### Note 42 - Post-balance-sheet events

On 1 January 2008 following the entry of national central banks of Cyprus and Malta in the Eurosystem, the BCL's Eurosystem participation key changed from 0.22659% to 0.22598%. BCL's key in the ESCB did not change.

BCNs participations are as follows:

Country	ESCB key from 1 January 2007 onwards	Eurosystem key from 1 January 2008 onwards
Belgium	2.4708	3.54509493
Denmark	1.5138	
Germany	20.5211	29.44360031
Greece	1.8168	2.60673809
Spain	7.5498	10.83242582
France	14.3875	20.64313314
Ireland	0.8885	1.27481660
Italy	12.5297	17.97756839
Luxembourg	0.1575	0.22598043
Netherlands	3.8937	5.58666672
Austria	2.0159	2.89240605
Portugal	1.7137	2.45881058
Finland	1.2448	1.78603455
Sweden	2.3313	
United Kingdom	13.9337	
Czech Republic	1.3880	
Estonia	0.1703	
Cyprus	0.1249	0.17920607
Latvia	0.2813	
Lithuania	0.4178	
Hungary	1.3141	
Malta	0.0622	0.08924434
Poland	4.8748	
Slovenia	0.3194	0.45827397
Slovak Republic	0.6765	
Bulgaria	0.8833	
Romania	2.5188	
	100.000000	100.00000000