Guide for the preparation of annual accounts for credit institutions in Luxembourg*

*connectedthinking

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Content

Preface

The Luxembourg accounting regulations for credit institutions have been amended since the 2002 version of this publication.This 2004-updated version including the latest developments will enable the management of credit institutions to handle effectively the legal requirements in terms of preparation of the annual accounts.

This guide includes also changes released in the updated version of the *Recueil des instructions aux banques* (CSSF's instructions for banks, the "CSSF Recueil") published early 2003 by the Commission de Surveillance du Secteur Financier ("CSSF").

The CSSF is currently working on the possible introduction of the International Financial Reporting Standards in the framework of the establishment of the annual accounts of the Luxemburgish credit institutions as from 2007. This possible introduction will significantly impact the current accounting rules applicable to credit institutions. However, the banking legislation as it stands today should not be amended significantly before 2007. We therefore hope that this publication will be a helpful guide to preparing annual accounts before the possible introduction of the International Financial Reporting Standards in 2007.

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Introduction

The amended law of 17 June 1992 relating to the annual and consolidated accounts of credit institutions ("the Law") transposed into Luxembourg law the Directive of the Council 86/635/CEE, to ensure European harmonisation. This means that all credit institutions of the European Union are subject to the same accounting rules to ensure a better comparability of annual accounts and an increased understandability.

The Commission de Surveillance du Secteur Financier ("CSSF") has issued a Circular in 2001 (Circular 01/32), which incorporates into Luxembourg regulation the principles of the European Commission 2000/408/CEE recommendation with respect to the publication of information on financial instruments.

The CSSF issued the *Recueil des instructions aux banques* (CSSF's instructions for banks, the "CSSF Recueil") that includes the accounting and prudential reporting instructions for the reporting banks have to provide the CSSF with. The Manual also gives details about the layout and publication of the annual accounts. The updated version of the CSSF Recueil (dated December 2002), as published on the CSSF website, is an updated version of the 1992 Recueil published by the Institut Monétaire Luxembourgeois ("IML"). It came into force on 1 April 2003 (Circular 03/100).

The guide includes, firstly, a set of standard annual accounts (balance sheet, profit and loss account and notes to the accounts) designed to apply to the majority of Luxembourg credit institutions, and secondly, a list of supplementary disclosures for specific instances or circumstances.

Where possible, the standard annual accounts and the list of supplementary disclosures include a reference to the relevant articles of the amended law of 17 June 1992, to the Circular 01/32 or to other related texts specifically mentioned.

We established a set of standard annual accounts as realistic and comprehensive as possible. However, it does not cover the exhaustive list of possible notes to the accounts and the examples given in this publication should not be considered as being universally applicable. The responsibility of the preparation of the annual accounts lies with the Board of Directors who must, of course, adapt the form and content of the information given in this guide to meet the requirements of their individual institutions.

Most banks registered in Luxembourg do not publish consolidated accounts, and therefore this part of the law is not covered by this guide.

References to the CSSF Recueil are made to the French version of the Recueil as published on the CSSF website.

Ref. article of law/Circular

Basic principles

General provisions related to the content and layout of the annual accounts

Content

2(1) Annual accounts shall comprise the balance sheet, the profit and loss account and the notes to the accounts. These documents shall constitute a composite whole.

Clear layout

2(2) Annual accounts shall be drawn up clearly and in accordance with the law.

True and fair view

2(3) The annual accounts shall give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank.

2(4) Where the application of the provisions of the law is not sufficient to give a true and fair view, additional information must be given.

2(5) Where, in exceptional cases, the application of a provision of the law is incompatible with the true and fair view, that provision must be departed from and any such departure must be disclosed in the notes to the accounts together with an explanation of the reasons for it and a statement of its effect on the assets, liabilities, financial position and results.

Consistency of presentation

3 The structure of the balance sheet and the profit and loss account, specifically as regards their layout, must be applied consistently from one financial year to another. Departures from this principle shall be permitted in exceptional cases. Any such departures must be disclosed in the notes to the accounts together with the reasons for them.

Strict form of presentation

4(1) The items in the layouts for the balance sheet and the profit and loss account, foreseen by articles 7, 41 and 42 of the law, must appear separately and in the indicated order. A more detailed subdivision of accounts is authorised as long as it respects the structure of the framework. New items can be added to the extent that their content is not covered by any of the items foreseen in the layout.

4(2) The balance sheet and profit and loss account sub-items preceded by a lower-case letter may be combined:
(a) when they represent a negligible amount with respect to the true and fair view principle;
(b) when the regrouping promotes clarity, provided that the combined items are presented in a distinct manner in the notes to the accounts.

The regroupings described in (a) and (b) may only be done after preliminary authorisation from the CSSF.

4(4) An item in the balance sheet or profit and loss account with a zero balance can be omitted except if there was a balance in the preceding year.

Ref. article of law/Circular

Basic principles (cont.)

6 Any compensation between assets and liabilities or between expenses and revenues is prohibited. However the law foresees a few exceptions:

- syndicated loans: each credit institution participating in the syndicate shall disclose only that part of the total loan which it has itself funded (art. 9);
- disclosure of the net profit or loss on financial operations (art. 46);
- value adjustments and value re-adjustments in the profit and loss account can be disclosed as a net item (art. 47 and 48).

Netting reciprocal assets and commitments of the Bank's various units (branches, agencies) is mandatory when preparing an aggregate situation.

Comparative figures

4(3) Each of the balance sheet and profit and loss account items must include the comparative amount from the preceding year. In the absence of comparability of the amounts from one financial year to another or, as the case arises, changes made to the amounts from the preceding year in order to ensure comparability must be disclosed in the notes to the accounts, together with relevant comments.

Valuation rules

51 The valuation of the items in the annual accounts, except derogations duly disclosed and explained in the notes to the accounts, shall be based on the following general principles:

(a) the Bank is presumed to be a going concern for the foreseeable future;
(b) the valuation methods shall not be modified from one year to another;
(c) the principle of prudence must be observed at all times, namely:
   (i) only realised profits at the balance sheet date shall be accounted for in the profit and loss account;
   (ii) all foreseeable risks and eventual losses resulting from the current financial year or any prior period shall be accounted for, even if these risks or losses are only known between the balance sheet date and the date at which the balance sheet is drawn up;
   (iii) all depreciation must be taken into account, whether or not the result of the current financial year is a profit or a loss;
(d) all charges and income relating to the current financial year must be accounted for whether or not paid;
(e) the assets and liabilities must be valued separately;
(f) the opening balance sheet of one financial year must correspond to the closing balance sheet of the previous financial year.

52 The valuation of the items in the annual accounts shall be made in accordance with the dispositions of articles 54 to 64 of the law, based on the principle of acquisition cost or production cost.

Audited annual accounts for the year ended 31 December 200y

Bank S.A.

Registered office, location and registration number

Ref. article of law/Circular

Directors' report

Introduction

70 Article 70 of the amended law of 17 June 1992 requires the Bank to establish a directors' report, usually presented on the face of the annual accounts. The "Réviseur d'entreprises" must ensure that the directors' report is consistent with the annual accounts of the financial year.

Circ. 01/32: §25, 29 Circular 01/32 concerning disclosure of information of financial instruments requires some qualitative information in the directors' report regarding management objectives and strategies with respect to the use of these instruments as well as risk management policies and practice.

Required information according to article 70

70(1) The directors' report must include a true and fair review of the development of the business and the financial position of the Bank. The report must comply with the information contained in the annual accounts.

70(2) The report shall also give an indication of:

- any important events that have occurred since the end of the financial year;
- the likely future development of the Bank[1];
- the activities of the Bank in the field of research and development;
- the acquisition of the Bank's own shares; the provisions of article 49-5(2) of the amended law of 10 August 1915 on commercial companies have to be complied with:
    - the reason for purchases of shares made during the financial year;
    - the number and nominal value, or in the absence of a nominal value the accounting par value, of shares acquired and sold during the financial year, as well as the portion of share capital represented by such transactions;
    - where there has been forced acquisition or disposal of shares, the consideration exchanged for such shares;
    - the number and the nominal par value, or in the absence of a nominal value the accounting par value, of shares acquired and retained in the undertaking's own portfolio, as well as the portion of share capital which they represent.

All information provided must be relevant to the Bank; general information on the economic environment and similar information are not required.

[1] As far as the Bank's likely future development is concerned, events that occurred during the financial year ended and that will have an impact on subsequent years' results should be taken into account. Restructuring or downsizing of activities, setup or close-down of a business unit (private banking, credit department, custody…), purchase or sale of participating interests are examples of such events. (CSSF Recueil, part V, Publicité, p. 29)

Ref. article of law/Circular

Directors' report (cont.)

Circ. 01/32: §26, 27, Ann.1/I

Required information as per Circular 01/32 concerning the disclosure of information on financial instruments

Circular 01/32 requires qualitative information towards the use of financial instruments in the directors' report. Thus, the directors' report must describe the Bank's risk management objectives and strategies reflecting its use of instruments within the context of its overall business objectives.[1]

Moreover, information should be disclosed in the directors' report on the policies and practice of managing the risks associated with trading and non-trading activities addressing the specific nature of the institution's exposure to, and its management of, credit risk, market risk, liquidity risk and other risks of significance.

Quantitative information that is not essential to a good understanding of the annual accounts may also be included in the directors' report.[2]

[1] Circular 01/32 specifies that meaningful and comparable qualitative and quantitative information must appear in the notes to the accounts in order to clarify the understanding of the annual accounts. Where other information is disclosed, this should be included in the notes to the accounts if it is essential to a better understanding of the accounts. In all other cases, banks may elect to disclose such information either in the notes to the accounts or in the directors' report.

[2] Circular 01/32 gives illustrative examples regarding the information to provide. For example, information concerning risk management may cover the following aspects:
- basic features of the risk management system;
- transactions in instruments used for trading purposes;
- transactions in instruments used for non-trading and, in particular, for hedging purposes;
- transactions in high-risk instruments or complex instruments such as leveraged derivatives instruments;
- the use of collateral;
- the use of netting agreements.

Circular 01/32 states that information may be drawn from the long form report of the Bank.

Ref. article of law/Circular				
	# Balance sheet at 31 December 200y			
	(expressed in "currency of the share capital")			
		Note(s)	200y CCY	200y-1 CCY
7	**ASSETS**			
	Cash in hand, balances with central banks and post office banks	3, 4		
	Treasury bills and other bills eligible for refinancing with central banks	3, 5.3, 5.4		
	• treasury bills and similar securities			
	• other bills eligible for refinancing with central banks			
	Loans and advances to credit institutions	3, 5.3, 5.4		
	• repayable on demand			
	• other loans and advances			
	Loans and advances to customers	3, 5.3, 5.4		
	Amounts due from leasing operations	3, 5.3, 5.4, 8		
	Bonds and other fixed-income transferable securities	3, 5.3, 5.4, 6, 7.1		
	• issued by public bodies			
	• issued by other borrowers			
	Shares and other variable-yield transferable securities	3, 6.1		
	Participating interests	5.1, 5.2, 6.1, 7.1		
	Shares in affiliated undertakings	5.1, 5.2, 6.1, 7.1		
	Intangible assets	7.1, 7.2		
	Tangible assets	7.1, 7.3		
	Own shares	17.4		
	Other assets	9		
	Subscribed capital unpaid			
	of which: called capital			
	Prepayments and accrued income			
			....	....
	Total assets		....	....

The accompanying notes form an integral part of these annual accounts.

Ref. article of law/Circular

Balance sheet at 31 December 200y (cont.)

(expressed in "currency of the share capital")

Ref.		Note(s)	200y CCY	200y-1 CCY
7	**LIABILITIES**			
	Amounts owed to credit institutions	3, 5.3, 5.4		
	• repayable on demand			
	• with agreed maturity dates or periods of notice			
	Amounts owed to customers	3, 5.3, 5.4		
	• savings deposits	12		
	• other debts			
	• repayable on demand			
	• with agreed maturity dates or periods of notice			
	Debt evidenced by certificates	3, 5.3, 5.4		
	• debt securities in issue	13		
	• others			
	Other liabilities	14		
	Accruals and deferred income			
	Provisions for liabilities and charges			
	• provisions for pensions and similar obligations			
	• provisions for taxation			
	• other provisions			
	Subordinated liabilities	5.3, 5.4, 15.2		
	Special items with a reserve quota portion	20		
	Fund for general banking risks			
	Hybrid capital instruments	21		
	Subscribed capital	16, 18		
	Share premium account	18		
	Reserves	17, 18		
	Revaluation reserve	18		
	Profit or loss brought forward	18		
	Profit or loss for the financial year	18, 19	....	....
	Total liabilities		....	....

The accompanying notes form an integral part of these annual accounts.

Ref. article of law/Circular	**OFF BALANCE SHEET AT 31 DECEMBER 200y** **(expressed in "currency of the share capital")**	Note(s)	200y CCY	200y-1 CCY
7	**Contingent liabilities**	23.1		
	of which:			
	• acceptances and endorsements			
	• guarantees and assets pledged as collateral security			
	Commitments	23.2		
	of which:			
	• commitments arising out of sale and repurchase transactions	6.4		
	Fiduciary transactions			

The accompanying notes form an integral part of these annual accounts.

Ref. article of law/Circular

Profit and loss account for the year ended 31 December 200y

(expressed in "currency of the share capital")

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Vertical layout

	Note(s)	200y CCY	200y-1 CCY
Interest receivable and similar income			
of which:			
• arising from debt securities and other fixed-income transferable securities			
Interest payable and similar charges			
Income from transferable securities			
• income from shares and other variable-yield transferable securities			
• income from participating interests			
• income from shares in affiliated undertakings			
Commissions receivable			
Commissions payable			
Net profit or net loss on financial operations			
Other operating income	24.3		
General administrative expenses			
• staff costs			
of which:			
• wages and salaries			
• social security costs			
of which: pension costs			
• other administrative expenses			
Value adjustments in respect of intangible and tangible assets			
Other operating charges	24.2		
Value adjustments in respect of loans and advances and provisions for contingent liabilities and commitments			
Value re-adjustments in respect of loans and advances and provisions for contingent liabilities and commitments			

The accompanying notes form an integral part of these annual accounts.

Ref. article of law/Circular

Profit and loss account for the year ended 31 December 200y (cont.)

(expressed in "currency of the share capital")

41

Vertical layout (cont.)

	Note(s)	200y CCY	200y-1 CCY
Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings			
Value re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings			
Transfers to "special items with a reserve quota portion"			
Income from the reversal of "special items with a reserve quota portion"			
Transfers to the fund for general banking risks			
Income from the reversal of amounts included in the fund for general banking risks			
Tax on profit or loss on ordinary activities			
Profit or loss on ordinary activities after tax			
Extraordinary income	24.5		
Extraordinary charges	24.5		
Extraordinary profit or loss			
Tax on extraordinary profit or loss			
Extraordinary profit or loss after tax			
Other taxes not shown in the preceding items		....	....
Profit or loss for the financial year		....	....

The accompanying notes form an integral part of these annual accounts.

Ref. article of law/Circular

Profit and loss account for the year ended 31 December 200y (cont.)

(expressed in "currency of the share capital")

42

Horizontal layout

	Note(s)	200y CCY	200y-1 CCY
CHARGES			
Interest payable and similar charges			
Commissions payable			
Net loss on financial operations			
General administrative expenses			
• staff costs of which: • wages and salaries • social security costs of which: pension costs • other administrative expenses			
Value adjustments in respect of intangible and tangible assets			
Other operating charges	24.2		
Value adjustments in respect of loans and advances and provisions for contingent liabilities and commitments			
Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings			
Transfers to "special items with a reserve quota portion"			
Transfers to the fund for general banking risks			
Tax on profit or loss on ordinary activities			
Profit on ordinary activities after tax			
Extraordinary charges	24.5		
Tax on extraordinary profit or loss			
Extraordinary profit after tax			
Other taxes not shown under the preceding items			
Profit for the financial year		....	....
Total charges		....	....

The accompanying notes form an integral part of these annual accounts.

Ref. article of law/Circular

Profit and loss account for the year ended 31 December 200y (cont.)

(expressed in "currency of the share capital")

42

Horizontal layout (cont.)

	Note(s)	200y CCY	200y-1 CCY
INCOME			
Interest receivable and similar income of which: • arising from debt securities and other fixed-income transferable securities			
Income from transferable securities • income from shares and other variable-yield transferable securities • income from participating interests • income from shares in affiliated undertakings			
Commissions receivable			
Net profit on financial operations			
Value re-adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments			
Value re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings			
Other operating income	24.3		
Income from the reversal of "special items with a reserve quota portion"			
Income from the reversal of amounts included in the fund for general banking risks			
Loss on ordinary activities after tax			
Extraordinary income	24.5		
Extraordinary loss after tax			
Loss for the financial year		....	....
Total income		....	....

The accompanying notes form an integral part of these annual accounts.

Ref. article of law/Circular

Notes to the accounts at 31 December 200y

Note 1 – General

Bank S.A. ("the Bank") was incorporated in the Grand-Duchy of Luxembourg on …… as a[1]:
The Bank deals with[2]:

68(1)

Note 2 – Summary of significant accounting policies and valuation rules

2.1 Basis of presentation

These annual accounts have been prepared in conformity with accounting principles generally accepted in the banking sector in the Grand-Duchy of Luxembourg. The accounting policies and the valuation principles are determined and applied by the Board of Directors, except those which are defined by law and by the Commission de Surveillance du Secteur Financier.

80(1) On the basis of the criteria set out by the Luxembourg law, the Bank is exempted from establishing consolidated accounts and a consolidated directors' report for the year ended 31 December 200y. In accordance with the amended law of the 17 June 1992, the said accounts were consequently presented on an unconsolidated basis for approval by the Annual General Meeting of shareholders.

68(10) The Bank is included in the consolidated accounts of[3]:

2.2 Foreign currencies

68(1) The annual accounts are expressed in "currency of the share capital" ("CCY"). The Bank has adopted a multi-currency accounting system, as a result of which assets and liabilities are recorded in the currencies in which they were created. For the preparation of the annual accounts, amounts in foreign currencies are translated into CCY on the following basis:

2.2.1 Spot transactions

64(1) Assets and liabilities denominated in foreign currencies are translated into CCY at the average spot exchange rates applicable at the balance sheet date.

[1] As per article 4 of the amended law of the 5 April 1993 relating to the financial sector in Luxembourg, authorisation may only be granted to legal entities established under Luxembourg law which have the form of an undertaking established under public law ("établissement de droit public"), a limited liability company ("société anonyme"), a partnership limited by shares ("société en commandite par actions") or a co-operative ("société cooperative").

[2] We suggest to indicate either the corporate object of the Bank as set out in the articles of incorporation, or if not, the main activities of the Bank.

[3] The following should be disclosed:
a) The name and registered office of the undertaking preparing the consolidated accounts of the largest body of undertakings of which the company forms part as a subsidiary undertaking;
b) The name and registered office of the undertaking preparing the consolidated accounts of the smallest body of undertakings of which the company forms part as a subsidiary undertaking;
c) The place where copies of the consolidated accounts referred to in a) and b) above may be obtained, provided that they are available.
Articles 80, 81 and 82 specify the conditions upon which undertakings shall be exempt from the obligation to prepare consolidated accounts and a consolidated annual report. As mentioned in the introduction, this guide does not deal with the part of the law dedicated to consolidated accounts.

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

However, assets held as financial fixed assets and tangible and intangible assets, which are not hedged in either the spot or forward markets, are translated into CCY at the rates prevailing on their acquisition dates.[1]

64(2), 64(3)b) Unsettled spot foreign exchange transactions are translated into CCY at the spot rate of exchange prevailing on the balance sheet date. Foreign exchange gains and losses resulting from spot transactions not hedged by forward transactions are accounted for in the profit and loss account for the financial year.[2]

64(3)a) Foreign exchange gains and losses resulting from spot transactions hedged by forward transactions (“swaps”) are neutralised through “prepayments and accrued income” and “accruals and deferred income” accounts. Differences arising due to the disparity between spot and forward exchange rates are amortised in the profit and loss account on a prorata basis.

2.2.2 Forward transactions

64(2) Unsettled forward exchange transactions are translated into CCY at the forward rate prevailing on the balance sheet date for the remaining maturity.

64(3)c) Exchange losses on un-hedged forward exchange contracts are recognised in the profit and loss account at the forward rate prevailing on the balance sheet date for the remaining term of the contract[3]. Exchange gains on uncovered forward exchange contracts are only recognised when realised.

For hedged exchange transactions, foreign exchange losses arising on revaluation are set against profits arising as stated above. Provision is made to cover any net loss position arising.

2.3 Loans and advances

58(2) Loans and advances are stated at their acquisition price. The policy of the Bank is to establish specific provisions for doubtful debts in accordance with the circumstances and for amounts specified by the Board of Directors. These provisions are deducted from the appropriate asset account balances and shall not be maintained if the reasons for which they were recorded no longer exist.

[1] Valuation at historical rates is optional. If the foreign currency in which these assets are denominated has suffered from a depreciation of durable nature, a value adjustment shall be made using the exchange rates prevailing at the balance sheet date. This reduction may be compensated with the revaluation of the intrinsic value of the underlying asset. (CSSF Recueil, part III, DCP, p. 68)

[2] The recording of unrealised foreign exchange gains is optional, whereas the recording of unrealised foreign exchange losses is mandatory. (art 64(3)b)

[3] When a forward exchange rate cannot be obtained, the Bank determines a probable value by extrapolation or uses an available rate as close as possible to the settlement date. For practical reasons, all forward transactions maturing in the same calendar month may be converted at the end of the month rate. (CSSF Recueil, part III, DCP, p. 68)

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

2.4 Amounts payable

Amounts payable are recorded under liabilities at the amount of reimbursement of the debt.

60 When the amount of reimbursement of a debt is greater than the amount received, the difference may be accounted for as an asset. This difference shall be amortised on a reasonable annual basis and no later than the maturity date.[1]

2.5 Fixed-income transferable securities valuation

The Bank has divided its portfolio of fixed-income transferable securities into three categories for valuation purposes:

2.5.1 Investment portfolio of financial fixed assets

56(1)b) This portfolio comprises fixed-income transferable securities, which are intended to be held on a long-term basis.

Principle of valuation at acquisition cost[2]

56(2)a), 56(2)c)bb), 56(3) Fixed-income transferable securities are recorded at historical acquisition cost in their original currency. The acquisition cost includes the costs to purchase the asset. A value adjustment is made where the market value at the balance sheet date is lower than the acquisition cost. This adjustment is made when the Board of Directors considers the depreciation as durable.

56(2)d) The premium resulting from the purchase of bonds and other fixed-income transferable securities having the characteristics of financial fixed assets, at a price exceeding the amount repayable at maturity, is included in the profit and loss account on an amortised basis.[3]

56(2)e) The discount resulting from the acquisition of bonds and other fixed-income transferable securities having the characteristics of financial fixed assets, at a price lower than the amount repayable at maturity, is released to income in instalments over the period remaining until repayment.[4]

1 Should this method be selected, the reimbursement premium shall be disclosed separately in the balance sheet or in the notes to the accounts. The premium can also be recorded in a single instalment in the profit and loss account at the beginning of the transaction. When the reimbursement amount is lower than the amount received, the difference shall not be entirely charged to the current financial year's result. However, the premium shall be recorded on the liabilities side in the "Accruals and Deferred Income" account and be accounted for in the result either at maturity date or amortised on a reasonable annual basis and no later than the maturity date. This valuation rule reflects the accounting treatment applied to fixed-income transferable securities recorded in the investment portfolio and for which the acquisition cost is lower than the repayable amount at maturity and aims at giving a true and fair view of the annual accounts. (CSSF Recueil, part III, DCP, p. 33)

2 The financial fixed assets may be valued at their acquisition cost as long as the valuation complies with certain regulatory requirements. (CSSF Recueil, part III, p. 41-44)

3 The value of the accumulated amortisation of the premium since the acquisition date should be disclosed separately in the balance sheet or in the notes to the accounts. The law foresees the proratisation method (linear amortisation of the premium on the basis of the remaining period until maturity), since a write-off of the premium in a single instalment would not reflect the transaction in a true and fair manner. However a write-off in a single instalment is possible under the following condition: the impact of the premium amortisation is less than 10% of the profit and loss account balance impacted before the recording of the amortisation. This impact is to be considered also on the interest margin and on the net profit of the Bank. (CSSF Recueil, Partie III, DCP, p. 45-47)

4 The value of the accumulated amortisation of the discount since the acquisition date should be disclosed separately in the balance sheet or in the notes to the accounts. The discount may also be taken in a single instalment into the profit and loss account at the maturity date of the bond. (CSSF Recueil, Partie III, DCP, p. 46, 47)

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

Principle of valuation at "lower of cost or market"[1]

56(2)c)aa) Fixed-income transferable securities having the characteristics of financial fixed assets are valued at lower of their acquisition cost or their market value, adjusted prorata by the premium or the discount[2]. The value adjustment, corresponding to the negative difference between the market value and the acquisition cost, is not maintained if the reasons for which it was recorded no longer exist.[3]

2.5.2 Trading portfolio

This portfolio comprises fixed-income transferable securities purchased with the intention of selling them in the immediate short-term. These securities are traded on a market whose liquidity can be assumed to be certain, and their market price is at all times available to third parties.

Principle of valuation at "lower of cost or market"

58(2) Bonds and other fixed-income transferable securities included in the trading portofolio, are valued at lower of their acquisition cost or their market value, adjusted prorata by the premium or the discount. The value adjustment, corresponding to the negative difference between the market value and the acquisition cost, is not maintained if the reasons for which it was recorded no longer exist.[3,4]

Principle of valuation at "mark-to-market"[4,5]

58(3) Bonds and other fixed-income transferable securities included in the trading portfolio are valued at their market value. Any appreciation or depreciation in the market value at the balance sheet date is recorded in the profit and loss account.

2.5.3 Structural portfolio

62(1) This portfolio comprises transferable securities purchased for their investment return or yield, or held to establish a particular asset structure or a secondary source of liquidity. It also includes transferable securities not contained in the other two categories.

58(2)a), b) Securities in this portfolio are valued at the lower of their acquisition cost or their market value. The value adjustment, corresponding to the negative difference between the market value and the acquisition cost, is not maintained if the reasons for which it was recorded no longer exist.[3,4,6]

[1] The investment portfolio of financial fixed assets may include transferable securities valued at acquisition cost and transferable securities valued at "lower of cost or market" (CSSF Recueil, part III, DCP, p. 41-44)

[2] The rules applicable to fixed-income transferable securities valued at historical acquisition cost also apply to the fixed-income transferable securities valued at lower of cost or market. It is mandatory to amortise the premium whereas it is optional to amortise the discount. (CSSF Recueil, partie III, DCP, p. 45, 46)

[3] For taxation purposes it is permitted to maintain a lower market value even if the market value has subsequently increased ("Niederstwertprinzip" or "Beibehaltungsprinzip"). This method is optional, should it be selected, a specific note has to be included (see "Other required disclosures").

[4] Exceptional value adjustments are made if, on the basis of a reasonable commercial valuation, it appears that the valuation should be corrected as the result of a fluctuation in value occurring shortly after the balance sheet date. In this case the amount of exceptional value adjustments should be disclosed separately in the profit and loss account (art. 58(2)c)).

[5] This valuation rule applies only to bonds and other fixed-income transferable securities included in the trading portfolio. Should this valuation method be selected, all bonds and other fixed-income transferable securities included in the trading portfolio must be valued at "mark-to-market" (no trading portfolio securities will be then valued at lower of cost or market). (CSSF Recueil, part III, DCP, p. 50)

[6] The CSSF recommends to amortise the premium of fixed-income transferable securities purchased on a perspective of investment or return. It is therefore appropriate to take into account the premium as part of the added cost of financing the position. However, amortising the discount is not allowed for fixed-income transferable securities of the structural portfolio. It is only allowed for fixed-income transferable securities part of the investment portfolio which are intended to be held on a long-term basis. (CSSF Recueil, part III, DCP, p. 53)

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

2.6 Valuation of variable-yield transferable securities

The Bank has divided its variable-yield transferable securities portfolio into three categories for valuation purposes:

2.6.1 Investment portfolio of financial fixed assets

56(1)b), 56(2)a), 56(3)

Participating interests and shares in affiliated undertakings having the characteristics of financial fixed assets are recorded in the balance sheet at their acquisition cost in their original currency. The acquisition cost includes the costs to purchase the assets.

19, 18

Companies in which the Bank directly and indirectly exercises a significant influence are considered to be affiliated undertakings. Participating interests comprise rights in the capital of other undertakings, the purpose of which is to contribute to the activity of the company through a durable link.

Principle of valuation at acquisition cost

56(2)a), c)bb)

Variable-yield transferable securities having the characteristics of financial fixed assets are valued at their acquisition cost in their original currency. A value adjustment is made if the Board of Directors considers that there exists a durable reduction in their value at the balance sheet date.

Principle of valuation at "lower of cost or market"[1]

56(2)c)aa), cc)

Variable-yield transferable securities having the characteristics of financial fixed assets are valued at the lower of their acquisition cost or their market value. The value adjustment, corresponding to the negative difference between the market value and the acquisition cost, is not maintained if the reasons for which it was recorded no longer exist.[2]

Principle of valuation using the equity method

76(1), 76(2)

Participating interests and shares in affiliated undertakings having the characteristics of financial fixed assets in which the Bank has a notable influence are valued at the amount corresponding to the proportion of the associated undertaking's shareholders' equity represented by that participating interest.

[1] The portfolio of financial fixed assets may be composed of transferable securities valued at acquisition cost and of transferable securities valued at the lower of cost or market. (CSSF Recueil, part III, DCP, p. 44)

[2] For taxation purposes, it is permitted to maintain a lower market value even if this market value has subsequently increased ("Niederstwertprinzip" or "Beibehaltungsprinzip"). This method is optional, should it be selected a specific note has to be included (see "Other required disclosures").

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

2.6.2 Trading portfolio

This portfolio comprises variable-yield transferable securities purchased with the intention of selling them in the immediate short-term. These securities are traded on a market whose liquidity can be assumed to be certain, and their market price is at all times available to third parties.

58(2) Variable-yield transferable securities in the trading portfolio are valued at the lower of cost or market value[2]. A value adjustment is made when the market value at the balance sheet date is lower than the acquisition cost.[1,3]

2.6.3 Structural portfolio

62(1) This portfolio comprises securities purchased for their investment return or yield, or held to establish a particular asset structure or a secondary source of liquidity. It also includes securities not contained in the other two categories.

58(2) Securities in this portfolio are valued at the lower of cost or market value. A value adjustment is made when the market value at the balance sheet date is lower than the acquisition cost. The valuation at the inferior value is not maintained if the reasons for which the value adjustments were made no longer exist.[1,3]

2.7 Sale and repurchase agreements

11 In compliance with Luxembourg law, securities sold on the basis of sale and repurchase agreements with a firm repurchase obligation are maintained in the securities portfolio.

2.8 Intangible and tangible fixed assets

56(2)a), b), 56(3) Fixed assets other than financial fixed assets are valued at historical acquisition cost. The acquisition cost includes the costs to purchase the assets. The acquisition cost of intangible and tangible assets whose use is limited in time are depreciated on a straight-line basis over the estimated useful life or at the rates specified below.[4]

56(2)c)bb), cc) In case of durable reduction in value, intangible and tangible assets are subject to value adjustments, regardless of whether their utilisation is limited. The valuation at the inferior value is not maintained if the reasons for which the value adjustments were made no longer exist.[1]

[1] For taxation purposes, it is permitted to maintain a lower market value even if this market value has subsequently increased (“Niederstwertprinzip” or “Beibehaltungsprinzip”). This method is optional, should it be selected, a specific note should be included (see “Other required disclosures”).
[2] Variable-yield transferable securities included in the trading portfolio cannot be valued on the basis of the “mark-to-market” method. (CSSF Recueil, part III, DCP, p. 60)
[3] Exceptional value adjustments are made if on the basis of a reasonable commercial valuation, it appears that the valuation should be corrected as the result of a fluctuation in value occurring shortly after the balance sheet date. (CSSF Recueil, part III, DCP, p. 50, 51)
[4] All generally accepted methods of depreciation are permitted. (CSSF Recueil, part III, DCP, p. 30)

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

2.8.1 Intangible assets

54 Formation expenses are amortised on a straight-line basis over … years[1] as from ……
Other intangible assets are amortised on a straight-line basis at the rate of …%.

2.8.2 Tangible assets

21(2) Tangible assets are used by the Bank for its own operations.

56(2)b) Tangible assets, other than land, are amortised on a straight-line basis over the estimated useful lives or at the following rates:

Fixed assets category	Estimated useful life	or	Rate %
…	…		…

2.9 Value adjustments in the context of article 62 of the amended law of 17 June 1992[2]

62 In accordance with the principle of prudence and in consideration of the particular risks inherent to activities of credit institutions, credit institutions are allowed to account for value adjustments in accordance with article 62 of the law. For reasons of prudence, the Bank has made value adjustments as a result of the particular risks associated with banking operations.

These provisions are limited to 4% of the net value and are determined based on the profit after tax, but before determining the profit for the financial year.

2.10 Fund for general banking risks

63 The Bank has created a fund for general banking risks intended to cover particular risks associated with banking operations. Increases or decreases to this fund are determined based on the profit after tax, but before determining the profit for the financial year, and are not subject to limitations.[3]

2.11 Lump-sum provision[4]

A general reserve for potential risks on balance sheet and off balance sheet items has been booked. This tax-deductible provision is deducted from the corresponding assets. The lump-sum provision calculated on off balance sheet items is booked under the item “Provision for liabilities and charges: other provisions”.

[1] Formation expenses must be amortised over a maximum of five years.

[2] Loans and advances to credit institutions and customers, amounts due from leasing operations and debt securities, shares and other variable-yield transferable securities which are neither held as financial fixed assets nor included in a trading portfolio, may be shown at a value lower than the one that would result from the application of article 58 paragraph (2) of the law, where for reasons of prudence this is required as a result of the particular risks associated with banking operations.

[3] Funds allocated to the fund for general banking risks and proceeds from the partial or total dissolution of the fund shall appear separately in the profit and loss account under items called “Allocations to the fund for general banking risks” and “Proceeds from the dissolution of amounts booked in the fund for general banking risks”, respectively.

[4] This provision is recorded as tax exemption in accordance with the Instructions from the “Directeur des Contributions” dated 16 December 1997. These Instructions state the possibility for credit institutions falling under articles 2, 33 and 35 of the amended law of the 5 April 1993 relating to the financial sector in Luxembourg, to form a lump-sum provision for high-risk assets. This lump-sum provision includes a part of “value adjustment” recorded in assets and a part of “provisions for risks and charges” relating to off balance sheet items. (CSSF Recueil, part III, B.1.1, p. 49)

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

Circ. 01/32: §28

2.12 Valuation of derivative financial instruments[1]

2.12.1 Interest rate swaps

The derivatives on interest rates, mainly IRS ("Interest Rate Swaps"), traded over the counter and unallocated to given assets or liabilities, are marked-to-market. The unrealised losses are booked in the profit and loss account whereas unrealised gains are ignored.

IRS traded over the counter for hedging purposes of the Bank's interest rate positions are not marked-to-market unless they are hedging fixed-income transferable securities included in the investment portfolio valued at the "lower of cost or market".[2]

2.12.2 Options

For the options traded over the counter and unallocated to given assets or liabilities, the premiums received or paid appear on the balance sheet until the exercise or the expiration date of the options, if the option is not exercised before that date. Commitments on written options are booked off balance sheet.

Options not used for hedging purposes are marked-to-market. The unrealised losses are booked in the profit and loss account whereas unrealised gains are ignored.

Option contracts entered into for hedging purposes are not marked-to-market.

Option contracts traded on a regulated market and entered into for the purpose of hedging identical reverse options also traded on a regulated market, are booked as follows: as the position on these instruments is closed, the result arising from premiums received and paid is accounted for in the profit and loss account.

2.12.3 Financial futures

Margin calls on financial futures traded on a regulated market are booked daily. Gains and losses on trading positions are directly booked in the profit and loss account. Gains and losses on hedging positions are amortised over the same period as the results from the hedged item.

[1] The examples in note 2.12 describe the derivative instruments most commonly used by financial institutions in Luxembourg. However, this example of note is not exhaustive and the note disclosed in the annual accounts should cover all major derivative instruments dealt with by the Bank.

[2] In this case, the IRS shall be valued according to the same valuation method as the hedged securities ("lower of cost or market"). The following valuation rules shall apply:
- when the unrealised losses on the hedged securities are greater than the unrealised gains on the IRS, the net unrealised loss must be recorded in the profit and loss account;
- when the unrealised losses on the IRS are greater than the unrealised gains on the hedged securities, the net unrealised loss must be recorded in the profit and loss account;
- when the unrealised gains on the hedged securities are greater than the unrealised losses on the IRS, the net unrealised gain must not be accounted for in the profit and loss account;
- when the unrealised gains on the IRS are greater than the unrealised losses on the hedged assets, the net unrealised gain must not be accounted for in the profit and loss account. (CSSF Recueil, part III, DCP, p. 48)

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

Note 3 – Analysis of financial instruments[1]

Circ. 01/32: §25

3.1 Strategy reflecting the use of financial instruments

The Bank's strategy regarding the use of financial instruments shall be disclosed here. This part may also be provided in the directors' report (Please refer to the "Directors' report").

Circ. 01/32: §30, 31, 32 and 39, Appendix 1. II.1 65(3), (4)

3.2 Analysis of financial instruments[2]

3.2.1 Information on primary financial instruments

The tables below analyse the level of primary financial instruments of the Bank with respect to their remaining maturities. Financial instruments excluded from the trading portfolio are disclosed at carrying amount whereas financial instruments included in the trading portfolio are disclosed at fair value[3], their acquisition costs being mentioned for comparison purposes.

The fair value corresponds to the amount at which an asset could be exchanged or a liability settled as part of an ordinary transaction entered under normal terms and conditions between independent, informed and willing parties (at arm's length), other than in a forced or liquidation sale.[4]

[1] Explanations on how each amount has been calculated must be provided. Credit institutions must provide further information on terminology and presentation forms used, risk measurement methods, underlying assumptions and where appropriate, other parameters, where further information are likely to allow users of the financial statements to get a better understanding of the quantitative information. (Rapport d'Activités 2002, CSSF)

[2] The purpose of this analysis is to provide information on the activity level of financial instruments of the Bank. Appropriate analysis should be provided for primary financial instruments and for derivatives both held for trading or for other purposes. This analysis should essentially reflect significant terms and conditions that may affect the amount, timing and certainty of future cash flows. The Circular 01/32 specifies that this information may be disclosed in tables (some examples are available in the appendix of the Circular 01/32). For each table, comparative figures have to be shown.

[3] The CSSF states in its Circular Letter dated 21 December 2001 that the financial assets correspond to items from captions 1 to 7 and that the financial liabilities correspond to items from captions 1 to 3, of the CSSF report B.1.1. Moreover, the Circular explains that the split by maturity may contain the following subdivisions: from zero to three months, from three to six months, from six months to one year, from one year to five years and more than five years. These maturities may be modified if the alternative disclosure does not impact the relative importance of the data (Appendix II.1). The derivative financial instruments without maturity are to be classified either in the "more than five year" category or in a "no maturity" category.

[4] If the calculation of the fair value is not possible, unrealistic or not reliable, some information on the main characteristics which may influence the fair value of the related instrument must be provided.

Notes to the accounts at 31 December 200y (cont.)

Analysis of financial instruments – Primary non-trading instruments at 31 December 200y

	Primary non-trading instruments (in CCY million)					**Primary trading instruments**	**Total**
	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	> 5 years	No maturity	**Carrying amount (in CCY million)**	
Instrument class (financial assets)							
Cash in hand, balances with central banks and post office banks							
Treasury bills and other bills eligible for refinancing with central banks							
Loans and advances to credit institutions							
Loans and advances to customers							
Amounts due from leasing operations							
Bonds and other fixed-income transferable securities							
Shares and other variable-yield transferable securities							
Total financial assets							
Non-financial assets							
Total assets							

Instrument class (financial liabilities)							
Amounts owed to credit institutions							
Amounts owed to customers							
Debt evidenced by certificates							
Total financial liabilities							
Non-financial liabilities							
Total liabilities							

Notes to the accounts at 31 December 200y (cont.)

Analysis of financial instruments – Primary trading instruments at 31 December 200y (in CCY million)

	less than 3 months		> 3 months to 1 year		> 1 year to 5 years		> 5 years		No maturity		**Total primary trading instruments**	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Instrument class (financial assets)												
Cash in hand, balances with central banks and post office banks												
Treasury bills and other bills eligible for refinancing with central banks												
Loans and advances to credit institutions												
Loans and advances to customers												
Amounts due from leasing operations												
Bonds and other fixed-income transferable securities												
Shares and other variable-yield transferable securities												
Total financial assets												

Instrument class (financial liabilities)												
Amounts owed to credit institutions												
Amounts owed to customers												
Debt evidenced by certificates												
Total financial liabilities												

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

Circ. 01/32: §30

3.2.2 Information on derivative financial instruments

3.2.2.1 Description of the derivative financial instruments used

The description and objectives of the derivative financial instruments used shall be disclosed under this section.[1]

Circ. 01/32: Appendix 1.II.1

3.2.2.2 Analysis of derivatives

The tables below analyse the level of derivative financial instruments of the Bank used both for trading and for other purposes. The derivative financial instruments traded on a stock exchange are disclosed separately from the derivative financial instruments not traded on a stock exchange.

Instruments used for non-trading purposes are analysed with respect to their notional amount, dividing them into groups according to their remaining maturity and according to whether they present unrealised gains or losses.

The table, which indicates the activity level of the instruments used for trading purposes, presents the notional values and fair values for each category of instruments[2], dividing them into groups according to their remaining maturity and according to whether they led to unrealised gains or losses.

[1] Circular 01/32 specifies that the requirements should not be applied to items that are not essential for the understanding of the accounts. The importance of an instrument or a group of instruments must be assessed based on its nature and its amount. Credit institutions must disclose a description of the risks resulting from their activities so that the readers can develop a good understanding of the underlying risks. A good understanding of these risks is only possible if the description made on activities undertaken is clear enough. (Rapport d'Activités 2002, CSSF)
For high-risk complex instruments, credit institutions must provide explanations on the use of that type of instruments. If they are not entering into such instruments, it should be clearly stated. (Rapport d'Activités 2002, CSSF)

[2] Fair values or notional amounts should be classified by maturity. If the determination of the fair value is not possible, unrealistic or not reliable, information on the main factors, which may influence the fair value of the instrument, must be provided.

Notes to the accounts at 31 December 200y (cont.)

Analysis of financial instruments – derivative non-trading instruments (contract/notional amount in CCY)

Instrument class	less than 3 months		> 3 months to 1 year		> 1 year to 5 years		> 5 years		Total	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Interest rates										
OTC										
Forwards										
Swaps										
Options										
…										
Exchange-traded										
Forwards										
Swaps										
Options										
…										
Foreign exchange/gold										
OTC										
Forwards										
Swaps										
Options										
…										
Exchange-traded										
Forwards										
Swaps										
Options										
…										
Equities										
OTC										
Forwards										
Swaps										
Options										
…										
Exchange-traded										
Forwards										
Swaps										
Options										
…										
Credit derivatives										
…										
								Total		

Notes to the accounts at 31 December 200y (cont.)

Analysis of financial instruments – derivative trading instruments (fair value at year-end in CCY)

Instrument class	Contract/notional amount (CCY)	less than 3 months		> 3 months to 1 year		> 1 year to 5 years		> 5 years		Total	
		Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Interest rates											
OTC											
Forwards											
Swaps											
Options											
…											
Exchange-traded											
Forwards											
Swaps											
Options											
…											
Foreign exchange/gold											
OTC											
Forwards											
Swaps											
Options											
…											
Exchange-traded											
Forwards											
Swaps											
Options											
…											
Equities											
OTC											
Forwards											
Swaps											
Options											
…											
Exchange-traded											
Forwards											
Swaps											
Options											
…											
Credit derivatives											
…											
									Total		

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

3.3 Credit risk

Circ. 01/32: §33

3.3.1 Description of credit risk

Describe the credit risk relating to financial instruments (both held for trading and for other purposes) to which the Bank is exposed.[1]

Circ. 01/32: §34, 35, Annexe 1.II.2

3.3.2 Measurement of credit risk exposure[2]

Information on credit risk as it relates to primary financial instruments is disclosed on the basis of the carrying amount, after deduction of eventual value adjustments. In the following tables, the guarantees received, which enable to reduce the credit risk exposure, are not taken into account.

3.3.3 Concentration of credit risk

Circ. 01/32: §36

The tables below disclose concentration of credit risk as it relates to financial instruments, from on and off balance sheet exposures by geographic location and economic sector.[3]

Geographical concentration of credit risk (in CCY)

Geographical zone	**Credits and other balance sheet items**		**Commitments**		**OTC derivatives**	
	200y	200y-1	200y	200y-1	200y	200y-1
…						
…						

[1] Information on credit risk as it relates to financial instruments should be disclosed on the basis of the amount that best represents the maximum credit risk exposure at the balance sheet date (net of any value adjustments or provisions and of any netting agreements that are legally enforceable by the institution) without taking into account any collateral. Information on the maximum credit risk exposure should be complemented by information on the potential credit risk exposure taking into account any collateral. As a result information provided on credit risk must cover primary financial instruments as well as derivative financial instruments.
Where the carrying amount of an instrument represents the maximum credit risk exposure, disclosure of additional information, for the purposes of the previous paragraph, is not necessary. With respect to derivative instruments not dealt on a recognised, regulated market ("OTC"), the carrying amount (principal or notional amount) does not reflect the maximum risk exposure. The maximum exposure to credit risk is the overall replacement cost as defined in the CSSF Circular 00/10. Credit institutions must add quantitative details to their explanations. If they are dramatically exposed to credit risk concentration, it should be clearly stated in order to avoid any doubt.

[2] With respect to credit risk exposure on OTC derivative financial instruments, Circular 01/32 stipulates that information must be disclosed in tables, broken down as follows:
- on the vertical axis, by the degree of creditworthiness of the counterparty based on internal or external ratings;
- on the horizontal axis, by:
  - notional amount, adjusted for the effect of any legally binding netting agreements;
  - current replacement cost, adjusted for the effect of any legally binding netting agreements;
  - potential future credit exposure, adjusted for the effect of any legally binding netting agreements;
  - overall replacement cost, net of any provisions;
  - net risk exposure adjusted for any collateral.

[3] Circular 01/32 specifies that only significant credit risk concentrations linked to financial instruments from on and off balance sheet items should be disclosed by economic sector and geographic location. The tables shown shall also be part of the long form report (section 9). The Bank may decide either not to disclose geographical and economic sector concentration if it is not essential for the understanding of the annual accounts, or to disclose it by larger categories (such as OECD/non OECD countries).

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

Concentration of credit risk by economic sector (in CCY)

Economic sector	Credits and other balance sheet items		Commitments		OTC derivatives	
	200y	200y-1	200y	200y-1	200y	200y-1
…						
…						
…						
…						
…						
…						

3.4 Market risk

Circ. 01/32: §37,38, Annexe 1.II.3

Information on market risk inherent in the institution's positions in trading and non-trading instruments should be disclosed on the basis of value-at-risk, sensitivity analysis or other market price risk measures.[1]

Note 4 – Cash in hand, balances with central banks[2] and post office banks

Circ. 98/152

In accordance with the requirements of the European central bank, the Central Bank of Luxembourg implemented, effective 1 January 1999, a system of mandatory minimum reserves which applies to all Luxembourg credit institutions. The minimum reserve balance as at 31 December 200y held by the Bank with the Central Bank of Luxembourg amounted to CCY …

[1] The different methods should be used alternatively or in combination in such a way as to provide a comprehensive picture of the Bank's exposure to market risks linked to the financial instruments held for trading or non-trading purposes. This information shall be disclosed separately for each category of market risks.
When the credit institutions use methods such as value-at-risk to assess the market risk, information disclosed should include a description of the risks monitored based on these methods as well as a description of the calculation assumptions and quantitative information on the values at risk. (Rapport d'activités 2002, CSSF)

[2] The CSSF Recueil stipulates that these funds are immediately available either at a Euro-Zone central bank (European central bank or at a central bank of a Member State of the European Union) or at any central bank of countries where the credit institution has a branch.

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

Note 5 – Participating interests and shares in affiliated undertakings

5.1 Summary of participating interests and shares in affiliated undertakings

68(2) At 31 December 200y, the Bank directly or indirectly held participating interests and shares in affiliated undertakings of at least 20% of the share capital in the following companies[1]:

Name	Head office	Book value CCY	Proportion of capital held (%)	Shareholders' equity 31/12/200y CCY	Profit or loss for the year ended 31/12/200y CCY
Participating interests					
…					
…					
Shares in affiliated undertakings					
…					
…					

5.2 Participating interests in other credit institutions and shares in affiliated undertakings which are credit institutions

65(1), (2) Participating interests in other credit institutions amount to CCY … Shares in affiliated undertakings which are credit institutions amount to CCY …

5.3 Loans and advances to and debts owed to affiliated undertakings

These items[2] are detailed as follows:

	200y CCY	200y-1 CCY
66(1) **Assets**		
Treasury bills and other bills eligible for refinancing with central banks		
Loans and advances to credit institutions		
Loans and advances to customers		
Amounts due from leasing operations		
Bonds and other fixed-income transferable securities		
Liabilities		
Amounts owed to credit institutions		
Amounts owed to customers		
Debt evidenced by certificates		
Subordinated liabilities		

[1] According to article 68(2), this information may be omitted if it is of negligible importance with regard to the objective of true and fair view. Disclosure of capital and reserves and of the profit or loss for the latest financial year may be omitted if the undertaking does not publish its balance sheet itself and if less than 50% of its capital is held directly or indirectly by the Bank.
According to article 69(1), these disclosures may be omitted when their nature is such that they would be seriously prejudicial to any of those undertakings. Any such omission must be disclosed in the notes to the accounts. According to article 69(3), the disclosure prescribed in the first sentence of article 68(2), concerning the amount of shareholders' equity and the profit or loss for the latest financial year, may be omitted:
- where the undertakings concerned are included in the consolidated accounts prepared by the parent company or in the consolidated accounts of a larger entity as described in article 80(2), the parent undertaking of which is governed by the law of a Member State of the European Union; or
- where the rights in the capital of the undertakings held by the parent company are accounted for under the equity method, either in the annual accounts of the parent company (see article 76) or in the consolidated accounts of the parent company (see article 103).

[2] Indicate for each item and sub-item the assets that are subordinated (art. 66(2)).

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

5.4 Loans and advances to and debts owed to participating interests

These items[1] are detailed as follows:

		200y CCY	200y-1 CCY
66(1)	**Assets**		
	Treasury bills and other bills eligible for refinancing with central banks		
	Loans and advances to credit institutions		
	Loans and advances to customers		
	Amounts due from leasing operations		
	Bonds and other fixed-income transferable securities		
	Liabilities		
	Amounts owed to credit institutions		
	Amounts owed to customers		
	Debt evidenced by certificates		
	Subordinated liabilities		

Note 6 – Transferable securities

65(6) **6.1 Quoted and unquoted transferable securities**

6.1.1 Quoted transferable securities

	200y CCY	200y-1 CCY
Treasury bills and other bills eligible for refinancing with central banks		
Bonds and other fixed-income transferable securities		
• issued by public bodies		
• issued by other borrowers		
Shares and other variable-yield transferable securities		
Participating interests		
Shares in affiliated undertakings		

6.1.2 Unquoted transferable securities

	200y CCY	200y-1 CCY
Treasury bills and other bills eligible for refinancing with central banks		
Bonds and other fixed-income transferable securities		
• issued by public bodies		
• issued by other borrowers		
Shares and other variable-yield transferable securities		
Participating interests		
Shares in affiliated undertakings		

[1] Indicate for each item and sub-item the assets that are subordinated (art. 66 (2)).

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

6.2 Categories of bonds and other fixed-income transferable securities

65(7) The treasury bills and other bills eligible for refinancing with central banks and the bonds and other fixed-income transferable securities are classified as follows[1]:

	200y CCY	200y-1 CCY
Financial fixed assets		
Structural portfolio		
Trading portfolio		

65(5) Treasury bills, other bills eligible for refinancing with central banks[2], bonds and other fixed-income transferable securities maturing in 200y+1 amount to CCY …

Valuation of the trading portfolio at market value[3]

58(3) Treasury bills, other bills eligible for refinancing with central banks, bonds and other fixed-income transferable securities of the trading portfolio are valued at market value. The difference between the acquisition cost and the higher market value at 31 December 200y amounts to CCY …

6.3 Amortisation of premiums and discounts on bonds and other fixed-income transferable securities held as financial fixed assets

56(2)d), e) At 31 December 200y, the net amortised value of premiums and discounts since the acquisition date for the financial fixed assets amounts to:

	200y CCY	200y-1 CCY
Premiums		
Discounts		

6.4 Sale and repurchase transactions

11(4)a) At 31 December 200y, the Bank is committed in sale and repurchase agreements with a firm repurchase obligation. These securities still appear on the balance sheet of the Bank for a total amount of CCY …

[1] As per art. 65(7), the breakdown of the bonds and other fixed-income transferable securities shall be done according to whether or not they have been considered as financial fixed assets. The criteria used to distinguish the category of financial fixed assets must be disclosed. Furthermore, the CSSF Recueil specifies that the breakdown also applies to transferable securities included in the account “Treasury bills and other bills eligible for refinancing with central banks”. (CSSF Recueil, Part V, Publicité, p. 9)

[2] The CSSF Recueil requires disclosure of information regarding treasury bills and other bills eligible for refinancing with central banks. (CSSF Recueil, Part V, Publicité, p. 9)

[3] This implies that the trading portfolio be composed solely of fixed-income transferable securities.

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

Note 7 – Fixed assets

7.1 Movements in fixed assets[1]

65(15)

	Gross value	
	Gross value at the beginning of period CCY	Additions CCY
Participating interests		
Shares in affiliated undertakings		
Treasury bills and other bills eligible for refinancing with central banks[3]		
Debt securities, including fixed-income transferable securities held as financial fixed assets		

Intangible assets[4]
Of which:
• Formation expenses
• Research & development costs
• Concessions, patents, licenses, trademarks and similar rights:
  • purchased, but not included in goodwill
  • created by the undertaking itself
• Goodwill
• Payments on account		

Tangible assets[5] Of which: • Land and buildings • Plant and equipment • Other fixtures and fittings, tools and equipment • Payments on account and assets under construction		
Other assets (art 56(1)c))		

Gross value			Value adjustments[2]					Carrying value
Disposals	Transfers	Gross value at the end of period	Cumulative value adjustments at the beginning of period	Value adjustments	Reversal of value adjustments	Transfers	Cumulative value adjustments at the end of period	Net book value at the end of period
CCY	CCY	CCY	CCY	CCY	CCY	CCY	CCY	CCY

[1] Article 65(15)B allows some simplifications when establishing the first annual accounts of the Bank.

[2] The obligation to separately disclose the value adjustments does not apply to participating interests, shares in affiliated undertakings and transferable securities held as financial fixed assets. The value adjustments for these latter items may be combined with other items.
The credit institution may offset the value adjustments and value readjustments in the profit and loss account (art. 48). When doing so, the undertaking is advised to disclose the total balance of cumulated adjustments and cumulated readjustments in the table showing the fixed-assets movements for the three concerned items.

[3] Information relating to the treasury bills and other bills eligible for refinancing with central banks is required by the CSSF Recueil. (CSSF Recueil, part V, Publicité, p. 10)

[4] Intangible assets are assets that cannot be physically removed from the credit institution. It is therefore advised that a removal be booked the year the intangible assets are fully amortised to avoid disclosing them further on. (CSSF Recueil, part V, Publicité, p. 13)

[5] Tangible assets can be disclosed in the table as long as they are being used by the credit institution, even if they are already fully amortised. A removal is disclosed only when the tangible assets are physically removed from the credit institution. (CSSF Recueil, part V, Publicité, p. 13)

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

7.2 Intangible assets[1]

20(2), 54(2) Formation expenses include fees paid to various parties at the time of incorporation and capital increases of the Bank.

55(1) The costs of research and development represent expenses related to the development of software.

20(2) A goodwill is included in the intangible assets for an amount of CCY … This amount corresponds to the purchase of a client portfolio from a subsidiary of a credit institution from the European Union.

7.3 Tangible assets used by the Bank for its own activities[2]

	200y CCY	200y-1 CCY
Land		
Buildings (carrying amount)		

Note 8 – Amounts due from leasing operations

65(8)

	200y CCY	200y-1 CCY
Transactions with credit institutions		
Transactions with customers		

Note 9 – Other assets

65(9) Other assets consist principally of the following[3]:

	200y CCY	200y-1 CCY
…		
…		
…		

Note 10 – Fiduciary transactions included in the balance sheet

39(2) The following fiduciary transactions not expressly covered by the grand-ducal decree of 19 July 1983 or by the law of 27 July 2003 on trusts and fiduciary transactions are recorded on the balance sheet and are classified as follows:

	200y CCY	200y-1 CCY
…		
…		
…		

[1] Formation expenses, research and development costs and goodwill if purchased, must be explained and disclosed separately in the notes to the accounts.
[2] Amounts included under the title "land and buildings" used by the Bank in the normal course of its business are to be disclosed separately.
[3] This detail is required if it is essential to the understanding of the annual accounts.

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

Note 11 – Assets pledged as collateral security

67(2) The Bank has pledged assets as collateral security for transactions entered into by itself or on behalf of third parties (including contingent liabilities). The following captions are concerned[1]:

	200y CCY	200y-1 CCY
…		
…		
…		

Note 12 – Amounts owed to customers: savings deposits

65(3) The savings deposits are split as follows:

	200y CCY	200y-1 CCY
Deposits repayable on demand		
Term deposits or with agreed periods of notice		

Note 13 – Debt securities in issue

65(5) Bonds and debt securities in issue maturing during the year 200y+1 amount to CCY …

Note 14 – Other liabilities

65(9) Other liabilities consist principally of the following[2]:

	200y CCY	200y-1 CCY
…		
…		
…		
…		

[1] Separate disclosure must be made when assets have been pledged as collateral security in respect of affiliated undertakings. Similar information must be disclosed for deposits pledged as collateral security by the Bank (cash or securities deposits) as part of transactions on financial derivatives on regulated markets entered into for its own account (for instance options and futures). (CSSF Recueil, part V, Publicité, p. 20)

[2] This detail is required if it is essential to the understanding of the annual accounts. In the event of an interim dividend distribution, the distribution must be disclosed in the notes to the accounts, in a note linked to the “Result of the financial year” as well as in a note linked to the “Other Liabilities” account, if the interim dividend is distributed after year-end. (CSSF Recueil, part III, B1.1, p. 56)

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

Note 15 – Borrowings

15.1 Convertible bonds

65(12) At 31 December 200y, the following convertible bonds were issued by the Bank:

Currency of issue	Nominal value CCY	Interest rate	Maturity date[1]	Conditions for conversion and other rights
…				
…				
…				

15.2 Subordinated liabilities

65(13) The following subordinated borrowings exceeded 10% of the total amount of the subordinated liabilities at 31 December 200y[2]:

Currency of issue	Nominal value CCY	Interest rate	Maturity date[1]
…			
…			
…			

Other subordinated liabilities total CCY …[3]

The charges paid for the subordinated liabilities during the year amount to CCY …

[1] Indicate if it is a perpetual issue.
[2] Indicate the terms of the subordination, the existence of any provisions to convert the subordinated liability into capital or some other form of liability, and the terms of any such provisions. Also indicate the circumstances, if any, in which early repayment is required.
[3] Provide an overall indication of the rules governing other subordinated liabilities.

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

Note 16 – Subscribed capital

65(10), (11), (12) The authorised capital of the Bank amounts to CCY … During the year 200y, … new shares with a nominal value of CCY … each were subscribed. Total share capital has therefore increased by CCY … to CCY …

The Bank's share capital comprised the following type of shares at 31 December 200y:

	Number	Nominal value CCY	Total CCY
Registered shares			
Bearer shares			
Non-voting preferred shares			
Beneficial shares			
Total share capital			

The beneficial shares were issued when the Bank was initially incorporated. They represent a liability for the Bank but do not entitle rights of ownership. The rights of the beneficiaries are described in the articles of incorporation of the Bank.

Note 17 – Reserves

Reserves include:

17.1 Legal reserve

In accordance with Luxembourg law, the Bank must transfer at least 5% of its annual profit to the legal reserve until this reserve equals 10% of the subscribed capital. The legal reserve is not distributable.

17.2 Free reserve

The free reserve represents profits of prior years that have been appropriated by the Annual General Meeting of shareholders to a specific reserve referred to as "free reserve". The Annual General Meeting may approve the distribution of this reserve.

17.3 Special reserve

In accordance with the tax law in force since 1 January 2002, the Bank reduced its Net Wealth Tax ("NWT") burden by crediting it on the amount of the Corporate Income Tax ("CIT"). In order to comply with the law, the Bank decided to allocate under non-distributable reserves (item "special reserve") an amount that corresponds to five times the amount of reduced Net Wealth Tax. This reserve is non-distributable for a period of five years from the year following the one during which the Net Wealth Tax was credited.

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

17.4 Reserve for own shares

22 During the year 200y, the Bank bought … own shares for a nominal amount of CCY …[1]

The Bank must build up a non-distributable reserve on the liabilities side on the balance sheet for an amount identical to the amount of own shares booked on the asset side of the balance sheet. This reserve can be dissolved only if the own shares booked on the asset side have been sold or cancelled, or if the current value of the own shares at review date is lower than their value booked in the assets side of the balance sheet.

Note 18 – Changes in shareholders' equity

74 The movements on shareholders' equity[2] of the Bank is summarised below:

	Subscribed capital CCY	Share premium CCY	Reserves CCY	Net profit/(loss) brought forward CCY	Net profit/(loss) for the year CCY	Total CCY
Balance at 31 December 200y-1						
Allocation of the profit/(loss) of the previous year						
• Dividend distribution						
• Transfer to legal reserve						
• Transfer to other reserves						
• Profit/(loss) carried forward						
Profit/(loss) for the financial year ended 200y						
Balance at 31 December 200y						

The Annual General Meeting of shareholders dated … 200y approved the appropriation of the 200y-1 result.

Note 19 – Interim dividend

In accordance with article 72-2 of the amended law of 10 August 1915 on commercial companies, the meeting of the Board of Directors dated … approved the distribution of an interim dividend amounting to CCY …[3]

[1] It is recommended to comment the caption "Reserve for own shares". (CSSF Recueil, part III, B 1.1, p. 54)

[2] It is recommended to provide in the notes to the accounts some information on movements that occurred in the reserves and in the profit or loss brought forward captions, due to the allocation of the result of the previous financial year. (CSSF Recueil, part V, Publicité, p. 18)

[3] The amount of the interim dividend paid to shareholders after year-end is recorded in the "Other Liabilities" account.
As far as the profit or loss for the financial year caption disclosed in the balance sheet to be published is concerned, the interim dividend must be taken into account, whether or not it has been paid to shareholders at year-end.
This caption should be disclosed as follows:
Profit or loss for the financial year ended 200y (after deduction of the interim dividend):
a) Profit or loss for the financial year ended 200y before deduction of the interim dividend;
b) Interim dividend.
(CSSF Recueil, part V, Publicité, p. 4)

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

Note 20 – Special items with a reserve quota portion

33 Gains as referred to in articles 53, 54 and 54bis of the income tax law consist of the following items:

	200y CCY	200y-1 CCY
…		
…		
…		

Note 21 – Hybrid capital instruments

During 200y, the Bank issued hybrid capital instruments for an amount of CCY …[1]

Note 22 – Positions in foreign currencies

		200y CCY	200y-1 CCY
65(14)	Total amount of assets in foreign currencies		
	Total amount of liabilities in foreign currencies		

Note 23 – Contingent liabilities and commitments

23.1 Contingent liabilities

67(1) At 31 December 200y, contingent liabilities reported off balance sheet comprised[2]:

	200y CCY	200y-1 CCY
Guarantees and other direct substitutes for credit (including commitments to repurchase assets)		
Acceptances		
Documentary credits		
Guarantees by endorsements		
Counter-guarantees		

[1] In the annual accounts, hybrid capital instruments that meet the requirements to be considered by the CSSF as own funds without being part of the issued capital of the Bank have to be disclosed separately, since their nature does not correspond to any of the existing captions foreseen by the law.
According to article 4(1), a new "hybrid capital instrument" caption may be added before the "subscribed capital" caption. In the event where the instruments are similar to "Stille Einlagen" foreseen by the German Commercial Law, the account shall be called "Stille Einlagen". (CSSF Recueil, part III, B1.1, p. 52)

[2] Credit institutions shall disclose the amount for each category in the notes to the accounts, if it is significant in comparison to the global activity of the undertaking. Real guarantees given on behalf of third parties shall be included in "Guarantees and other direct substitutes of credit". Contingent liabilities related to affiliated undertakings must be disclosed separately.

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

23.2 Off balance sheet commitments

67(3) At 31 December 200y, commitments reported off balance sheet comprised[1]:

	200y CCY	200y-1 CCY
Forward purchases of assets		
Forward sales of assets		
Amounts not paid up on securities, participating interests and shares in affiliated undertakings		
Confirmed credits not used		
Facilities for the issuance of debt facilities		

23.3 Deposit guarantee and investor compensation scheme

The Bank is a member of the non-profit organisation “Association pour la Garantie des Dépôts, Luxembourg” (“AGDL”).

The sole purpose of the AGDL is the establishment of a system of mutual guarantee for cash deposits and receivables from investment operations made by individuals with members of the AGDL, without distinction of nationality or residence, by companies incorporated under Luxembourg or another European Union Member State law, which are authorised, considering their size, to prepare an abridged balance sheet in conformity with the applicable law, as well as by those companies of a similar size as defined by law of another European Union Member State.

The AGDL reimburses to the deposit holder the amount of his guaranteed cash deposits and to the investor the amount of his guaranteed receivable up to EUR 20,000 per guaranteed cash deposit and up to EUR 20,000 per guaranteed receivable arising from investment operations other than that relating to a cash deposit.

At 31 December 200y, the Bank provided for an adequate amount in connection with this deposit guarantee and investor compensation scheme[2].

[1] Credit institutions shall disclose in the notes to the accounts the amount for each type of commitment considered significant compared to the global activity of the undertaking. Commitments towards affiliated undertakings must be disclosed separately. Commitments, which are disclosed neither in the balance sheet nor in the off balance sheet, must also be shown if such disclosure is useful to the understanding of the financial position. This applies in particular to the following other commitments:
- Commitments in respect of future rent payments for buildings or assets subject to leasing contracts;
- Commitments contracted by the Bank to purchase or sell buildings or other assets;
- Financial liabilities arising under deposit guarantee schemes or membership with clearing or netting organisations (quantitative and qualitative information may be disclosed);
- Commitments resulting from the issue of comfort letters.

The other commitments that have been made with affiliated undertakings shall be disclosed.

[2] Each Bank shall disclose in its notes to the accounts quantitative or qualitative details on the financial commitment resulting from its AGDL membership. The details shall also contain information on a likely or definite debt resulting from outstanding claims and on the related payments to be made.

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

67(5)

23.4 Management and fiduciary services

The Bank has provided the following management and fiduciary services to third parties in the course of the financial year[1]:

- Investment management and advice;
- Safekeeping and administration of securities;
- Renting of safe deposit boxes;
- Fiduciary services;
- Agency services.

Note 24 – Profit and loss account

24.1 Breakdown of income by geographic markets[2,3]

68(3)

	200y CCY	200y-1 CCY
…		
…		
…		

24.2 Other operating charges[4]

68(4) Other operating charges are analysed as follows:

	200y CCY	200y-1 CCY
…		
…		
…		

24.3 Other operating income[4]

68(4) Other operating income are analysed as follows:

	200y CCY	200y-1 CCY
…		
…		
…		

[1] This information is provided when these activities represent a significant portion of the global activities of the Bank.
[2] This information is required only if the markets, from the point of view of the Bank's organisation are materially different from each other. Items 1, 3, 4, 6 and 7 of article 41 or items B1, B2, B3, B4 and B7 of article 42 are subject to such disclosures.
[3] In accordance with article 69(2), disclosures may be omitted when their nature is such that they would be prejudicial to the Bank. Any such omission must be disclosed in the notes to the accounts.
[4] This detail is required if it is essential to the understanding of the annual accounts.

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

56(2)f), 58(2)e) **24.4 Value adjustments for tax purposes**

Exceptional value adjustments of fixed and current assets are made, for tax purposes, in application of the "Beibehaltungsprinzip". According to this principle, it is permitted to retain a value adjustment in respect of a fixed or current asset made previously in application of the "lower of cost or market" method but which no longer corresponds to a reduction in its value.

At 31 December 200y, the retained amount is CCY …

24.5 Extraordinary charges and income

49(2) The extraordinary charges and income are detailed as follows[1]:

	200y CCY	200y-1 CCY
…		
…		
…		

Note 25 – Information relating to personnel employed and management

25.1 Personnel employed

68(5) The average number of employees during the financial year is detailed as follows[2]:

Category	200y	200y-1
Senior management[3]		
Management		
Employees		
Workers		
Total		

[1] This detail is required if it is essential to the understanding of the annual accounts.

[2] This section should not only disclose the personnel with a contract of employment, but also the persons working in positions created by the Bank, even if they are not directly paid by the Bank. Persons working abroad in branches or in representation offices should also be disclosed in this section. (CSSF Recueil, part V, Publicité, p. 26)

[3] Senior management consists of the management members as defined by each Bank individually.
Senior management has to consist of all authorised persons as per article 7 of the amended law of the 5 April 1993 relating to the financial sector ("four eye principle"). It is also possible to disclose under "Senior management" all members (authorised or not) of the Management Committee (if provided for in the internal organisation of the Bank) as well as other persons closely linked to the Bank's daily management (managers, deputy managers and assistant managers) based on a delegation of duties giving them management responsibilities. (CSSF Recueil, part V, Publicité, p. 26, 27)

Ref. article of law/Circular

Notes to the accounts at 31 December 200y (cont.)

25.2 Members of the administration, managerial and supervisory bodies

68(8), (9)

Remuneration[1], loans and advances granted to the members of the Board of Directors and of managerial and supervisory bodies as well as commitments relating to pension on behalf of current[2] members of these bodies are presented as follows:

	Board of Directors		**Managerial bodies**		**Supervisory bodies**	
	200y CCY	200y-1 CCY	200y CCY	200y-1 CCY	200y CCY	200y-1 CCY
Remuneration						
Loans and advances						
Other commitments						
Commitments relating to pensions						

[1] The total amount of taxable remunerations, including remunerations in kind, paid to directors or executive members (being part either of managerial or supervisory bodies) shall be disclosed, whether they are employee's remunerations or not. When executive members are also directors of the Bank, the revenues perceived as employees and other remunerations perceived are not disclosed in the caption "Remuneration of the Board of Directors". This item should only comprise directors' fees and other remunerations paid to the Bank's directors. To complete this table it may be easier to consider the total amount of taxable remunerations as declared by the persons. Remunerations in kind include stock options granted for free by the shareholders to the directors or executive members within a stock options plan. (CSSF Recueil, part V, Publicité, p. 27)

[2] Despite the article 68(8) that stipulates that commitments arising or entered into in conjunction with retirement pensions of former members of executive bodies should be disclosed, the CSSF Recueil specifies that the disclosure requirements apply to current members.

Ref. article of law/Circular

Other required disclosures to be included in the notes to the accounts

BALANCE SHEET

Exceptional value adjustments

58(2)c), 56(2)f) 58(2)e)

Indicate the total amount of exceptional value adjustments on fixed and current assets, which the Bank has decided to apply in accordance with this article including those resulting from the application of the "Beibehaltungsprinzip".

Interest on borrowings

56(5)

Disclosure where the production cost includes interest on borrowings incurred in order to finance the production of fixed or current assets (as long as the interest is related to the period of construction).

Regrouping of sub-items

4(2)b)

Disclose if, after preliminary authorisation from the CSSF, the credit institution has combined sub-items of assets preceded by a lower-case letter in order to promote clarity. The same disclosures apply for combined sub-items of liabilities and the profit and loss account.

Assets or liabilities shown under more than one caption and own shares

66(3)

If an asset or liability is shown under more than one caption, the relationship between the captions must be disclosed, either in the balance sheet or in the notes to the accounts, if it is essential to the understanding of the annual accounts.

The own shares of the undertaking as well as the shares in affiliated undertakings may not be included in other items in the layout other than those expressly foreseen for this purpose.

Ref. article of law/Circular

Other required disclosures to be included in the notes to the accounts (cont.)

PROFIT AND LOSS ACCOUNT

Departure from valuation rules

68(6) Disclosure of the extent to which, in a departure from articles 51 and 54 through 64 (relating to valuation principles), the profit or loss of the current or prior financial year has been affected by the valuation of various items in order to obtain tax relief. Any significant effect of such a valuation on future tax charges must also be disclosed.

Disclosure under this paragraph is required only where amounts involved are significant, and do not have to be fully quantified.

Deferred taxation

68(7) The difference between the tax charge for the year and previous years, and the tax charge already paid or payable for these years must be disclosed, if this difference is significant in terms of future taxation. This amount may also be disclosed cumulatively in the balance sheet as a separate item 6b) “Provision for taxation” with the subtitle “Provision for deferred taxes”.

Combination of taxes on ordinary and extraordinary activities

50 By application of the derogation allowing to combine taxes on profit or loss on ordinary activities and taxes on extraordinary profit or loss, credit institutions must disclose the fraction of these taxes related separately to ordinary and extraordinary profit and loss in the notes to the accounts.

Ref. article of law/Circular

Other required disclosures to be included in the notes to the accounts (cont.)

EQUITY METHOD APPLIED TO NON-CONSOLIDATED ANNUAL ACCOUNTS[1]

Differences arising on first application

76(2)a)b)c)

On first application of this article, the difference between the carrying amount of participating interests accounted for using the equity method (valued in accordance with the rules stated in Chapter 7 part II of the law) and the amount corresponding to the portion of shareholders' equity represented by this participating interests shall be disclosed separately in the balance sheet or in the notes to the accounts. The method selected by the credit institution by virtue of article 76(2) a) and b) shall also be disclosed.

Non-revaluation of assets and liabilities of the participating interests valued under the equity method

76(3)

If the equity method has been used in the annual accounts, disclosure must be made, if applicable, of the fact that a revaluation of the assets and liabilities of the participating interests accounted for under the equity method has not been carried out.

Offset of translation differences

64(4)

If the equity method has been applied to the non-consolidated accounts, the translation differences offset in the "Prepayments and accrued income" account have to be disclosed in the balance sheet or in the notes to the accounts. Positive and negative translation differences have to be disclosed separately in the balance sheet or in the notes to the accounts.

Elimination of profits and losses

76(7)

When applying the equity method to non-consolidated accounts, eliminations foreseen in article 95(1)d (intercompany profits and losses) are made when the information is available. Departures from the principle of the elimination of gains and losses referred to in article 95(2) must be disclosed, when these departures have a significant influence on the assets and liabilities, the financial position and the profit or loss of the Bank.

[1] As per article 76(1), credit institutions may apply the equity method to their participating interests in the non-consolidated annual accounts, as described in article 18. These participating interests shall be shown in the balance sheet as "Participating interests" and "Shares in affiliated undertakings"; the sub-item shall be called "Undertakings accounted for on an equity basis".

Ref. article of law/Circular

Audit and publication of the annual accounts

Audit report of the independent auditors ("Réviseur d'entreprises")

75 The annual accounts must be audited by the "Réviseur(s) d'entreprises" nominated by the Board of Directors in accordance with article 10 of the amended law of 5 April 1993 relating to the financial sector. As required by article 75 of the law, the auditors must also ensure that the directors' report is consistent with the annual accounts for the accounting period/financial year under review.

Publication of the annual accounts and of the directors' report

71(1) The annual accounts of credit institutions, duly approved in accordance with the law, and the directors' report together with the audit report, shall be filed within one month of their approval by the shareholders, in accordance with article 252(1) of the amended law of 10 August 1915 on commercial companies.

71(2) The annual accounts of credit institutions must be published in every Member State of the European Union in which that credit institution has branches.

72 Where the annual accounts and the directors' report are published in full, they must be reproduced in the form and text on the basis of which the auditor has prepared his audit report. They must be accompanied by the full text of the report prepared by the auditor. If the report contains a qualification or if the auditor has refused to report on the accounts, disclosure of this must be made and an explanation given.

73 Where the annual accounts are not published in full, the undertaking must publish the accounts with a statement that the accounts are abridged and reference must be made as to where the annual accounts in full are filed, as defined in article 71(1). Where this filing has not yet taken place, this must be disclosed. The report of the auditor must not accompany the abridged version, but it must be mentioned whether the auditor has given a qualified opinion or has refused to issue a report.

Ref. article of law/Circular

Audit and publication of the annual accounts (cont.)

The CSSF Recueil lists the documents subject to legal publication (CSSF Recueil, part V, Publicité, p. 2):
1. Registered name and head office of the Bank
2. Publication date in the Mémorial of the constitution deed and amendments
3. First names, last names, occupation and place of residence of the directors in office during the financial year under review. In the event of a change of director during the year, the names of the person resigning and the person taking over should be disclosed, together with the dates of resignation and effect.
4. Annual accounts:
   - The balance sheet;
   - The profit and loss account;
   - The notes to the accounts.
5. Directors' report
6. Further information on financial instruments, as per Circular 01/32
7. Possibly further information as per article 2(4)
8. Auditors' report as per article 10(1) of the amended law of the 5 April 1993 relating to the financial sector
9. If they are not disclosed in the annual accounts and in compliance with article 74, the following has to be published:
   - Proposed allocation of the profit or loss of the financial year;
   - Final allocation of the profit or loss of the financial year.
10. Further information on subscribed share capital as per article 48 of the amended law of the 10 August 1915 on commercial companies. Credit institutions must publish, after the balance sheet, a list of those shareholders who have not yet fully paid their share capital together with the details of the amounts due. Where a capital increase has taken place, details of that part of the share capital, which has not yet been subscribed, must also be published.

Submission of documents to be published to the CSSF

The list of documents subject to legal publication (refer to previous section) must be handed in to the CSSF for agreement before effective publication ("VISA procedure"). To enable the CSSF to carry out on time the review of the above-listed documents, they must be sent to the CSSF at the latest two weeks before the Annual General Meeting of shareholders. Three copies of the set of documents to be published must be sent to the CSSF and a copy will be returned to the credit institution with the CSSF agreement.

The documents subject to legal publications must be forwarded by the Bank's management with a cover letter. In this letter, the Bank's management must confirm that the Board of Directors duly approved the annual accounts in compliance with legal requirements.

Furthermore, the annual accounts and the directors' report must be duly signed by the Bank's management. (CSSF Recueil, part V, Publicité, p. 31)

Publication of accounting documents of Luxembourg branches of companies with registered offices in the European Union

In accordance with the article 113 of the law, branches of credit institutions having their registered office in the European Union, must file every year, in conformity with article 9 of the amended law of 10 August 1915 on commercial companies, annual accounts, consolidated accounts, a directors' report, a consolidated directors' report as well as reports prepared by the auditors of the annual and the consolidated accounts.

The above-mentioned documents must be prepared and verified in conformity with the Directive 86/635/EEC, according to the regulation of the Member State of the European Union where the credit institution has its registered office.

Branches are not required to publish annual accounts related to their own activity.

Publication of accounting documents of Luxembourg branches of companies with registered offices outside the European Union

In accordance with the article 114 of the law, branches of credit institutions having their registered office outside the European Union must file every year, in conformity with article 9 of the amended law of 10 August 1915 on commercial companies, annual accounts, consolidated accounts, a directors' report, a consolidated directors' report as well as reports prepared by the auditors of the annual and the consolidated accounts of the credit institution prepared and verified in accordance with the regulation of the country in which the registered office is located.

When the above-mentioned documents have been prepared in accordance with parts II, III and V of the law relating to the annual accounts of credit institutions, or in a similar manner, the branch is not required to publish annual accounts related to their own activity.

In situations other than the ones previously mentioned, documents must be restated, in order to achieve the conformity or similarity required above.

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Other PwC Luxembourg publications

- Guide for the preparation of annual accounts for credit institutions in Luxembourg, also available in French
- Law of the 5 April 1993 relating to the financial sector in Luxembourg, also available in French and German
- Banking in Luxembourg
- The Professionals of the Financial Sector in Luxembourg

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