ANNUAL REPORT 2015

160th Financial Year

BANQUE ET CAISSE D'EPARGNE DE L'ETAT
LUXEMBOURG

Financial Highlights (in thousands of euros)

	2014	2015	% change 2015/2014
TOTAL BALANCE SHEET	41,211,045	42,811,472	+3.9%
Deposits at amortised cost - Credit institutions	4,144,696	4,439,629	+7.1%
Deposits at amortised cost - Private and public sector	25,068,145	26,923,488	+7.4%
Issuance of debt securities	6,276,226	5,791,365	-7.7%
Loans and advances at amortised cost - Credit institutions	5,377,819	5,597,608	+4.1%
Loans and advances at amortised cost - Customers	18,311,255	19,224,838	+5.0%
Available-for-sale securities - Fixed-income securities	9,750,181	9,998,540	+2.5%
BANKING INCOME (2)	609,896	639,226	+4.8%
Total general expenses (3)	289,126	300,488	+3.9%
NET INCOME	273,749	273,161	-0.2%
COMMON EQUITY TIER 1 (CET1) RATIO (1)	18.3%	17.8%	
AVERAGE WORKFORCE (in number of contracts)	1,800.0	1,807.0	+0.4%
AVERAGE WORKFORCE (in work units)	1,642.5	1,647.0	+0.3%

(1) Common Equity Tier 1 (CET1) and solvency ratios were established according to applicable regulations.
(2) Interest income, dividend income, fee and commission income, income from financial instruments, and other operating income and expenses.
(3) General administrative expenses and depreciation allowances in respect of intangible and tangible assets.

Main developments in 2015: Strong financial and commercial results

- Increase in the balance sheet to EUR 42,811.5 million (+3.9%).
- Net profit virtually stable (-0.2%).
- Steady growth in the home loan portfolio (+6.8%).
- Rise in private sector deposit volumes (+7.0%) in an environment of very low interest rates and volatile financial markets.
- Strong common equity Tier 1 (CET1) ratio: 17.8%
- Acquisition of a stake in Enovos International S.A.
- Opening of two new branches, one in the building on boulevard J.-F. Kennedy in Kirchberg and the other in the centre of Niederanven. These new locations were designed to give customers the best possible welcome and are also equipped with the most modern banking technologies.
- Creation of a new sub-fund of the Luxbond SICAV (open-ended investment fund), invested chiefly in bonds, and a new sub-fund of the Lux-Portfolio SICAV, characterised by its flexible weighting of different asset classes to take advantage of interest-rate or stock-market opportunities.
- Marketing of fixed-rate deposits, a fixed-term account targeting private customers and offering a principal guarantee at maturity with a predetermined rate of return.
- Development of a new version of S-net Mobile (for iOS and Android), which has been completely redesigned for a smooth and intuitive browsing experience.
- Assigned an excellent AA+ rating with a stable outlook by Standard and Poor's and an Aa2 Long Term Deposit Rating with a stable outlook by Moody's.
- Awarded the "Best Bank 2015 - Luxembourg" and "Safest Bank 2015 - Luxembourg" prizes with confirmation of BCEE's ranking among the world's 10 safest banks by Global Finance magazine.
- Very active on the regulatory front due to the large number of ongoing projects associated with the CRR and MiFIR, the 4th AML Directive, MiFID II, UCITS V, the mortgage credit and Deposit Guarantee Scheme (DGS) directives, and the Single Supervisory and Single Resolution Mechanisms (SSM and SRM).
- Hiring of 73 new employees.

All BCEE business lines embrace the principal values that are the hallmarks of the Bank's identity: customer-focus, service quality, stability and support for the economy. These fundamental principles have guided the Bank since its creation in 1856 and continue to shape its future development. Our employees embody these same values in their daily tasks. The entire staff at BCEE is highly attentive and responsive as it strives to fulfil the Bank's primary objective: providing the highest possible level of customer satisfaction.

BCEE guides and supports its customers throughout the different stages of their lives, maintaining long-term relationships based on trust and respect: *"Spuerkeess - Äert Liewen. Är Bank."*

BEST DEVELOPED MARKETS BANK • 2015
GLOBAL FINANCE

SAFEST BANK AWARD • 2015
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This document is a translation from the original Consolidated Annual Report in French. In case of differences between the French version and the translation, the French version is to be retained.

1 MESSAGE FROM THE DEPUTY CHIEF EXECUTIVE OFFICER AND THE CHAIRMAN OF THE BOARD OF DIRECTORS

"Growth in the global economy remained modest in 2015, despite very accommodative international monetary policies. China's economy slowed and developed countries made only limited investments, although the steady increase in their imports did provide some support to the global economy. Regional conflicts and terrorist attacks around the world, as well as plunging commodity prices, are and will remain dampers on the economy.

Economic activity in Luxembourg was influenced by the rather unstable international economic and political environment and by the VAT hike on 1 January 2015. The economic climate continues to pose a major challenge for credit institutions. In this context, Group Banque et Caisse d'Epargne de l'Etat, Luxembourg (BCEE) announces a banking income of EUR 639,2 million and net profit of EUR 273,2 million.

BCEE continued to play its role in supporting the national economy over the past year, and was also able to confirm its excellent financial strength. Since November 2014, BCEE is under the supervision of the ECB due to the start of the Single Supervisory Mechanism (SSM). The rating agencies Standard & Poor's and Moody's have assigned excellent ratings of AA+ and Aa2 (Long Term Deposit Rating) and thus affirmed BCEE's exceptional financial strength. Further highlighting the pertinence of these ratings, BCEE is ranked among the world's 10 safest banks and won the "Best Bank in 2015 – Luxembourg" prize, awarded by the internationally renowned financial magazine Global Finance. Based on the above, the Board of Directors and the Executive Committee remain confident in the strategy of blending prudence with cutting-edge innovation implemented since the Bank's beginnings.

The loyalty of the existing customer base and the continual addition of new banking customers are the confirmation that the Bank took the right approach to its branch network and electronic banking, as well as the quality of the products and services offered. This is reflected in the significant market share that the Bank enjoys in the major customer segments in Luxembourg.

BCEE seeks to use its strengths, including its historical roots in the Luxembourg economy, its experienced and dedicated sales teams, its country-wide branch network and its capacity for innovation, to partner not only with private customers but also with commercial and industrial businesses. Regular discussions, transparency, understanding and trust remain the key components of a successful long-term partnership between the customer and his banker. The Bank listens closely to its customers' needs so as to continue to offer the highest-quality products and services.

In 2015, the Bank acquired one of the most prestigious buildings in the City of Luxembourg, if not the entire Grand Duchy, namely the building previously known as the "Arbedsgebai" and now named "19 Liberté". This acquisition allows the Bank not only to meet its underlying need for additional office space but also to preserve an incomparable architectural heritage. We are pleased that we were thus able to consolidate ownership of the three landmark buildings of the Plateau Bourbon: 1 and 2, Place de Metz and 19, Avenue de la Liberté.

Despite these encouraging factors, we must not forget the sad and shocking moments that occurred around the world over the last year. We believe that we should not lose sight of the challenges that the Bank is sure to face during 2016. As it has in the past, BCEE will take all the necessary steps to overcome these challenges, whether economic, technical, regulatory or prudential, in keeping with its social responsibility and its role in supporting the national economy.

Corporate social responsibility holds a specific place at BCEE, deriving from its status as a self-governing public law institution. It is a factor that generates added value and is an integral part of the corporate culture.

For 160 years, BCEE has played its role as a socially and economically responsible company. The objective of social responsibility is also enshrined in article 5 of the organic law of 24 March 1989 on BCEE: As a State bank, "BCEE has the mission to contribute to the economic and social development of the country in all areas through its activities, particularly its financing activities, and to promote savings in all forms".

Finally, we would like to take this opportunity to thank all members of staff at the Bank for their commitment throughout the 2015 financial year. We firmly believe that, together with the Bank's executive bodies, we can meet the challenges that the Bank will no doubt face during 2016 and beyond".

Michel BIREL Deputy Chief Executive Officer	Victor ROD Chairman of the Board of Directors

In 2015, the main factors influencing the change in global Gross Domestic Product (GDP) were the relentless downward revisions to inflation and growth expectations. The global economy, weakened by China's slowing economy and low levels of investment in developed countries, remains on a modest growth path. Low commodity prices during the year were a significant drag on most emerging economies. Despite the slump in international trade throughout 2015, the steady increase in developed country imports supported activity at the global level. Consumption has benefited from the improving job market and low commodity prices in recent months, and has remained the key driver in developed countries. The favourable commodity price impact could nevertheless fade in the coming months. However, domestic consumption should keep investment on an upward trend.

This uncertain international context had an impact on economic activity in Luxembourg; growth did resume, but remained below the pre-crisis years. Despite a difficult first-half 2015, most economic indicators remained fairly strong throughout the second half of the year and were conducive to job creation.

The financial sector continued to make a positive contribution to the increase in GDP despite the low interest rate environment, which pushed banks' income from interest margin down, and despite the financial market volatility that began in the summer of 2015. Luxembourg's investment fund industry saw a sharp increase in assets under management.

The BCEE Group comprises the Banque et Caisse d'Epargne de l'Etat, Luxembourg and its fully consolidated subsidiaries and associates using the equity method.

Long active in Luxembourg's financial sector, the BCEE Group separates its business activities into three major segments:
- Retail, Professional, Corporate and Public Sector Banking,
- Financial Markets and Investment Funds,
- other.

SUSTAINED COMMERCIAL MOMENTUM IN RETAIL, PROFESSIONAL, CORPORATE AND PUBLIC SECTOR BANKING

Retail and Professional

The Bank continues to pursue its strategy for this segment of investing simultaneously in modernising and optimising its branch network and in developing digital banking solutions. It has thus opened two new branches, one in the building on boulevard J.-F. Kennedy in Kirchberg and the other in the centre of Niederanven. These new locations were designed to give customers the best possible welcome, and they reflect the Bank's current strategy of serving the local community and offering the highest level of convenience. They are equipped with the most modern banking technologies, providing customers with self-service banking kiosks in multipurpose reception areas, Wi-Fi connections and tablets for optimum access to information.

BCEE manages the largest number of automated teller machines (ATMs) in the country. These were extensively modernised, and customers now have access to new functionalities, such as choice of banknote denomination and higher withdrawal limits. A number of ATMs offering the deposit/payment function have been installed around the country, significantly facilitating cash transactions. Mobile ATMs were supplied to several major events and supplemented this infrastructure in 2015.

The Bank equipped all the teller windows in its branch network with signing pad tablets. This new banking technology allows transactions to be signed electronically and accounting documents to be archived automatically.

In an effort to modernise its communications with its customers, BCEE continued the roll out of digital displays with dynamic screens placed both inside branches and in windows. During 2015, six branches were equipped with screens used for advertising and informational purposes.

The excellent commercial results show that the branch network continues to improve customer loyalty, develop a long-term relationship of trust and offer a comprehensive range of banking solutions. Extensive training gives the sales force a high level of knowledge of the most recent banking techniques and current regulations.

Despite rising housing prices, BCEE has grown its home loan business, with a net 6.8% increase in the portfolio over 2014. A rising share of new home loans were granted at a fixed rate, which protects the customer against future interest rate hikes.

Savings deposits continued to increase as customers seek security amid financial market uncertainty. On the other side, the decrease in exposure to conventional time deposits, which earn very little interest, continued. The Bank began to market the new fixed-rate deposit, a fixed-term account targeting private customers and offering a principal guarantee at maturity with a predetermined rate of return.

The encouraging growth in Private Banking can be attributed to the loyalty of the existing customer base and the continual addition of new customers seeking a stable and skilled banking partner.

Returns on money-market investments remained very low as the European Central Bank (ECB) continued to pursue its highly accommodative monetary policy. On the other hand, BCEE was able to successfully allocate assets to offer its customers attractive investment solutions within its range of funds, as well as dedicated discretionary portfolio management solutions. This latter service grew at a steady pace.

In 2015, the Bank launched a new sub-fund of the Luxbond SICAV (open-end investment fund), invested chiefly in bonds, as well as a new sub-fund of the Lux-Portfolio SICAV, characterised by its flexible weighting of different asset classes. This flexibility allows it to take advantage of interest-rate or stock-market opportunities.

Multiple training sessions give Private Banking Advisors and Investment Advisors a high level of skills in financial market operations and regulations.

Through customised support from advisors, customer conferences and financial publications, customers have the economic and financial information they need to closely monitor Private Banking's investment strategies and incorporate them into their investment decisions.

In electronic banking services, BCEE completely revamped its S-net Mobile application for smartphones and tablets in 2015. It now perfectly meets customers' expectations for features offered and ease of use. This application was hugely successful with customers as soon as it was launched and strengthened the perception of the Bank as the standard-bearer in electronic banking. The Bank made these significant investments with the aim of offering its full range of products and services online in the near term.

Corporate and Public Sector

Based on the most recent estimates, domestic economic growth exceeded 3.2% in 2015. Public investment continued at a high level while private spending remained soft. The investment trend was positive, but varied by sector. Fundamentals remained favourable in construction. Private investment in housing remained buoyant compared with non-residential construction, which slowed slightly. The increase in investments in machinery and equipment was encouraging.

Financing activity volumes for corporate and public sector customers reached a record level, with business up more than 7%. All credit products combined, funding granted to professional and public sector customers was well above EUR 2 billion. This momentum drove more than 8% growth in the professional customer loan portfolio alone. Experienced, motivated and accessible client relationship managers are the key to successfully serving, guiding and advising companies in the face of increasingly strict and demanding banking regulations governing documentation.

BCEE held on to its leading position in the highly coveted public sector customer financing segment.

BCEE was selected as the preferred banker to support major multi-sector economic diversification projects in logistics and communications. It was able to position itself as the leading banker in the financing of renewable energy investments, in partnership with Etika, a non-profit organisation whose purpose is to promote ethical financing.

FINANCIAL MARKETS AND INVESTMENT FUNDS REVENUES

Financial markets

Treasury activity volume was steady in 2015. Customer deposits performed well and the Bank intentionally reduced the volume of its international refinancing programmes due to the lack of attractive investment opportunities.

In reinvestments, a significant share of the funds was directed to government securities and other securities eligible for refinancing with the ECB, especially a low-risk, high-liquidity bond portfolio that reached EUR 10.0 billion. Loans and advances to credit institutions remained stable at EUR 5.6 billion as at 31 December 2015.

In order to improve the performance of cash transactions and reduce their interest rate risk, BCEE made extensive use of derivatives. At the end of 2015, outstanding foreign exchange swaps and forward transactions amounted to more than EUR 12.9 billion. At the same date, outstanding interest rate swaps (IRS) and cross currency interest rate swaps (CIRS) totalled EUR 12.9 billion. Note that EUR 1.6 billion in loans was guaranteed by eurozone public debt securities as part of repurchase agreements.

In 2015, in addition to lowering its key interest rates, the ECB decided to launch its own quantitative easing (QE) programme, supplementing the asset-backed securities (ABS) and covered bonds it began to purchase in 2014 with government and supranational bonds, semi-public bonds and even debt. Given the risks of deflation and low growth, combined with concerns about China and emerging countries, the ECB began in October to prepare the market for additional measures. On 3 December 2015, the ECB thus announced that it would reinvest proceeds from maturing bonds for as long as necessary.

The real surprise in 2015 was the Swiss National Bank's (SNB) abandonment of the currency exchange floor. Two days after providing assurance that the floor would remain firm at CHF/EUR 1.20, on 15 January 2015 the SNB abandoned a floor that had been described as unbreakable since 2011 and also cut its deposit rate to -0.75%.

The Federal Reserve (Fed) blew hot and cold in 2015. After laying the groundwork for a hike in key rates since the spring, it then backpedalled due to concerns about risks outside the US economy, from emerging countries in general and from China in particular. In light of the job numbers and close-to-potential growth, on 16 December 2015 the Fed finally raised rates for the first time since 2006 with a 25-basis-point increase in the Fed funds rate. This change was particularly successfully communicated to the markets, which was not the case in the fall of 2015 and 2014. It remains to be seen whether communications on the gradual shift signalled for 2016 will be equally successful.

Against this uncertain backdrop, the year 2015 was characterised by a sharp widening of credit spreads. Between March 2015 and January 2016, the ITRAXX Europe 5-year index, made up of 125 European investment-grade corporate credit default swaps (CDS), almost doubled from 48 basis points of risk premium to nearly 90 basis points. Constraints associated with lower liquidity on the secondary market worsened the impact of the imbalance between supply and demand on the euro credit markets, particularly for the corporate debt segment.

In line with its investment portfolio management approach, BCEE once again remained true to its prudent policy of generating returns appropriate to the risks incurred while preserving invested capital. With interest rates at an all-time low, the Bank took advantage of widening credit spreads to invest in high-quality bonds that are eligible for the liquidity buffer, and to take selective positions in corporate and senior bank issues. The Bank was therefore able to generate a satisfactory level of profitability on a high-quality investment portfolio.

Investment Funds

At 31 December 2015, there were 13 open-end investment funds (SICAV) in the in-house range, composed of 38 sub-funds, representing EUR 3.4 billion in total assets, up 10.9% compared with 31 December 2014. S-Pension, BCEE's private pension scheme product, the underlyings of which are the sub-funds of the Lux-Pension open-end investment fund, continued to find favour with customers eager to have additional income for retirement while currently enjoying tax benefits granted by the legislator.

Benefiting from BCEE's confirmed financial soundness and the quality of services for Financial Sector Professionals (FSP), the investment fund custodian bank business grew very dynamically. With a total of some EUR 22.2 billion in assets under management, BCEE was again among the leading service providers for Luxembourg investment vehicles. The exposure of third-party promoter funds, for which BCEE ensures the administrative management and the function of custodian bank, amounted to some EUR 18.8 billion at the end of 2015, a 19.4% increase compared with 2014.

OTHER ACTIVITIES

Other activities include back office and support activities, which play an essential role in supporting the Bank's strategic and development goals. Back office activities make it possible to process the growing volumes of payment, credit and securities transactions from the commercial units and ensure control and security in processing these transactions in accordance with the laws in force. BCEE is continuing its efforts to improve productivity in order to adapt to changing markets.

Support activities cover a wide variety of areas, such as Bank finances, legal and regulatory matters, organisation, marketing, logistics and IT.

Regulatory activities

The Bank remained very active on the regulatory front because of the large number of ongoing projects and the work associated with the Single Supervisory Mechanism (SSM) whose aim is to ensure the safety and soundness of the European banking system and to increase financial stability in Europe. The SSM is one of the three pillars of the banking union, along with the Single Resolution Mechanism (SRM) and the Deposit Guarantee Scheme (DGS).

The aim of the SRM is to minimise the cost for taxpayers and the real economy of resolving banks that are part of the banking union and would face serious financial challenges. This mechanism has been fully operational since 1 January 2016 and was transposed into Luxembourg law by the law of 18 December 2015.

The DGS, also introduced in Luxembourg with the law of 18 December 2015, requires that each EU Member State establish a deposit guarantee scheme that protects customers' bank deposits up to EUR 100,000 per bank. In Luxembourg, this responsibility has been given to the Fonds de garantie des dépôts luxembourgeois (FGDL, Luxembourg Deposit Guarantee Fund), which replaced the Association pour la Garantie des Dépôts Luxembourg (AGDL, Luxembourg deposit guarantee association) on 1 January 2016.

At the end of 2015, BCEE made its first annual payment for its contribution to the single bank resolution fund established by the SRM. BCEE expects to make its first contribution to the FGDL over the course of 2016.

In the context of the European tax transparency objective, the automatic exchange of tax information was incorporated into Luxembourg legislation with the adoption of Directive 2014/107/EU, in force since 1 January 2015. During the first quarter of 2016, BCEE will, for the first time, provide information for the year 2015 to the competent Luxembourg authority.

At the international level, the OECD has developed the Common Reporting Standard (CRS) which manages the automatic exchange of tax information at the global level between states that have adopted the standard. The European Union has adopted the CRS and in 2015 BCEE began the work of complying with the recommendations of Directive 2014/107/EU. BCEE's first transmission will be in 2017 and will cover the tax information for 2016.

Real estate infrastructure

Renovation work on the former "ARBED" building, which BCEE acquired in January 2015, is underway and will continue through the first half of 2016. This work will preserve the overall appearance of the building, which has been declared a national monument, but will improve its energy efficiency and interior before the Bank's commercial units move in.

Shareholdings

Fulfilling one of its statutory missions, which involves contributing to the country's economic and social development in all areas through its financing activities, in addition to promoting savings, BCEE continues to hold equity interests, directly or indirectly, in key sectors of Luxembourg's economy. It also supports the start-up and development of businesses with a national interest.

Since 1989, BCEE has been a 40% shareholder of La Luxembourgeoise Société Anonyme d'Assurances and La Luxembourgeoise Vie Société Anonyme d'Assurances. Compagnie Financière, La Luxembourgeoise S.A. and BCEE are indirectly shareholders of PECOMA Actuarial and Risk S.A. which is active in the development and implementation of supplementary pension schemes and which offers actuarial, administrative and accounting management services for pension schemes.

Media and telecommunications are important sectors for Luxembourg's economy. The Bank is a founding shareholder of SES Global S.A., the world leader in global satellite communications. The Bank holds a 10.88% stake.

For several decades, in the air transport sector, BCEE has held equity interests in the capital of Luxair, Société Luxembourgeoise de Navigation Aérienne S.A., which is active in air navigation, tour operation, cargo handling and catering, and of Cargolux Airlines International S.A., which is one of the world's largest all-cargo airlines.

The Bank holds 22.7% of the capital of Société de la Bourse de Luxembourg S.A., of which it is also a founding member and the largest shareholder. Through its stake in Paul Wurth S.A., the Bank continues to support design and industrial engineering businesses.

Through its 11% stake in the capital of Société Nationale des Habitations à Bon Marché S.A. (S.N.H.B.M.), which specialises in the design and construction of single-family homes and apartment buildings at affordable prices and under long-term leases, BCEE is fulfilling its social mission of facilitating home ownership for personal needs.

The Bank also decided to acquire a 12% stake in the capital of Enovos International S.A., the holding company for Luxembourg's market-leading energy group. The acquisition of this stake is consistent with BCEE's past equity investments in other Luxembourg economic actors. The transaction was finalised on 7 March 2016.

In addition to these major shareholdings, the group has interests in other companies active in the development of economic life.

Human resources

In 2015, BCEE further strengthened its image as an attractive employer. A support system that has been improved by a tailor-made orientation programme, periodic follow-ups by the Staff Management Unit, and a customised work plan all facilitate the integration of young hires into what can be an unfamiliar environment. The year 2015 was also another promising year for recruitment as a number of young people either joined the various head office units or strengthened the branch teams. The www.mylittlebigstep.lu site remains the landing place for applications.

To increase the Bank's visibility and allow young people to learn more about the various financial professions, BCEE continues to participate in major career fairs, to support numerous Luxembourg student clubs and to bring in high school students for educational tours of the Bank.

Due to the civil service reform, BCEE has adopted a more objective-based management approach and continues to offer, over the entire course of an employee's career, a variety of training courses to foster the professional, personal and social skills each employee needs to fulfil his or her defined role.

In 2015, the Staff Management Unit paid particularly close attention to internal mobility, which remains an important aspect of human resources management. With better definitions of roles and responsibilities, mobility becomes a motivating factor and gives employees the opportunity to shift their career path.

Corporate governance

While BCEE has always been committed to a corporate culture based on good governance rules, the principles of governance have become the major pillars governing the organisation and activities of financial institutions since Circular CSSF 12/552. For systemically important banks such as BCEE, the European regulator is increasingly stressing the importance of good governance and even made it a major theme for 2016. To take full account of the new requirements, BCEE has already adapted, or is currently adapting, a set of organisational procedures and processes.

Corporate social responsibility (CSR)

In keeping with its mandate under Article 5 of the organic law, BCEE seeks to be the reference on Luxembourg's financial centre with regard to CSR, with particular emphasis on proximity to the customer, promotion of school savings, housing loans, alternative savings, granting of loans according to social and ecological criteria, shareholding in major Luxembourg companies, banking services for SMEs, and financing of equipment and public and paragovernmental authorities.

In April 2015, BCEE was recertified as an "Entreprise Socialement Responsable ESR" (socially responsible company) by the Institut National pour le Développement Durable et la Responsabilité Sociale des Entreprises (INDR, National Institute for Sustainable Development and Corporate Social Responsibility), a label it initially obtained in 2012. This provides impetus to further strengthen the Bank's social commitment and limit the environmental impacts of its activities.

To establish its presence, BCEE supports various organisations and events to promote awareness of sustainable development issues.

Cultural, sponsorship and patronage activities

BCEE supports actions promoting culture, sports, the environment, and social welfare. Together with its partners, the Bank makes a sustained commitment to actions and events in keeping with its ethical standards and the values of proximity and professionalism.

BCEE continues to demonstrate its cultural commitment through its contemporary art gallery "Am Tunnel & Espace Edward Steichen".

In 2015, it modernised its Bank Museum, which is open to the public and located at 1, Place de Metz. The exhibits now include high-tech audio-visual displays that trace the history of Luxembourg's financial centre and of BCEE since 1856.

More than ever, these sites are now two of the capital's leading attractions, both for Luxembourg's population and for its many foreign visitors.

As it does every year, the Bank once again assisted in various key music and sport events and supported a large number of local cultural, sports and student initiatives across the country.

RISK MANAGEMENT POLICY

BCEE places a particular emphasis on risk management.

Risk management is described in detail in note 6 to the consolidated financial statements as at 31 December 2015. This chapter is subdivided into several major risk categories.

Credit risk

Credit risk is the risk of financial loss on the Bank's receivables due to a deterioration in the credit quality of debtors, which could even result in the default of a debtor or the inability to recover assets deposited with third parties. Credit risk concerns both actual and potential receivables.

Each Bank commitment giving rise to a credit risk is subject to prior analysis of the debtor's credit quality by the Risk Analysis and Monitoring unit. The debtor's credit quality is thus assigned a rating. The Bank's internal ratings are a direct component of the credit risk management system insofar as they are one of the key parameters used to set limits.

Decisions on credit files and/or limits are made based on a prior analysis by credit analysts in the Risk Analysis and Monitoring unit and on the amounts involved.

Decisions on loans to the domestic economy are made by the various credit committees, organised hierarchically according to the customer's overall credit outstanding. Residential mortgage loans account for more than half of the portfolio and credit risk is assessed, first, on the basis of customers' general creditworthiness and, second, through the process of assessing their ability to repay loans or the existence of collateral.

The Bank follows appropriate procedures for analysing applications and obtaining the related collateral for corporate and public-sector loans. The Bank has specific rating models to analyse project financing that take into account the unique attributes of each project.

A majority of counterparties in the international portfolio are banks and financial institutions. Internal ratings are applied to banking counterparties using a combination of quantitative and qualitative analyses. The quantitative component is based on financial ratios that best describe the counterparty's profitability, capital strength, liquidity and the quality of its assets, while the qualitative component is based on the analyst's own assessment of non-financial factors such as market share and governance. An initial investment is made only with counterparties classified as investment grade.

For international commitments to non-financial entities, priority is also given to counterparties classified as investment grade in OECD countries, mainly in Europe and North America. Like all the Bank's counterparties, these are assigned an internal rating based on rules similar to those applied to banks and financial institutions.

Outstanding amounts are subject to counterparty and sector risk monitoring and to regular checks based on updated financial analyses and proposed adjustments to limits per counterparty. The Bank also applies a country limit system for all foreign countries in which it is active. These limits are periodically reviewed.

The European Market Infrastructure Regulation (EMIR) aims to reduce bilateral counterparty risk by requiring the use of central counterparty (CCP) clearing for financial instrument transactions. To comply with this obligation, the Bank has opted to work not through direct access to a central counterparty but rather through direct members, known as clearing brokers.

Market risk

Market risk is the risk of loss arising from unfavourable changes in various financial parameters, the main ones being interest rates, share prices and foreign exchange rates.

The Bank's market risk management policy distinguishes between mismatch risk, which arises from structural mismatches between the maturities of resources and the use made of those resources in the Bank's balance sheet, and the risk associated with cash management and trading activities.

Mismatch risk is handled by the Asset Liability Management (ALM) Committee, composed of members of the Executive Committee, several commercial department heads, and the heads of the Risk Analysis and Accounting departments. The ALM Committee is responsible for establishing the broad guidelines for interest rate risk management beyond two years and for setting the target ALM profitability. The ALM Committee is assisted by an ALM subcommittee, which meets monthly.

Liquidity risk

Liquidity risk results from a mismatch between financial inflows and outflows on a specific date. The risk for a credit institution is that it may be unable to meet its payment obligations at a given point in time as a result of having insufficient liquid assets relative to its maturing liabilities. By virtue of its financial structure, the Bank is generally in a position of excess liquidity.

The Bank constantly monitors liquidity risk on the basis of maturities, including both very detailed reconciliation of cash inflows and outflows over a six-month horizon and a medium- and long-term assessment of structural funding requirements monitored by the ALM Committee.

In accordance with the Capital Requirements Regulation (CRR) and with the Commission Delegated Regulation of 10 October 2014, BCEE has, since 2015, published its liquidity coverage ratio (LCR), intended to ensure sufficient 30-day liquidity. At 31 December 2015, the LCR was 131%, well above the minimum threshold of 60% for 2015. BCEE is moreover targeting a level far above the regulatory minimum. The net stable funding ratio (NSFR), intended to ensure sufficient one-year liquidity, will enter into force in 2018.

Leverage ratio

The leverage ratio measures the proportion of Tier 1 capital to total assets excluding collateral and including all risk-weighted off-balance sheet commitments. In other words, it is the "Total assets and risk-weighted off-balance sheet commitments/Core Tier 1 Capital" ratio. This ratio is not based on risk but is an additional tool intended to limit the use of excessive leverage in the banking sector. BCEE's leverage ratio was 5.48% (regulatory minimum: 3.0%) at 31 December 2015.

Operational risk

Generally speaking, operational risk is the risk of losses arising from inadequate or faulty internal procedures, human or system errors or external events. The Bank controls operational risk through the application of detailed rules and procedures, as well as an internal control system implemented at all levels and monitored by the Bank's senior management.

To centralise management of operational risk, the Bank uses an IT tool to manage internal incidents in accordance with Basel III methodologies. The Bank maintains a database of all incidents having an impact on its performance and relating to human or system failure. These incidents are also analysed on a recurring basis by a number of the Bank's committees.

The Bank aims to reduce operational risk by continuously improving its operating systems and organisational structures.

Financial risk and hedge accounting

The consolidated financial statements of the BCEE Group have been prepared in accordance with IFRS as adopted by the European Union and comprise the annual financial statements of the Bank, its subsidiaries and entities over which the Bank has direct or indirect effective control of management and financial and operating policies.

Subsidiaries are consolidated from their date of acquisition, when the Bank, as the parent company, has the power to direct their financial policies. They are deconsolidated on the date such control ceases.

The Bank uses derivative financial instruments to hedge against interest-rate, foreign-exchange, and fixed-price risks (stock market indices and share prices). The derivative financial instruments commonly used are IRS and CIRS in standard plain vanilla hedging transactions. In addition to these standardised contracts, the Bank uses structured swaps to specifically hedge structured issues and acquisitions of structured bonds included in its portfolio of available-for-sale assets and containing embedded derivatives.

Derivative financial instruments are considered as being held for trading except where they are designated as hedging instruments. When entering into a contract, the Bank may designate certain financial instruments as hedging instruments, if the transactions meet the criteria set out in IAS 39. The Bank primarily uses fair value hedges.

Management and monitoring of risks inherent in compiling financial reporting

The Bank has developed procedures and control systems to compile and monitor financial information. To provide an assurance of the quality and completeness of financial information, the Bank conducts daily checks on internal account movements, monitors the main headings of the income statement, including interest margin, fees and general and administrative expenses, and verifies the completeness of the information gathered through different IT applications before being fed into the accounting information system. The Bank reconciles the balances of pending accounts, interest accrual accounts and other internal accounts on a monthly basis.

The Bank also draws up a daily trial balance so that each of its entities, including the trading room, can monitor the impact of their operations.

The accounting and risk management departments work in close cooperation to evaluate portfolio positions or to calculate valuation allowances for assets showing evidence of impairment.

Besides purely accounting controls, the Bank regularly monitors its profitability by customer, product and business line and conducts a monthly analysis of the spending budget. The Executive Committee uses a Management Information System (MIS) to monitor the performance of the Bank's business lines. Similarly, it analyses and validates the Bank's financial position and monitoring of the spending budget on a monthly basis.

Compliance with the CRR

BCEE meets market requirements through compliance with Regulation (EU) 575/2013, one of the objectives of which is to disclose to the market the Bank's exposure to the above risks.

Information on the composition of capital, the risk management strategy and the remuneration policy may be found in the Bank's Pillar 3 publication. This information supplements the information published in the annual financial statements.

The Pillar 3 report for 2016 is available on the Bank's website at www.bcee.lu/Rapport-d'activités.

STRONG FINANCIAL RESULTS

Net banking income grew by 4.8% to EUR 639.2 million as at 31 December 2015.

The Group's net profit as at 31 December 2015 fell by 0.2% compared with the 2014 financial year.

Net interest margin rose by 1.0% due to higher business volumes in a near-zero interest-rate environment that offers limited investment and maturity switching opportunities.

Fee income was up 8.0%, driven primarily by the strong growth in traditional loans and payment banking activities with non-bank customers and in investment fund administration and management activities.

Income from variable-income securities rose by 3.3%.

Income from financial instruments increased from EUR 65.7 million at the end of 2014 to EUR 81.5 million as at 31 December 2015. More volatile in nature, this revenue item includes income from securities and derivatives trading, the disposal of available-for-sale financial assets, fair value hedging transactions and forex transactions. The increase in revenue from this category was due primarily to the year-on-year improvement in income from the sale of securities.

The measurement of fixed-income securities, which are classified as available-for-sale financial assets, is recognised in equity under the heading "revaluation reserve". The same is true for the measurement of variable-income securities classified as available-for-sale financial assets. The decrease in valuations of securities during the year had an influence on the revaluation reserve, which amounted to EUR 760.9 million at the end of 2015, down EUR 202.5 million or 21.0% compared with 31 December 2014.

Other operating income and expenditure fell from EUR 7.1 million at year-end 2014 to EUR 5.9 million at the end of 2015. This decrease can be attributed to the EUR 2.5 million contribution to the Single Resolution Fund (SRF).

Despite a rigorous cost control policy, total general expenses, including allowances for impairment of tangible and intangible non-current assets, were up 3.9%. Productivity is constantly enhanced by major process engineering and automation projects. These factors helped mitigate the impact of the structural growth in personnel expenses and in expenses associated with the implementation of new banking regulations and with their supervision by an increasing number of supervisory authorities, while maintaining the quality of the services provided.

Following favourable resolutions of certain loans in default, for which an allowance for impairment was recognised, the Bank was able to record reversals of net allowances for impairment of individual and incurred, but not reported (IBNR) credit risks of EUR 20.8 million in 2015.

The significant EUR 42.4 million allowance for provisions in 2015 resulted from the recognition of provisions for risks related to litigation and to guarantees given or commitments made to customers, and of provisions for personnel costs not covered by other standards and for future contributions to the Luxembourg Deposit Guarantee Fund (FGDL).

In view of the above, the BCEE Group recorded a EUR 0.6 million decrease in net profit to EUR 273.2 million in financial year 2015 from EUR 273.7 million in the prior year.

ANALYSIS OF MAIN BALANCE SHEET ITEMS

The balance sheet totalled EUR 42,811.5 million as at 31 December 2015, an increase of EUR 1,600.4 million compared with the end of 2014. This increase came primarily from the increase in deposits from the private and public sector.

On the asset side of the balance sheet, "Cash and sight accounts with central banks" rose by EUR 412.0 million to EUR 1,313.3 million as at 31 December 2015, mainly because of the increase in assets deposited with Banque centrale du Luxembourg (BCL).

Outstanding fixed-income securities totalled EUR 9,998.5 million, an increase of EUR 248.4 million compared with the end of the 2014 financial year because of the decline in interest rates which continued on the markets in 2015 and which resulted in an increase in the fair value of fixed-income securities appearing in available-for-sale securities on the asset side of the balance sheet.

Under this same heading, outstanding variable-income securities stood at EUR 1,005.6 million, down EUR 147.5 million compared with end-2014, due primarily to lower share prices at the end of 2015.

Outstanding loans to credit institutions increased by EUR 219.8 million to EUR 5,597.6 million. This item also includes the Bank's deposits with other banks, whether or not they are collateralised with securities.

Outstanding loans to customers increased by EUR 913.6 million to EUR 19,224.8 million. The increase was driven by the development of the housing loan and investment loan businesses, illustrating the constant desire of BCEE to support the projects of individuals and businesses.

On the liabilities side of the balance sheet, issues of securities decreased by EUR 484.9 million to EUR 5,791.4 million. This decrease is explained by the reduction of the Bank's financing requirements due to the lack of attractive investment opportunities.

Deposits from credit institutions increased by EUR 294.9 million to EUR 4,439.6 million. This item also includes the Bank's loans from other banks, whether or not they are collateralised with securities. The change in this item should be considered in conjunction with the "Debt securities in issue" line on the balance sheet.

Private sector deposits increased by EUR 1,449.2 million to EUR 22,237.4 million on strong inflows of deposits from corporates and private customers.

Public sector deposits increased by EUR 406.1 million to EUR 4,686.1 million. This item is more volatile and changes according to the public sector's cash requirements.

In accordance with Article 38-4 of the Law on the Financial Sector, the Group reported its return on assets, which stood at 0.64% versus 0.66% in the prior year.

CHANGE IN OWN FUNDS

BCEE's equity amounted to EUR 4,151.9 million as at 31 December 2015 compared with EUR 4,164.1 million at the end of 2014.

This slight EUR 12.2 million decline in equity can be attributed to the decrease in the revaluation reserve and the increase in actuarial gains and losses on the pension fund. These impacts were not fully offset by the increase in consolidated reserves.

2016 OUTLOOK

The European Central Bank (ECB) announced that it would further strengthen its quantitative easing and negative interest rate policy in an effort to lift inflation towards the medium-term target of 2% and first and foremost to avoid the danger of deflation.

The result is a decrease in money-market and capital-market rates to levels that are having a significant adverse impact on the income of banks, insurance companies, social security schemes and other investors.

At the same time, declining demand for commodities, mostly as a result of the slowdown in China's economy, has severely hampered the ability of companies in this sector to generate a profit. This has led to a sharp deterioration in credit risk for most companies in the sector, and the question was immediately raised of banks' involvement in financing commodity sector players.

In 2016, BCEE expects ongoing pressure on its interest margin as assets mature and are replaced at less favourable conditions. However, unless an acute economic crisis returns in Europe, the cost of credit risk should not see any significant negative changes. In the medium term, a prolonged policy of extremely low rates could create bubbles in certain asset classes.

The Bank will monitor these developments extremely closely and will assume its roles and responsibilities as a bank serving its customers and the country's economy in general, in accordance with its missions under the law of 24 March 1989 on BCEE, and in line with the Bank's history.

As in previous years, financial year 2016 will be characterised by a host of regulatory changes brought about by the CRR, the 4th AML directive, UCITS V, the mortgage credit directive, the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM)., the new Deposit Guarantee Scheme (DGS), MiFID II or MiFIR, and other projects that will have to be incorporated in 2016 and beyond.

EVENTS AFTER THE REPORTING PERIOD

No significant events that could impact the normal course of the BCEE Group's business occurred after the close of financial year 2015.

Luxembourg, 21 March 2016

For the Executive Committee

Gilbert Ernst	Michel Birel
Executive Vice President	Deputy Chief Executive Officer

3 GOVERNING BODIES OF THE BANK

The organisation of the Banque et Caisse d'Epargne de l'Etat, Luxembourg, the leading national financial institution, founded in 1856, is governed by the law of 24 March 1989, which defined the respective powers of the Board of Directors and the Executive Committee. Pursuant to Article 8 of this organic law, "the Board of Directors defines the Bank's general policy and is responsible for management control of the Executive Committee. All administrative acts and measures necessary or relevant to the Bank's purpose fall within the responsibility of the Executive Committee, subject to such approvals as are required by virtue of this law".

	Board of Directors	
Chairman	M. Victor ROD	Directeur honoraire du Commissariat aux Assurances
Vice-Chairman	M. Patrick GILLEN	Directeur du Contrôle Financier, Ministère des Finances
Members	M. Georges DENNEWALD	Représentant du Personnel
	M. Paul ENSCH	Directeur honoraire de la Chambre des Métiers
	Mme Elisabeth MANNES-KIEFFER	Premier Conseiller de Gouvernement, Ministère de l'Economie
	M. Manuel NICOLAS	Conseiller de Direction 1ère classe, Ministère de l'Economie
	M. Nico RAMPONI	Représentant du Personnel
	M. Jean-Claude REDING	Président de la Chambre des Salariés
	Mme Betty SANDT	Conseiller de Direction, Ministère des Finances
	Supervisory Commissioner	
	M. Raoul WIRTZ	Conseiller de direction, Ministère des Finances

Board of Directors

1st row from left to right:
Raoul Wirtz, Elisabeth Mannes-Kieffer,
Victor Rod, Betty Sandt, Patrick Gillen

2nd row from left to right:
Jean-Claude Reding, Paul Ensch, Manuel Nicolas

3rd row from left to right:
Nico Ramponi, Georges Dennewald

Executive Committee

President	Jean-Claude FINCK	Chief Executive Officer*
Members	Michel BIREL	Deputy Chief Executive Officer
	Gilbert ERNST	Executive Vice President
	Guy ROSSELJONG	Executive Vice President
	Françoise THOMA	Executive Vice President

Statutory Auditor: PricewaterhouseCoopers Société coopérative, Luxembourg

* until 15 February 2016

Executive Committee

1st row from left to right:
Gilbert Ernst, Jean-Claude Finck, Michel Birel

2nd row from left to right:
Françoise Thoma, Guy Rosseljong

4 STATEMENT ON THE COMPLIANCE OF THE FINANCIAL STATEMENTS

Luxembourg, 21 March 2016

Statement on the compliance of the consolidated financial statements and management report in accordance with the provisions of article 3 of the Luxembourg transparency law ("Loi Transparence").

We hereby declare that, to the best of our knowledge, the consolidated financial statements as at 31 December 2015 of the Banque et Caisse d'Epargne de l'Etat, Luxembourg have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities as well as the financial position and results. We also hereby declare that the management report presents an accurate description of the development, results and situation of the Banque et Caisse d'Epargne de l'Etat, Luxembourg and of the group of companies included in the consolidated financial statements, taken as a whole, as well as the main risks and uncertainties facing the Bank and the BCEE Group.

For the Executive Committee

Gilbert Ernst Executive Vice President	Michel Birel Deputy Chief Executive Officer

A. Statutory auditor's report

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

In accordance with our engagement by the Government of the Grand Duchy of Luxembourg, on the proposal of the Board of Directors of Banque et Caisse d'Epargne de l'Etat, Luxembourg, we have audited the accompanying consolidated financial statements of Banque et Caisse d'Epargne de l'Etat, Luxembourg, and of its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2015, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended and a summary of significant accounting policies and other explanatory information.

Executive Committee's and Board of Directors' responsibility for the consolidated financial statements

The Executive Committee is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, which are submitted for approval to the Board of Directors, pursuant to the organic law of 24 March 1989. The Executive Committee is also responsible for implementing the internal control procedures deemed necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Executive Committee and approved by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position as of 31 December 2015, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The consolidated management report, which is the responsibility of the Executive Committee and submitted for the approval of the Board of Directors, is consistent with the consolidated financial statements.

PricewaterhouseCoopers Luxembourg, 21 March 2016
Société coopérative
Represented by

Roxane Haas

Only the French version of the present report has been reviewed by the auditors. In case of differences between the French version and the translation, the French version should be retained.

B. Consolidated balance sheet as at 31 December 2015

ASSETS in euros	**Notes**	**31/12/2014**	**31/12/2015**
Cash and sight accounts with central banks	4.1.	901,368,001	1,313,328,229
Loans and advances at amortised cost - Credit institutions	4.9.	5,377,819,431	5,597,608,197
Loans and advances at amortised cost - Customers	4.10.	18,311,255,394	19,224,838,123
Financial instruments held for trading	4.2. 4.7.	322,571,774	201,115,555
Hedging derivatives	4.7.	99,240,017	77,502,528
Available-for-sale securities - Fixed-income securities	4.2.	9,750,181,015	9,998,539,565
Available-for-sale securities - Variable-income securities	4.2.	1,153,020,266	1,005,562,944
Held-to-maturity securities	4.4.	4,699,397,776	4,683,501,426
Investments in associates accounted for using the equity method	4.3.	309,971,611	324,853,964
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	4.8.	76,670,572	52,453,419
Tangible assets for own use	4.11.	175,226,447	290,643,556
Investment property	4.12.	16,114,382	15,214,799
Intangible assets	4.13.	12,744,140	15,017,211
Other assets	4.14.	5,464,146	11,292,644
TOTAL ASSETS		**41,211,044,972**	**42,811,472,160**

The notes on pages 27 to 116 are an integral part of these consolidated financial statements.

LIABILITIES in euros	**Notes**	**31/12/2014**	**31/12/2015**
Deposits at amortised cost - Credit institutions	4.17.	4,144,695,863	4,439,629,040
Deposits at amortised cost - Private customers and public sector	4.18.	25,068,145,379	26,923,488,031
Financial instruments held for trading	4.2. 4.7.	199,899,794	170,332,351
Hedging derivatives	4.7.	991,242,634	892,476,947
Issuance of debt securities	4.16.	6,276,226,429	5,791,365,039
Provisions	4.20.	4,899,784	47,215,958
Other liabilities	4.21.	40,713,785	29,644,261
Current taxes	4.15.	64,023,799	100,111,672
Deferred taxes	4.15.	117,747,479	86,149,649
Pension fund	4.19.	139,320,951	179,190,062
Sub-total of LIABILITIES (before equity capital) to be carried forward		**37,046,915,897**	**38,659,603,010**

EQUITY in euros	**31/12/2014**	**31/12/2015**
Sub-total of LIABILITIES (before equity capital) carried forward	**37,046,915,897**	**38,659,603,010**
Share capital	173,525,467	173,525,467
Revaluation reserve	963,351,024	760,854,618
Available-for-sale assets	*957,700,507*	*760,720,239*
Consolidated reserves	2,751,830,181	2,942,127,352
Equity method adjustment	*246,813,280*	*247,189,320*
Income for the year	273,748,936	273,161,115
Sub-total of equity attributable to equity holders of the parent company	**4,162,455,608**	**4,149,668,552**
Minority interests	1,673,467	2,200,598
Total equity	**4,164,129,075**	**4,151,869,150**
TOTAL LIABILITIES, including EQUITY	**41,211,044,972**	**42,811,472,160**

The notes on pages 27 to 116 are an integral part of these consolidated financial statements.

C. Consolidated income statement as at 31 December 2015

in euros	Notes	31/12/2014	31/12/2015
Interest income	5.1.	379,182,451	383,019,459
Income from variable-income securities	5.2.	37,068,331	38,302,833
Fee and commission income	5.3.	120,866,551	130,477,337
INCOME FROM INTEREST, DIVIDENDS AND FEES AND COMMISSIONS		**537,117,333**	**551,799,629**
Income from financial instruments not recognised at fair value through profit or loss	5.4.	27,541,412	45,653,542
Income from financial instruments held for trading	5.5.	23,814,198	19,437,586
Income from hedging transactions	5.6.	4,485,051	4,304,639
Exchange gains or losses		9,881,141	12,156,367
Other operating income	5.7.	8,710,809	10,082,185
Other operating expenditure	5.7.	-1,654,096	-4,207,920
BANKING INCOME		**609,895,848**	**639,226,028**
Personnel expenses	5.8.	-189,805,892	-197,548,725
Other general and administrative expenses	5.9.	-74,523,970	-78,023,759
Depreciation allowances for tangible and intangible assets	5.10. 5.11 5.12	-24,796,312	-24,915,609
INCOME AFTER GENERAL EXPENSES		**320,769,674**	**338,737,935**
Net allowances for impairment of individual and collective credit risks	5.13.	2,578,203	20,831,981
Provisions	5.14.	849,295	-42,393,174
Share in the profit of equity-accounted associates		7,586,075	21,830,076
INCOME BEFORE TAXES AND NON-CURRENT ASSETS		**331,783,247**	**339,006,818**
Tax on income from continuing operations	5.15.	-40,148,492	-64,241,363
Deferred taxes	5.15.	-16,546,942	222,711
INCOME FOR THE YEAR		**275,087,813**	**274,988,166**
of which:			
Income for the year attributable to minority interests		*1,338,877*	*1,827,051*
Income for the year attributable to equity holders of the parent		*273,748,936*	*273,161,115*

The notes on pages 27 to 116 are an integral part of these consolidated financial statements.

D. Consolidated statement of comprehensive income as at 31 December 2015

in euros	31/12/2014	31/12/2015
INCOME FOR THE YEAR	**275,087,813**	**274,988,166**
Items not reclassified in net income subsequently	**-34,199,552**	**-43,727,086**
Actuarial gains/(losses) on the defined-benefit pension scheme	-48,318,101	-61,778,873
Impact of deferred taxes	14,118,549	18,051,787
Items to be reclassified in net income subsequently	**210,455,121**	**-202,496,407**
Available-for-sale assets	216,876,413	-208,026,382
- Variation in measurement results	*244,190,992*	*-162,570,888*
- Net reclassification to the income statement of realised net gains	*-27,314,579*	*-45,455,494*
Cash flow hedges	2,027,288	-7,793,359
Impact of deferred taxes	-8,448,580	13,323,334
Total items of comprehensive income for the year - net of tax	**176,255,569**	**-246,223,493**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**451,343,382**	**28,764,673**
share attributable to		
- minority interests:	*1,338,877*	*1,827,051*
- equity holders of the parent company:	*450,004,505*	*26,937,622*

The notes on pages 27 to 116 are an integral part of these consolidated financial statements.

E. Consolidated statement of changes in equity as at 31 December 2015

The Group's parent company has appropriated the sum of EUR 40,000,000 (the same amount as in 2014) from its net income for financial year 2015 for distribution to the State.

in euros	Share capital	Consolidated reserves	Revaluation reserve	Net income	Total equity holders of the parent	Minority interests	Total equity
As at 1 January 2015	**173,525,467**	**2,751,830,181**	**963,351,024**	**273,748,936**	**4,162,455,608**	**1,673,467**	**4,164,129,075**
Appropriation of 2014 income	-	273,748,937	-	-273,748,936	-	-	-
2015 net income	-	-	-	273,161,115	273,161,115	1,827,051	274,988,166
Distribution for FY 2014	-	-40,000,000	-	-	-40,000,000	-	-40,000,000
Actuarial gains/(losses) on pension fund	-	-43,727,086	-	-	-43,727,086	-	-43,727,086
Net measurement results of available-for-sale financial instruments	-	-	-196,980,268	-	-196,980,268	-	-196,980,268
Net measurement results of cash flow hedges	-	-	-5,516,138	-	-5,516,138	-	-5,516,138
Other	-	275,320	-	-	275,320	-1,299,920	-1,024,600
As at 31 December 2015	**173,525,467**	**2,942,127,352**	**760,854,618**	**273,161,115**	**4,149,668,552**	**2,200,598**	**4,151,869,150**

in euros	Share capital	Consolidated reserves	Revaluation reserve	Net income	Total equity holders of the parent	Minority interests	Total equity
As at 1 January 2014	**173,525,467**	**2,554,079,320**	**752,895,903**	**238,346,447**	**3,718,847,135**	**818,607**	**3,719,665,742**
Appropriation of 2013 income	-	238,346,447	-	-238,346,447	-	-	-
2014 net income	-	-	-	273,748,936	273,748,936	1,338,877	275,087,813
Distribution for FY 2013	-	-40,000,000	-	-	-40,000,000	-	-40,000,000
Actuarial gains/(losses) on pension fund	-	-34,199,552	-	-	-34,199,552	-	-34,199,552
Net measurement results of available-for-sale financial instruments	-	-	209,020,207	-	209,020,207	-	209,020,207
Net measurement results of cash flow hedges	-	-	1,434,914	-	1,434,914	-	1,434,914
Other	-	33,603,966	-	-	33,603,966	-484,017	33,119,949
As at 31 December 2014	**173,525,467**	**2,751,830,181**	**963,351,024**	**273,748,936**	**4,162,455,608**	**1,673,467**	**4,164,129,075**

The notes on pages 27 to 116 are an integral part of these consolidated financial statements.

F. Consolidated statement of cash flow as at 31 December 2015

in euros	31/12/2014	31/12/2015
Cash and cash equivalents		
Cash and sight accounts with central banks	901,367,877	1,313,391,597
Loans and advances at amortised cost - Credit institutions	2,382,677,272	2,457,868,404
Loans and advances at amortised cost - Customers	1,527,016,608	1,897,391,042
Financial instruments held for trading	-	-
Available-for-sale securities - Fixed-income securities	-	-
Held-to-maturity securities	5,137,757	3,948,714
Total	**4,816,199,514**	**5,672,599,757**

The statement of cash flows represents the inflow and outflow of cash. Cash and cash equivalents include cash on hand, deposits with central banks, and assets with an original maturity of 90 days or less.

The cash flow statement classifies the cash flows of the period into operating activities, investment activities and financing activities.

Cash flow from operating activities

- Cash flow from operating activities before changes in operating assets and liabilities:

in euros	31/12/2014	31/12/2015
Interest received	958,113,034	866,122,867
Interest paid	-554,192,645	-461,293,743
Income from variable-income securities	37,068,331	38,302,833
Fees and commissions received	158,716,987	171,222,653
Fees and commissions paid	-37,850,436	-40,745,316
Other operating income	8,710,809	10,156,713
Current taxes	-40,182,767	-64,241,363
General and administrative expenses	-255,228,784	-265,763,705
Other operating expenditure	-1,530,201	-3,962,939
Sub-total	**273,624,328**	**249,798,000**

The notes on pages 27 to 116 are an integral part of these consolidated financial statements.

- Cash flow from changes in operating assets:

Net changes in euros	31/12/2014	31/12/2015
Financial instruments held for trading	5,500,239	-422,495
Available-for-sale securities - Fixed-income securities	-308,652,793	-379,886,459
Available-for-sale securities - Variable-income securities	12,285,722	-2,329,088
Loans and advances at amortised cost - Credit institutions	-129,393,390	-171,958,364
Loans and advances at amortised cost - Customers	-1,073,645,837	-559,487,858
Hedging derivatives	1,078,046	4,332,258
Other assets	126,199,864	-36,862,288
Sub-total	**-1,366,628,149**	**-1,146,614,293**

- Cash flow from changes in operating liabilities:

Net changes in euros	31/12/2014	31/12/2015
Financial instruments held for trading	-12,057,564	834,820
Deposits at amortised cost - Credit institutions	-1,236,771,046	294,672,900
Deposits at amortised cost - Customers	-5,926,427	1,855,413,345
Hedging derivatives	-8,903,269	8,824,595
Other liabilities	-23,964,139	-5,051,468
Issuance of debt securities	1,119,987,930	-462,830,984
Sub-total	**-167,634,515**	**1,691,863,207**
Cash flow from operating activities	**-1,260,638,336**	**795,046,914**

Cash flow from investment activities

in euros	31/12/2014	31/12/2015
Acquisition of available-for-sale securities - Variable-income securities	-25,387,663	-17,357,633
Disposals of available-for-sale securities - Variable-income securities	27,837,104	45,013,830
Acquisition of variable-income securities - Equity-accounted associates	-4,125,000	-
Acquisition of held-to-maturity securities	-1,461,994,814	-1,539,058,298
Redemption of held-to-maturity securities	1,530,194,650	1,533,333,706
Acquisitions/disposals of intangible and tangible assets	-7,124,907	-141,706,203
Cash flow from investment activities	**59,399,370**	**-119,774,598**

The notes on pages 27 to 116 are an integral part of these consolidated financial statements.

Cash flow from financing activities

in euros	31/12/2014	31/12/2015
Proceeds from subordinated liabilities	-19,892,000	-23,775,722
Income distribution	-40,000,000	-40,000,000
Cash flow from financing activities	**-59,892,000**	**-63,775,722**
Net change	**-1,261,130,966**	**611,496,594**

Change in cash and cash equivalents

in euros	2014	2015
Position as at 1 January	**6,290,410,253**	**4,816,199,514**
Net change in cash	-1,261,130,966	611,496,594
Effect of exchange rates on cash and cash equivalents	-213,079,773	244,903,649
Position as at 31 December	**4,816,199,514**	**5,672,599,757**

The notes on pages 27 to 116 are an integral part of these consolidated financial statements.

G. Notes to the consolidated financial statements

1. GENERAL INFORMATION

Banque et Caisse d'Epargne de l'Etat, Luxembourg (hereinafter the "Bank" or the "Group's parent company"), established by the law of 21 February 1856 and governed by the law of 24 March 1989, is a self-governing public law institution endowed with legal personality. Ultimate responsibility for the institution lies with the Government Minister with responsibility for the Treasury.

The Bank's registered office is located at 1, place de Metz, L-2954 Luxembourg.

Within the limits set by the laws and regulations applicable to credit institutions, the objective of the Bank is to perform all financial and banking activities, as well as all similar, related or ancillary operations.

The consolidated financial statements concern the Group, of which Banque et Caisse d'Epargne de l'Etat, Luxembourg is the parent company. The bank had an average headcount in 2015 of 1,807 (1,800 for 2014), including staff on skills-acquisition contracts.

The financial year coincides with the calendar year.

The consolidated financial statements were approved by the Board of Directors meeting on 21 March 2016.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 COMPLIANCE WITH GENERAL ACCOUNTING PRINCIPLES

The Group's consolidated financial statements for the 2015 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

a) New or revised standards adopted by the Group
The following standards, whose application is compulsory in financial years beginning on or after 1 January 2015, were adopted by the Group and have had no material impact on the annual financial statements:

- interpretation IFRIC 21: Taxes levied by a public authority,
- improvements to IFRS, 2011-2013 cycle, which are a series of amendments to the existing standards.

b) The following standards, whose application is not compulsory in financial years beginning on or after 1 January 2015, have not yet been adopted by the Group:

- improvements to IFRS, 2010-2012 cycle, which are a series of amendments to the existing standards,
- amendment to IAS 19: Employee Contributions to Defined Benefit Plans,
- amendment to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations,
- amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation,
- improvements to IFRS, 2012-2014 cycle, which are a series of amendments to the existing standards,
- amendment to IAS 1: Disclosure Initiative,
- amendment to IAS 27: Equity Method in Separate Financial Statements.

c) New and revised standards and interpretations relevant for the Group, which are not yet compulsory and which have not been adopted by the European Union:

- IFRS 9: Financial Instruments,
- IFRS 15: Revenue from Contracts with Customers,
- amendments to IFRS 10, IFRS 12, IAS 28: Investment Entities: Applying the Consolidation Exception.

The consolidated financial statements are stated in euros, the functional currency of the parent company and its subsidiaries. They have been prepared on the basis of historical cost and amortised cost respectively, adjusted to fair value for available-for-sale financial assets, financial assets held for trading, derivatives and pension fund assets.

2.2 CONSOLIDATION

2.2.1 Scope of consolidation

The consolidated financial statements comprise the parent, its subsidiaries and ad hoc entities over which the Group directly or indirectly exercises effective control of management and financial and operational policies. Subsidiaries are consolidated from their date of acquisition, when the Bank, as the parent company, has the power to direct their financial policies. They are deconsolidated on the date such control ceases.

Consolidation has not generated any goodwill as the Group has owned all its subsidiaries since their creation.

Acquisitions are recognised at cost, i.e. the amount of cash or cash equivalents paid representing the fair value, plus all costs directly attributable to the acquisition. All intra-group transactions and unrealised gains on transactions between Group companies are eliminated. Unrealised losses on intra-group transactions are also eliminated unless the cost cannot be recovered.

If any member of the Group applies accounting standards different from those applied to the preparation of consolidated financial statements, appropriate restatements are made to ensure consistency with the Group's accounting policies.

If the reporting date for a company within the consolidated group is different from the Group's reporting date, adjustments are made to take into account transactions made and any other significant events that occurred between the company's year-end and that of the parent.

The portion of equity attributable to minority interests is given on a separate line. Similarly, the portion of earnings attributable to minority interests is also shown on a separate line.

2.2.1.1 Fully consolidated subsidiaries

The consolidated financial statements record the assets, liabilities, income and expenditure of the parent company and its subsidiaries. A subsidiary is an entity over which the parent company exercises control. The parent company controls an entity if it is exposed or has the right to variable income from its interest in the entity and if it has the power to influence the amount of this variable income.

Subsidiaries are fully consolidated as of the date on which the Group took control. They are deconsolidated on the date such control ceases.

The subsidiaries included in the scope of consolidation are as follows:

Name	% of voting rights
Lux-Fund Advisory S.A.	89.16
BCEE Asset Management S.A.	90.00
Bourbon Immobilière S.A.	99.90
Luxembourg State and Savings Bank Trust Company S.A.	100.00
Spuerkeess Ré S.A.	100.00

2.2.1.2 Investments in associates

Associates are companies over which the Group exercises significant influence and are accounted for using the equity method. Significant influence means the Group has the power to direct a company's financial and operating policies in order to obtain a substantial share of the economic benefits. Significant influence is presumed when the Group holds, directly or indirectly through its subsidiaries, 20% or more of the voting rights.

Investments in associates are recognised at cost, and the book value is subsequently adjusted to reflect the investor's share of the net profit or loss of the associate after the acquisition date. The Group's share of the associate's profit or loss is recognised in the income statement.

Equity-method consolidation ceases when the Group's interest is reduced to zero, unless the Group has incurred legal or constructive obligations to assume or guarantee commitments on behalf of the associate.

The Group's investments in associates:

Associates	% of capital held
Direct interests	
Société Nationale de Circulation Automobile S.à.r.l.	20.00
Luxair S.A.	21.81
Société de la Bourse de Luxembourg S.A.	22.75
Europay Luxembourg S.C.	25.40
FS-B S.à.r.l	28.70
FS-T S.à.r.l	28.70
Visalux S.C.	36.26
La Luxembourgeoise S.A.	40.00
La Luxembourgeoise-Vie S.A.	40.00
BioTechCube (BTC) Luxembourg S.A.	50.00
Indirect interests	
EFA Partners S.A.	29.05
Pecoma International S.A.	33.33

2.3 FOREIGN CURRENCY TRANSACTIONS

The impact of exchange rate fluctuations on income statement items is detailed below. The Group's functional currency is the euro (EUR).

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions.

Monetary items denominated in foreign currency are translated at the closing rate on each balance sheet date.

Non-monetary items recognised at historical cost denominated in a foreign currency are translated using the exchange rate on the transaction date, while non-monetary items recognised at fair value in a foreign currency are translated at the exchange rates prevailing on the date of fair value measurement.

Foreign exchange gains and losses resulting from monetary assets and liabilities are recognised in the income statement, except where the transaction is classed as a cash flow hedge.

For monetary assets classified as "available-for-sale assets", translation differences resulting from the variance between their fair value on the balance sheet date and their acquisition cost are recognised in the revaluation reserve, whereas translation differences relating to the adjustment of the amortised cost relative to the acquisition value are recognised through profit or loss.

Translation differences relating to adjustments in the fair value of non-monetary items are recognised in the same way as the recognition of these changes in fair value.

The following exchange rates were used for translation of the main currencies in the annual financial statements, where one euro is equal to:

Currency	31/12/2014	31/12/2015
CHF	1.2025	1.0828
GBP	0.7796	0.7368
JPY	145.1200	131.4000
SEK	9.3747	9.1796
USD	1.2156	1.0916

2.4 BANKING TRANSACTIONS

2.4.1 Initial recognition and measurement

Purchases and sales of financial assets and liabilities whose delivery or settlement are made after the transaction date are recognised on the balance sheet on the delivery and settlement date respectively.

All financial instruments are recognised at fair value when initially recognised, increased by directly attributable costs when the financial instruments are not entered at fair value through profit or loss.

Derivatives are recognised on the balance sheet at fair value on the transaction date. The classification of derivatives on initial recognition depends on their characteristics and purpose. Therefore, they may be classified as "financial instruments held for trading" or as "hedging instruments".

Derivatives are recognised in assets when the fair value is positive, and in liabilities when it is negative. By fair value here is meant the "dirty price" of the instruments, i.e., including the accrued interest.

According to the definition in IAS 39, derivative instruments embedded into other financial instruments are separated from the host contract and accounted for at fair value if the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract, and the entire instrument is not classed as held for trading, or has not been designated as measured at fair value in the income statement. Embedded derivatives that have been separated from their host contract are recognised at fair value in the trading portfolio and changes in fair value are recognised in the income statement.

Gains or losses on the sale of financial assets that are not subject to revaluation through the income statement are calculated as the difference between the amount received net of transaction costs and the acquisition cost and amortised cost of the financial asset.

2.4.2 Subsequent measurement

Subsequent to initial recognition, financial instruments are measured according to their characteristics and the valuation categories to which they belong. The valuation categories used are: financial instruments held for trading or hedging, financial assets held to maturity, available-for-sale assets, and loans and advances.

2.4.2.1 Historical cost

Financial assets and liabilities recognised at historical cost are valued at the initial recognition amount.

2.4.2.2 Amortised cost

The amortised cost corresponds to the amount initially recognised, less repayments of capital, adjusted for premiums and discounts, calculated as the difference between the initial amount and the repayment amount on maturity, over the life of the asset, less impairment recognised whenever there is objective evidence of impairment of the asset in question.

2.4.2.3 Fair value

The fair value of the counterpart received or tendered can usually be determined by reference to an active market or by using valuation techniques based chiefly on observable market inputs.

To determine a consistent value for the financial instruments measured at fair value, the Group uses the following methods:

- Derivative financial instruments held for trading or hedging: the Bank uses the discounted cash flow (DCF) method for plain vanilla contracts and the Black & Scholes model for structured contracts. In addition to these fair value measurements, the Group calculates, after application of ISDA-CSA agreements, an adjustment for counterparty risk, or a "Credit Value Adjustment" (CVA), to account for the credit quality of the counterparty for derivative financial instruments recognised on the assets side of the balance sheet. The valuation model is based on exposures derived from regulatory calculations while using the same concepts:
  - Exposure at Default (EaD),
  - Loss Given Default (LGD),
  - Probability of Default (PD).
- Financial assets:
  - fixed-income securities:
    - for assets quoted on an active market, the bid price published by an official quotation agent is used,
    - for assets quoted on a market considered inactive, the valuation price is calculated by the Bank's internal valuation model.
  - Variable-income securities:
    - for assets quoted on an active market, the bid price published by an official quotation agent is used,
    - for assets quoted on a market considered inactive or for unquoted assets, the Bank determines the value by analysing the last available annual financial statements, as well as recent transaction prices.
- Financial liabilities:
  - EMTNs issued by the BCEE Group are initially recognised at amortised cost. These transactions are subsequently designated as fair value hedges to avoid an accounting impact on the income statement due to hedging these issues with derivatives. Thus the fair value measurement method applied to the issue and to the hedge are identical, namely the discounted cash flow and Black & Scholes method.

2.4.3 Accounting judgements and estimates

The preparation of the consolidated financial statements under IFRS requires the Group to make a number of accounting estimates and judgements in order to determine the reported amounts of certain items.

The most significant of these are:

2.4.3.1 Fair value of financial instruments

When the fair value of a financial instrument recognised in the balance sheet cannot be determined based on an active market, it is calculated using valuation techniques mostly based on mathematical models. Insofar as possible, the inputs to mathematical models come from market observations.

Active and inactive market

The Group uses the following five criteria to determine whether or not a fixed-income securities market is active:
- percentage holding of the issue volume,
- quotation provided by at least two market participants,
- overall observable minimum bid size greater than or equal to EUR 2 million,
- observable spread between observable bid and ask prices less than 200 basis points,
- spread between bid and ask prices for the representative price (e.g., Bloomberg Generic Price) less than 250 basis points.

When a market is considered active, i.e., at least four of the five criteria have been met, the Group uses the prices published by an official quotation agent. For issues for which the Group estimates that the market is inactive based on its criteria (when at least two criteria are not met), it first calculates a price using the DCF (discounted cash flow method) based on yield curves and spreads, determined according to the issuer's rating. The price thus calculated is then weighted with a price indication provided by a quotation source, even if the price indication originates from a market which the Bank considered inactive based on its active / inactive market analysis.

Fair value hierarchy

The Group uses valuation techniques based on observable and non-observable market data to determine fair value:
- observable data reflect market variations collected from independent sources and reflecting real transactions (e.g. a three-year swap rate),
- non-observable data reflect estimates and internal assumptions adopted by the Group relating to market variations (e.g. an estimation of the payment plan of an MBS).

A fair value hierarchy was established according to the type of observable and non-observable data:
- Level 1 fair value: Level 1 inputs are essentially quoted prices in active markets for identical financial instruments. This level includes equity securities and debt instruments listed on stock exchanges, as well as derivatives traded on a regulated market. Financial instruments not listed on a market but that were recently involved in a transaction are also included in Level 1.
- Level 2 fair value: Level 2 inputs are other than quoted market prices included within Level 1 that are observable for the financial instruments, either directly or indirectly, i.e. derived from observable prices, such as implied volatilities of a share derived from observable prices of option contracts on this share. This level includes the majority of over-the-counter derivatives and structured debt securities issued. These inputs, such as "EURIBOR" yield curves or credit spreads, are initially provided by specialised financial data providers.
- Level 3 fair value: Level 3 inputs are mainly unobservable inputs for the asset or liability on a market. This level includes equity instruments or debt securities for which significant parameters used in the valuation models are based on internal estimations and assumptions.

To determine the fair value hierarchy, the Group reviewed all financial instruments measured at fair value to assess the importance of observable data directly or indirectly on the markets.

Observable market data include:
- credit spread curves based on CDS prices,
- interbank interest rates or swap rate,
- foreign exchange rates,
- stock indices,
- counterparty credit spreads.

2.4.3.2 Impairment of financial assets measured at amortised cost

In accordance with IAS 39, the Bank recognises an impairment whenever there is objective indication of impairment of the asset.

For retail banking, the non-recoverable amount for specific cases is estimated based on observations of historical loss data, while case-by-case appraiser assessments are used to estimate the non-recoverable amount for professional customers (wholesale portfolio), and a specific value adjustment is recognised as a result.

The Group assimilates the concept of default with objective indications of impairment as determined by IFRS, by applying the internal credit risk management regulations defined for the calculation of the capital adequacy ratio according to the Capital Requirements Regulation (CRR).

The Group's parent company also recognises "collective impairment" of loans and advances not identified individually as being in default in order to take account of the progressive credit risk after the date on which the loan was granted.

The Group's parent company bases its calculation of this collective value adjustment on historic loss data on its loan portfolio, determining the probability of default for different loan types according to the time elapsed from granting of loan up to the time of the default event.

The collective value adjustment, also known as IBNR (Incurred But Not Reported) impairment, is calculated on all individually performing loans and advances belonging to the "Loans and advances at amortised cost - customers" portfolio.

Collective impairment is calculated based on the concept of expected loss and is defined as the product of exposure at default (EaD), probability of default estimated on historical data (PD) and the CRR loss given default (LGD).

Pursuant to IFRS, the Group considers the impact of economic developments by using best-estimate LGD's, i.e. by over-weighting recent LGD historical data relative to older ones.

2.4.3.3 Impairment of Available-for-sale assets

The Group considers securities in the "available-for-sale financial assets" (AFS) portfolio to be impaired when it expects a permanent reduction in future contractual cash flows because of "objective impairment evidence".

The following are some of the objective indications of impairment used by the Bank:
- cash problems due to one or more late payments or redemptions,
- downgrade of ratings below a critical threshold (B+),
- deterioration of solvency.

Accordingly, a fall in price of more than 20% triggers an impairment test, irrespective of the existence of objective evidence of impairment.

When the Group recognises impairment on fixed-income securities, the difference between the fair value and amortised cost will be entered on the income statement and therefore will no longer be recognised in equity under "Revaluation reserve".

Similarly, when the Group recognises impairment on variable-income securities, the difference between the fair value and acquisition cost will be entered on the income statement and therefore will no longer be recognised in equity under "Revaluation reserve".

Regarding the objective criteria for impairment of variable-income securities, the Group recognises impairment only if the fair value is permanently lower than the historical cost. The monitoring and valuation of these positions and the decision to apply impairment are the responsibility of a group of appraisers on the basis of the following criteria:
- changes in market value for listed assets, or recent transaction prices,
- changes in net assets on the basis of published results for unlisted securities,
- projected changes in the counterparty in terms of business model or turnover and by appraiser assessments.

2.4.3.4 Impairment of held-to-maturity assets

For held-to-maturity assets, the Group applies the same principle regarding impairment as for fixed-income securities in the available-for-sale assets category.

2.5 CASH FLOW STATEMENT

The statement of cash flows represents the inflow and outflow of cash. Cash and cash equivalents include cash on hand, deposits with central banks, and assets with an original maturity of less than 90 days.

The cash flow statement classifies the cash flows of the period into operating activities, investment activities and financing activities.

The Group uses the indirect method to determine the cash flows. To do this, it eliminates from the net result all pure accounting flows that do not translate into an inflow or outflow of liquid funds and directly presents the items of the net result arising from operating activities before changes in operating assets and liabilities.

Operating activities

Operating activities are the main revenue generating activities. They comprise all activities other than investment or financing. They consist of the operating income and expenses, cash flows relating to financial and other income and expenses, as well as the different categories of taxes paid during the year.

Investing activities

Investing activities comprise the acquisition and disposal of assets in the long term and all other investments not included in cash equivalents.

Financing activities

Financing activities comprise activities leading to changes in the breadth and composition of equity, and subordinated capital issued by the Bank.

3. INFORMATION ON ACCOUNTING POLICIES APPLIED TO BALANCE SHEET CATEGORIES

3.1 CASH AND SIGHT ACCOUNTS WITH CENTRAL BANKS

Cash consists essentially of “Cash”, the various banks' nostro accounts and the minimum mandatory reserve with the Banque centrale du Luxembourg (BCL).

The minimum mandatory reserve is funded to satisfy the reserve requirement imposed by the BCL.

These funds are not available to finance the Group’s ordinary operations. The reserve basis is calculated on a monthly basis and is defined according to liability items on the balance sheet, according to Luxembourg accounting principles. The calculation of the basis that determines the reserve requirements is made by the Banque centrale du Luxembourg.

3.2 FINANCIAL INSTRUMENTS

3.2.1 Assets and liabilities held for trading

Financial instruments held to make a profit from short-term price fluctuations are classified as assets or liabilities held for trading. This category includes fixed-income securities, variable-income securities, short sales on these same financial instruments, as well as derivatives used for trading.

Since the concept of short-term is not defined by IAS 39, the Group considers six months as the average duration for non-derivative financial instruments.

Financial instruments held for trading are initially designated at fair value, with any subsequent gains and losses arising from changes in fair value recognised in the income statement under “Income from financial instruments held for trading”. Accrued interest incurred and received is recognised in the income statement under “Interest income”, and dividends are recognised under “Income from variable-income securities” from the time the right to payment becomes established.

3.2.2 Fixed-income securities held to maturity

Listed securities with a fixed maturity that are actively quoted at the acquisition date and that the Group expressly intends and has the means to hold to maturity are recognised at amortised cost under "Held-to-maturity securities", using the effective interest rate method integrating premiums and discounts spread over the life of the asset, after deduction of impairment, if any. The spreading of discounts and premiums is entered under "Interest income" in the income statement.

The conditions for classification as held-to-maturity assets and the strict portfolio requirements in terms of limited conditions for transfer and sale have led the Group to limit the use of this portfolio. Assets held to maturity (and therefore not measured at fair value) are not exposed to the risk of interest rate fluctuation; as a result, this risk cannot be hedged. However, foreign currency risk and credit risk may be hedged. The Group primarily invests in securities issued or guaranteed by first-class bank or sovereign issuers under its Asset and Liabilities Management policy.

The Group has adopted a procedure in compliance with IAS 39 AG 22 (a) detailing the conditions of sales before maturity in order to respect the conditions set out in paragraph 9 of this standard so as to not raise doubts as to the entity's intention to hold its other investments to maturity.

3.2.3 Available-for-sale assets

Available-for-sale assets correspond to positions initially designated as such, or those that were not classified in one of the other three asset categories (assets held for trading, held-to-maturity assets or receivables at amortised cost) at the time of initial recognition.

Available-for-sale financial assets include fixed-income securities, loans quoted in an active market, and variable-income securities, notably investments in shares and in open-end investment funds (SICAV). The Group has opted for fair value measurement of equity interests in companies at least 20% held, according to IAS 39, by classing these investments as available-for-sale financial assets for the purposes of the separate consolidated financial statements. Available-for-sale financial assets are initially recognised at fair value, including transaction costs. Interest is recognised in interest income using the effective interest rate method, while dividends are recognised in the income statement under "Income from variable-income securities" from the time the right to payment becomes established.

Available-for-sale financial assets are measured at fair value, based on the bid price for securities listed in an active market or based on observable market data or internal estimations. Unrealised gains or losses resulting from changes in fair value of these assets are recognised in equity under "Revaluation reserve". Impairment is recognised in the income statement and is therefore no longer recorded in equity under "Revaluation reserve".

When available-for-sale assets are sold, the gain or loss is recognised through profit or loss under "Income from financial instruments not recognised at fair value through profit or loss". If the Group has several investments in the same security, the sale is recorded using the first in - first out (FIFO) method.

Unrealised and realised gains or losses from fixed-income securities are determined by comparing the fair value of the bond with its amortised cost. Gains or losses on variable-income securities are measured by comparing the acquisition cost, including transaction costs, with the fair value.

The following paragraph explains the specific accounting treatment for bonds included in the available-for-sale portfolio, which are hedged against interest rate risk.

3.2.4 Derivatives used for hedging purposes

The Group uses derivatives to hedge interest rate, foreign exchange, credit and price risk such as stock market indices or share prices. The derivatives commonly used are interest rate swaps (IRS) and cross currency interest rate swaps (CIRS) in standard plain vanilla hedging transactions. In addition to these standardised contracts, the Group uses swaps with structured components to specifically hedge structured Euro Medium Term Notes (EMTN) issues and acquisitions of structured bonds included in its portfolio of available-for-sale assets and containing embedded derivatives.

Derivatives are considered as being held for trading except where they are designated as hedging instruments. When entering into a contract, the Group may designate financial instruments as hedging instruments in assets or liabilities on the balance sheet, if the transactions meet the criteria set out in IAS 39.

The Group classifies hedging instruments in the following categories:

- fair value hedge of an asset, a liability or a firm commitment,
- fair value hedge of a portfolio or a sub-portfolio of assets,
- cash flow hedge of future cash flows attributable to a specific asset or liability or future transaction.

The Group primarily uses fair value hedges.

Hedge accounting must comply with the following restrictive conditions set out in IAS 39:

- prior to being set up, the hedging relationship is formally designated and documented, including the entity's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness,
- the hedging starts with the designation of the derivative financial instrument used for hedging and ends either at the derecognition of the hedged instrument or if the effectiveness of the hedge is no longer given,
- prospective effectiveness: as soon as the transaction is set up, it is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the hedging period. Prospective effectiveness is established when the main characteristics between hedged items and hedging items are substantially identical (par value, interest rate, maturity and currency) within the hedging period designated by the Group for the transaction,
- retrospective effectiveness: it is assessed retrospectively (results within a range of 80 to 125%) at each reporting date.

Changes in the fair value of derivatives designated as fair value hedges which meet the criteria for hedge accounting and have demonstrated their effectiveness relative to the hedged instrument are recognised in profit or loss under "Income from hedging transactions". At the same time, corresponding changes in the fair value of the hedged item are also recognised in profit or loss.

If the hedge no longer meets the criteria for hedge accounting at a given time, the fair value adjustment to the interest-bearing hedged item must be amortised to profit or loss over the remaining period to maturity as an adjustment to the return on the hedged item.

Changes in the fair value of derivatives designated as cash flow hedges, which meet the criteria for hedge accounting and have proven their effectiveness relative to the underlying instrument to be hedged, are recognised in equity under "Revaluation reserve - cash flow hedges".

If a hedging instrument expires or is sold, terminated, or exercised, or if the hedge no longer meets the hedge accounting criteria, the Group ceases to apply hedge accounting. Any adjustment in the book value of an interest-bearing hedged instrument is amortised through profit or loss, and must be totally amortised at maturity. If the item is derecognised, i.e. removed from the balance sheet, the change in fair value is recognised immediately in profit or loss.

The Group's parent company applies fair value macro-hedging on fixed-rate loans in accordance with the principles of IAS 39 in its "carve-out" version for the European Union. The decrease in the interest-rate curve favoured the marketing of fixed-rate loans, primarily in the area of mortgage loans. Hedging is done exclusively using IRS derivatives.

3.2.5 Securities transactions: Repurchase and reverse repurchase agreements - Lending and borrowing of securities

3.2.5.1 Repurchases and reverse repurchases

Securities covered by repurchase agreements (repo transactions) concerning the same or a substantially identical asset remain on the balance sheet and are considered as financial assets held for trading, available-for-sale financial assets or held-to-maturity financial assets. The amount due to the counterparty is entered in liabilities under "Deposits at amortised cost".

In the main, the Group enters into repurchase agreements relating to the same or substantially identical assets.

By analogy, securities purchased subject to resale agreements (reverse repo) relating to the same or substantially identical asset are not recorded in the balance sheet. The consideration for securities purchased under reverse repo agreements is entered under "Loans and advances at amortised cost".

The Group carries out tri-party repo and tri-party reverse repo transactions with counterparties rated "A" or higher. The structure involves a third-party intermediary throughout the life of the tri-party repo to manage delivery versus payment, control the eligibility criteria of securities, calculate and manage margin calls and manage substitutions of securities. Maturity varies from overnight to 12 months.

Income from repurchase and reverse repurchase agreements is entered under "Interest income" in the income statement.

3.2.5.2 Lending and borrowing of securities

Securities lent remain on the balance sheet, while securities borrowed are not entered on the balance sheet.

3.2.6 Loans and advances at amortised cost

Loans and advances at amortised cost are financial assets issued by the Group with fixed or adjustable payments and which are not listed on an active market.

Loans and advances with fixed maturity issued by the Group are recorded at amortised cost using the effective interest rate method.

These financial instruments are tested for impairment at the end of each quarter, using a variety of indicators:
- Default: this indicator was transposed in accordance with the CRR definition and has been used for years,
- Non-performing: this new indicator was transposed in accordance with the European Banking Authority (EBA) definition published in 2014,
- Forbearance (Restructuring): this indicator was transposed in early 2014 in accordance with the EBA definition,
- Group contagion: in the event of default, the need to expand the default to any other group entities is systematically assessed,
- Indicators based on the balance sheet of professional customers, for example:
  - Insufficient capital,
  - Significant decline in turnover,
  - Negative cash flow.

On completion of the impairment test, the Group's parent company makes an individual impairment decision for each instrument subject to review. The level of impairment depends primarily on collateral and on personal guarantees, valued by applying prudent haircuts, and the relevant customer's estimated ability to repay loans.

IAS 18 requires loan administration expenses to be recorded as origination fees to be included in the calculation of the effective interest rate. According to the actuarial method, the material expenses and commissions linked to fixed-rate loans are spread over the life of the asset and recognised as an adjustment to the asset's effective rate of return. If the amounts are not significant, they are recognised directly in profit or loss.

In the case of variable- or adjustable-rate loans, the straight-line method is used and not the actuarial method.

Since the Group opted to measure loans and advances not evidenced by a security at amortised cost, measurement based on the yield curve is only used if the loan is hedged by a derivative instrument and when the Group has formally designated the transaction as a hedging transaction in accordance with IFRS.

Fixed-income financial assets traded on an inactive market and intended to be held to maturity are also included in the "Loans and advances at amortised cost" category.

3.2.7 Interbank market

3.2.7.1 Borrowings

Borrowings are initially recognised at fair value net of transaction costs. Subsequently, borrowings are recognised at amortised cost and any difference between the net amount received and the amount repaid is recorded in the income statement over the duration of the loan, using the effective interest rate method.

3.2.7.2 Issuance of debt securities

Initially, debt issued by the Group is measured at amortised cost. However, as part of its EMTN programmes, the Group issues a large number of structured bonds containing embedded derivatives whose price fluctuations are hedged by swaps with a structure identical to the one contained in the bond.

The Group has designated these operations as fair value hedges, which allows it to offset the market effect in the income statement.

3.2.8 Impairment of financial assets

In accordance with IAS 39, the Bank recognises an impairment whenever there is objective indication of impairment of the asset.

With regard to assets at amortised cost, the recoverable amount is net of pledges and guarantees and corresponds to estimated future cash flows discounted at the initial effective interest rate or, in the case of variable-income instruments, at the last effective interest rate. The impairment amount recognised is the difference between the book value and the recoverable value.

The recoverable amount for instruments measured at fair value is either the fair value or the estimated future cash flows discounted at the market rate applicable to similar financial instruments.
Allowances for impairment of the available-for-sale portfolio and loans and advances reduce the book value of the asset concerned.

The Bank distinguishes between two classes of impairment:
<u>Impairments recognised by individual value adjustments</u>: the amount of the impairment loss is the difference between the book value of the asset and its recoverable amount. Financial assets are valued contract by contract. However, in principle, financial assets of small amounts, such as retail loans, presenting similar risk characteristics, are grouped together for the purposes of an overall assessment of the impairment rate.

<u>Impairments recognised by collective value adjustments</u>: in the absence of individual value adjustments, IFRS provide for collective impairment to cover the risk of potential loss, if there are one or more objective indications of probable loss in certain portfolio segments or in other loan commitments granted but not drawn on the reporting date. As things currently stand, the Group only applies this principle to retail customers in the "Loans and advances at amortised cost" portfolio.

The Group bases its calculation of collective impairments on experience and historical data for realised losses. The default probability for the different types of loans is calculated based on the length of time between granting of the loan and the default.

If the Group's management considers a financial asset as being totally unrecoverable, according to objective indications, it is written off in full. In the event any inflows of funds are recognised subsequently on this asset, they are recognised in the income statement under "Other operating income".

3.2.9 Other financial assets and liabilities

Other assets comprise short-term receivables. Other liabilities mainly consist of short-term payables, coupons due and other amounts payable on behalf of third parties, debts to preferential and sundry creditors.

3.2.10 Income and expenses relative to financial assets and liabilities

Interest income and expenses are recognised in profit or loss for all financial instruments measured at amortised cost, according to the effective interest rate method.

The effective interest rate is the rate that exactly discounts future cash disbursements or receipts over the expected life of the financial instrument in order to obtain the net book value of the financial asset or liability. The calculation includes transaction costs and income, premiums and discounts. Transaction costs and income that are an integral part of the contract's effective rate, such as loan administration fees for instance, can be treated as additional interest.

Financial instruments held for trading are recorded at their fair value. Changes in their fair value are recognised in the income statement under "Income from financial instruments held for trading". Dividends are entered under "Income from securities", while interest is entered under "Interest income".

The Group recognises fees in the income statement according to the type of services rendered and the accounting method of the financial instruments to which the service relates:

- fees paid for continuing services are spread out as income over the duration of the rendered service (loan administration costs, transaction costs, etc.),
- fees paid for one-off services are fully recognised as income when the service has been delivered,
- fees paid for the execution of an important transaction are fully recognised in the income statement at the time the transaction is executed.

For certain operations relating to wholesale international customers, commitment and utilisation fees are determined based on a percentage of the credit line. These fees are integrated on a "prorata temporis" base over the life of the credit line, except if the fees should be integrated in the acquisition cost of the balance sheet exposure which may result from the credit line.

3.3 TANGIBLE ASSETS

Tangible assets for own use as well as investment property are recorded at acquisition cost. Costs related directly to the acquisition are capitalised as an integral part of the acquisition cost.

Tangible assets for own use consist of land and buildings, facilities and installations, computer hardware and other equipment. The heading "Investment property" in IAS 40 includes the Group's rented property.

Tangible assets are recognised at historical cost less accumulated amortisation and possible impairment. Costs related directly to the acquisition are capitalised and amortised as an integral part of the acquisition cost at the same pace as for the principal asset. The amortisable amount of these assets is calculated after deduction of their residual value. The Group applies the component approach to depreciation according to IAS 16 on tangible construction assets. Components related to tangible assets are amortised over their estimated useful life using the straight-line method. Land is recognised at cost.

Useful life for the main types of tangible assets:

- constructions:	
• Structural works components	30 - 50 years
• Finishing component 1	30 years
• Finishing component 2	10 years
• Other components	10 - 20 years
- computer hardware:	4 years
- office fixtures, furniture and other equipment:	2 to 10 years
- vehicles:	4 years

Finishing component 1 includes, among other things, lightweight partitions, screeds, tiles and joinery, whereas finishing component 2 includes resilient floor coverings and paint. "Other components" consists, among others, of electrical facilities, plumbing, and heating and air-conditioning facilities.

Investments on leased buildings are amortised over the remaining term of the lease. If the term is not fixed, amortisation takes place over 10 years.

Maintenance and repairs that do not increase the economic benefits of the tangible asset are accounted for in the income statement when incurred.

If the recoverable amount of an asset falls below its book value, an impairment must be recognised to adjust the book value on the balance sheet to the estimated recoverable amount.

Expenses incurred for the purpose of increasing the economic benefits generated by a tangible asset or real estate asset, or which extend its useful life, are recognised in assets on the balance sheet and amortised over the underlying asset's estimated useful life.

Gains or losses arising from the removal from active use or disposal of tangible assets are determined by the difference between the proceeds of the disposal and the residual value of the assets, and are recognised in profit or loss under "Other operating income or expense" as at the date of disposal or removal from active use.

The acquisition cost of equipment and furniture whose normal useful life is less than one year is recognised directly in profit or loss for the period under "Other general and administrative expenses".

3.4 INTANGIBLE ASSETS

The Group considers software, whether acquired or internally generated, as well as the related development and set-up expenses, as intangible assets. Software is amortised over a 3-year period using the straight-line method.

3.5 LEASE AGREEMENTS

A lease agreement which transfers substantially all the risks and advantages incidental to ownership of an asset is a finance lease, otherwise it is an operating lease.

3.5.1 A Group entity is a lessee

The Group has essentially entered into operating lease agreements for the rental of its offices or equipment. Lease payments are recognised in the income statement and when a lease contract is terminated in advance, the penalties to be paid are recognised as an expense in the reporting period during which the termination occurred.

3.5.2 A Group entity is a lessor

When the Group leases an asset within the framework of a finance lease, the net present value of the lease payments is recognised as a receivable under "Loans and advances at amortised cost" for customers or credit institutions. The difference between the payments due and their present value is recognised as unrealised financial income under "Interest income" in the income statement. The lease payments and the arrangement costs for the lease are spread over the term of the agreement so that the income generates a constant effective interest rate.

3.6 EMPLOYEE BENEFITS

Employee benefits are measured in accordance with revised IAS 19. The benefits granted to employees by the Group are divided into the three categories described hereafter.

3.6.1 Short-term benefits

Short-term benefits mainly comprise wages, annual holidays and bonuses paid within twelve months of the end of the financial year in respect of that financial year. They are recognised in the income statement under "Personnel expenses", including amounts remaining due on the reporting date.

3.6.2 Long-term benefits

Long-term benefits are benefits generally related to seniority, paid to active employees more than twelve months after the closing of the financial year. These commitments are provisioned based on the value on the reporting date. They are measured using the same actuarial method as that applied to post-employment benefits.

3.6.3 Post-employment benefits

In accordance with the organic law of 24 March 1989 on the Banque et Caisse d'Epargne de l'Etat, Luxembourg, employees not considered as civil servants ("agents employés") receive a pension supplement, paid by the Bank, if they are eligible for the Luxembourg civil service pension scheme. Pension supplements concern the following benefits:
- old age pension,
- disability pension,
- surviving spouse/partner pension,
- surviving orphan pension,
- three-month additional pension.

Pensions for employees who are classed as civil servants are also paid for by the Bank.

A civil servant's pension entitlement is determined according to the civil service pension scheme. However, the pension supplement for an "agent employé" is based on the difference between the amount of the said benefit as provided by the civil service pension scheme and the amount of the benefit under the pension scheme for private sector employees.

Thus, this scheme is inherently a defined-benefit plan which finances commitments relating to the first pillar.

On 1 December 2009, the pension fund was outsourced to the BCEE sub-fund of the "Compagnie Luxembourgeoise de Pension (CLP)", established as a retirement saving association (association d'épargne-pension - ASSEP). Therefore, the amount entered in the balance sheet is the present value of the defined benefit obligation as at the reporting date, net of plan assets and of adjustments related to unrecognised actuarial gains and losses and past services costs.

The defined benefit obligation is calculated each year by independent actuaries according to the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the future cash disbursements based on the interest rate of high-quality corporate bonds, denominated in the currency of the payment of the benefit, the term of which is close to the estimated average term of the post-employment benefit obligation.

The sum total of the following amounts represents the annual pension expenses of the Group's parent:
- the current service cost,
- interest cost resulting from the application of the discount rate,
- all actuarial gains and losses,

these amounts are net of the expected return on plan assets.

Actuarial gains and losses are systematically recognised under "Consolidated reserves" in equity.

The calculation of the defined-benefit obligation has, since 2015, been based on the DAV2004R generation tables which most closely resemble the longevity of Luxembourg's white-collar population. In prior years, the calculation of the defined-benefit obligation had been based on the IGSS (General Inspectorate of Social Security) mortality tables with an allowance made for a five-year improvement.

3.6.4 Investment policy of the Compagnie Luxembourgeoise de Pension (CLP)

The management objective of the "CLP-BCEE" sub-fund is three-fold: to coordinate the various cash flows, to minimise the portfolio's volatility and the probability of an extraordinary contribution request, and to coincide the actual yield with the induced yield. To achieve these objectives, the "CLP-BCEE" sub-fund is authorised to invest in the following instruments:
- Conventional financial instruments:
  - Securities negotiable on the capital market:
    - Shares in companies or other equivalent securities,
    - Bonds and other debt securities,
  - Money market instruments such as treasury bills, certificates of deposit, commercial paper and treasury notes,
  - Shares and units in undertakings for collective investment, including Exchange Traded Funds.
- Derivatives: options, futures, swaps, rate agreements and all other derivatives related to securities, money market instruments, undertakings for collective investment, currencies, interest rates, exchange rates, commodities, yields, other derivatives, financial indices or financial measures.
- Liquidity:
  - All forms of conventional deposits at sight and at term.

The "CLP-BCEE" sub-fund invests more than 50% of its assets in bonds, debt securities and money market financial instruments. Secondarily, "CLP-BCEE" can invest up to 20% of its assets in shares and equivalent securities. For the purpose of diversification, investments made with the same issuer or counterparty may not exceed 25% of assets. The use of derivatives is permitted by the investment policy for the purpose of hedging and/or efficient management of the portfolio.

Eligible bonds and money market financial instruments will have a minimum rating of A- (Standard & Poor's); similarly, the issuer must be from a member country of the European Union or the OECD.

Any change to the investment policy is subject to the prior approval of the Board of Directors of the CLP and the Supervisory Authority.

3.7 PROVISIONS

According to IAS 37, a provision is a liability of uncertain timing or amount, but which represents an obligation towards a third party arising from past events and the settlement of which is more than 50% likely to result in an outflow of resources embodying economic benefits.

The Bank recognises a provision at the present value when a reliable estimate can be made of the amount of the obligation.

On 18 December 2015, Luxembourg passed the law on the resolution, recovery and liquidation measures of credit institutions and some investment firms and on deposit guarantee and investor compensation schemes (the "Law"), transposing into Luxembourg law Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, as well as Directive 2014/49/EU on deposit guarantee and investor compensation schemes.

The Law replaces Luxembourg's deposit guarantee and investor compensation scheme, implemented by the AGDL, with a new contribution-based deposit guarantee and investor compensation scheme. The new scheme will cover all eligible deposits by a single depositor up to EUR 100,000 and investments up to EUR 20,000. In addition, the Law requires that deposits arising from specific transactions, fulfilling a social objective, or relating to particular life events be covered above the limit of EUR 100,000 for a 12-month period.

The target level of funding of the new "Fonds de Garantie des Dépôts Luxembourg" (FGDL) is set at 0.8% of the covered deposits (as defined in Article 163(8) of the Law) of member institutions and will have to be reached by the end of 2018. Contributions are to be made annually between 2016 and 2018. For 2015, a provision of 0.2% of covered deposits was established in anticipation of these contributions.

When the 0.8% level is reached, Luxembourg credit institutions will continue to contribute for another eight years to provide an additional cushion of 0.8% of covered deposits as defined in Article 163(8) of the Law.

3.8 DEFERRED TAXES

Deferred tax assets and liabilities are recognised on temporary differences arising between the tax base of assets and liabilities and their book values. Deferred tax assets and liabilities are calculated using the comprehensive calculation method, which takes into account all temporary differences, regardless of the date on which the tax will become payable or recoverable.

The rates used and tax laws applied to calculate deferred taxes are those that will apply when the tax becomes payable or recoverable.

Deferred tax assets are recognised to the extent that it is probable that the entity will recover the asset within a given time frame. Deferred taxes on unrealised gains or losses on available-for-sale assets and on changes in the value of derivatives designated as cash flow hedges are recognised in equity under "Revaluation reserve". Deferred taxes on actuarial gains and losses related to pension plan commitments are recognised in equity under "Consolidated reserves".

Bank Museum

4. NOTES TO THE BALANCE SHEET [1] (in euros)

4.1 CASH AND SIGHT ACCOUNTS WITH CENTRAL BANKS

Cash consists of cash and cash balances with central banks. The minimum reserve requirement with the Banque centrale du Luxembourg is entered under this heading. This is the minimum mandatory reserve to satisfy the reserve requirement imposed by the Luxembourg central bank. Hence, these funds are not available to finance the Group's ordinary operations.

Headings [2]	31/12/2014	31/12/2015
Cash	65,189,494	81,173,833
Reserve requirement	825,527,835	1,022,181,472
Deposits with central banks	10,650,672	12,375,846
Other sight deposits	-	197,597,078
Total	**901,368,001**	**1,313,328,229**

Beginning with financial year 2015, the Group's parent company reclassified the "Loans and advances at amortised cost - Credit institutions", "Interbank loans" sub-heading to "Cash and sight deposits with central banks" to comply with the requirements of the reporting methods defined by the EBA. This reclassification was not applied to financial year 2014 and the corresponding amount of EUR 176,355,780 was still recognised under "Loans and advances at amortised cost - Credit institutions".

[1] Minor differences between the figures in the notes to the consolidated financial statements and the figures in the different consolidated statements are rounding differences only.
[2] Term of less than one year.

4.2 FINANCIAL INSTRUMENTS

Financial instruments are analysed by counterparty and type, differentiating between the instruments with a maturity up to one year and those with a maturity of more than one year.

4.2.1 Assets and liabilities held for trading

Assets	31/12/2014			31/12/2015		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Non-derivative financial instruments	427,936	452,667	880,603	166,342	251,422	417,765
Derivative instruments (note 4.7.)	256,598,462	65,092,708	321,691,170	154,228,960	46,468,831	200,697,791
Total	**257,026,399**	**65,545,375**	**322,571,774**	**154,395,302**	**46,720,254**	**201,115,555**

Liabilities	31/12/2014			31/12/2015		
Non-derivative financial instruments	-	123,249	123,249	-	785	785
Derivative instruments (note 4.7.)	104,566,100	95,210,445	199,776,545	106,791,783	63,539,784	170,331,566
Total	**104,566,100**	**95,333,694**	**199,899,794**	**106,791,783**	**63,540,569**	**170,332,351**

Assets - Non-derivative financial instruments	31/12/2014			31/12/2015		
Debt instruments	**161,368**	**452,667**	**614,035**	**166,342**	**251,422**	**417,765**
Public sector	*94,238*	*1,493*	*95,731*	*-*	*-*	*-*
Credit institutions	*67,130*	*205,672*	*272,803*	*121,682*	*63,715*	*185,397*
Corporate customers	*-*	*245,501*	*245,501*	*44,660*	*187,708*	*232,368*
Equity instruments	**266,568**	**-**	**266,568**	**-**	**-**	**-**
Total	**427,936**	**452,667**	**880,603**	**166,342**	**251,422**	**417,765**
Unrealised profit/loss at the reporting date	10,727	6,862	17,589	566	-	566

Liabilities - Non-derivative financial instruments	31/12/2014			31/12/2015		
Short sales						
Bonds	-	*123,249*	*123,249*	-	*785*	*785*
Shares	-	-	-	-	-	-
Total	**-**	**123,249**	**123,249**	**-**	**785**	**785**

4.2.2 Available-for-sale financial assets

Headings	31/12/2014			31/12/2015		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Debt instruments	**1,839,892,884**	**7,910,288,131**	**9,750,181,015**	**2,511,965,171**	**7,486,574,394**	**9,998,539,565**
Public sector	*286,736,627*	*2,406,242,581*	*2,692,979,208*	*427,812,071*	*2,224,857,745*	*2,652,669,817*
Credit institutions	*1,164,775,869*	*3,866,456,121*	*5,031,231,989*	*1,487,938,200*	*3,643,625,069*	*5,131,563,268*
Corporate customers	*388,380,388*	*1,637,589,430*	*2,025,969,818*	*596,214,900*	*1,618,091,580*	*2,214,306,480*
Equity instruments	**1,153,020,266**	**-**	**1,153,020,266**	**1,005,562,944**	**-**	**1,005,562,944**
Credit institutions	*4,261,295*	-	*4,261,295*	*4,312,411*	-	*4,312,411*
Corporate customers	*1,148,415,559*	-	*1,148,415,559*	*1,000,517,065*	-	*1,000,517,065*
Other	*343,412*	-	*343,412*	*733,468*	-	*733,468*
Total	**2,992,913,150**	**7,910,288,131**	**10,903,201,281**	**3,517,528,115**	**7,486,574,394**	**11,004,102,509**
Impairment of financial assets	-15,673,808	-47,200,815	-62,874,623	-13,140,711	-47,339,316	-60,480,026
Unrealised profit/loss at the reporting date	925,243,757	466,915,646	1,392,159,403	753,396,687	350,196,534	1,103,593,220

Impairment of available-for-sale financial assets:

	Corporate customers		Credit institutions	Public Sector	Total
	ABS/MBS	Other			
Position as at 1 January 2014	**48,737,944**	**9,717,826**	**13,699,884**	**-**	**72,155,656**
Additions	-	-	1,749,978	-	1,749,978
Reversals	-10,550,194	-	-2,499,884	-	-13,050,078
Write-off of receivables	-	-	-	-	-
Exchange gain or loss	1,394,380	624,689	-	-	2,019,069
Position as at 31 December 2014	**39,582,130**	**10,342,515**	**12,949,978**	**-**	**62,874,623**
Position as at 1 January 2015	**39,582,130**	**10,342,515**	**12,949,978**	**-**	**62,874,623**
Reclassification	-	1,749,978	-1,749,978	-	-
Additions	-	3,002,020	-	-	3,002,020
Reversals	-7,046,650	-	-	-	-7,046,650
Write-off of receivables	-	-	-	-	-
Exchange gain or loss	1,042,626	607,408	-	-	1,650,035
Position as at 31 December 2015	**33,578,106**	**15,701,922**	**11,200,000**	**-**	**60,480,026**

Unrealised profit/loss on available-for-sale financial assets:

The unrealised profit/loss as at the reporting date breaks down as follows:

Debt instruments

Debt instruments include variable-rate bonds, fixed-rate bonds and structured bonds. Fixed-rate and structured bonds are converted into variable-rate bonds using derivatives (asset-swaps). The Group applies fair value hedge accounting to these transactions. The prospective and retrospective efficiencies are close to 100%.

31/12/2015	Fair value adjustment of debt instruments		Fair value adjustments of the swap leg hedging the asset	
	Changes in unhedged risk ("credit and liquidity spread")	Changes in hedged risk (interest rate and price)	Changes in hedge risk	Retrospective efficiency rate
Fixed-rate bonds and structured bonds	34,350,120	333,788,834	-333,788,834	100.00%
Variable-rate bonds	2,476,449			

31/12/2014	Fair value adjustment of debt instruments		Fair value adjustments of the swap leg hedging the asset	
	Changes in unhedged risk ("credit and liquidity spread")	Changes in hedged risk (interest rate and price)	Changes in hedge risk	Retrospective efficiency rate
Fixed-rate bonds and structured bonds	58,164,031	414,328,634	-416,144,603	100.44%
Variable-rate bonds	10,239,788			

Breakdown of changes in carrying amount:

Debt instruments	2014	2015
Position as at 1 January	**9,286,093,904**	**9,750,181,015**
Acquisitions	2,544,188,484	2,210,496,540
Sales	-72,816,080	-33,118,160
Repayments	-2,214,283,751	-1,844,341,731
Realised profit/(loss)	236,042	441,590
Pro-rata interest	-8,959,581	-23,337,189
Unrealised valuations	153,068,806	-112,117,050
Impairment	9,905,720	3,002,003
Exchange gain or loss	52,747,470	47,332,547
Position as at 31 December	**9,750,181,015**	**9,998,539,565**

Equity instruments

Headings	31/12/2014	31/12/2015
Equity instruments	1,153,020,266	1,005,562,944
Total	**1,153,020,266**	**1,005,562,944**
Impairment of financial assets	-10,342,514	-10,949,922
Unrealised profit/loss at the reporting date	909,426,950	732,977,818

4.3 INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

	31/12/2014	31/12/2015
Acquisition value as at 1 January	**50,102,635**	**54,227,635**
Establishment	4,125,000	-
Disposals	-	-
Total (as acquisition value)	**54,227,635**	**54,227,635**

Gallery of Contemporary Art "Am Tunnel" & Espace Edward Steichen

List of associates:

Associates	Fraction of capital held (%)	Acquisition value	Equity-accounted value 2015
Société Nationale de Circulation Automobile S.à.r.l.	20.00	24,789	6,958,027
Luxair S.A.	21.81	14,830,609	88,912,700
Société de la Bourse de Luxembourg S.A.	22.75	128,678	22,389,641
Europay Luxembourg S.C.	25.40	96,279	392,557
FS-B S.à.r.l.	28.70	3,003,694	3,616,094
FS-T S.à.r.l.	28.70	1,104,793	1,064,526
Visalux S.C.	36.26	412,506	454,933
La Luxembourgeoise S.A.	40.00	16,856,760	117,728,292
La Luxembourgeoise-Vie S.A.	40.00	12,047,625	81,765,414
BioTechCube (BTC) Luxembourg S.A.	50.00	5,000,000	762,950
Sub-total direct holdings in associates		**53,505,734**	**324,045,135**
EFA Partners S.A.	29.05	551,900	598,811
Pecoma International S.A.	33.33	170,000	210,018
Sub-total indirect holdings in associates		**721,900**	**808,829**
Total		**54,227,634**	**324,853,964**

Associates	Fraction of capital held (%)	Acquisition value	Equity-accounted value 2014
Société Nationale de Circulation Automobile S.à.r.l.	20.00	24,789	5,397,760
Luxair S.A.	21.81	14,830,609	84,772,995
Société de la Bourse de Luxembourg S.A.	22.75	128,678	22,803,518
Europay Luxembourg S.C.	25.40	96,279	505,076
FS-B S.à.r.l.	28.70	3,003,694	3,550,915
FS-T S.à.r.l.	28.70	1,104,793	1,046,077
Visalux S.C.	36.26	412,506	877,787
La Luxembourgeoise S.A.	40.00	16,856,760	103,395,081
La Luxembourgeoise-Vie S.A.	40.00	12,047,625	85,997,493
BioTechCube (BTC) Luxembourg S.A.	50.00	5,000,000	762,861
Sub-total direct holdings in associates		**53,505,734**	**309,109,564**
EFA Partners S.A.	29.05	551,900	606,141
Pecoma International S.A.	33.33	170,000	255,906
Sub-total indirect holdings in associates		**721,900**	**862,047**
Total		**54,227,634**	**309,971,611**

Pursuant to the provisions of IFRS 12 Disclosure of Interests in Other Entities, the Group considers all interests in other companies to be immaterial and therefore provides the following information:

Associates	2015			
	Net income from continuing operations	Net income after tax from discontinued operations	Other items of comprehensive income	Total comprehensive income
Sub-total direct holdings in associates				
Société Nationale de Circulation Automobile S.à.r.l.	122,987	-	-	122,987
Luxair S.A.	3,645,137	-	-	3,645,137
Société de la Bourse de Luxembourg S.A.	2,959,780	-	-	2,959,780
Europay Luxembourg S.C.	17,229	-	-	17,229
FS-B S.à.r.l.	65,179	-	-	65,179
FS-T S.à.r.l.	18,449	-	-	18,449
Visalux S.C.	-71,398	-	-	-71,398
La Luxembourgeoise S.A.	14,614,076	-	-	14,614,076
La Luxembourgeoise-Vie S.A.	2,092,895	-	-	2,092,895
BioTechCube (BTC) Luxembourg S.A.	-7,783	-	-	-7,783
Indirect interests				
EFA Partners S.A.	-4,167	-	-	-4,167
Pecoma International S.A.	-15,376	-	-	-15,376

Associates	2014			
	Net income from continuing operations	Net income after tax from discontinued operations	Other items of comprehensive income	Total comprehensive income
Sub-total direct holdings in associates				
Société Nationale de Circulation Automobile S.à.r.l.	231,658	-	-	231,658
Luxair S.A.	-558,509	-	-	-558,509
Société de la Bourse de Luxembourg S.A.	3,050,770	-	-	3,050,770
Europay Luxembourg S.C.	39,058	-	-	39,058
FS-B S.à.r.l.	49,479	-	-	49,479
FS-T S.à.r.l.	13,033	-	-	13,033
Visalux S.C.	13,160	-	-	13,160
La Luxembourgeoise S.A.	8,413,206	-	-	8,413,206
La Luxembourgeoise-Vie S.A.	1,618,512	-	-	1,618,512
BioTechCube (BTC) Luxembourg S.A.	-3,953,803	-	-	-3,953,803
Indirect interests				
EFA Partners S.A.	-1,004	-	-	-1,004
Pecoma International S.A.	15,137	-	-	15,137

The Group has no structured investment vehicles and has not issued any securitisations.

4.4 SECURITIES HELD TO MATURITY

Headings	31/12/2014			31/12/2015		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Debt instruments						
Public sector	*45,272,433*	*680,696,311*	*725,968,744*	*89,255,453*	*876,492,822*	*965,748,275*
Credit institutions	*1,275,551,495*	*2,000,035,246*	*3,275,586,741*	*715,001,018*	*2,093,586,193*	*2,808,587,211*
Corporate customers	*200,176,977*	*497,665,314*	*697,842,291*	*233,828,001*	*675,337,939*	*909,165,940*
Total	**1,521,000,905**	**3,178,396,870**	**4,699,397,776**	**1,038,084,472**	**3,645,416,954**	**4,683,501,426**

No impairment loss on held-to-maturity securities has been recognised by the Group.

The decrease in assets under this heading is explained by the non-replacement of assets that reached maturity in the context of reinvestments of liabilities with maturity of less than two years in bonds of the same duration.

Breakdown of changes in carrying amount:

Held-to-maturity securities	2014	2015
Position as at 1 January	**4,785,557,990**	**4,699,397,776**
Acquisitions	*1,465,789,580*	*1,530,998,811*
Repayments	*-1,527,240,017*	*-1,531,637,151*
Pro-rata interest	*-24,709,777*	*-15,505,388*
Exchange gain or loss	-	*247,379*
Position as at 31 December	**4,699,397,776**	**4,683,501,426**

4.5 SECURITIES COLLATERALISED

- Securities collateralised in the framework of repurchase agreements

Headings	31/12/2014	31/12/2015
Debt instruments issued by the public sector	331,666,372	250,169,147
Debt instruments issued by credit institutions	576,288,531	136,080,118
Debt instruments issued - others	-	11,496,150
Equity instruments	100,719	13,457,516
Total	**908,055,622**	**411,202,931**

Debt instruments issued are primarily available-for-sale and held-to-maturity assets.
The decrease observed in debt instruments stems from the lower number of collateral security agreements as at 31 December 2015.

- Securities lent and other collateral

Headings	31/12/2014	31/12/2015
Securities lending		
Debt instruments issued by the public sector	2,923,374	177,989,435
Debt instruments issued by credit institutions	248,225,491	22,376,369
Debt instruments issued - others	3,989,417	-
Other collateral		
Debt instruments issued by the public sector	37,794,400	37,184,960
Total	**292,932,682**	**237,550,764**

4.6 CONVERTIBLE BONDS INCLUDED IN THE DIFFERENT PORTFOLIOS

Headings	31/12/2014	31/12/2015
Convertible bonds	9,007,436	-

The convertible bonds in which the Group has invested are available-for-sale assets. At 31 December 2015, the Group no longer held any convertible bonds in its portfolio.

4.7 DERIVATIVE INSTRUMENTS

Balances as at 31/12/2015	Assets	Liabilities	Notional
Derivative financial instruments held for trading	**200,697,791**	**170,331,566**	**19,516,887,031**
Operations linked to exchange rates	145,598,727	93,731,726	13,104,220,860
- Foreign exchange swaps and forward exchange contracts	*145,578,609*	*93,711,640*	*12,909,650,578*
- other	*20,117*	*20,086*	*194,570,282*
Operations linked to interest rates	49,904,951	71,403,808	1,855,947,923
- IRS	*48,339,956*	*69,532,422*	*1,647,953,336*
- other	*1,564,995*	*1,871,386*	*207,994,587*
Operations linked to equity	5,194,113	5,194,113	4,533,816,085
- Equity and index options	*5,194,113*	*5,194,113*	*4,533,816,085*
Operations linked to credit risk	-	1,918	22,902,162
- Credit derivatives (CDS)	-	*1,918*	*22,902,162*
Fair value hedges (micro)	**56,524,246**	**801,865,324**	**9,984,086,409**
Operations linked to exchange rates	43,647,665	201,534,710	2,655,377,634
- CCIS	*43,647,665*	*201,534,710*	*2,655,377,634*
Operations linked to interest rates	5,863,014	519,786,850	6,024,570,165
- IRS (interest rate)	*5,863,014*	*519,786,850*	*6,024,570,165*
Operations linked to other indices	7,013,567	80,543,765	1,304,138,610
- IRS (other indices)	*7,013,567*	*80,543,765*	*1,304,138,610*
Fair value hedges (macro)	**7,569,597**	**87,942,227**	**866,183,649**
Operations linked to interest rates	7,569,597	87,942,227	866,183,649
- IRS (interest rate)	*7,569,597*	*87,942,227*	*866,183,649*
Cash flow hedges	**13,408,685**	**2,669,396**	**375,105,385**
Operations linked to exchange rates	6,870,920	2,669,396	330,305,385
- CCIS	*6,870,920*	*2,669,396*	*330,305,385*
Operations linked to interest rates	6,537,765	-	44,800,000
- IRS	*6,537,765*	-	*44,800,000*

Balances as at 31/12/2014	Assets	Liabilities	Notional
Derivative financial instruments held for trading	**321,691,170**	**199,776,545**	**15,009,874,345**
Operations linked to exchange rates	252,004,034	92,124,749	10,464,420,562
- Foreign exchange swaps and forward exchange contracts	*251,929,937*	*92,033,363*	*10,282,689,960*
- other	*74,097*	*91,386*	*181,730,602*
Operations linked to interest rates	68,472,178	106,404,602	2,702,241,929
- IRS	*65,909,902*	*103,646,776*	*2,484,960,501*
- other	*2,562,276*	*2,757,826*	*217,281,429*
Operations linked to equity	1,214,959	1,214,914	1,822,645,879
- Equity and index options	*1,214,959*	*1,214,914*	*1,822,645,879*
Operations linked to credit risk	-	32,280	20,565,976
- Credit derivatives (CDS)	-	*32,280*	*20,565,976*
Fair value hedges (micro)	91,252,055	888,634,467	9,918,815,985
Operations linked to exchange rates	77,368,171	127,481,920	2,411,331,779
- CCIS	*77,368,171*	*127,481,920*	*2,411,331,779*
Operations linked to interest rates	5,440,495	660,662,438	6,165,325,833
- IRS (interest rate)	*5,440,495*	*660,662,438*	*6,165,325,833*
Operations linked to other indices	8,443,388	100,490,108	1,342,158,374
- IRS (other indices)	*8,443,388*	*100,490,108*	*1,342,158,374*
Fair value hedges (macro)	-	102,608,167	567,821,796
Operations linked to interest rates	-	102,608,167	567,821,796
- IRS (interest rate)	-	*102,608,167*	*567,821,796*
Cash flow hedges	7,987,964	-	50,200,000
Operations linked to interest rates	7,987,964	-	50,200,000
- IRS	*7,987,964*	-	*50,200,000*

4.8 CHANGE IN FAIR VALUE OF A PORTFOLIO OF FINANCIAL INSTRUMENTS HEDGED AGAINST INTEREST RATE RISK

Headings	31/12/2014	31/12/2015
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	76,670,572	52,453,419
Total	**76,670,572**	**52,453,419**

This item includes the fair value of the "Loans and advances at amortised cost - Customers" portfolios hedged against interest rate risk using a fair value macro-hedging strategy. The hedging relates solely to a portfolio of fixed-rate loans hedged by IRS derivatives.

The change in this item between 2014 and 2015 is due primarily to a volume effect and to the change in the interest-rate curves used to determine fair value.

4.9 LOANS AND ADVANCES AT AMORTISED COST - CREDIT INSTITUTIONS

Headings	31/12/2014			31/12/2015		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Interbank loans	3,296,979,731	3,767,754	3,300,747,485	3,297,098,213	5,285,818	3,302,384,031
Reverse repos	2,016,751,155	195,332	2,016,946,487	1,981,927,781	88,203	1,982,015,984
Roll-over loans	1,646,396	-	1,646,396	42,146,088	-420,710	41,725,378
Finance leases	21,284	296,442	317,725	107,322	126,745	234,067
Fixed-income securities	-	-	-	152,234,534	60,427,343	212,661,878
Other	58,161,338	-	58,161,338	58,586,858	-	58,586,858
Sub-total	**5,373,559,903**	**4,259,528**	**5,377,819,431**	**5,532,100,797**	**65,507,400**	**5,597,608,197**
Undrawn confirmed loans			1,319,002,095			414,589,158
Impairment of financial assets			-48,631			-

In the case of reverse repurchase transactions, the Group becomes the legal owner of the securities received as collateral and has the right to sell or collateralise these securities. No security received as collateral was sold or collateralised as at 31 December 2015.

Beginning with financial year 2015, the Group's parent company reclassified the "Loans and advances at amortised cost - Credit institutions", "Interbank loans" sub-heading to "Cash and sight deposits with central banks" to comply with the requirements of the reporting methods defined by the EBA. This reclassification was not applied to financial year 2014 and the corresponding amount of EUR 176,355,780 was still recognised under "Loans and advances at amortised cost - Credit institutions".

This category of loans and advances does not contain any outstanding loans defined as restructured loans according to the EBA.

Impairment of loans and advances - Credit institutions

	Credit institutions
Position as at 1 January 2014	**514,429**
Additions	583
Reversals	-
Write-off of receivables	-466,381
Exchange gain or loss	-
Position as at 31 December 2014	**48,631**
Position as at 1 January 2015	**48,631**
Reclassification	-48,631
Additions	-
Reversals	-
Write-off of receivables	-
Exchange gain or loss	-
Position as at 31 December 2015	**-**

4.10 LOANS AND ADVANCES AT AMORTISED COST - CUSTOMERS

Headings	31/12/2014			31/12/2015		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Retail customers	358,843,068	10,963,152,638	11,321,995,706	385,109,542	11,718,515,817	12,103,625,359
Corporate customers	1,762,991,159	2,873,247,526	4,636,238,684	1,610,776,748	3,144,158,817	4,754,935,565
Public sector	360,370,965	1,992,650,036	2,353,021,001	870,427,825	1,495,849,374	2,366,277,199
Sub-total	**2,482,205,193**	**15,829,050,199**	**18,311,255,392**	**2,866,314,115**	**16,358,524,008**	**19,224,838,123**
Undrawn confirmed loans			3,670,251,784			4,540,799,967
Impairment of financial assets			-112,977,594			-95,013,749

Of which finance leases:

Headings	31/12/2014			31/12/2015		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Finance leases	9,724,090	85,156,837	94,880,927	15,801,208	90,963,700	106,764,908
Sub-total	**9,724,090**	**85,156,837**	**94,880,927**	**15,801,208**	**90,963,700**	**106,764,908**

Impairment of loans and advances - Customers

	Retail customers	Corporate	Public sector	Total
Position as at 1 January 2014	**24,935,186**	**81,497,349**	**-**	**106,432,536**
Additions	10,448,164	19,610,743	-	30,058,907
Reversals	-2,976,296	-18,361,295	-	-21,337,591
Write-off of receivables (*)	-516,982	-2,208,288	-	-2,725,270
Exchange gain or loss	-	549,012	-	549,012
Position as at 31 December 2014	**31,890,072**	**81,087,522**	**-**	**112,977,594**
Impairment of assets - individual risk	18,340,135	81,087,522	-	99,427,657
Impairment of assets - collective risk	13,549,937	-	-	13,549,937
Total	**31,890,072**	**81,087,522**	**-**	**112,977,594**
Position as at 1 January 2015	**31,890,072**	**81,087,522**	**-**	**112,977,594**
Additions	6,284,911	11,919,145	-	18,204,056
Reversals	-7,061,655	-27,883,135	-	-34,944,789
Write-off of receivables (*)	-524,497	-970,380	-	-1,494,877
Exchange gain or loss	-	271,766	-	271,766
Position as at 31 December 2015	**30,588,831**	**64,424,918**	**-**	**95,013,749**
Impairment of assets - individual risk	16,741,289	64,424,918	-	81,166,207
Impairment of assets - collective risk	13,847,542	-	-	13,847,542
Total	**30,588,831**	**64,424,918**	**-**	**95,013,749**

(*) Write-off of receivables represents the amounts considered as permanently lost on impaired assets.

Outstanding amounts of impaired loans: EUR 225,673,254 as at 31 December 2015, compared with EUR 335,238,871 a year earlier. Value adjustments cover the principal and interest.

In addition to information on impairments of loans and advances at amortised cost for customers, the Group reports restructured loans by type of customer. Financial restructurings follow the EBA's definition and are characterised by a deterioration in financial position due to the customer's financial difficulties and the fact that new financing conditions are granted to the customer, including in the form of an extension of the final maturity by more than six months or the partial or total deferment of payment beyond the concessions the Group would have been willing to accept for a customer under normal circumstances.

as at 31/12/2015	Unimpaired restructured loans	Impaired restructured loans			Total restructured loans
		Loan	Impairment	Total	
Retail customers	47,512,488	10,102,172	1,233,884	8,868,288	56,380,776
Corporate customers	199,238,006	36,725,200	20,834,492	15,890,708	215,128,714
Total	**246,750,494**	**46,827,372**	**22,068,376**	**24,758,996**	**271,509,490**

as at 31/12/2014	Unimpaired restructured loans	Impaired restructured loans			Total restructured loans
		Loan	Impairment	Total	
Retail customers	35,223,993	4,451,912	585,638	3,866,274	39,090,267
Corporate customers	147,563,298	115,924,333	36,539,768	79,384,565	226,947,863
Total	**182,787,291**	**120,376,246**	**37,125,406**	**83,250,839**	**266,038,131**

J.-F. Kennedy branch

4.11 TANGIBLE ASSETS FOR OWN USE

	Land and constructions	Other equipment and furniture	Total
Position as at 1 January 2015	**248,848,171**	**62,372,727**	**311,220,898**
Increase	121,202,181	10,793,974	131,996,155
Transfer	89,344	-	89,344
Decrease	-108,347	-9,222,340	-9,330,687
Position as at 31 December 2015	**370,031,349**	**63,944,361**	**433,975,710**
Accumulated depreciation			
Position as at 1 January 2015	**104,128,168**	**31,866,283**	**135,994,451**
Reversals	-108,347	-9,222,340	-9,330,687
Additions	7,964,078	8,704,312	16,668,390
Position as at 31 December 2015	**111,983,899**	**31,348,255**	**143,332,154**
Net book value			
Position as at 1 January 2015	**144,720,003**	**30,506,444**	**175,226,447**
Position as at 31 December 2015	**258,047,450**	**32,596,106**	**290,643,556**

	Land and constructions	Other equipment and furniture	Total
Position as at 1 January 2014	**246,060,227**	**54,819,349**	**300,879,576**
Increase	3,604,290	12,302,233	15,906,523
Decrease	-816,346	-4,748,855	-5,565,201
Position as at 31 December 2014	**248,848,171**	**62,372,727**	**311,220,898**
Accumulated depreciation			
Position as at 1 January 2014	**97,196,231**	**28,674,039**	**125,870,270**
Reversals	-816,346	-4,748,855	-5,565,201
Additions	7,748,283	7,941,099	15,689,382
Position as at 31 December 2014	**104,128,168**	**31,866,283**	**135,994,451**
Net book value			
Position as at 1 January 2014	**148,863,996**	**26,145,311**	**175,009,307**
Position as at 31 December 2014	**144,720,003**	**30,506,445**	**175,226,448**

The significant increase in net book value relates to the Group's parent company's acquisition of the former “ARBED” building at the beginning of the first quarter of 2015.

4.12 INVESTMENT PROPERTY

Position as at 1 January 2015	**30,438,089**
Increase (acquisitions)	-
Increase (investment expenditure)	230,529
Exceptional transfer	-89,344
Decrease	-
Position as at 31 December 2015	**30,579,274**

Accumulated depreciation

Position as at 1 January 2015	**14,323,707**
Reversals	-
Additions	1,040,768
Position as at 31 December 2015	**15,364,475**

Net book value

Position as at 1 January 2015	**16,114,382**
Position as at 31 December 2015	**15,214,799**

Position as at 1 January 2014	**30,004,894**
Increase (acquisitions)	-
Increase (investment expenditure)	433,195
Decrease	-
Position as at 31 December 2014	**30,438,089**

Accumulated depreciation

Position as at 1 January 2014	**13,305,799**
Reversals	-
Additions	1,017,908
Position as at 31 December 2014	**14,323,707**

Net book value

Position as at 1 January 2014	**16,699,095**
Position as at 31 December 2014	**16,114,382**

Rental income from rented investment property amounted to EUR 2,545,303 for the 2015 financial year, versus EUR 2,485,310 in the prior year. Maintenance costs related to investment property were EUR 435,931 in 2015, down from EUR 507,344 one year earlier.

The fair value of investment property stood at EUR 59,812,131 at year-end 2015, compared with EUR 61,456,644 at end 2014. This fair value measurement is categorised as Level 2 in the fair value hierarchy.

This fair value is estimated by an appraiser according to the following criteria:
- geographical location of the buildings,
- general condition of the building,
- use for residential or commercial purposes,
- surface area of the object.

4.13 INTANGIBLE ASSETS

Position as at 1 January 2015	**30,230,768**
Increase	9,479,520
Decrease	-11,964,971
Position as at 31 December 2015	**27,745,317**
Accumulated depreciation	
Position as at 1 January 2015	**17,486,627**
Reversals	-11,964,971
Additions	7,206,449
Position as at 31 December 2015	**12,728,105**
Net book value	
Position as at 1 January 2015	**12,744,140**
Position as at 31 December 2015	**15,017,211**

Position as at 1 January 2014	**33,880,378**
Increase	8,574,070
Decrease	-12,223,680
Position as at 31 December 2014	**30,230,768**
Accumulated depreciation	
Position as at 1 January 2014	**21,621,286**
Reversals	-12,223,680
Additions	8,089,021
Position as at 31 December 2014	**17,486,627**
Net book value	
Position as at 1 January 2014	**12,259,091**
Position as at 31 December 2014	**12,744,140**

The depreciation expense related to intangible assets is recognised under "Depreciation allowances for tangible and intangible assets" in the income statement.

4.14 OTHER ASSETS

Headings	31/12/2014	31/12/2015
Other	5,464,146	11,292,644
Total	**5,464,146**	**11,292,644**

4.15 TAXES: TAX ASSETS AND LIABILITIES

Whereas current tax is a current liability, deferred taxes are the amounts of income taxes that may be payable in the future in respect of taxable temporary differences.

The Group posted a current tax liability of EUR 100,111,672 as at 31 December 2015.

As no tax law incorporating IFRS standards has been passed in Luxembourg, the Group calculates the tax liability payable based on the increase in net assets of the balance sheet items valued through the income statement.

As at 31 December 2015, the Group posted a deferred tax asset of EUR 91,996,961 and a deferred tax liability of EUR 178,146,610.

4.15.1 Tax assets

Headings	31/12/2014	31/12/2015
Deferred taxes	67,991,244	91,996,961
Tax assets	**67,991,244**	**91,996,961**

Breakdown of deferred tax assets according to origin:

Headings	31/12/2014	31/12/2015
Derivative financial instruments - application of fair value	-	1,853,467
Debt instruments - application of fair value	4,481,462	9,028,872
Equity instruments - application of fair value	849,735	1,192,634
Pension funds - actuarial gain or loss	62,660,047	79,921,988
Deferred tax assets	**67,991,244**	**91,996,961**

4.15.2 Tax liabilities

Headings	31/12/2014	31/12/2015
Current tax liabilities	64,023,799	100,111,672
Income tax	*36,417,515*	*59,015,599*
Municipal business tax	*27,606,284*	*41,074,673*
Wealth tax	-	*21,400*
Deferred taxes	185,738,723	178,146,610
Tax liabilities	**249,762,522**	**278,258,282**

Breakdown of deferred tax liabilities according to origin:

Headings	31/12/2014	31/12/2015
Derivative financial instruments - application of fair value	2,332,695	1,908,942
Debt instruments - application of fair value	24,469,057	19,789,596
Equity instruments - application of fair value	5,519,083	4,042,739
Regulatory and other provisions	147,525,651	147,302,941
Pension funds - actuarial gain or loss	5,892,237	5,102,392
Deferred tax liabilities	**185,738,723**	**178,146,610**

The table below gives a breakdown of the changes to deferred tax assets and liabilities, depending on whether the changes relate to items that are charged or credited to equity, or relate to items that are charged or credited to the income statement.

Headings	31/12/2014	Movements in equity	Movements in income statement	31/12/2015
Deferred tax assets	67,991,244	24,005,717	-	91,996,961
Deferred tax liabilities	-185,738,723	7,369,402	222,711	-178,146,610
Net deferred tax assets / liabilities	**-117,747,479**	**31,375,119**	**222,711**	**-86,149,649**

Headings	31/12/2013	Movements in equity	Movements in income statement	31/12/2014
Deferred tax assets	59,832,877	8,158,367	-	67,991,244
Deferred tax liabilities	-166,703,385	-2,488,396	-16,546,942	-185,738,723
Net deferred tax assets / liabilities	**-106,870,508**	**5,669,971**	**-16,546,942**	**-117,747,479**

4.16 ISSUANCE OF DEBT SECURITIES

Headings	31/12/2014			31/12/2015		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Cash certificates	256,646,804	311,026,466	567,673,270	183,321,626	223,213,925	406,535,551
Commercial paper	3,995,528,887	-	3,995,528,887	3,760,296,156	-	3,760,296,156
Medium Term Notes and other securities issued	1,282,503,215	430,521,056	1,713,024,272	1,401,904,454	222,628,878	1,624,533,332
Total	**5,534,678,905**	**741,547,522**	**6,276,226,429**	**5,345,522,236**	**445,842,803**	**5,791,365,039**
of which:						
- subordinated notes	*23,820,069*	*128,762,299*	*152,582,368*	*25,683,615*	*102,028,137*	*127,711,752*

The Group issued EMTNs for a nominal amount of EUR 1,404,675,877 in 2015, as against EUR 1,468,212,722 the previous year.

New issues	2014	2015
maturing in < 2 years	1,180,352,481	1,323,863,943
maturing in 2 - 5 years	57,500,000	-
maturing in > 5 years	230,360,242	80,811,934
Total	**1,468,212,722**	**1,404,675,877**
of which:		
- Structured notes (at issue value)	*1,468,212,722*	*1,404,675,877*

The main structured notes issued in 2015 were in the floater notes category.

Securities issued which have either come to maturity or have been reimbursed prior to maturity during 2015 and 2014:

	2014	2015
Maturities/repayments	802,474,288	1,580,183,207
Total	**802,474,288**	**1,655,983,531**
of which:		
- Subordinated notes (at issue value)	*20,000,000*	*23,800,000*
- Structured notes (at issue value)	*763,474,288*	*1,565,603,207*

The Group bought back own issues for an amount of EUR 1,290,000 during 2015 (vs. EUR 1,455,000 in 2014).

Breakdown of subordinated loans as at 31 December 2015

Description	Rate	Issue currency	Nominal amount issued - EUR	Assimilated portion EUR	Non assimilated portion - EUR
Loan 2001-2016	2.700	EUR	25,000,000	1,108,830	23,891,170
Loan 2000-2020	0.287	EUR	8,600,000	7,963,094	636,906
Loan 2001-2021	0.399	EUR	11,000,000	11,000,000	-
Loan 2001-2021	0.399	EUR	30,000,000	30,000,000	-
Loan 2002-2022	0.458	EUR	50,000,000	50,000,000	-
Total			**124,600,000**	**100,071,924**	**24,528,076**

The interest expense on subordinated notes stood at EUR 1,871,271 as at 31 December 2015, compared with EUR 2,539,462 as at 31 December 2014.

4.17 DEPOSITS AT AMORTISED COST - CREDIT INSTITUTIONS

Headings	31/12/2014			31/12/2015		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Inter-bank deposits	3,137,822,721	128,535,262	3,266,357,983	3,863,496,486	189,372,404	4,052,868,890
Repurchase agreements	878,142,548	195,332	878,337,880	386,750,291	9,859	386,760,150
Total	**4,015,965,269**	**128,730,594**	**4,144,695,863**	**4,250,246,777**	**189,382,263**	**4,439,629,039**

4.18 DEPOSITS AT AMORTISED COST – PRIVATE CUSTOMERS AND PUBLIC SECTOR

Headings	31/12/2014			31/12/2015		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Private customers	20,079,349,911	708,788,158	20,788,138,069	21,015,084,258	1,222,276,989	22,237,361,247
Demand deposit and notice accounts	*5,860,371,077*	-	*5,860,371,077*	*6,886,156,912*	-	*6,886,156,912*
Time deposit accounts	*4,092,688,780*	*708,788,158*	*4,801,476,938*	*3,648,589,611*	*1,222,276,989*	*4,870,866,600*
Savings	*10,126,185,613*	-	*10,126,185,613*	*10,453,520,746*	-	*10,453,520,746*
Repurchase agreements	*104,441*	-	*104,441*	*26,816,989*	-	*26,816,989*
Public sector	4,279,892,133	115,177	4,280,007,310	4,675,925,127	10,201,657	4,686,126,784
Total	**24,359,242,044**	**708,903,335**	**25,068,145,379**	**25,691,009,385**	**1,232,478,646**	**26,923,488,031**

4.19 PENSION FUNDS - DEFINED-BENEFIT PENSION PLAN

Main estimates used to determine pension commitments:

Variables	31/12/2014	31/12/2015
Discount rate for active employees	2.00%	2.20%
Discount rate for beneficiaries	1.60%	1.80%
Salary increases (including indexation)	3.50%	3.25%
Pension increases (including indexation)	2.50%	2.25%
Induced yield	1.75%	1.98%

The induced yield of 1.98% in 2015 corresponds to the weighted average of the discount rates for working people and for annuitants as fixed at the end of the 2015 financial year.

Net pension fund allowance entered under "Personnel expenses" in the income statement:

Components	31/12/2014	31/12/2015
Current service cost	6,393,635	7,364,779
Interest cost	12,424,677	8,696,608
Induced yield	-9,717,234	-6,252,608
Total	**9,101,078**	**9,808,779**

Pension commitments:

	2014	2015
Commitments as at 1 January	**420,123,658**	**495,752,808**
Current service cost	6,393,635	7,364,779
Interest cost	12,424,677	8,696,608
Benefits paid	-11,733,292	-11,732,352
Actuarial gains or losses	68,544,130	59,075,773
Commitments as at 31 December	**495,752,808**	**559,157,615**

Civil servants' pension payments are initially made directly by the State to civil servants. The Group's parent company only recognises the payments when the amounts are repaid to the State. Hence, "Benefits paid" amounting to EUR 11,732,352 include the repayments to the Luxembourg State of civil servants' pensions in respect of the 2014 financial year.

Breakdown of actuarial gains and losses:

	2014	2015
Actuarial gains and losses arising from changes in actuarial assumptions	97,411,333	53,125,164
- financial assumptions	*97,411,333*	*-21,751,712*
- demographic assumptions	-	*74,876,876*
Actuarial gains and losses arising from experience adjustments	-28,867,203	5,950,609
Total actuarial gains and losses:	**68,544,130**	**59,075,773**

Sensitivity analysis of pension commitments:

Impact of changes in actuarial assumptions on the pension commitment as at 31/12/2015	**decrease**	**increase**
Change in average actuarial rate (-/+ 50 bps)	63,377,905	-54,137,750
Change in wage increase rate (-/+ 50 bps)	-65,706,430	76,033,055
Change in pension increase rate (-/+ 25 bps)	-22,705,695	24,138,131
Change in mortality tables (-/+ 5 years)	116,021,721	-109,053,482
Cumulative effect:	**90,987,501**	**-63,020,046**

Impact of changes in actuarial assumptions on the pension commitment as at 31/12/2014	**decrease**	**increase**
Change in average actuarial rate (-/+ 50 bps)	51,551,101	-44,588,557
Change in wage increase rate (-/+ 50 bps)	-46,521,717	65,786,533
Change in pension increase rate (-/+ 50 bps)	-36,395,187	40,707,112
Change in mortality tables (-/+ 5 years)	90,927,444	-83,581,645
Cumulative effect:	**59,561,641**	**-21,676,557**

Maturity analysis of pension commitments:

	31/12/2014	31/12/2015
Average duration of the pension commitment	**19.58 years**	**21.36 years**
Analysis of maturities of commitments to be paid	**495,752,808**	**559,157,616**
pensions outstanding for the year	6,703,374	6,733,651
commitments to be paid within 12 months	12,527,944	12,435,454
commitments to be paid in 1-3 years	26,263,622	26,170,543
commitments to be paid in 3-6 years	41,401,113	41,331,965
commitments to be paid in 6-11 years	71,786,740	71,388,676
commitments to be paid in 11-16 years	71,993,271	73,447,846
commitments to be paid after 16 years	265,076,744	327,649,481

Pension plan assets:

	2014	2015
Assets as at 1 January	**328,575,131**	**356,431,857**
Pension payments	-11,733,292	-11,732,352
Contribution	9,646,755	31,718,541
Induced yield	9,717,234	6,252,608
Fair value gain / loss	20,226,030	-2,703,099
Assets as at 31 December	**356,431,857**	**379,967,554**

In 2015, the Group's parent company made an annual contribution of EUR 7,718,541 and an extraordinary contribution of EUR 24,000,000 compared with a contribution of EUR 9,646,755 in the previous year. The extraordinary contribution for 2015 was used to offset the impact of the switch from the IGSS mortality tables to DAV2004R.

Pension plan investments:

2015	Credit institutions	Public sector	Corporate	Total
Fixed-income securities	150,743,047	123,060,588	-	273,803,634
Variable-income securities	-	-	49,883,790	49,883,790
Other assets (primarily deposits)	56,280,130	-	-	56,280,130
Total	**207,023,177**	**123,060,588**	**49,883,790**	**379,967,554**

2014	Credit institutions	Public sector	Corporate	Total
Fixed-income securities	157,645,849	84,760,890	50,118,155	292,524,894
Variable-income securities	-	-	27,660,750	27,660,750
Other assets (primarily deposits)	36,246,213	-	-	36,246,213
Total	**193,892,062**	**84,760,890**	**77,778,905**	**356,431,857**

Net pension commitments:

	2013	2014	2015
Pension commitments	420,123,658	495,752,808	559,157,616
Plan assets measured at fair value	-328,575,131	-356,431,857	-379,967,554
Unfinanced commitments	**91,548,527**	**139,320,951**	**179,190,062**

Stock of actuarial gains and losses:

Stock as at 1 January 2015	**130,053,949**
2015 net change	61,778,872
Stock as at 31 December 2015	**191,832,821**
Stock as at 1 January 2014	**81,735,848**
2014 net change	48,318,101
Stock as at 31 December 2014	**130,053,949**

The Group’s parent company's estimated total contribution to the pension fund for 2016 is EUR 33,871,709. This contribution is divided into an extraordinary contribution of EUR 24,000,000 to further offset the impact of the switch from the IGSS mortality tables to DAV2004R and an annual contribution of EUR 9,871,709.

4.20 PROVISIONS

Changes during the financial year:

	2014	2015
Position as at 1 January	**5,945,558**	**4,899,785**
Additions	2,483,920	43,035,888
Reversals	-1,724,510	-642,715
Application	-1,805,183	-77,000
Position as at 31 December	**4,899,785**	**47,215,958**

The heading "Provisions" includes provisions recorded under IAS 37, consisting of provisions for risks related to litigation and to guarantees given or commitments made to customers, and of provisions for personnel costs not covered by other standards and for future contributions to the FGDL.

4.21 OTHER LIABILITIES

Headings	2014	2015
Short-term payables (1)	13,054,322	5,607,869
Preferential or secured creditors	27,659,464	24,036,392
Total	**40,713,786**	**29,644,261**

(1) Short-term payables are mainly amounts to be paid by the Group acting as service provider in relation to cheques, coupons, securities, bank transfers, etc.

4.22 RELATED-PARTY TRANSACTIONS

The related parties of the parent company are the governmental institutions and the Group's key management personnel.

All transactions with related parties are completed under market conditions.

4.22.1 Government institutions

The Group's parent company, established by the law of 21 February 1856 and governed by the organic law of 24 March 1989, is a self-governing public law institution endowed with legal personality. Ultimate responsibility for the institution lies with the Government Minister with responsibility for the Treasury.

Therefore, the Luxembourg Government controls the Group and as a result, must comply with the requirements of IAS 24.

The Group makes the following disclosures concerning its commercial relationship with the Luxembourg State and other governmental institutions.

in euros	31/12/2014	31/12/2015
ASSETS (mainly loans at amortised cost)	**3,558,439,790**	**3,596,212,235**

in euros	31/12/2014	31/12/2015
LIABILITIES (deposits at amortised cost)	**3,276,311,324**	**3,160,746,884**

4.22.2 Compensation paid to the members of the management and administrative bodies

Compensation paid to the members of the governing bodies of the Group's parent company breaks down as follows:

	31/12/2014	31/12/2015
Board of Directors (nine members)	118,700	120,450
Executive Board (five members)	987,379	1,014,106
Total	**1,106,079**	**1,134,556**

Members of the Executive Board are eligible for benefits associated with the defined-benefit pension plan just like agents of Group's parent company.

4.22.3 Loans and advances granted to members of the Bank's management and administrative bodies

Loans and advances granted to members of the management and administrative bodies of the Group's parent company are as follows:

	31/12/2014	31/12/2015
Board of Directors (nine members)	2,614,118	2,594,592
Executive Board (five members)	1,236,653	1,773,559
Total	**3,850,771**	**4,368,151**

4.23 STATUTORY AUDITOR'S FEES

	2014	2015
Statutory audit of the annual financial statements	542,250	509,885
Other audit services	114,750	135,380
Tax services	-	-
Other	268,715	166,775
Total	**925,715**	**812,040**

4.24 OFF-BALANCE SHEET ITEMS

Type of guarantees issued

Headings	31/12/2014	31/12/2015
Completion bonds	300,138,107	323,133,147
Letters of credit	45,245,146	41,223,892
Counter-guarantees	412,772,996	408,246,517
Documentary credits	19,329,722	13,191,609
Other	10,280,916	6,406,041
Total	**787,766,889**	**792,201,205**

Commitments

Headings	31/12/2014	31/12/2015
Amounts subscribed and unpaid on securities, equity interests and shares in affiliated companies	10,503,882	9,993,882
Undrawn confirmed loans	4,989,253,879	4,955,389,125
Financing	*1,815,957,420*	*2,289,688,993*
Current accounts	*1,327,317,918*	*1,737,325,997*
Money-market contracts	*1,488,144,260*	*471,196,867*
Other	*357,834,280*	*457,177,269*
Other	33,745,926	160,680,424
Total	**5,033,503,687**	**5,126,063,431**

Figures for 2014 have been restated to provide the same level of detail as the figures for 2015.

The Group also decided to acquire a 12% stake in the capital of Enovos International S.A., the holding company for Luxembourg's market-leading energy group. The transaction was finalised on 7 March 2016. The commitment made in 2015 for this acquisition is reflected under “Other”.

Management of third-party assets

The Group provides management and representation services to third parties, particularly wealth management services, custody and administration of securities, hire of safe deposit boxes, fiduciary representation and agent functions.

5. NOTES TO THE INCOME STATEMENT [1] (in euros)

5.1 INTEREST INCOME

Interest received and similar income	2014	2015
Assets repayable on demand	499,387	46,884
Financial assets held for trading	19,700,815	64,320,713
Available-for-sale financial assets	285,012,452	209,585,075
Receivables at amortised cost - Loans and advances	404,075,168	401,761,880
Investments held to maturity at amortised cost	93,792,709	75,706,301
Derivatives - Hedge accounting, interest rate risk	147,836,902	115,456,591
Other assets	154,433	5,200,966
Total	**951,071,866**	**872,078,408**

Interest paid and similar expenses	2014	2015
Financial liabilities held for trading	-9,395,404	-21,042,110
Liabilities at amortised cost - Deposits	-89,311,113	-72,006,649
Liabilities at amortised cost - Debt certificates	-28,725,656	-36,114,847
Liabilities at amortised cost - Subordinated loans	-1,804,983	-1,173,169
Derivatives - Hedge accounting, interest rate risk	-441,998,156	-350,522,654
Other liabilities	-654,103	-8,199,522
Total	**-571,889,415**	**-489,058,950**
Interest income	**379,182,451**	**383,019,458**
Total interest received and similar income not recognised at fair value through the income statement	931,371,051	807,757,695
Total interest paid and similar expenses not recognised at fair value through the income statement	-562,494,011	-468,016,840

5.2 INCOME FROM VARIABLE-INCOME SECURITIES

Headings	2014	2015
Available-for-sale financial assets	37,068,331	38,302,833
Income from variable-income securities	**37,068,331**	**38,302,833**

[1] Minor differences between the figures in the notes to the consolidated financial statements and the figures in the different consolidated statements are rounding differences only.

5.3 FEE AND COMMISSION INCOME

Headings	2014	2015
Loan activities	34,020,432	37,442,314
Asset management	21,831,124	22,558,749
Investment fund activities	31,826,055	38,032,612
Demand deposit accounts and related activities	22,046,696	22,257,696
Insurance premiums	3,839,706	3,840,993
Other	7,302,538	6,344,973
Commissions received and paid	**120,866,551**	**130,477,337**

5.4 INCOME FROM FINANCIAL INSTRUMENTS NOT RECOGNISED AT FAIR VALUE THROUGH PROFIT OR LOSS

Headings	2014	2015
Available-for-sale financial instruments	27,314,579	45,455,523
Loans and advances at amortised cost	165,683	135,877
Financial liabilities at amortised cost	61,150	62,142
Total	**27,541,412**	**45,653,542**

The amount recognised under this heading at year-end 2015 primarily reflects SES S.A.'s combined capital increase and share sale, as well as the sale of 80% of the Euroclear plc shares held by a subsidiary.

5.5 INCOME FROM FINANCIAL INSTRUMENTS HELD FOR TRADING

Headings	2014	2015
Equity instruments and related derivatives	2,216,820	4,173,287
Foreign exchange instruments and related derivatives	1,332,520	-3,072,240
Interest rate instruments and related derivatives	18,873,089	17,854,399
Credit derivatives	99,215	30,291
Commodities and related derivatives	1,292,554	451,850
Total	**23,814,198**	**19,437,586**

5.6 NET INCOME FROM HEDGING TRANSACTIONS

Headings	2014	2015
Fair value hedge		
Debt instruments (assets) hedged by derivatives	-1,427,621	2,103,742
Debt issues hedged by derivatives	-68,100	-49,454
Loans hedged by derivatives	5,980,772	2,250,351
Total	**4,485,051**	**4,304,639**
Value adjustment on hedged instruments	187,564,586	-159,589,329
Value adjustment on hedging instruments	-183,079,535	163,893,968
Total	**4,485,051**	**4,304,639**

Market risk hedging operations are highly efficient. Loans are hedged by derivatives in the form of micro-hedging or macro-hedging transactions, in accordance with IAS 39.

5.7 OTHER NET OPERATING INCOME

Headings	2014	2015
Other operating income	8,710,809	10,082,185
Other operating expenditure	-1,654,096	-4,207,920
Other net operating income	**7,056,713**	**5,874,265**

"Other operating income and expenditure" mainly include:
- the rent from property rented and miscellaneous advances from tenants,
- VAT repayments relating to previous financial years,
- income on amortised debts,
- beginning in 2015, the annual contribution made by the Group's parent company to the Luxembourg resolution fund (FRL).

5.8 PERSONNEL EXPENSES

Headings	2014	2015
Compensation	155,624,851	161,798,304
Social security charges	8,902,266	9,582,996
Pensions and similar expenses	12,306,335	12,545,220
Pension fund expense	9,101,078	9,808,779
Other personnel expenses	3,871,362	3,813,426
Total	**189,805,892**	**197,548,725**

5.9 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Headings	2014	2015
Expenses related to property and furniture	20,375,408	20,869,848
Rents and maintenance of software	18,374,337	18,561,989
Operating expenditure related to the banking business	22,657,772	25,833,299
Other	13,116,453	12,758,623
Total	**74,523,970**	**78,023,759**

5.10 DEPRECIATION ALLOWANCES FOR TANGIBLE ASSETS

Depreciation

Headings	2014	2015
Depreciation - buildings	7,748,282	7,964,080
Depreciation - equipment and furniture	7,941,100	8,704,312
Depreciation of tangible assets	**15,689,382**	**16,668,392**

Impairment

No impairment of tangible assets according to IAS 36 was recognised by the Group in 2014 or 2015.

5.11 DEPRECIATION ALLOWANCES FOR INVESTMENT PROPERTIES

Depreciation

Headings	2014	2015
Depreciation	1,017,908	1,040,768
Depreciation of tangible assets - investment	**1,017,908**	**1,040,768**

Impairment

No impairment of investment properties according to IAS 36 was recognised by the Group in 2014 or 2015.

5.12 DEPRECIATION ALLOWANCES FOR INVESTMENT PROPERTIES

Depreciation

Headings	2014	2015
Depreciation	8,089,021	7,206,449
Depreciation of intangible assets	**8,089,021**	**7,206,449**

Impairment

No impairment of intangible assets according to IAS 36 was recognised by the Group in 2014 or 2015.

5.13 NET ALLOWANCES FOR IMPAIRMENT OF INDIVIDUAL AND COLLECTIVE CREDIT RISKS

	2014			2015		
	Additions	Reversals	Total	Additions	Reversals	Total
Available-for-sale securities	-1,749,978	13,050,079	11,300,101	-3,002,020	7,046,650	4,044,629
Loans and advances	-30,059,489	21,337,591	-8,721,898	-18,204,056	34,991,407	16,787,352
of which individual impairment	*-28,114,749*	*21,216,974*	*-6,897,775*	*-17,631,892*	*34,716,852*	*17,084,959*
of which collective impairment	*-1,944,740*	*120,617*	*-1,824,123*	*-572,163*	*274,556*	*-297,608*
	-31,809,467	**34,387,670**	**2,578,203**	**-21,206,076**	**42,038,057**	**20,831,981**

	2014	2015
Interest on impaired available-for-sale financial assets	557,624	387,190
Interest on impaired loans and advances	8,078,289	6,717,337
Total	**8,635,913**	**7,104,526**

5.14 PROVISIONS AND REVERSAL OF PROVISIONS

Headings	2014	2015
Additions	-2,483,920	-43,548,472
Reversals	3,333,215	1,155,299
Net allowances for provisions	**849,295**	**-42,393,173**

The significant allowance for provisions in 2015 resulted from the recognition of provisions for risks related to litigation and to guarantees given or commitments made to customers, and of provisions for personnel costs not covered by other standards and for future contributions to the FGDL.

5.15 TAX EXPENSE

Headings	2014	2015
Tax on income from continuing operations	40,148,492	64,241,363
Deferred taxes	16,546,942	-222,711
Tax on profit/(loss) for the period	**56,695,434**	**64,018,652**

The standard tax rate applicable in Luxembourg was 29.22% as at 31 December 2015 and 31 December 2014. The Group's effective tax rate was 18.88% in 2015 and 17.09% in 2014, given the differences between the Luxembourg tax base and the accounting principles for consolidated financial statements under IFRS as adopted by the European Union.

The difference between these two rates may be analysed as follows:

	2014	2015
Income before tax	331,783,247	339,006,818
Tax rate	29.22%	29.22%
Theoretical tax at the standard rate	96,947,065	99,057,792
Tax impact of non-deductible expenses	64,197	7,373,567
Tax impact of non-taxable income	-15,390,692	-14,862,548
Share in the income of equity-accounted associates	-2,519,533	-6,378,748
Tax rebates and reductions	-22,226,713	-18,393,214
Other	-178,891	-2,778,197
Tax on profit/(loss) for the period	**56,695,434**	**64,018,652**

As in 2014, the Group had the benefit of an investment tax allowance in respect of 2015, deducted at the line "Tax rebate and reductions".

5.16 RETURN ON ASSETS

In accordance with Article 38-4 of the Law on the Financial Sector, the Group reported its return on assets, which stood at 0.64% versus 0.66% in the prior year.

6. FINANCIAL RISK MANAGEMENT [1]

6.1 GENERAL RULES FOR MANAGING FINANCIAL RISK

Traditionally, the Group's parent company has pursued a prudent and conservative risk management policy.

6.1.1 Role of the Board of Directors

The Group’s parent company established the Internal Capital Adequacy Assessment Process (ICAAP) to make a comprehensive assessment of all risks the Bank could be exposed to. For each risk identified, the parent company estimates the materiality and probability of occurrence, and assesses its resources for the management of the risk identified.

It prepares an annual ICAAP report, which is submitted for the approval of the Board of Directors of the Group’s parent company and then filed with the CSSF and the European Central Bank.

6.1.2 Role of the Executive Committee

The parent company’s Executive Committee (Senior Management) sets the objectives for the commercial entities, the type of transactions to perform and the limits applicable to such transactions, as well as the organisation and internal control rules.

6.1.3 Role of the Audit and Risk Committee

The Group's parent company's Audit and Risk Committee is made up of four members of the Board of Directors and is tasked with periodically assessing the status of internal control, the work and conclusions of internal and external audits, the status of implementation of any recommendations made, the status of implementation of the annual audit plan and the budget, and any documents relating to the annual internal control report.

The Chief Executive Officer, Deputy Chief Executive Officer, Chief Risk Officer and Chief Internal Auditor are invited to all meetings of the Audit and Risk Committee. The statutory auditor of the Group's parent company is invited to those meetings held to prepare and approve the annual financial statements and other reports it issues.

The Audit and Risk Committee's role is to facilitate the effective control by the Board of Directors by providing a more comprehensive analysis of the position of the Group's parent company and by giving members of the Board of Directors access to information enabling them to fulfil their oversight responsibilities.

6.1.4 Responsibilities of the Risk Management Department

From an organisational point of view, risk control is delegated to the Risk Management Department (risk analysis), a unit which operates independently from all commercial activities. It is responsible for:
- establishing a consistent framework to analyse financial risks, performing the analysis itself and continuously monitoring these risks,
- approving or rejecting applications from commercial entities, and escalating cases to the Executive Committee that involve transactions whose outstanding amounts are above a limit set for processing by the Credit Committee, which reports to the Executive Committee,
- monitoring compliance with limits (credit, market and liquidity) within which the commercial entities must operate.

There are two units in the Department:
- Risk Analysis and Monitoring: this unit is responsible for analysing and monitoring credit risk and counterparty credit risk. This involves analysing loan applications from all commercial entities and performing analyses in order to set ex ante limits. The Risk Analysis and Monitoring unit is also responsible for the internal ratings-based models for wholesale exposures (appraiser models). The head of this unit is in charge of the Risk Analysis Department.
- Risk Control (RIC): this unit oversees all trading room activities. This oversight includes the administration and configuration of the systems used, market and liquidity risk modelling and assessment, ex post monitoring of compliance with the limits defined, and internal reporting of profits or losses. The RIC unit also acts as the credit risk control unit, which makes it responsible for internal ratings models based on statistical analyses as well as for the calibration and monitoring of variables such as probability of default (PD) and loss given default (LGD). The RIC unit also manages the database of operational incidents and is responsible for their internal reporting.

[1] Minor differences between the figures in the notes to the consolidated financial statements and the figures in the different consolidated statements are rounding differences only.

6.1.5 Compliance

Compliance risk - also called non-conformity risk - generally refers to the risk of loss stemming from activities not carried out in accordance with current standards.

Compliance risk is the responsibility of the Compliance unit, which ensures in particular:
- compliance with anti-money laundering requirements through the use of a tool designed to detect suspect transactions,
- in general, compliance with the Group's parent company's regulatory environment, delegating a number of elements to other departments, including Internal Audit,
- monitoring of customer complaints.

The Group's parent company has a Compliance Committee tasked with handling all compliance matters outside the scope of the Compliance unit itself.

6.1.6 Internal audit

Internal Audit performs regular and repeated audits of the Risk Management environment. During these audit missions, Internal Audit checks the appropriateness of procedures and their application by the Risk Management Department.

6.1.7 Systems for measuring and tracking limits

6.1.7.1 Credit risk

The Risk Management Department continuously monitors the quality of all debtors.

The credit quality of retail commitments is monitored on the basis of internal ratings that include a behavioural analysis. Wholesale records also have internal ratings, derived from appraiser models. Very often, these commitments also have external ratings. The analysis of the difference between the internal and external ratings is part of the monitoring.

The Risk Management Department reports to Senior Management on a continuous basis on changes in the quality of debtors. The department conducts a quarterly analysis of the changes in credit quality with regard to the Bank's portfolios and submits the results to Senior Management.

The positions held by the trading room are subject to daily ex post monitoring to ensure compliance with the credit limits set by Senior Management. Traders have real-time access to these limits.

In addition to counterparty limits, the Group's parent company has set up a system of limits by sector and region to monitor concentration risk.

6.1.7.2 Market risk

Market risk is generally the risk of the Group suffering financial loss on the instruments it holds as a result of unfavourable developments in market parameters, such as interest rates, foreign exchange rates, share prices, etc.

The Group's parent company takes an integrated approach to managing interest rate risk for its entire banking book.

The parent company thus implements a set of methods to assess and monitor interest rate risk:
- permanent calculation of the Basis Point Value (BPV) indicators for trading room and Asset Liability Management (ALM) positions exposed to interest rate risk. BPV is a simple and effective method of quantifying the market risk generated by small interest rate fluctuations for the positions held. Traders and ALM analysts are required to always operate within the BPVs set by Senior Management and monitored by Risk Control.
- value-at-risk (VaR) for trading floor and ALM positions, to determine the amounts at risk with respect to the positions held by the Bank. Risk amounts are subject to limits set by Senior Management and supervised by the Risk Control unit. VaR is a more sophisticated measurement tool than simpler indicators such as BPV, since it:
  - integrates correlations of changes in risk factors between positions held,
  - expresses the potential loss as a single amount that can be compared with the Bank's equity,
  - quantifies the probability of the occurrence of the loss.

The VaR method is also used to manage the parent company's equity portfolio with VaR and stop-loss limits.

The parent company uses a set of absolute limits to manage foreign exchange risk. The foreign exchange position is monitored on an aggregated basis by traders in the Financial Markets (FIM) unit.

6.1.7.3 Counterparty risk stemming from derivatives transactions

The parent company has negotiated International Swaps and Derivatives Association Inc. (ISDA) framework agreements including Credit Support Annexes (CSA) designed to limit counterparty risk on derivatives trades with a positive mark-to-market valuation. At end-2015, 82.7% of derivatives transaction outstandings were covered by such agreements.

Alongside the ISDA-CSA framework agreements, the parent company is making increasing use of central counterparties (CCPs) to limit counterparty risk. At end-2015, 4.2% of derivatives transaction outstandings were liquidated through these CCPs.

6.1.7.4 Liquidity risk

Liquidity risk results from a mismatch between financial inflows and outflows on a specific date. The risk for a financial institution is that it may be unable to meet its payment obligations at a given point in time as a result of having insufficient liquid assets relative to its maturing liabilities. By virtue of its financial structure, the Group's parent company is generally in a position of excess liquidity.

The parent company constantly monitors liquidity risk on the basis of maturities, including both very detailed reconciliation of cash inflows and outflows over a six-month horizon and a medium- and long-term assessment of structural funding requirements. Short-time financing needs in the main currencies are subject to specific limits.

The parent company conducted the stress tests required by circular CSSF 09/403 in 2015 on at least a monthly basis to show that it would have sufficient liquid assets to cope with unexpected large-scale withdrawals over an extended period.

Under normal circumstances, the parent company has stable and diversified liabilities, notably in the form of a very solid customer deposit base and Euro Commercial Paper (ECP), US Commercial Paper (USCP) and Euro Medium Term Note (EMTN) refinancing programmes, which ensure a comfortable liquidity position. Furthermore, due to its high-quality fixed-income securities portfolio, the parent company would be able, if necessary, to access the repo market or participate in the ECB's money-market operations.

In the event of an urgent need for large amounts of liquidity, the parent company has an intraday and overnight credit line with the Luxembourg Central Bank (BCL) secured by pledges of public sector bonds or other fixed-income securities. To this end, the parent company aims to continually have a portfolio of a minimum of EUR 3 billion in fixed-income securities that can serve as a guarantee to the BCL. As at 31 December 2015, this portfolio amounted to EUR 3.93 billion. At year-end 2015, the amount of the portfolio of assets eligible for refinancing with the BCL or usable on the interbank market exceeded EUR 10 billion.

§ II.1. of CSSF Circular 07/301 "Risk identification" explicitly mentions the securitisation risk of which the credit institution is the originator or sponsor. Securitisation is one of the techniques used to manage liquidity, since it allows a bank to remove assets from the balance sheet to raise funds. The parent company has not participated in such an operation as either an initiator or a sponsor and it is not likely to do so in the future.

The parent company is an indirect member of the CLS (Continuous-Linked Settlement) foreign exchange transaction settlement system. The overwhelming majority of foreign-exchange transactions are now handled through CLS. However, transaction date flows of overnight transactions are not processed through CLS. For these transactions, the settlement of initial flows, i.e. those that took place on the transaction date, is done in the conventional manner through correspondent banks. Maturity date flows for these same transactions are in principle settled through CLS.

Membership in CLS system virtually eliminates counterparty risk (settlement risk) arising from foreign-exchange transactions through the "payment-versus-payment" principle and reduces the parent company's liquidity risk by netting transactions, which considerably reduces settlement volumes.

6.2 EXPOSURE TO CREDIT AND COUNTERPARTY RISK

6.2.1 Objectives and management of credit and counterparty risk

Each parent company commitment giving rise to a credit risk is subject to prior analysis by the Risk Analysis and Monitoring unit.

For loans granted to the domestic economy recognised in the balance sheet under "Loans and advances at amortised cost - Customers", the decision-making structure is hierarchically organised into a number of credit committees, depending on the customer's overall outstanding amount. From a specified threshold, cases must be decided on by the parent company's Executive Committee. The portfolio structure breaks down into residential mortgage loans for over half of the outstanding amount. Credit risk relating to residential mortgage loans is covered by the process of assessing customers' ability to repay loans and the existence of actual guarantees. The parent company follows rigorous procedures for analysing loan applications and obtaining the related collateral for corporate loans and advances. It uses Basel III methodology to continuously monitor risk trends across all portfolios.

The parent company did not change its risk management policy in the 2015 financial year.

For interbank markets and international loans, contracts are recognised in the balance sheet under "Loans and advances at amortised cost - Credit institutions", "Loans and advances at amortised cost - Customers" and "Available-for-sale financial assets - Fixed-income securities"; a large majority of counterparties consist of banking and financial institutions. Internal ratings are applied to banking counterparties using a combination of quantitative and qualitative analyses. The quantitative component is based on ratios that best describe the counterparty's profitability, level of capital, liquidity and the quality of its assets, while the qualitative component is based on the analyst's own assessment of non-financial factors such as market share, quality of management and external ratings. The parent company pursued its prudent investment policy in 2015, resulting in:

- a large proportion of investments in covered bonds, which offer more security than senior unsecured bonds,
- a concentration in investments in debt guaranteed by the European Union or some of its member States.

With regard to international loans to non-financial entities recognised in the balance sheet under "Loans and advances at amortised cost - Customers" and "Available-for-sale financial assets - Fixed-income securities", priority is given to commitments in OECD countries classified as at least Investment Grade. Like all the parent company's other counterparties, these are assigned an internal rating based on rules similar to those applied to banks and financial institutions.

Outstanding amounts are subject to counterparty risk monitoring and to regular checks based on updated financial analyses and proposed adjustments to limits per counterparty. The parent company also applies a country limit system for all countries in which it is present. These limits are reviewed on a periodic basis (at least annually).

Investments in derivatives are heavily regulated through the use of industry standard ISDA agreements that include compensation clauses in the event of default by either party. The parent company has also adopted an additional risk mitigation mechanism by negotiating the CSA to ISDA agreements with the largest counterparties in respect of off-balance sheet transactions.

The CSA specifies the type of collateral permitted, in the form of cash or first-class securities, on the basis of periodic reassessments of bilateral positions when the net value of outstanding agreements exceeds a certain threshold.

6.2.2 Credit and concentration risk

Concentration risk is the risk resulting from an excessive exposure with regard to one single debtor, a group of debtors, an economic sector or a country. To avoid this risk, the parent company has implemented a set of procedures to efficiently manage the limits set. Concentration risk can be measured either from the commitment point of view or from the point of view of the parent company's resources. In the latter case, the risk is correlated with liquidity risk.

The parent company reviews at least annually the different types of limits affecting the components of concentration risk.

It has therefore invested in appropriate risk management tools in line with the range of risk profiles and different financing techniques.

In addition to counterparty limits, the parent company has set up a system of limits by sector and region to control concentration risk.

Generally speaking, commitments are concentrated in high credit ratings (AAA, AA and A) to limit risk exposure and volatility, systematically avoiding riskier segments of the market.

Maximum exposure to credit risk	31/12/2014	31/12/2015
Cash and sight accounts with central banks	901,368,001	1,313,328,229
Loans and advances at amortised cost - Credit institutions	5,377,819,431	5,597,608,197
Loans and advances at amortised cost - Customers	18,311,255,394	19,224,838,123
Financial instruments held for trading	322,571,774	201,115,555
Hedging derivatives	99,240,017	77,502,528
Available-for-sale securities - Fixed-income securities	9,750,181,015	9,998,539,565
Held-to-maturity securities	4,699,397,776	4,683,501,426
Exposure of balance sheet commitments	**39,461,833,408**	**41,096,433,623**
Completion bonds	300,138,107	323,133,147
Letters of credit	45,245,146	41,223,892
Counter-guarantees	412,772,996	408,246,517
Documentary credits	19,329,722	13,191,609
Other	10,280,916	6,406,041
Undrawn confirmed loans	4,989,253,879	4,955,389,125
Exposure of off-balance sheet commitments	**5,777,020,767**	**5,747,590,330**
Total exposure	**45,238,854,175**	**46,844,023,953**

The parent company uses the following standard techniques to mitigate credit and counterparty risk:

- collateral:

Breakdown by type of collateral	2014	2015
Mortgages	11,453,385,539	12,371,600,949
Reverse repurchase agreements	2,937,240,552	2,616,441,507
Pledge through cash or securities deposits	111,206,238	116,734,465

- personal guarantees: these stood at EUR 56,160,060 at year-end 2015, compared with EUR 60,993,931 one year earlier,
- ISDA - CSA contracts,
- Global Master Repurchase Agreements (GMRA).

Financial assets that are the subject of a legally enforceable netting framework agreement or a similar agreement:

	Financial assets that are the subject of netting			Potential netting not recognised on the balance sheet		
31/12/2015	**Financial assets before balance sheet netting**	**Balance sheet netting with financial liabilities**	**Financial assets recorded on the balance sheet**	**Financial liabilities**	**Collateral received**	**Financial assets after taking potential netting into account**
Reverse repurchase/ Repurchase agreements	948,008,654	-	948,008,654	3,579,862	300,783,957	643,644,835
Derivative instruments	124,291,018	-	124,291,018	51,311,127	36,940,914	36,038,977
Total assets	**1,072,299,672**	**-**	**1,072,299,672**	**54,890,989**	**337,724,871**	**679,683,811**

	Financial assets that are the subject of netting			Potential netting not recognised on the balance sheet		
31/12/2014	**Financial assets before balance sheet netting**	**Balance sheet netting with financial liabilities**	**Financial assets recorded on the balance sheet**	**Financial liabilities**	**Collateral received**	**Financial assets after taking potential netting into account**
Reverse repurchase/ Repurchase agreements	1,094,835,836	-	1,094,835,836	104,441	596,081,787	498,649,607
Derivative instruments	192,397,772	-	192,397,772	32,581,656	143,219,286	16,596,830
Total assets	**1,287,233,608**	**-**	**1,287,233,608**	**32,686,097**	**739,301,073**	**515,246,437**

Financial liabilities that are the subject of a legally enforceable netting framework agreement or a similar agreement:

	Financial liabilities that are the subject of netting			Potential netting not recognised on the balance sheet		
31/12/2015	**Financial liabilities before balance sheet netting**	**Balance sheet netting with financial assets**	**Financial liabilities recorded on the balance sheet**	**Financial assets**	**Collateral given**	**Financial liabilities after taking potential netting into account**
Repurchase/Reverse repurchase agreements	334,999,085	-	334,999,085	73,601,094	250,316,153	11,081,838
Derivative instruments	996,606,723	-	996,606,723	127,405,814	839,604,816	29,596,093
Total liabilities	**1,331,605,808**	**-**	**1,331,605,808**	**201,006,908**	**1,089,920,969**	**40,677,931**

	Financial liabilities that are the subject of netting			Potential netting not recognised on the balance sheet		
31/12/2014	**Financial liabilities before balance sheet netting**	**Balance sheet netting with financial assets**	**Financial liabilities recorded on the balance sheet**	**Financial assets**	**Collateral given**	**Financial liabilities after taking potential netting into account**
Repurchase/Reverse repurchase agreements	878,142,548	-	878,142,548	-	269,797,045	608,345,504
Derivative instruments	1,145,762,058	-	1,145,762,058	180,851,865	882,146,368	82,763,824
Total liabilities	**2,023,904,606**	**-**	**2,023,904,606**	**180,851,865**	**1,151,943,413**	**691,109,328**

6.2.3. Analysis of credit risk relating to financial assets

Pursuant to IFRS, the Group assess its exposure to financial asset credit risk as the book value.

In the "Quantitative tables of exposures and concentrations" section, exposure to credit risk is indicated at book value before collateralisation. The application of a collateralisation ratio is a technique for reducing the risk of the underlying asset.
Credit risk is shown according to exposures:
- by geography,
- by counterparty category,
- by risk class (internal ratings).

Bank Museum

Exposure by geographical area:

Geographical area as at 31/12/2015 (in thousands of euros)	**European Union and Switzerland**	**Other European countries**	**North America**	**Asia and Australasia**	**Supra-national**	**Other**	**Total**
Cash and sight accounts with central banks	1,276,547	1,155	19,370	4,329	76	11,851	1,313,328
Loans and advances at amortised cost	24,294,865	47,803	131,155	301,265	1,945	45,413	24,822,446
Financial instruments held for trading and hedging derivative instruments	275,961	55	1,206	1,124	-	272	278,618
Available-for-sale securities	8,326,718	204,544	1,343,356	774,348	597,290	82,700	11,328,956
Held-to-maturity securities	3,880,302	165,871	371,199	103,283	162,846	-	4,683,501
Other	384,622	-	-	-	-	-	384,622
Total	**38,439,016**	**419,428**	**1,866,286**	**1,184,349**	**762,158**	**140,236**	**42,811,472**

Geographical area as at 31/12/2014 (in thousands of euros)	**European Union and Switzerland**	**Other European countries**	**North America**	**Asia and Australasia**	**Supra-national**	**Other**	**Total**
Cash and sight accounts with central banks	885,543	638	3,997	570	-	10,619	901,368
Loans and advances at amortised cost	22,868,940	9,196	395,189	337,559	4,237	73,954	23,689,075
Financial instruments held for trading and hedging derivative instruments	421,426	93	267	15	9	3	421,812
Available-for-sale securities	8,356,069	137,713	1,183,760	855,821	638,950	40,860	11,213,173
Held-to-maturity securities	4,151,557	111,097	226,963	52,596	157,185	-	4,699,398
Other	286,220	-	-	-	-	-	286,220
Total	**36,969,755**	**258,737**	**1,810,176**	**1,246,561**	**800,381**	**125,436**	**41,211,045**

In the following table, to meet the requirements of IFRS 7 "Financial instruments: Disclosures", exposure to credit risk as at 31 December 2015 is presented according to internal ratings.

Exposure by counterparty category and risk class:

	2014			2015		
	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio
Cash and cash balances with central banks						
High grade	901,368,001	901,368,001	-	1,138,428,726	1,138,428,726	-
Standard grade	-	-	-	174,471,838	174,471,838	-
Sub-standard grade	-	-	-	20	20	100.00%
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	4,025	2,013	-
Not rated	-	-	-	425,632	425,632	-
Total of categories	**901,368,001**	**901,368,001**		**1,313,330,241**	**1,313,328,229**	
Loans and advances at amortised cost						
Banks						
High grade	3,685,486,601	3,685,486,601	36.47%	2,892,231,663	2,892,231,663	17.76%
Standard grade	1,633,632,605	1,633,632,605	41.37%	2,562,254,230	2,562,254,230	57.29%
Sub-standard grade	190,402	190,402	-	74,626,707	74,626,707	3.88%
Past due but not impaired	-	-	-	-	-	-
Impaired	97,261	48,631	-	-	-	-
Not rated	58,461,193	58,461,193	0.33%	68,495,597	68,495,597	0.13%
Corporates						
High grade	1,844,058,967	1,844,058,967	28.36%	1,858,617,539	1,858,617,539	31.31%
Standard grade	1,677,709,366	1,677,709,366	65.77%	1,733,294,356	1,733,294,356	53.10%
Sub-standard grade	669,123,270	669,123,270	38.41%	680,345,560	680,345,560	45.90%
Past due but not impaired	96,429,685	96,429,685	69.57%	203,444,520	203,444,520	20.98%
Impaired	215,762,825	134,675,302	84.95%	117,836,254	53,411,334	70.29%
Not rated	214,242,094	214,242,094	50.18%	225,822,255	225,822,255	62.19%
Sovereigns						
High grade	2,319,698,942	2,319,698,942	-	2,313,066,006	2,313,066,006	-
Standard grade	-	-	-	7,739	7,739	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	33,319,277	33,319,277	-	53,195,129	53,195,129	-
Impaired	-	-	-	-	-	-
Not rated	2,782	2,782	-	8,324	8,324	-
Retail						
High grade	7,994,821,543	7,994,821,543	92.32%	8,684,362,085	8,684,362,085	91.94%
Standard grade	1,728,986,092	1,728,986,092	91.52%	1,765,814,203	1,765,814,203	92.57%
Sub-standard grade	1,312,981,124	1,312,981,124	89.47%	1,418,777,710	1,418,777,710	89.50%
Past due but not impaired	148,233,733	148,233,733	94.08%	123,129,635	123,129,635	93.70%
Impaired	128,328,482	109,988,349	82.29%	107,837,000	91,095,716	85.76%
Not rated	26,984,866	26,984,866	7.40%	20,446,011	20,446,011	9.75%
Total of categories	**23,788,551,110**	**23,689,074,823**		**24,903,612,524**	**24,822,446,320**	

	2014			2015		
	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio
Financial instruments held for trading and hedging derivatives						
Banks						
High grade	158,903,719	158,903,719	34.23%	82,317,344	82,317,344	11.16%
Standard grade	125,795,802	125,795,802	47.40%	143,416,408	143,416,408	24.61%
Sub-standard grade	109,816	109,816	-	1,084,189	1,084,189	100.00%
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	151,331	151,331	-
Corporates						
High grade	33,835,945	33,835,945	-	7,197,944	7,197,944	-
Standard grade	66,062,663	66,062,663	-	26,303,019	26,303,019	-
Sub-standard grade	5,802,062	5,802,062	-	5,092,560	5,092,560	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	30,787,093	30,787,093	-	9,142,080	9,142,080	-
Sovereigns						
High grade	92,823	92,823	-	-	-	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	2,909	2,909	-	-	-	-
Retail						
High grade	286,511	286,511	-	2,430,066	2,430,066	-
Standard grade	10,684	10,684	-	457,108	457,108	-
Sub-standard grade	49,604	49,604	-	12,815	12,815	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	72,163	72,163	-	1,013,219	1,013,219	-
Total of categories	**421,811,792**	**421,811,792**		**278,618,084**	**278,618,084**	

	2014			2015		
	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio
Available-for-sale securities and investments in associates accounted for using the equity method						
Banks						
High grade	3,939,428,898	3,939,428,898	-	4,097,029,359	4,097,029,359	-
Standard grade	1,075,831,552	1,075,831,552	-	1,029,280,797	1,029,280,797	-
Sub-standard grade	15,658,201	15,658,201	-	8,251,866	8,251,866	-
Past due but not impaired	-	-	-	-	-	-
Impaired	17,524,611	4,574,633	-	12,513,658	1,313,658	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	999,604,545	999,604,545	-	1,193,879,313	1,193,879,313	-
Standard grade	2,038,134,344	2,038,134,344	-	2,005,919,403	2,005,919,403	-
Sub-standard grade	71,922,184	71,922,184	-	76,854,355	76,854,355	-
Past due but not impaired	-	-	-	-	-	-
Impaired	12,984,247	859,767	-	33,513,503	11,190,338	-
Not rated	132,196,353	132,196,353	-	93,350,345	93,350,345	-
Sovereigns						
High grade	1,516,458,924	1,516,458,924	-	1,638,272,097	1,638,272,097	-
Standard grade	1,044,598,419	1,044,598,419	-	985,609,533	985,609,533	-
Sub-standard grade	132,269,856	132,269,856	-	29,112,152	29,112,152	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Securitisation						
High grade	116,391,184	116,391,184	-	91,701,325	91,701,325	-
Standard grade	83,481,321	83,481,321	-	35,776,895	35,776,895	-
Sub-standard grade	3,124,210	3,124,210	-	2,927,449	2,927,449	-
Past due but not impaired	-	-	-	-	-	-
Impaired	76,095,254	38,295,088	-	60,444,447	28,487,583	-
Not rated	-	-	-	-	-	-
Other						
High grade	343,412	343,412	-	-	-	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories	**11,276,047,515**	**11,213,172,892**		**11,394,436,498**	**11,328,956,469**	

	2014			2015		
	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio
Held-to-maturity securities						
Banks						
High grade	2,531,051,415	2,531,051,415	-	2,029,170,330	2,029,170,330	-
Standard grade	702,754,831	702,754,831	-	753,056,683	753,056,683	-
Sub-standard grade	41,780,495	41,780,495	-	26,360,198	26,360,198	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	461,025,588	461,025,588	-	462,829,478	462,829,478	-
Standard grade	236,816,702	236,816,702	-	446,336,462	446,336,462	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Sovereigns						
High grade	701,769,925	701,769,925	-	891,711,988	891,711,988	-
Standard grade	24,198,819	24,198,819	-	74,036,287	74,036,287	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories	**4,699,397,776**	**4,699,397,776**		**4,683,501,426**	**4,683,501,426**	
Non-financial assets (*)	**286,219,687**	**286,219,687**	**-**	**384,621,631**	**384,621,631**	**-**
Total of categories	**286,219,687**	**286,219,687**		**384,621,631**	**384,621,631**	
Total	**41,373,395,881**	**41,211,044,972**		**42,958,120,404**	**42,811,472,161**	

(*) "Non-financial assets" comprises "Change in fair value of a portfolio of financial instruments hedged against interest rate risk", "Tangible assets for own use", "Investment property", "Intangible assets" and "Other assets".

The Group enters outstandings where the contractual payment maturity is past due by at least one day on the line "Past due but not impaired" under "Loans and advances at amortised cost". In "Available-for-sale securities", the Group does not record any items in the line "Past due but not impaired", and uses the "Objective impairment evidence" to determine individual impairments.

The average collateralisation ratio gives the average hedging ratio of outstanding amounts by collateral held.
An indication of the level of impairment is provided in the columns "Outstanding amount excluding impairment" and "Outstanding amount including impairment".

Banks, Corporates and Sovereigns
The grouping according to internal risk category corresponds, for example with the following "S&P" equivalents:
- High grade: from AAA to A+
- Standard grade: from A to BBB-
- Sub-standard grade: from BB+ to BB-

Outstanding amounts described as "Impaired" relate to outstanding amounts showing objective impairment evidence and whose internal risk category (internal rating) is equal to or lower than a B+ rating.

Securitisation
The grouping according to internal risk category corresponds, for example with the following "S&P" equivalents:
- High grade: from AAA to A+
- Standard grade: from A to BBB-

Outstanding amounts described as "Impaired" relate to outstanding amounts showing objective impairment evidence and whose internal risk category (internal rating) is equal to or lower than a BB+ rating.

6.3 MARKET RISK

6.3.1 Objectives and management of risk

"Short-term" liquidity, up to six months, and interest rate risk, up to two years, are managed by the Money Market desk (treasury) of the FIM unit ("Financial Markets").

Mismatch and long-term liquidity risks are handled by the ALM (Asset Liability Management) Committee. The Committee ensures that the Bank's equity capital and invested funds are appropriately managed, and that its national and international loan portfolios and proprietary bond and equity portfolios are refinanced in such a way as to minimise the negative impact of yield curve movements on the parent company's performance. The ALM committee comprises the members of the Executive Committee and a number of department heads.

All components of market risk, such as interest rate risk, foreign exchange risk and share price risk affecting the on- and off-balance sheet positions managed by ALM or treasury, are centralised in real time in the trading room's front-office system and are managed within the limits set by the parent company's Executive Committee. The Risk Control unit, which operates independently of the trading room, is responsible for regular reporting on compliance with the limits and the levels of risk incurred to the Executive Committee.

The parent company did not change its market risk management policy in the 2015 financial year.

Risk levels are primarily monitored using a VaR (Value at Risk) model. Trading and cash management activities are each subject to their own VaR limits. The following table sets out VaR for the different scopes in millions of euros:

Scope	Average daily VaR in 2015	Maximum daily VaR in 2015	VaR limit for the scope in question in 2015
ALM	6.38	7.38	12.50
Treasury	0.21	0.04	2.50
Trading	0.05	0.02	no limit

Scope	Average daily VaR in 2014	Maximum daily VaR in 2014	VaR limit for the scope in question in 2014
ALM	6.57	8.09	12.50
Treasury	0.34	0.54	2.50
Trading	0.08	0.23	no limit

In addition to VaR, which is used for the aggregate management of the different types of market risk, the Group's parent company uses other risk management tools depending on the characteristics of the financial instruments concerned. Accordingly, interest rate risk is managed by simulating the financial impact of a parallel one basis point (0.01%) change in the yield curve on the net present value (NPV) of each position. Daily reports show the total financial impact arising from a parallel one basis point shift in all yield curves, also known as basis point value (BPV), which must stay within pre-set limits.

6.3.2 Analysis of the value of financial instruments

The following table presents the comparison by category of the carrying amounts and fair values of the Group's financial instruments included in the consolidated financial statements.

Categories as at 31/12/2015	Carrying amount	Fair value	Unrealised valuation
Financial assets			
Cash and sight accounts with central banks	1,313,328,229	1,313,328,229	-
Loans and advances at amortised cost - Credit institutions	5,597,608,197	5,597,016,193	-592,004
Loans and advances at amortised cost - Customers	19,224,838,123	21,534,677,192	2,309,839,069
of which measured at fair value for hedging purposes	*2,054,732,187*	*2,054,732,187*	-
Financial instruments held for trading	201,115,555	201,115,555	-
Hedging derivatives	77,502,528	77,502,528	-
Available-for-sale securities - Fixed-income securities	9,998,539,565	9,998,539,565	-
Available-for-sale securities - Variable-income securities	1,005,562,944	1,005,562,944	-
Held-to-maturity securities	4,683,501,426	4,858,421,747	174,920,321
TOTAL	**42,101,996,567**	**44,586,163,953**	**2,484,167,386**
Financial liabilities			
Deposits at amortised cost - Credit institutions	4,439,629,040	4,439,629,040	-
Deposits at amortised cost - Private customers and public sector	26,923,488,031	27,197,078,625	273,590,594
Financial instruments held for trading	170,332,351	170,332,351	-
Hedging derivatives	892,476,947	892,476,947	-
Debt securities in issue	5,791,365,039	5,791,390,508	25,469
of which measured at fair value for hedging purposes	*1,522,505,195*	*1,522,505,195*	-
TOTAL	**38,217,291,408**	**38,490,907,471**	**273,616,063**

Categories as at 31/12/2014	Carrying amount	Fair value	Unrealised valuation
Financial assets			
Cash and sight accounts with central banks	901,368,001	901,368,001	-
Loans and advances at amortised cost - Credit institutions	5,377,819,431	5,377,819,431	-
Loans and advances at amortised cost - Customers	18,311,255,394	19,598,742,838	1,287,487,444
of which measured at fair value for hedging purposes	*2,022,424,141*	*2,022,424,141*	-
Financial instruments held for trading	322,571,774	322,571,774	-
Hedging derivatives	99,240,017	99,240,017	-
Available-for-sale securities - Fixed-income securities	9,750,181,015	9,750,181,015	-
Available-for-sale securities - Variable-income securities	1,153,020,266	1,153,020,266	-
Held-to-maturity securities	4,699,397,776	4,956,077,391	256,679,615
TOTAL	**40,614,853,674**	**42,159,020,733**	**1,544,167,059**
Financial liabilities			
Deposits at amortised cost - Credit institutions	4,144,695,863	4,144,695,863	-
Deposits at amortised cost - Private customers and public sector	25,068,145,379	25,182,847,166	114,701,787
Financial instruments held for trading	199,899,794	199,899,794	-
Hedging derivatives	991,242,634	991,242,634	-
Debt securities in issue	6,276,226,429	6,276,223,419	-3,010
of which measured at fair value for hedging purposes	*1,586,524,554*	*1,586,524,554*	-
TOTAL	**36,680,210,098**	**36,794,908,876**	**114,698,777**

The fair value of financial instruments not recognised at fair value in the consolidated financial statements is determined according to the methods and estimates described below.

Figures for 2014 have been restated to facilitate the comparison with 2015.

The fair value measurements presented in "Loans and advances at amortised cost - Customers", "Held-to-maturity securities" and "Debt securities in issue" are categorised as Levels 1 and 2 in the fair value hierarchy.

Assets and liabilities at amortised cost in the balance sheet with a fair value close to the book value

In respect of financial assets and liabilities with a maturity date of 6 months or less, the Group estimates their fair value as very close to their carrying amount. The credit risk is considered to be immaterial due to the Group's prudent policy and the imminent maturity. The low residual duration also means that the rate risk is immaterial.

Similarly, the fair value of assets collateralised is very close to their book value, since the credit risk is hedged. These are essentially repurchase agreements, secured loans and equipment loans.

Financial assets and liabilities at amortised cost in the balance sheet with a fair value different from the carrying amount

Financial assets and liabilities towards customers, as well as fixed income securities held to maturity are recognised at amortised cost in the balance sheet.

For the purpose of fair value calculation, the Group distinguishes between instruments quoted on a market and over-the-counter instruments.

The fixed-income securities included in the held-to-maturity portfolio are bonds quoted on a market.

The Group calculates the fair value of financial assets and liabilities towards customers using the discounted cash flow method based on:

a. credit risk data such as the customer's risk classification, probability of default and loss given default. These criteria were established based on historical observations of defaults and are used to determine credit risk premiums (credit spreads) by risk class, duration and type of financial instrument,
b. a reference yield curve.

Hierarchy of assets and liabilities at fair value

Assets and liabilities at fair value:

Categories as at 31 December 2015	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
- Debt instruments	417,765	-	-	417,765
- Equity instruments	-	-	-	-
- Derivative instruments	-	200,697,791	-	200,697,791
Available-for-sale financial assets				
- Debt instruments	7,118,451,729	2,709,453,537	170,634,299	9,998,539,565
- Equity instruments	240,526,357	630,834,847	134,201,738	1,005,562,942
Hedging derivatives	-	77,502,528	-	77,502,528
TOTAL	**7,359,395,851**	**3,618,488,703**	**304,836,036**	**11,282,720,591**
Financial liabilities				
Financial instruments held for trading	785	-	-	785
Derivative financial instruments held for trading	-	170,331,566	-	170,331,566
Hedging derivatives	-	892,476,947	-	892,476,947
TOTAL	**785**	**1,062,808,513**	**-**	**1,062,809,298**

Categories as at 31 December 2014	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
- Debt instruments	614,035	-	-	614,035
- Equity instruments	266,568	-	-	266,568
- Derivative instruments	-	321,691,170	-	321,691,170
Available-for-sale financial assets				
- Debt instruments	7,032,800,312	2,510,836,271	206,544,432	9,750,181,015
- Equity instruments	283,296,965	729,708,884	140,014,417	1,153,020,266
Hedging derivatives	-	99,240,018	-	99,240,018
TOTAL	**7,316,977,881**	**3,661,476,344**	**346,558,849**	**11,325,013,073**
Financial liabilities				
Financial instruments held for trading	123,249	-	-	123,249
Derivative financial instruments held for trading	-	199,776,545	-	199,776,545
Hedging derivatives	-	991,242,634	-	991,242,634
TOTAL	**123,249**	**1,191,019,179**	**-**	**1,191,142,428**

Changes in outstanding financial assets in the table above from one year to the next are primarily the result of the decrease in the share prices of equity instruments at end-2015, offset by an increase in investments in debt instruments, and of the decrease in derivative financial instruments.

A comparison of the breakdown of financial assets across the various levels between end-2015 and end-2014 reveals no significant change: 65.2% of financial assets are classed as Level 1 (64.6% in 2014), 32.1% as Level 2 (32.3% in 2014) and 2.7% as Level 3 (3.1% in 2014).

The Group used measurement models based on market data to calculate the fair value of Level 2 positions and measurement models based on estimates and market data to calculate the value of Level 3 positions.

The decrease in the amount of debt instruments recognised as Level 3 can be attributed to repayments of asset-backed security (ABS) and mortgage-backed security (MBS) debt. The Level 2 amount for this type of instrument increased as many of the new acquisitions are not actively quoted, but their fair value is determined chiefly through the use of market data.

The Level 2 amount for equity instruments decreased due primarily to the derecognition of securities quoted on a market and the recognition of securities of a single entity, whose fair value is determined based on the active quotation price.

Level 3 breakdown:

	Available-for-sale financial assets			Total financial assets	Financial liabilities		Total financial liabilities
	Debt instruments	Equity instruments	Hedging derivatives		Debt securities in issue	Hedging derivates	
Total as at 1 January 2015	**206,544,432**	**140,014,417**	**-**	**346,558,849**	**-**	**-**	**-**
Total gains / losses	2,560,859	-39,668,057	-	-37,107,198	-	-	-
- Income statement	*2,984,803*	*-29,855,970*	-	*-26,871,167*	-	-	-
- Revaluation reserve	*-423,945*	*-9,812,087*	-	*-10,236,032*	-	-	-
Purchases	18,992,715	33,247,969	-	52,240,684	-	-	-
Reimbursements/sales	-22,007,849	607,409	-	-21,400,440	-	-	-
Transfers from or to Level 3	-35,455,857	-	-	-35,455,857	-	-	-
Total as at 31 December 2015	**170,634,299**	**134,201,738**	**-**	**304,836,037**	**-**	**-**	**-**
Total gains / losses for the period included in the income statement for financial assets and liabilities held as at 31 December 2015	2,984,803	-29,855,970	-	**-26,871,167**	-	-	-

	Available-for-sale financial assets			Total financial assets	Financial liabilities		Total financial liabilities
	Debt instruments	Equity instruments	Hedging derivatives		Debt securities in issue	Hedging derivates	
Total as at 1 January 2014	**115,435,483**	**136,445,100**	**185**	**251,880,768**	**-**	**-**	**-**
Total gains / losses	7,935,631	-19,235,158	-185	-11,299,712	-	-	-
- Income statement	*9,861,644*	-	*-185*	*9,861,459*	-	-	-
- Revaluation reserve	*-1,926,013*	*-19,235,158*	-	*-21,161,171*	-	-	-
Purchases	-	19,040,659	-	19,040,659	-	-	-
Reimbursements/sales	-57,208,549	-748,049	-	-57,956,598	-	-	-
Transfers from or to Level 3	140,381,867	4,511,864	-	144,893,731	-	-	-
Total as at 31 December 2014	**206,544,432**	**140,014,417**	**-**	**346,558,848**	**-**	**-**	**-**
Total gains / losses for the period included in the income statement for financial assets and liabilities held as at 31 December 2014	9,861,644	-	-185	**9,861,459**	-	-	-

The total volume of Level 3 financial assets corresponds to 2.7% of total financial assets measured at fair value for financial year 2015, compared with 3.1% in 2014. The Group did not display any Level 3 financial liabilities measured at fair value in financial years 2015 and 2014.

Methods used for the Level 3 valuation:

Category	Method
- Debt instruments	For securitisations, the fair value measurement is based on an estimate of future flows and on a dedicated basis spread (J.P. Morgan Int ABS & CB Research or SIFMA Markit). Some positions include an impairment that does not result solely from a determination based on the cash flow method but also takes an appraiser assessment into account.
- Equity instruments	Application of the fair value estimate method based on net assets. Net assets are based on recent financial statements and a discount, determined from an appraiser assessment, is applied. If the fair value is less than the acquisition price, the parent company applies an impairment to the position in question.

Sensitivity analysis for Level 3:

The sensitivity analysis was only performed for debt instruments. As such, the parent company did not change the assumptions used in the cash flow model, but simulated a one-basis-point increase in credit risk:

Category	Fair value as at 31/12/2015	Sensitivity to a one-basis-point increase in credit risk
Debt instruments	170,634,299	-36,404

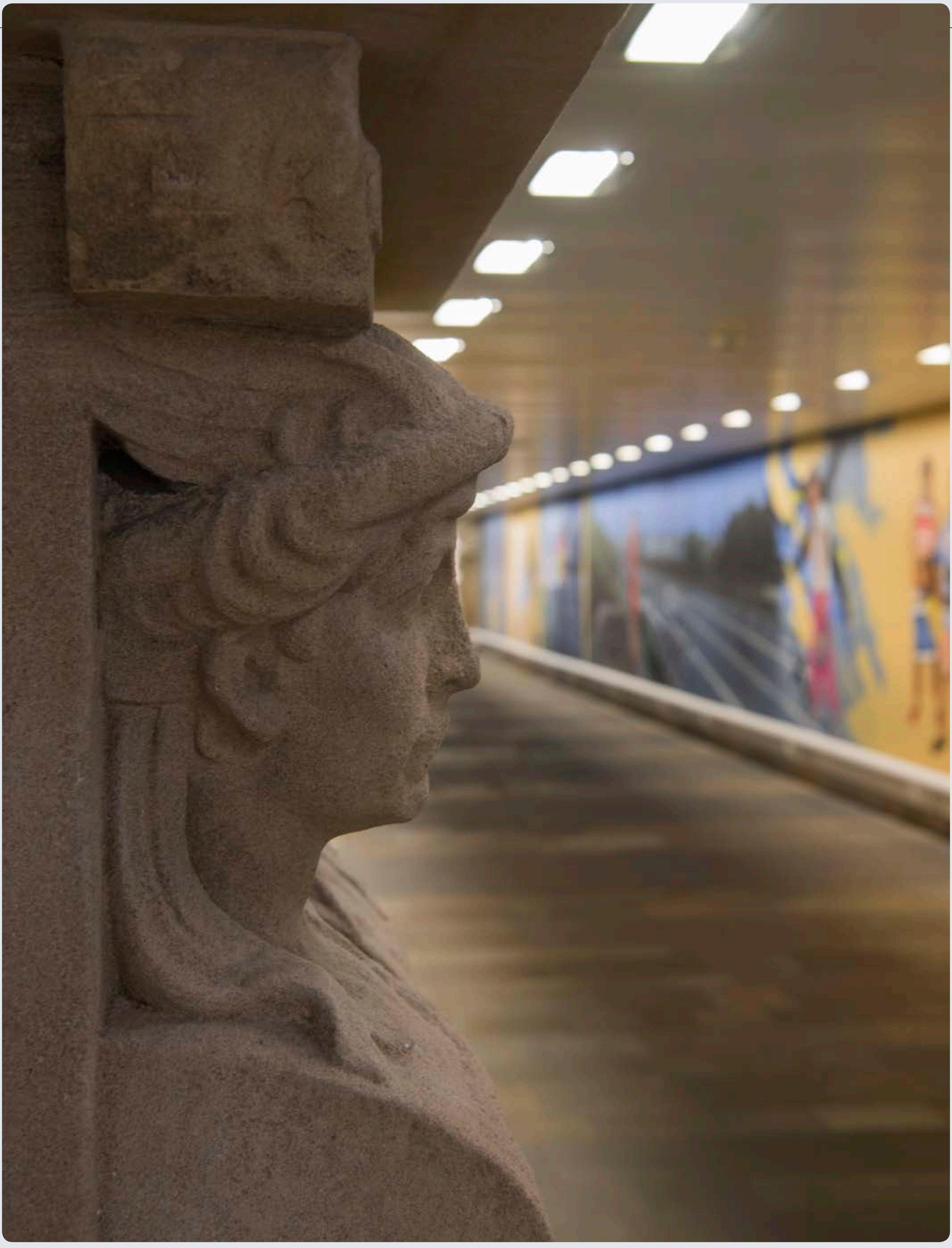
Category	Fair value as at 31/12/2014	Sensitivity to a one-basis-point increase in credit risk
Debt instruments	206,544,432	-50,348

6.3.3 Analysis of foreign exchange risk: Net currency positions

As at 31/12/2015	Net balance sheet position
CHF	2,631,960
GBP	2,447,039
USD	20,110,290
Other	-3,010,447
Total	**22,178,843**

As at 31/12/2014	Net balance sheet position
CNY	-6,854,927
USD	9,184,306
Other	1,294,357
Total	**3,623,736**

Only currencies with a net currency position exceeding EUR 2 million are recorded on a separate line.



Gallery of Contemporary Art "Am Tunnel" & Espace Edward Steichen

6.4 LIQUIDITY RISK

6.4.1 Liabilities schedules

Tables showing the balance sheet liabilities over the remaining residual life until repayment according to contractual data:

Current accounts and savings accounts are considered as repayable on demand.

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2015
Issuance of debt securities	2,165,362,926	3,185,335,320	**5,350,698,245**	228,095,389	247,827,942	**475,923,331**	**5,826,621,577**
Deposits at amortised cost -							
Credit institutions	4,064,929,958	297,061,797	**4,361,991,755**	47,473,372	61,804,527	**109,277,899**	**4,471,269,654**
Private and Public Sector	23,555,534,737	2,106,891,972	**25,662,426,709**	1,263,598,335	25,758,008	**1,289,356,342**	**26,951,783,051**
Total	**29,785,827,621**	**5,589,289,089**	**35,375,116,710**	**1,539,167,095**	**335,390,478**	**1,874,557,573**	**37,249,674,283**

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2014
Issuance of debt securities	2,729,239,861	2,855,525,629	**5,584,765,490**	435,228,707	326,774,571	**762,003,279**	**6,346,768,769**
Deposits at amortised cost -							
Credit institutions	3,824,468,103	297,823,339	**4,122,291,442**	113,289,470	68,364,796	**181,654,266**	**4,303,945,709**
Private and Public Sector	22,735,204,775	1,646,378,480	**24,381,583,255**	726,546,729	142,213	**726,688,942**	**25,108,272,196**
Total	**29,288,912,738**	**4,799,727,449**	**34,088,640,187**	**1,275,064,906**	**395,281,581**	**1,670,346,487**	**35,758,986,674**

Table showing deposits from customers and the public sector according to 'expected' maturity dates determined in accordance with the ALM policy:

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2015
Deposits at amortised cost - Private and Public Sector	8,871,012,181	4,596,206,007	**13,467,218,188**	7,805,810,232	5,651,520,662	**13,457,330,894**	**26,924,549,082**

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2014
Deposits at amortised cost - Private and Public Sector	9,090,367,267	3,937,369,106	**13,027,736,372**	6,727,959,697	5,457,631,480	**12,185,591,177**	**25,213,327,550**

6.4.2 Derivative instruments schedules

Table showing derivative instruments settled in gross cash flows:

In view of the fact that residual life is calculated on the basis of contractual data, the optional feature of some contracts has not been taken into account.

Amounts are shown in euros at the exchange rates on 31 December 2015 and 31 December 2014.

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2015
Derivative instruments held for trading					
Foreign exchange swaps and forward exchange contracts					
Inflows	9,472,509,260	3,502,466,712	-	-	**12,974,975,972**
Outflows	-9,450,575,087	-3,459,075,491	-	-	**-12,909,650,578**
Derivatives used for hedging purposes					
CCIS					
Inflows	442,441,983	1,206,635,826	967,918,457	233,729,700	**2,850,725,966**
Outflows	-457,668,081	-1,294,524,581	-1,146,046,022	-275,940,583	**-3,174,179,267**
Total inflows	**9,914,951,243**	**4,709,102,538**	**967,918,457**	**233,729,700**	**15,825,701,938**
Total outflows	**-9,908,243,168**	**-4,753,600,072**	**-1,146,046,022**	**-275,940,583**	**-16,083,829,845**

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2014
Derivative instruments held for trading					
Foreign exchange swaps and forward exchange contracts					
Inflows	6,422,419,282	2,275,922,091	-	-	**8,698,341,373**
Outflows	-6,297,816,981	-2,240,630,930	-	-	**-8,538,447,911**
Derivatives used for hedging purposes					
CCIS					
Inflows	126,069,547	1,398,585,106	753,170,864	131,259,292	**2,409,084,809**
Outflows	-128,822,124	-1,422,836,961	-843,899,171	-148,235,364	**-2,543,793,620**
Total inflows	**6,548,488,829**	**3,674,507,197**	**753,170,864**	**131,259,292**	**11,107,426,182**
Total outflows	**-6,426,639,106**	**-3,663,467,891**	**-843,899,171**	**-148,235,364**	**-11,082,241,531**

Table showing derivative instruments settled in net cash flows:

Net cash flow liabilities from derivative instruments settled net are as follows:

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2015
Derivative instruments held for trading					
IRS	1,851,365	11,397,749	13,655,936	2,263,275	**29,168,325**
Derivatives used for hedging purposes					
IRS	63,396,554	136,784,954	435,337,040	278,261,647	**913,780,195**
Total outflows	**65,247,919**	**148,182,703**	**448,992,976**	**280,524,922**	**942,948,520**

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2014
Derivative instruments held for trading					
IRS	7,231,488	13,409,391	21,897,657	788,102	**43,326,638**
Derivatives used for hedging purposes					
IRS	69,043,831	120,501,774	447,854,221	235,596,537	**872,996,363**
Total outflows	**76,275,319**	**133,911,165**	**469,751,877**	**236,384,640**	**916,323,001**

6.5 ECONOMIC CAPITAL

The Group has embarked on a process of measuring economic risk and planning the assignment of its equity resources to the various business lines.

This process and associated work are formally drawn up and reported to the CSSF in the ICAAP report, in accordance with Basel III Pillar II. CSSF Circular 07/301 (as amended), "Implementation of the Internal Capital Adequacy Assessment Process (ICAAP)" provides for "a system of sound, effective and complete strategies and processes allowing credit institutions to assess and maintain, on an ongoing basis, the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of risks to which they are or might be exposed".

The ICAAP document describes the identification of and framework for managing the risks to which the Group's parent company is exposed, either under Basel III Pillar 1 or other risks, such as liquidity, profitability, etc.

The methods used for the economic quantification of the risks are based on adjustments and supplements to regulatory methods, as well as on measuring non-Pillar 1 risks.

The Group's capital management policy meets the objectives of the mission defined in the Bank's Articles of Association, namely "to contribute to the development of the Luxembourg economy". Accordingly, the Group aims to retain moderate leverage, which is reflected in a high target capitalisation ratio. Moreover, business within the domestic market is given priority in the allocation of capital resources.

6.5.1 Capital management policy

6.5.1.1 Determining equity capital

The Group's objective is to contribute to the development of Luxembourg's economy and to generate enough profit to strengthen its financial position.

In the framework of its economic capital model, the Group determines capital according to an economic capital approach, as opposed to its regulatory capital requirement. The Bank's basic principle for economic capital is based on a very prudent approach which consists of considering only the funds immediately available to the Group without restriction as economic capital to cover potential losses or to grow its business.

6.5.1.2 Implementation of internal capital adequacy policy

The Group and its parent company have adopted the following methodology to implement their internal capital adequacy policy:

- development of an internal risk assessment model (Basel III Pillar 1 risks plus non-Pillar 1 risks),
- determination of a substantial safety margin between available capital and risk hedging, reflected in a high target capitalisation ratio. Note that throughout 2015, the Group's parent company complied with the regulatory capital requirements of Basel III Pillar 1,
- distribution of capital according to the internal organisation of the Group's business lines and its projected results;
- risk exposure forecasts by business,
- calculation of the projected capital requirements to cover the Bank's risks,
- when the minimum ratio requirements are fulfilled, allocation of the surplus capital according to the Group's strategic guidelines.

In terms of internal governance, the 2015 ICAAP report was submitted to the Group's Board of Directors, which approved the proposed guidelines. In accordance with the ICAAP circular, authorised management will report to the Board of Directors at least annually, and more frequently if needed or in the case of a major change in methodology.

Equity, Regulatory Own Funds and Solvency Ratio (in euros)	**31/12/2014**	**31/12/2015**
Total equity on the consolidated balance sheet	**4,164,129,075**	**4,151,869,150**
Consolidation adjustments	-127,560,042	-125,421,076
Total equity on the IFRS balance sheet in the parent company financial statements	**4,036,569,033**	**4,026,448,074**
IFRS income for the year not included in Common Equity Tier 1 (CET1)	-259,921,558	-226,173,815
CET1 before regulatory adjustments	**3,776,647,475**	**3,800,274,259**
Regulatory adjustments to CET1	**-1,453,203,305**	**-1,271,930,671**
Fair value reserves related to gains or losses on cash flow hedges	-5,650,518	-134,378
Intangible assets	-12,744,140	-15,017,211
Negative amounts resulting from the calculation of expected loss amounts	-104,377,829	-58,216,999
Direct, indirect and synthetic holdings of CET1 instruments of financial sector entities in which the institution has a significant investment	-	-4,928,618
Regulatory adjustments related to unrealised gains and losses pursuant to Articles 467 and 468 and Article 8 of circular CSSF 14-01 on the implementation of certain discretions of Regulation (EU) 575/2013	-1,146,032,346	-998,980,798
Amount to be deducted or added to CET1 pursuant to circular CSSF 14/599 on the treatment of prudential provisions	-184,398,472	-194,652,666
Tier 1 Regulatory Own Funds (CET1)	**2,323,444,170**	**2,528,343,588**
Tier 2 Regulatory Own Funds	**108,689,774**	**100,071,923**
Tier 2 Regulatory Own Funds	108,689,774	100,071,923
Total regulatory Own Funds	**2,432,133,944**	**2,628,415,511**
Total capital requirement	**1,015,327,950**	**1,134,090,186**
Solvency ratios		
Tier 1 solvency ratio	18.3%	17.8%
Total solvency ratio	19.2%	18.5%

The regulatory own funds and the solvency ratios apply only to the Group's parent company.

In 2015, regulatory own funds were determined in accordance with the Basel III regulation on the basis of IFRS balance sheet own funds, and including prudential provisions and untaxed reserves. Figures for 2014 have been restated to facilitate the comparison with the new format of the table above.

7. SEGMENT REPORTING

In accordance with IFRS 8, segment reporting is presented in line with the Group's internal organisation and its internal reporting system (management approach).

7.1 BUSINESS SEGMENTS

The Group's operations are organised into significant segments with similar profitability and risk characteristics, representing coherent product groups aimed at the same type of customers and counterparties. The businesses defined in this way are managed separately and are grouped into specific business lines in the Group's organisational chart. The segments are:

- Retail, Professional, Corporate and Public Sector Banking: business line including deposits, loans, advisory and transactions activities for this customer base, excluding activities directly handled by the trading room. From an organisational point of view, these activities fall within the remit of the Retail and Private Banking and Corporate Banking departments.
- Financial Markets and Investment Funds: activities relating to Treasury, Trading, Asset and Liability Management, Customer Desk, mutual fund administration and management. From an organisational point of view, these activities fall within the remit of the Financial Markets and Investment Funds departments.
- Other: includes all back-office and support activities, revenues from investments and costs not allocated to a specific business on a reasonable basis.

The results of these businesses include inter-entity transactions, which are valued by reference to a market price for transactions relating to financing and lending between businesses. Back-office services are also valued according to a market price, where available.

The difference between the sum of the figures for the segments and the Group's overall consolidated financial statements stems from the following items:

- Interest margin: the difference between the interest margin allocated to businesses and the total margin results from differences in valuation methods for internal transactions between the Financial Markets department and the other segments.

  Similarly, the commercial interest margin includes income valued using a method favouring commercial momentum.

  Another difference is due to a standard mechanism for the valuation of the margin on loans at social rates. This method is part of the management approach and is intended to avoid penalising branches selling these products.

  In 2015, the margin difference was below the Group's materiality limit.

- Commissions: the reconciliation difference consists of the sum of commissions not directly attributable to a business. It is the Group's view that the development cost for allocating these flows to a business would exceed the benefit obtained from this information.
- Assets and liabilities are valued according to IFRS rules which are valid for global reporting.

Gross receivables and deposits of the Retail and Private Banking and Corporate Banking businesses are recognised at their annual average amount and not their year-end amount, in line with the management approach.

The reconciliation difference for assets and liabilities stems from taking into account average outstanding amounts compared with end-of-period outstanding amounts, assets for customers not attributable to a business and from assets not spread out over businesses (suspense accounts, tax assets and liabilities and internal accounts).

7.2 GEOGRAPHICAL SEGMENTS

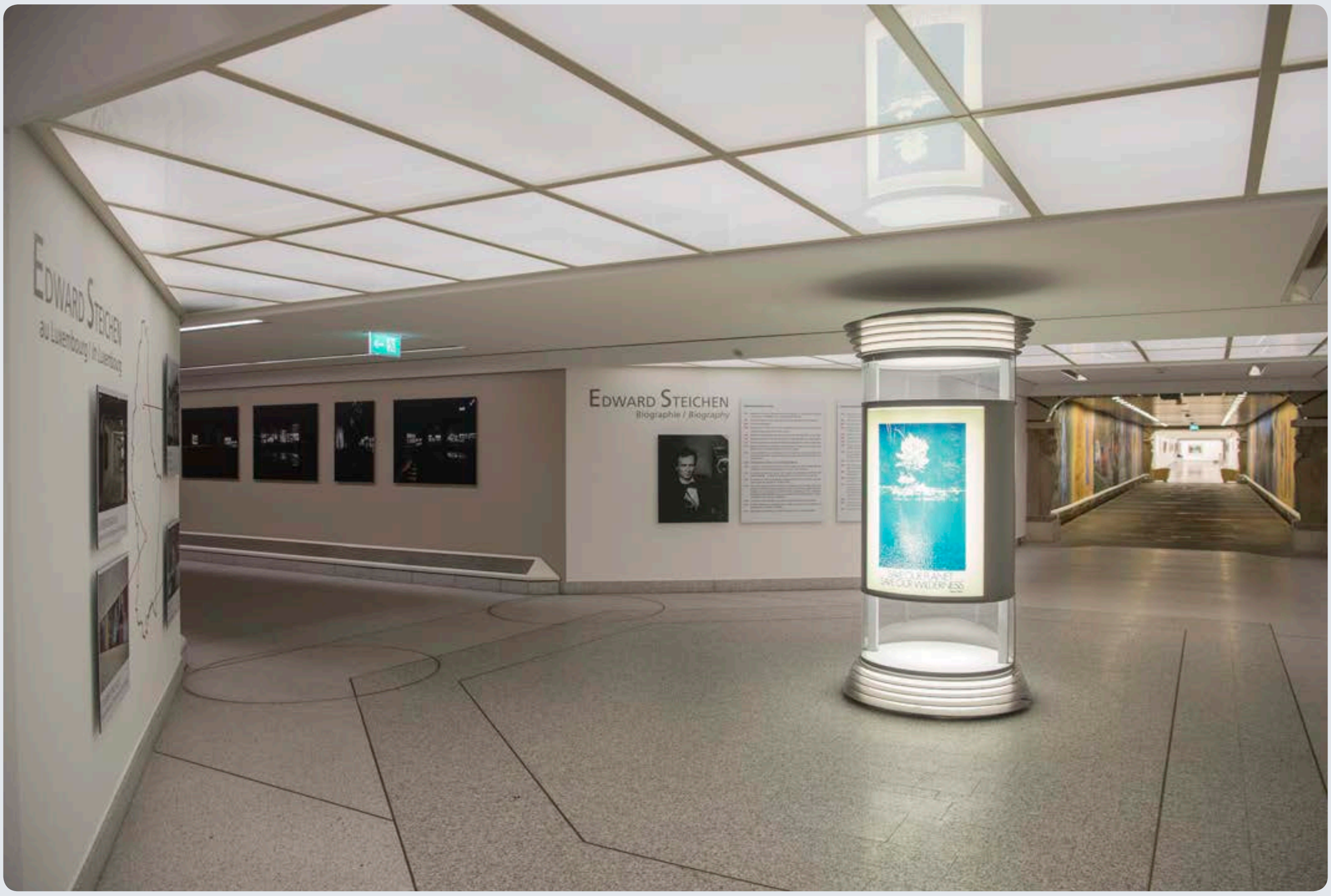
All BCEE Group operations are carried out from within the Grand Duchy of Luxembourg.

7.3 INFORMATION ON PRODUCTS AND SERVICES

The Group's Net Banking Income breaks down between the following main products:

- deposits from private customers, business customers, corporates and the public sector,
- loans and advances to private customers, business customers, corporates and the public sector,
- other products for private customers, business customers, corporates and the public sector,
- other products.

Net Banking Income is measured taking into account the interest, fees and commissions re-invoiced between businesses.



Gallery of Contemporary Art "Am Tunnel" & Espace Edward Steichen

7.4 INFORMATION ON MAJOR CUSTOMERS

Neither one individual customer nor any consolidated group of customers generates more than 10% of the Group's NBI.

31/12/2015 Thousands of euros	**Retail, Professional, Corporate and Public Sector Banking**	**Financial Markets and Investment Funds**	**Other**	**Reconciliation**	**Total**
Net interest margin	261,657	90,014	39,806	-8,458	383,019
Income from variable-income securities	-	12,005	26,298	-	38,303
Fee and commission income	41,967	26,524	61,987	-	130,478
External commissions	*74,597*	*47,654*	*8,227*	-	*130,478*
Internal commissions	*-32,630*	*-21,130*	*53,760*	-	-
Income from financial instruments and foreign exchange	4,203	76,306	1,043	-	81,552
Net Banking Income	**307,826**	**204,849**	**129,134**	**-8,458**	**633,352**
Other operating income and expenses	-	-71	5,945	-	5,874
Banking income	**307,826**	**204,778**	**135,078**	**-8,458**	**639,226**
General administrative expenses plus valuation allowances in respect of intangible and tangible assets	-171,070	-29,370	-100,048	-	-300,488
Net allowances for valuation and impairment	15,795	4,634	-41,990	-	-21,561
Other	-	-	-	-	-
Income before tax	**152,551**	**180,042**	**-6,959**	**-8,458**	**317,177**
Tax on income for the period and deferred taxes	-	-	-64,019	-	-64,019
Minority interests / income from associates	-	-1,847	21,850	-	20,003
Income/(loss)	**152,551**	**178,195**	**-49,128**	**-8,458**	**273,161**
Assets	**16,812,936**	**24,160,046**	**1,838,490**	**-**	**42,811,472**
Liabilities	**22,130,373**	**18,421,084**	**2,268,472**	**-8,457**	**42,811,472**

31/12/2014 Thousands of euros	Retail, Professional, Corporate and Public Sector Banking	Financial Markets and Investment Funds	Other	Reconciliation	Total
Net interest margin	254,009	83,648	40,442	1,084	379,182
Income from variable-income securities	-	12,560	24,508	-	37,068
Fee and commission income	38,961	20,001	61,904	-	120,867
External commissions	*73,429*	*39,706*	*7,732*	-	*120,867*
Internal commissions	*-34,468*	*-19,704*	*54,173*	-	-
Income from financial instruments and foreign exchange	3,636	56,659	5,426	-	65,722
Net Banking Income	**296,607**	**172,869**	**132,280**	**1,084**	**602,839**
Other operating income and expenses	-	-35	7,092	-	7,057
Banking income	**296,607**	**172,834**	**139,372**	**1,084**	**609,896**
General administrative expenses plus valuation allowances in respect of intangible and tangible assets	-163,584	-27,631	-97,912	-	-289,126
Net allowances for valuation and impairment	-9,706	12,613	521	-	3,428
Other	-	-	-	-	-
Income before tax	**123,317**	**157,816**	**41,981**	**1,084**	**324,197**
Tax on income for the period and deferred taxes	-	-	-56,695	-	-56,695
Minority interests / income from associates	-	-1,325	7,572	-	6,248
Income/(loss)	**123,317**	**156,491**	**-7,142**	**1,084**	**273,749**
Assets	**15,720,972**	**23,892,786**	**1,597,287**	**-**	**41,211,045**
Liabilities	**21,412,920**	**17,316,116**	**2,480,925**	**1,084**	**41,211,045**

NBI	Thousands of euros 31/12/2014	Thousands of euros 31/12/2015
Deposits from private customers, business customers, corporates and the public sector	83,621	78,458
Loans and advances to private customers, business customers, corporates and the public sector	156,251	180,939
Other products for private customers, business customers, corporates and the public sector	56,735	48,429
Other products	305,149	333,983

6 ORGANISATION CHART OF THE BANK (as at December 31, 2015)

EXECUTIVE COMMITTEE

Jean-Claude FINCK	President and Chief Executive Officer
Michel BIREL	Deputy Chief Executive Officer
Gilbert ERNST	Executive Vice President and Member of the Executive Committee
Guy ROSSELJONG	Executive Vice President and Member of the Executive Committee
Françoise THOMA	Executive Vice President and Member of the Executive Committee

Internal Audit
Jean-Nico SCHAMBOURG

Compliance
Frank MOSAR

DEPARTMENTS	UNITS				
Private Banking **Claude HIRTZIG**	Banque Privée Claude HIRTZIG	Coordination du Réseau des Agences Gaston MOLLING	Electronic Banking and Business Lysiane BACK		
Corporate Banking **Romain WEHLES**	Crédits aux entreprises Romain WEHLES				
Financial Markets **Aly KOHLL**	Financial Markets Aly KOHLL	Financial Institutions Luc HIERONIMY	Institutional Clients Alain UHRES		
Legal **Joseph DELHAYE**	Juridique et Contentieux Joseph DELHAYE				
Risk Management **Christian SCHOTT**	Analyse et Suivi Risque Christian SCHOTT	Risk Control Jean-Claude WILMES			
Financial Reporting **Doris ENGEL**	Compt. Centrale et Budgétisation Doris ENGEL	Administration des Marchés Financiers Jean LAUX	Securities Alex REVELANT		
Investment Funds **Paolo VINCIARELLI**	Investment Funds Paolo VINCIARELLI				
Operations **Marc ANDRE**	Organisation Marc ANDRE	Back-Office Crédits Jean THEIN	Back-Office des Produits Financiers Michel ZIMER	Paiements Serge WAGENER	Valeurs Georges DENNEWALD
Secretary General **Rodolphe BELLI**	Secrétariat Général Rodolphe BELLI	Gestion du Personnel Michèle FOHL	Immeubles et Support Logistique Jean-Louis SALES	Marketing Lisa WELLS	
Information Technologies **Jean HILGER**	Développements Informatiques Jean HILGER	Production Informatique Michel MERGEN			

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