ANNUAL REPORT 2016

161st Financial Year

BANQUE ET CAISSE D'EPARGNE DE L'ETAT
LUXEMBOURG

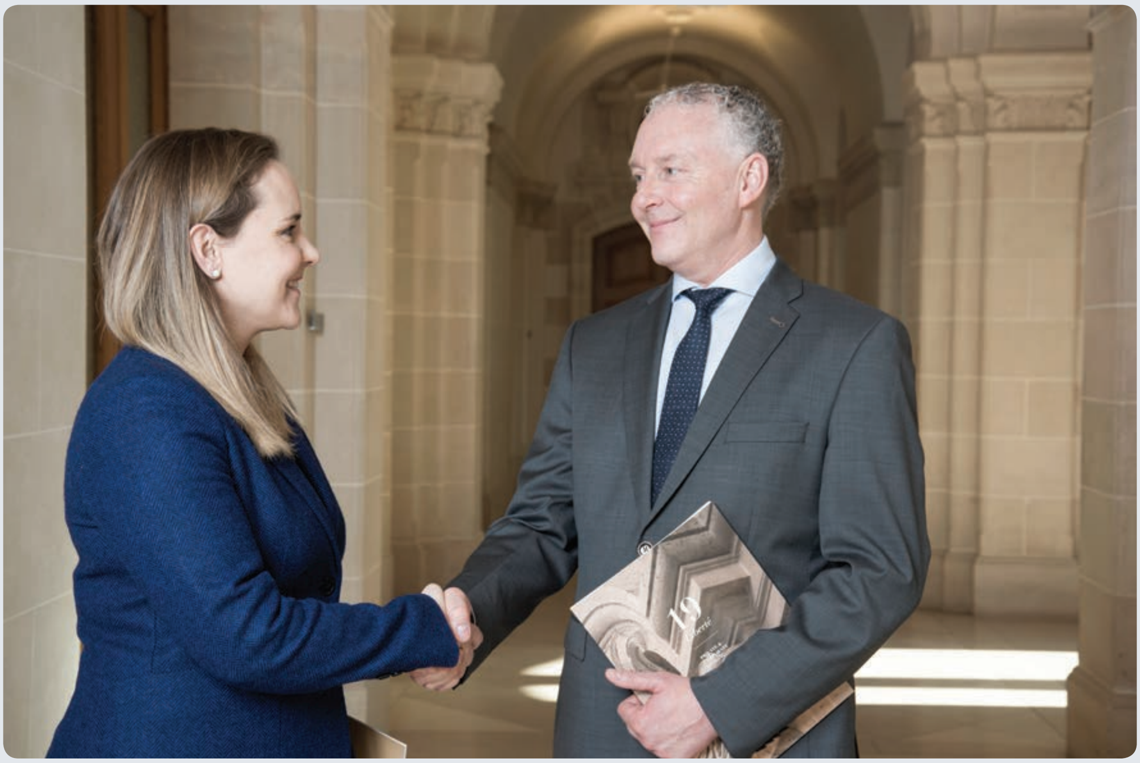
Financial Highlights (in thousands of euros)

	2015	2016	% change 2016/2015
TOTAL BALANCE SHEET	42.811.472	43.468.625	+1,5%
Deposits at amortised cost - Credit institutions	4.439.629	4.741.710	+6,8%
Deposits at amortised cost - Customers	26.923.488	28.115.936	+4,4%
Issuance of debt securities	5.791.365	4.918.235	-15,1%
Loans and receivables at amortised cost - Credit institutions	5.597.608	4.105.232	-26,7%
Loans and receivables at amortised cost - Customers	19.224.838	19.815.746	+3,1%
Available-for-sale securities - Fixed income securities	9.998.540	10.067.250	+0,7%
BANKING INCOME (1)	639.226	580.207	-9,2%
Total general expenses (2)	300.488	314.758	+4,7%
NET INCOME	273.161	259.793	-4,9%
COMMON EQUITY TIER 1 (CET1) RATIO (3)	17,8%	17,7%	
AVERAGE WORKFORCE (in number of contracts)	1.807,0	1.818,0	+0,6%
AVERAGE WORKFORCE (in work units)	1.647,0	1.655,0	+0,5%

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

Main developments in 2016: Income down slightly and financial strength confirmed

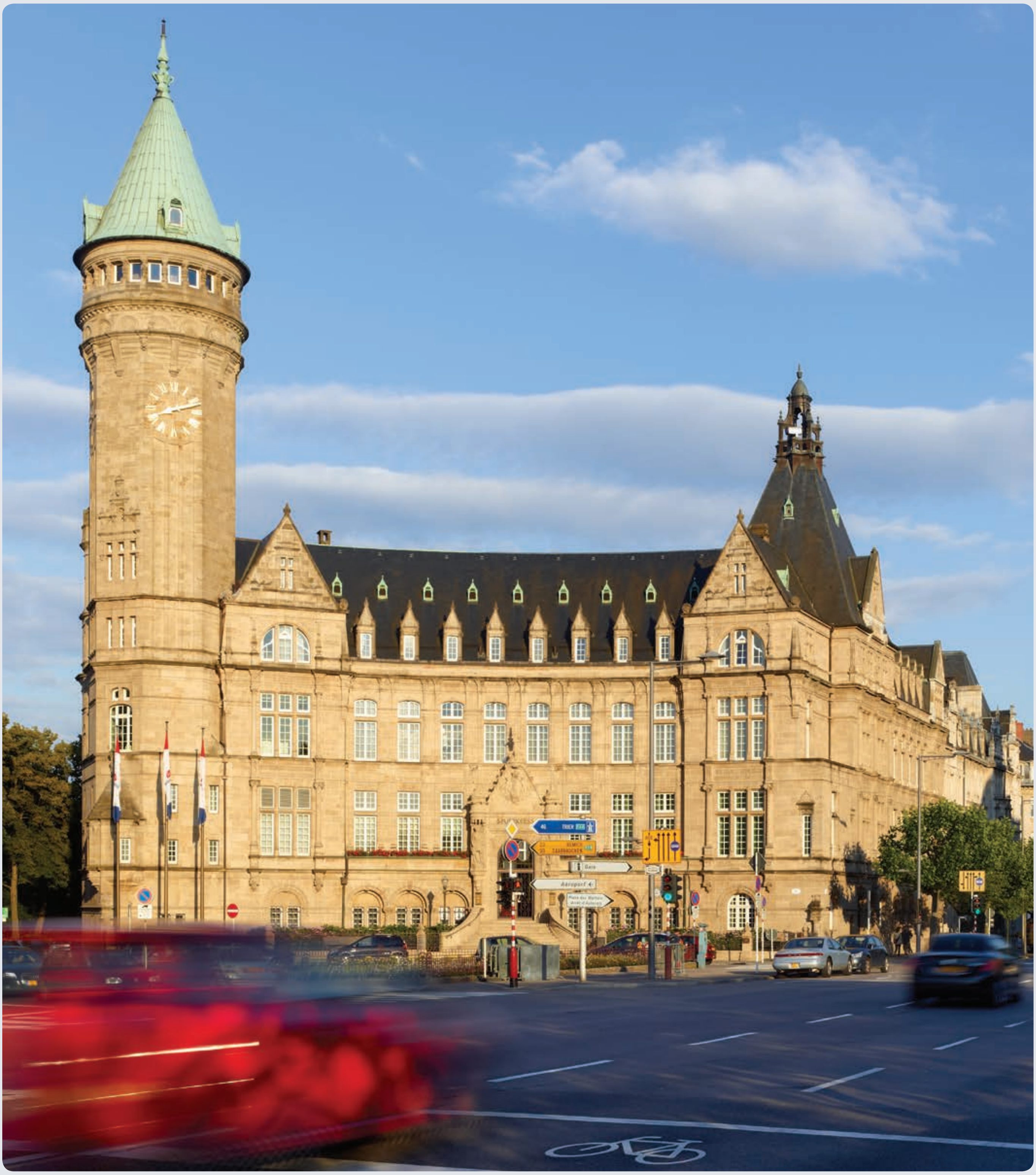
- Decrease in net profit (-4,9%).
- Dynamic growth in the home loan portfolio (+6,1%).
- Significant increase in customer deposit volumes (+4,4%) on strong inflows of deposits from corporates and private customers.
- CET1 ratio maintained at a high level: 17,7%.
- Pressure on traditional bank revenues in a low rate environment.
- Official inauguration of "19 Liberté" on 5 July 2016 after major renovation work.
- Optimisation of the in-house "lux | funds" open-end investment fund (SICAV) range finalised.
- Launch of a new sub-fund of the Lux-Portfolio SICAV, characterised by its flexible weighting of different asset classes.
- Launch of the first gold ingots with Fairtrade certification on the Luxembourg market.
- Expansion of the ENERGIE Eco-Loans, which aim to support the rational use of energy.
- Development of a new version of the S-net Mobile application which can now be used to buy and sell securities.
- Excellent AA+ rating with a stable outlook assigned by Standard and Poor's and Aa2 Long Term Deposit Rating with a stable outlook by Moody's.
- Recipient of "Best Bank 2016 - Luxembourg" prize, with confirmation of BCEE's ranking among the world's 10 safest banks by Global Finance magazine.
- Significant activity on the regulatory front due to the large number of ongoing projects associated with the CRR and MiFIR, the 4th AML Directive, CRD IV and MiFID II, the IFRS 9 project, the implementation of CRS reporting, and the Single Supervisory and Resolution Mechanisms.
- 68 new employees hired.



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."



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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 PRESIDENT OF THE EXECUTIVE COMMITTEE AND THE CHAIRMAN OF THE BOARD OF DIRECTORS

"The global economy grew measurably in 2016 in an environment of highly accommodative international monetary policies. Despite slowing growth in China and the lack of investment in developed countries, the resilience of international trade helped support the economy at the global level. Regional conflicts and terrorist attacks around the world, as well as plunging commodity prices, are and will remain dampers on the economy.

Economic activity turned positive in Luxembourg as well, although a number of uncertainties remained. The economic climate continues to pose a major challenge for credit institutions. Group Banque et Caisse d'Epargne de l'Etat, Luxembourg (BCEE) ended the year with a banking income of EUR 580,2 million and net profit of EUR 261,8 million, down 4,8% from 2015.

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 has been under the supervision of the ECB due to the start of the Single Supervisory Mechanism. The rating agencies Standard & Poor's and Moody's have again 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 was once again ranked among the world's 10 safest banks. 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 confirmation that BCEE has taken the right approach to its customers. It is increasingly omnichannel and has combined the traditional branch network with digital means of customer communication. At the same time, the Bank has pursued its goal of providing high-quality services and products to its customers with professionalism. 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, cottage and industrial undertakings. Regular discussions, transparency, understanding and trust remain the key components of a successful long-term partnership between customers and their bankers. The Bank listens closely to its customers' needs so as to continue to offer the highest-quality products and services.

The year 2016 brought some significant changes to the Spuerkeess, including the arrival of a new Executive Committee team. While the newly appointed Executive Committee intends to pursue the directions outlined in the past and remains firmly grounded in the Bank's policy, it has also embarked on a series of internal restructurings to account for new regulatory requirements and evolving customer needs. The very active support of colleagues who are more closely involved in these projects has enabled us to make tremendous progress in just a few months.

Another key event in 2016 was the opening of the Bank's new building, formerly the headquarters of ARBED and now known as "19 Liberté". It was acquired in 2015 and became fully operational in the summer of 2016 after major renovation work and upgrades to meet the technical and security requirements of a modern bank. This architectural gem has thus become an exciting economic and cultural hub, to the great delight of our employees, our customers and the visitors we welcome for any kind of events.

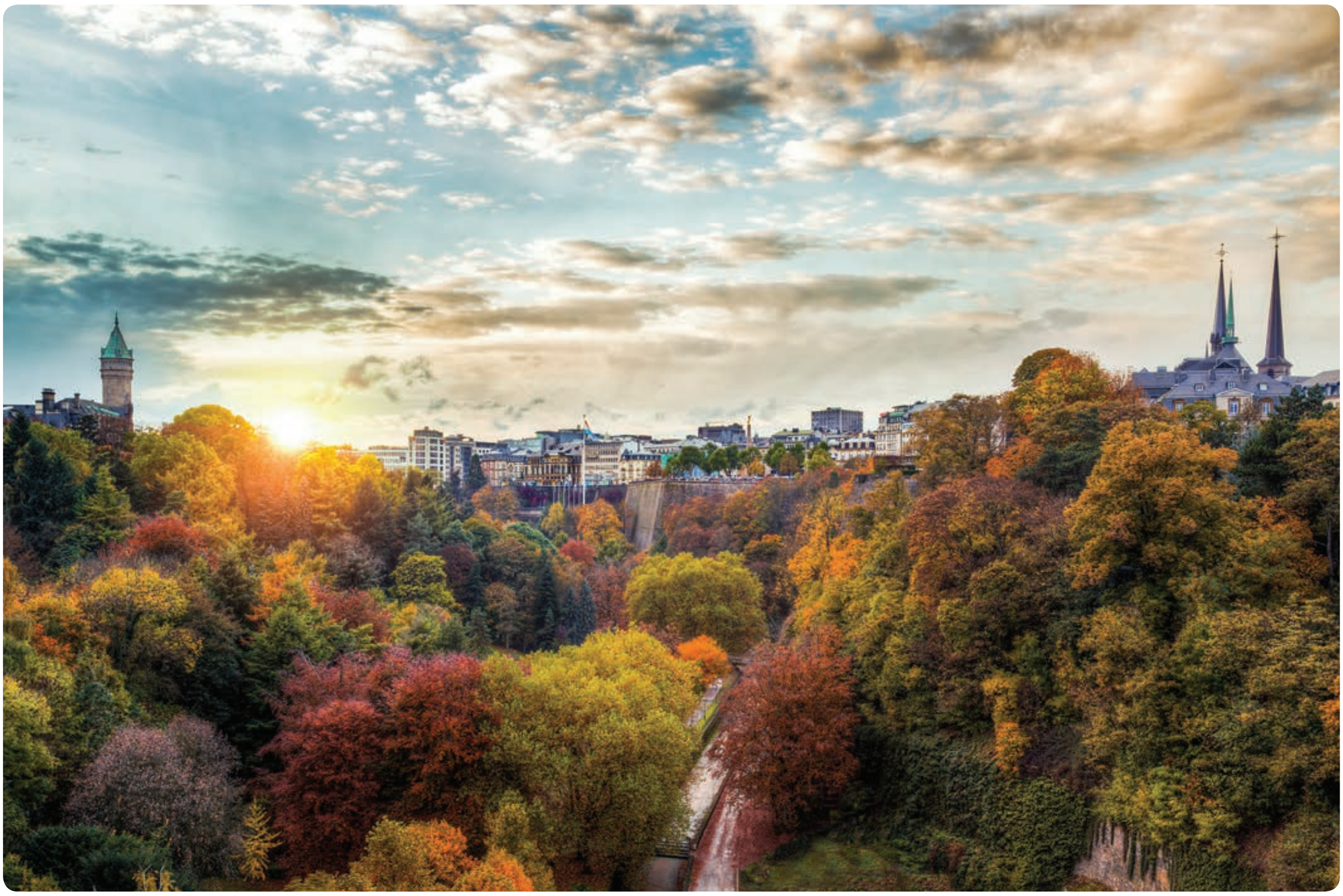
Despite the many positive events in 2016, we believe that we should also not lose sight of the challenges that the Bank is sure to face during 2017. As in the past, BCEE will take the necessary steps to overcome all these challenges, whether economic, technical, regulatory or prudential, in keeping with 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 an autonomous public institution. It is a factor that generates added value and is an integral part of the corporate culture. For more than 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 2016 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 2017 and beyond."

Françoise THOMA
Chief Executive Officer
President of the Executive Committee

Victor ROD
Chairman of the
Board of Directors



The pace of the cyclical recovery in the global economy remained modest in 2016 and slowed slightly from 2015. While growth lost some momentum in developed countries, it stabilised in most emerging countries.

Early-year concerns played a role in the first-quarter decline in Luxembourg's GDP. Beginning in the second quarter, however, economic activity in Luxembourg was boosted by a much more buoyant business climate. According to the most recent STATEC forecasts, GDP was expected to grow by nearly 3,7% in 2016, i.e. fairly close to the average growth rate before the 2008 crisis. In addition to these forecasts, the job market proved resilient with the unemployment rate down slightly.

Trends in Luxembourg's financial sector were positive in 2016 following the financial market recovery late in the year, despite the extremely low rate environment. Luxembourg's investment fund industry continued to improve and saw an 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 consolidated using the equity method.

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

Retail and Professional

The Bank continues to pursue its strategy of investing simultaneously in modernising and optimising its branch network and in developing digital banking solutions. It opened two new branches in 2016, one in the European Commission building in Gasperich and the other in the Euroforum building. The new locations were all 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. These sites are equipped with the most modern banking technologies and provide 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 to give customers 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 2016.

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 continue to modernise its communications with its customers, BCEE continued to roll out digital displays with dynamic screens placed both inside branches and in windows. During 2016, 25 branches were equipped with screens used for advertising and informational purposes.

To reduce the risk related to cash processing and its associated costs, the branch network reached out to customers to advise them about payment alternatives by promoting the use of digital payment channels and the option of aggregating, or even centralising, their cash transactions.

A new TWEENZ offer, intended for children 6 to 12 years old, was launched and seeks to combine savings education with leisure activities. They can use their membership card to obtain reductions on entrance fees for certain activities and to attend events.

The commercial results show that the branch network continues to improve customer loyalty by developing a long-term relationship of trust. Extensive training gives the sales force a high level of knowledge of banking techniques and current regulations.

Despite rising housing prices, BCEE has grown its home loan business, with a sharp 6,1% increase in the portfolio over 2015. 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.

As was the case in the branch networks, 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, along with dedicated discretionary portfolio management solutions.

In 2016, the Bank launched a new sub-fund of the Lux-Portfolio SICAV (open-end investment fund), called Lux-Portfolio Global Flexible Serenity, which features flexible allocation among different asset classes. This flexibility allows it to take advantage of interest-rate or stock-market opportunities by investing up to 50% in equities.

Multiple training sessions have been held to 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 added new functionalities to its S-net Mobile application for smartphones and tablets in 2016, making it possible to manage standing orders as well as buy and sell securities. This application was a huge success as soon as it was launched and strengthened the perception of the Bank as the standard-bearer in electronic banking. These significant investments were made with the aim of offering a full range of products and services online in the near term.

Corporate and Public Sector

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

The optimism expressed by business leaders in the most recent report by the Luxembourg Business Compass in June 2016 was reinforced when the latest growth forecasts were released. These executives had in fact expected investment volumes to increase steadily in 2016. The picture was muddied only by the 12% increase in the number of bankruptcies in 2016, to 983. This uptick should nevertheless be viewed in context as total domestic employment rose over the period.

Entrepreneurs' optimism is reflected in the positive trend in the corporate and public sector customer financing activities. As in the previous year, funding granted was once again above the EUR 2 billion mark. Loans outstanding in the Corporate Banking unit increased primarily due to the strong performance by the SME and Real Estate Development segment.

The Corporate Banking activities' move to the "19 Liberté" building, combined with the pick-up in commercial momentum, helped build synergies with the Private Banking activity. The move came with the development of a computerised paperless system for the credit chain and electronic management of all documentation.

FINANCIAL MARKETS AND INVESTMENT FUNDS REVENUES

Financial markets

Treasury activity volume was steady in 2016. Customer deposits performed well and the Bank reduced the volume of its international refinancing programmes due to the reduction in financing requirements and in market 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 10,1 billion. Loans and receivables to credit institutions were down 26,7% to EUR 4,1 billion as at 31 December 2016.

In order to improve the performance of cash transactions and reduce their credit risk, BCEE made extensive use of derivatives. At the end of 2016, outstanding foreign exchange swaps and forward transactions amounted to more than EUR 13,3 billion. At the same date, outstanding interest rate swaps (IRS) and cross currency interest rate swaps (CIRS) totalled EUR 12,1 billion. EUR 0.8 billion in loans were guaranteed by eurozone public debt securities as part of repurchase agreements.

In 2016, the ECB further eased its monetary policy while the Federal Reserve (Fed) continued to raise rates slightly. The main surprise came from the United Kingdom, where the Bank of England was forced to adapt to a new environment in light of the outcome of the referendum on the European Union. All in all, European and US monetary policies diverged, leading to a significant widening of their short-term rate spreads.

The ECB cut its key rates again on 16 March 2016. The marginal rate was lowered to 0,25% and the repo rate to 0%, while the deposit rate sank a bit deeper into negative territory, to -0,40%. Also in March, the ECB increased its monthly purchases and introduced its new corporate sector purchase programme (CSPP), which was also intended to improve the transmission mechanisms of monetary policy. The only question mark for the markets was the announcement of a possible recalibration of the asset purchase programme (APP) in December. This did in fact occur; in addition, the ECB eliminated the lower limit on the yield and decreased the minimum maturity from two years to one.

In 2016, the Fed showed some sensitivity to the international environment. In particular, were it not for the uncertainties caused by the UK's referendum on the European Union, it would likely have raised rates earlier in the year. Ultimately, it waited until December to lift the Fed funds target rate to 0,625% (mid-range).

The foreign exchange market was extremely volatile in 2016 due to the mounting political risks related to Brexit and the US elections. It was dominated primarily by movements in the dollar and indirectly by changing Fed policy expectations. The foreign exchange market thus went through two phases. The dollar depreciated significantly in the first half of the year due to fears of a sharp slowdown in US growth related to the emerging crisis in January/February and the Brexit victory in June. However, it appreciated again in the second half of the year on rising expectations of a Fed interest rate hike.

While the year got off to an especially risky start, the credit markets performed surprisingly well. Credit spreads initially widened amid falling oil prices, a surge in corporate defaults in the United States and tension in the European banking sector. The ECB's announcement that it would implement a corporate sector purchase programme from March 2016 sparked a rally on all the credit markets; further impetus came from the rebound in oil prices which lasted through the end of June. The second half of 2016 saw stabilising oil prices, rate hikes as from early October, mounting political risks and a busy election season starting in 2017.

As in previous years and in accordance with prudential rules on liquidity, BCEE remained true in 2016 to its defensive investment policy of generating returns appropriate to the risks incurred while preserving invested capital. In a low interest rate environment, the Bank was nevertheless able to invest selectively in high-quality bonds that are eligible for the liquidity buffer and in corporate and senior bank issues. It was thus once again able to generate an entirely satisfactory level of profitability on a high-quality investment portfolio that has improved from year to year.

Investment Funds

At 31 December 2016, there were six open-end investment funds (SICAV) in the in-house range, composed of 30 sub-funds, representing EUR 3,5 billion in total assets, up compared with 31 December 2015.

The number of funds was reduced from 13 to 6 in 2016 to make a clearer distinction between the different investment policies.

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 excellent quality of services for Financial Sector Professionals (FSP), the investment fund custodian bank business grew very dynamically. With a total of some EUR 24,5 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 21,0 billion at the end of 2016, a 11,5% increase compared with 2015.

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.

At a time when good governance is gaining in importance, the Compliance function manages its compliance and sanctions risks under the increasingly complex rules applicable to the Bank around anti-money laundering, counter-terrorist financing and tax compliance.

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 SRM's goal is to minimise the cost to taxpayers and the real economy of resolving banks that are part of the banking union which could face serious 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.

In 2016, BCEE made its second contribution to the single bank resolution fund established by the SRM. It made its first contribution to the FGDL over the course of 2016.
The Bank also participated, in the context of the Supervisory Review and Evaluation Process (SREP), in the 2016 stress test organised by the ECB to verify the ability of systemically important financial institutions to withstand adverse macroeconomic developments. The results of this exercise, which confirmed BCEE's soundness, will be considered in the ongoing assessment of BCEE's risks.

In the context of the European tax transparency objective, the automatic exchange of tax information was incorporated into Luxembourg legislation with the transposition into Luxembourg law of Directive 2014/107/EU, in force since 1 January 2015.

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 2016 BCEE finalised the work of complying with the new regulatory requirements. BCEE's first transmission will be in 2017 and will cover the tax information for 2016.

Management changes

Ms Françoise Thoma was appointed Chief Executive Officer effective 1 June 2016. She succeeded Mr Jean-Claude Finck, who has retired.

Mr Aly Kohll joined the Executive Committee effective 1 June 2016 following the retirement of Mr Gilbert Ernst.

Mr Romain Wehles joined the Executive Committee effective 1 February 2017.

Adjustments to the Bank’s organisational chart

The “Spuerkeess 2020” strategic plan was the starting point for the Executive Committee to carefully consider the best way to serve and grow the customer base. To that end, it decided to create a new Institutional Clients department that would absorb, in particular, the former Investment Funds department but take on broader responsibilities. The clients served by the new department will consist primarily of the Luxembourg state, supranationals, banks, financial sector professionals, funds, management companies, insurance companies and reinsurance companies.

To account for the new regulatory requirements governing risk management and the separation of the sales and control functions, the Executive Committee also decided to create a Risk Management function (formerly the Risk Control unit) that now reports directly to it.

The new organisational chart, dated 1 March 2017 and provided in Chapter 6 of the annual report, is also available on the Bank’s website at www.bcee.lu under “Annual reports”.

Logistics infrastructure

The new “19 Liberté” building was inaugurated on 5 July 2016 after a one-and-a-half-year renovation project to improve its energy efficiency and interior. The Corporate Banking and Private Banking units, among others, now work out of this new site, which enables them to give customers the best possible welcome.

Shareholdings

Fulfilling one of its statutory tasks, 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-ups and the development of businesses with a national interest.

Since 1989, BCEE has been a 40,0% 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 also important sectors for Luxembourg’s economy. The Bank is a founding shareholder of SES S.A., the world leader in global satellite communications. The Bank holds a 10,9% stake with the associated voting rights.

In the air transport sector, BCEE holds equity interests in Luxair, Société Luxembourgeoise de Navigation Aérienne S.A. (21,8%), which is active in air navigation, tour operation, cargo handling and catering, and in Cargolux Airlines International S.A. (10,9%), 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 11,0% 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.

In March 2016, the Bank also acquired a 12,0% stake in the capital of Encevo 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 sectors.

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

Human resources

BCEE remained an attractive employer on the Luxembourg job market in 2016 and the number of applications it received continued to rise. An effective orientation programme helps integrate new hires in a changing professional environment while providing extensive integration training geared to the mounting challenges facing the Bank's various businesses. BCEE again participated in various career fairs and the www.mylittlebigstep.lu website remains the entry point for applications. Candidates can find information there and also apply online.

The objective-based management approach provided for in the civil service reform was introduced in 2016. All staff are therefore given a formal job description covering both their duties and the skills and knowledge required to fulfil them. This approach clarifies where all staff are positioned within the Bank's organisational chart and is viewed as a real human resources management tool. Similarly, professional performance assessments were introduced in 2016 with the aim of conducting regular reviews of staff knowledge and skills and providing constructive feedback, thereby encouraging professional development.

Bank employees' continued professional development is also supported by other tools, including a strong continuing education programme and a proactive internal mobility approach, to meet customers' needs and satisfy regulatory requirements.

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 and have continued to evolve since Circular CSSF 12/552. For systemically important banks such as BCEE, the European regulator is increasingly stressing the importance of good governance and continues to make it a major theme for 2017.

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 savings, housing loans, granting of loans according to social criteria, shareholding in major Luxembourg companies, banking services for SMEs, and financing of equipment and public and paragovernmental authorities.

Furthermore, since 2012, BCEE has been certified as an "Entreprise socialement responsable" (ESR, socially responsible company) by the Institut national pour le développement durable et de la responsabilité sociale des entreprises (INDR, National Institute for Sustainable Development and Corporate Social Responsibility).

The Bank's social commitment was strengthened in 2016 with the establishment of an internal CSR Committee. Its aim is to promote all CSR actions and commitments, as well as to fulfil any new relevant regulatory requirements in the future.

To establish its presence, BCEE will continue to promote this philosophy and support various organisations and events to raise 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.

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.

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

The Bank Museum traces the history of Luxembourg's financial centre and of BCEE since 1856. It underwent a complete renovation at the end of 2015 and was very popular in 2016, particularly among student groups.

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.

In addition, at the initiative of Their Royal Highnesses the Crown Prince and the Crown Princess, an art exhibited titled "De Mains de Maîtres" was organised from 1 to 5 December 2016 in the new "19 Liberté" building. This extraordinary exhibit highlighted talent and creativity and the importance of transferring knowledge to younger generations of craftsmen and creative artists. It was a great success among art lovers from Luxembourg and abroad.

RISK MANAGEMENT POLICY

BCEE places a particular emphasis on risk management.

Creation of a Risk Management Committee

The Bank conducts its day-to-day business while pursuing its strategic objectives and a prudent risk management policy, within the Bank's risk appetite limits. The Risk Committee is made up of members of the Executive Committee and members of the Risk Subcommittee.

Risk management is described in detail in note 6 to the financial statements as at 31 December 2016. 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 Credit Analysis and Management department (formerly the Risk Analysis department). 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 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.

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 derivative 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 statement of financial position, and the risk associated with cash management and trading activities.

Mismatch risk is handled by the Asset Liability Management (ALM) Committee, consisting of the members of the Executive

Committee, several commercial department heads, and the heads of the Credit Analysis & Management and the 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.

IRRBB

In 2016, the Bank launched a comprehensive project to improve its ability to analyse and manage interest rate risk ("Interest rate risk in the banking book").

Liquidity risk

Liquidity risk results from a potential 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 2016, the LCR was 135%, well above the minimum threshold of 70% for 2016. 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 "Core Tier 1 capital/total assets and risk-weighted off-balance sheet commitments" 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 5,8% (regulatory minimum: 3,0%) at 31 December 2016.

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 a computer application 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 parent company, subsidiaries and entities over which the Bank has control when it has rights to economic returns, through its relationship with those entities, and the ability to affect those returns through its power over those entities.

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 swaps with structured components to specifically hedge structured issues and acquisitions of bonds containing embedded derivatives, provided they are closely related.

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 department and risk management unit 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.

IFRS 9 “Financial instruments”

In 2016, the Bank prepared for inplementation of IFRS 9, which will replace the current IAS 39 “Financial instruments: Recognition and measurement” effective 1 January 2018. IFRS 9 has three phases:

Phase 1: Classification and measurement. This phase involves defining the Bank’s business models and determining financial instruments’ compliance with the “solely payment of principal and interest” (SPPI) criterion.

Phase 2: Impairment. This phase, which replaces the incurred loss model under IAS 39 with a forward-looking impairment model based on expected losses, was the focus of a great deal of work in 2016 with the aim of evaluating its future impacts.

Phase 3: Hedge accounting. Application of this phase, which covers the principles of hedge accounting and its implementation, is not compulsory. This topic will be examined in the first-half 2017.

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 these annual financial statements.

The Pillar 3 report for 2016 is available on the Bank's website at www.bcee.lu under Financial Reports.

INCOME DOWN SLIGHTLY AND FINANCIAL STRENGTH CONFIRMED

The Group’s net profit fell by 4,9% compared with the 2015 financial year.

Net banking income declined by 9,2% to EUR 580,2 million as at 31 December 2016.

Net interest margin fell by 4,5% due to the low, if not negative, interest-rate environment which limits investment and maturity switching opportunities despite higher business volumes.

Income from variable-income securities rose by 16,4%.

Fee income was down 1,6% on weakness in the securities business due to adverse stock market conditions in the first half of the year and a regulatory change that depressed income in the payment activities.

Income from financial instruments decreased from EUR 81.5 million at the end of 2015 to EUR 44,8 million as at 31 December 2016. 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 decrease in revenue from this category was due primarily to the decline in income from the sale of securities and from financial instruments held for trading.

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 661,8 million at the end of 2016, down EUR 99,1 million or 13,0% compared with 31 December 2015.

Other operating income and expenditure fell from EUR 5,9 million at year-end 2015 to EUR -3,2 million at the end of 2016. Despite a rigorous cost control policy, total general expenses, including allowances for impairment of tangible and intangible non-current assets, were up 4,7%. This stemmed primarily from higher expenses associated with the implementation of new banking regulations and with their supervision and from the increase in allowances for impairment of tangible and intangible non-current assets following the opening of the "19 Liberté" building on 5 July 2016.

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 collective credit risks of EUR 0,6 million in 2016. The proceedings brought against BCEE by the German authorities, which had opened tax investigations against certain customers residing in Germany, were terminated after a settlement was reached at the end of December 2016. The amount of the provision the Bank had recorded in its financial statements was high enough to prevent the settlement from having a negative impact on the 2016 results.

In view of the above, the BCEE Group recorded a EUR 13,4 million decrease (-4,9%) in net profit to EUR 259,8 million in 2016 from EUR 273,2 million in the prior year.

ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The statement of financial position totalled EUR 43.468,6 million as at 31 December 2016, an increase of EUR 657,2 million compared with the end of 2015. This increase came primarily from the increase in customer deposits.

On the asset side of the statement of financial position, "Cash and sight accounts with central banks" rose by EUR 1.374,6 million to EUR 2.687,9 million as at 31 December 2016, mainly because of the increase in assets deposited with Banque centrale du Luxembourg (BCL).

Outstanding fixed-income securities totalled EUR 10.067,2 million, an increase of EUR 68,7 million compared with the end of the 2015 financial year because of the decline in interest rates which continued on the markets in 2016 and resulted in an increase in bond prices.

Under this same heading, outstanding variable-income securities stood at EUR 1.074,1 million, up EUR 68,6 million compared with end-2015, due primarily to the acquisition in 2016 of a stake in Encevo S.A., the holding company for the Luxembourg energy group.

Outstanding loans to credit institutions decreased by EUR 1.492,4 million to EUR 4.105,2 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 590,9 million to EUR 19.815,7 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 ventures of individuals and businesses.

On the liabilities side of the statement of financial position, issues of securities decreased by EUR 873,1 million to EUR 4.918,2 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 302,1 million to EUR 4.741,7 million. This item also includes the Bank's loans from other banks, whether or not they are collateralised with securities.

Customer deposits increased by EUR 1.192,4 million to EUR 28.115,9 million, driven mainly by strong inflows of deposits from corporates and individuals. Public sector deposits also increased but changes in this item remain more volatile as it depends on the State's cash needs.

In accordance with Article 38-4 of the Law on the Financial Sector, the Group reports its return on assets, which stood at 0,60% versus 0,64% in the prior year.

CHANGE IN OWN FUNDS

The BCEE Group's equity amounted to EUR 4.231,6 million as at 31 December 2016 compared with EUR 4.151,9 million at the end of 2015, i.e. an increase of 1,9%.

This EUR 79,7 million increase in equity stems from the increase in consolidated reserves which more than offsets the decrease in the revaluation reserve and the change in actuarial gains and losses on the pension fund.

2017 OUTLOOK

The European Central Bank's recent comments and statements suggest that short- and medium-term interest rates will remain extremely low throughout 2017.

In 2017, BCEE therefore expects ongoing pressure on its interest margin insofar as assets will mature and be replaced at less favourable conditions. However, barring another acute economic or political crisis in Europe, BCEE's cost of credit risk should not see any significant negative changes, apart from the impact of the entry into force of IFRS 9 on 1 January 2018. Yet, in the medium term, a prolonged policy of extremely low rates could create a glut of certain asset classes.

Brexit will continue to have a limited economic impact on the Bank's activities.

Against this backdrop, the Bank will monitor these developments closely and will play its role and take its responsibilities, serving its customers and the country's economy at large, in line with its mission statement under the law of 24 March 1989 on BCEE and with the Bank's history.

The Bank will also continue to implement its strategy as defined in the "Spuerkeess 2020" business plan, in particular in the branch network and in the area of digital banking.

This strategy calls for the gradual renovation of the branches based on a new concept of service. Customers will also benefit from a comprehensive and user-friendly electronic banking interface. The budget provides for substantial investments to ensure implementation of this omni-channel approach.

Also, significant efforts will be made on projects such as MiFID II, PSD 2 and IFRS 9.

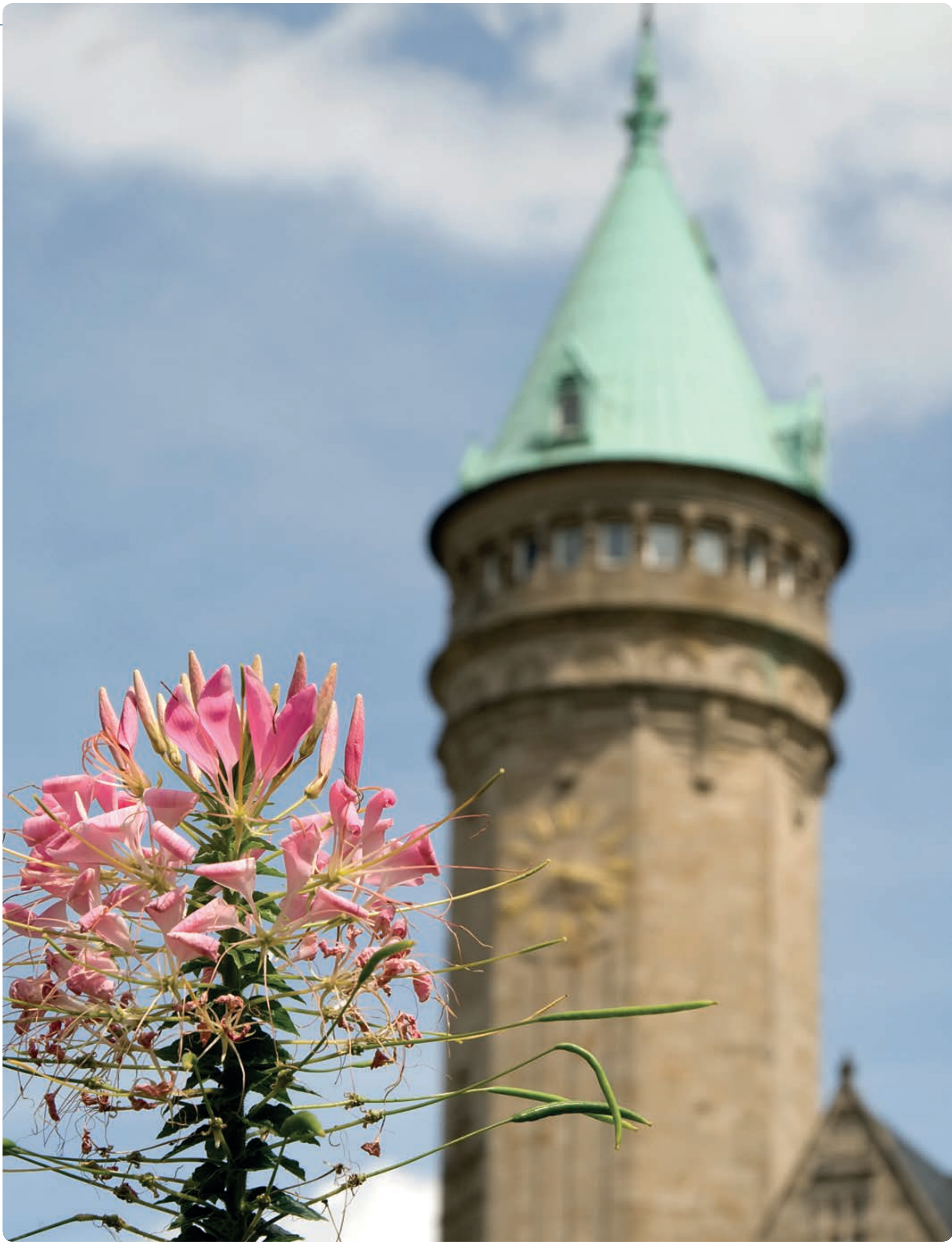
EVENTS AFTER THE REPORTING PERIOD

No significant events that could impact the normal course of the BCEE Group's business occurred after the close of financial year 2016.

Luxembourg, 23 March 2017

For the Executive Committee

Michel BIREL Deputy Chief Executive Officer Member of the Executive Committee	Françoise THOMA Chief Executive Officer President of the Executive Committee



3 GOVERNING BODIES OF THE BANK

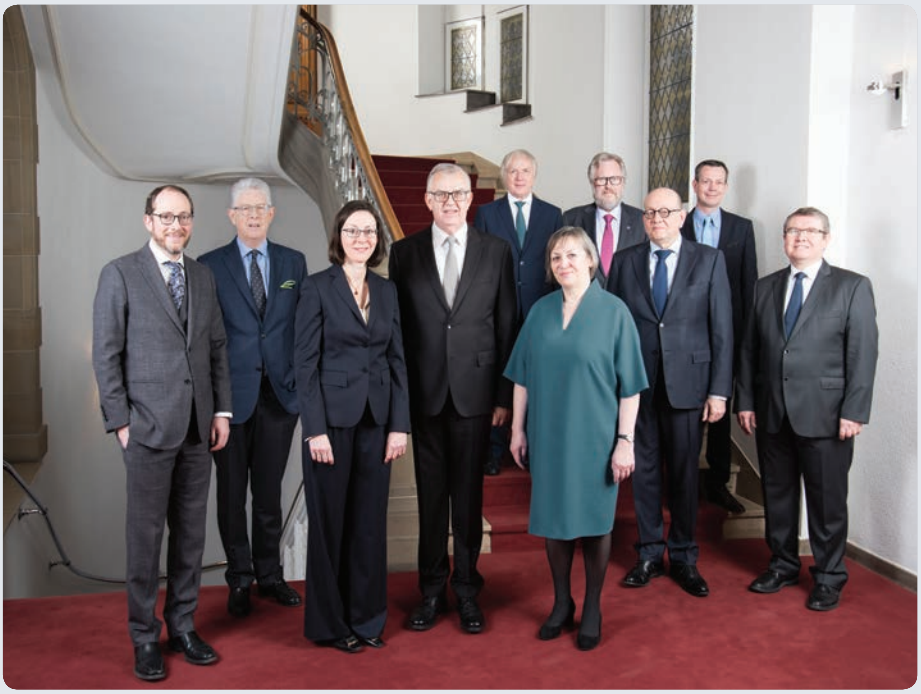
The organisation of the Banque et Caisse d'Epargne de l'Etat, Luxembourg, the leading national financial institution, founded in 1856, is governed by the law of 24 March 1989, which defined the respective powers of the Board of Directors and the Executive Committee. Pursuant to Article 8 of this organic 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 (composition as at 1 March 2017)

Chairman	M. Victor ROD	Directeur honoraire du Commissariat aux Assurances
Vice-Chairman	M. Patrick GILLEN	Président du Fonds d'Urbanisation et d'Aménagement du Plateau de Kirchberg
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. Bob KIEFFER	Premier Conseiller de Gouvernement, Ministère des Finances



Board of Directors

1st row from left to right:
M. Bob Kieffer, M. Paul Ensch, Mme Betty Sandt, M. Victor Rod, Mme Elisabeth Mannes-Kieffer,

2nd row from left to right:
M. Nico Ramponi, M. Jean-Claude Reding M. Patrick Gillen, M. Manuel Nicolas, M. Georges Dennewald

Executive Committee (composition as at 1 March 2017)

President	Mme Françoise THOMA	Chief Executive Officer
Members	M. Michel BIREL	Deputy Chief Executive Officer
	M. Aly KOHLL	Executive Vice President
	M. Guy ROSSELJONG	Executive Vice President
	M. Romain WEHLES	Executive Vice President

Statutory Auditor: PricewaterhouseCoopers S.C. Luxembourg

Executive Committee

From left to right:
M. Aly Kohll, M. Guy Rosseljong, Mme Françoise Thoma, M. Michel Birel, M. Romain Wehles

Luxembourg, 23 March 2017

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 2016 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

Michel BIREL	Françoise THOMA
Deputy Chief Executive Officer	Chief Executive Officer
Member of the Executive Committee	President of the Executive Committee

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 2016, 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 then 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 Group'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 Group'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 financial position of the Group as of 31 December 2016, 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.

OTHER INFORMATION

The Executive Committee is responsible for the other information. The other information comprises the information included in the consolidated management report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

OTHER MATTER

The Corporate Governance Statement includes information required by Article 70bis paragraph (1) of the law of 17 June 1992 as amended on the annual and consolidated accounts of credit institutions governed by the laws of Luxembourg.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

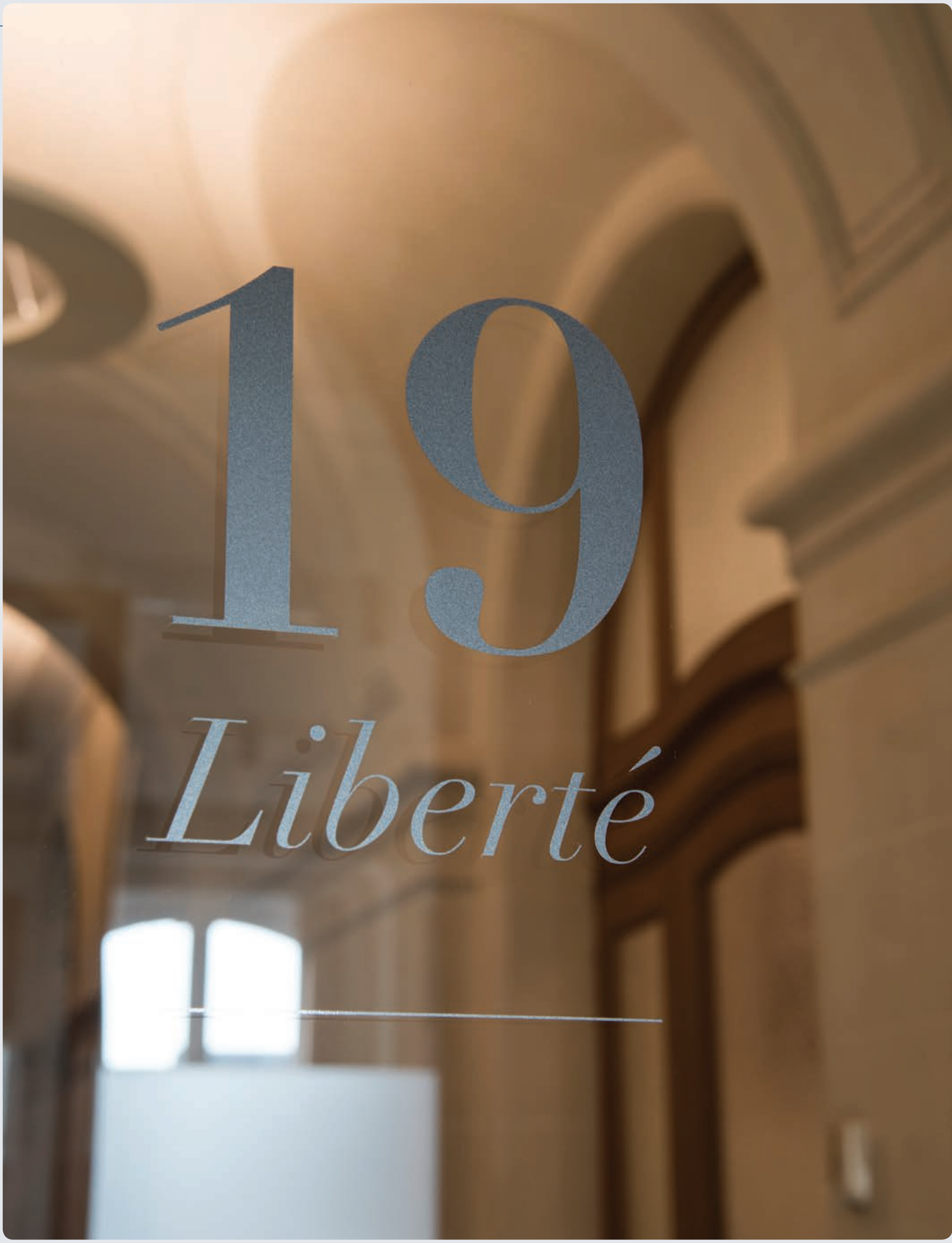
The consolidated management report, which is the responsibility of the Executive Committee and submitted for the approval of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

The information required by Article 70bis paragraph (1) letters c) and d) of the law of 17 June 1992 as amended on the annual and consolidated accounts of credit institutions governed by the laws of Luxembourg and included in the Corporate Governance Statement is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

PricewaterhouseCoopers Luxembourg, 23 March 2017
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.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Liberté

B. Consolidated statement of financial position as at 31 December 2016

ASSETS in euros	**Notes**	**31/12/2015**	**31/12/2016**
Cash and sight accounts with central banks	4.1.	1.313.328.229	2.687.924.387
Loans and receivables at amortised cost - Credit institutions	4.2.	5.597.608.197	4.105.231.598
Loans and receivables at amortised cost - Customers	4.3.	19.224.838.123	19.815.745.830
Financial instruments held for trading	4.4. 4.9.	201.115.555	294.544.201
Hedging derivative financial instruments	4.9.	77.502.528	67.895.956
Financial assets designated at fair value through profit or loss	4.10.	-	262.150.671
Available-for-sale securities – Fixed-income securities	4.4.	9.998.539.565	9.805.099.257
Available-for-sale securities – Variable-income securities	4.4.	1.005.562.944	1.074.144.424
Held-to-maturity securities	4.5.	4.683.501.426	4.572.783.470
Investments in associates accounted for using the equity method	4.6.	324.853.964	363.912.298
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	4.11.	52.453.419	80.022.997
Tangible assets for own use	4.12.	290.643.556	298.615.576
Investment property	4.13.	15.214.799	14.311.053
Intangible assets	4.14.	15.017.211	16.519.157
Other assets	4.16.	11.292.644	9.724.260
TOTAL ASSETS		**42.811.472.160**	**43.468.625.135**

The notes on pages 29 to 122 are an integral part of these consolidated financial statements.

LIABILITIES in euros	**Notes**	**31/12/2015**	**31/12/2016**
Deposits at amortised cost – Credit institutions	4.17.	4.439.629.040	4.741.710.246
Deposits at amortised cost – Customers	4.18.	26.923.488.031	28.115.936.115
Financial instruments held for trading	4.4. 4.9.	170.332.351	156.434.838
Hedging derivative financial instruments	4.9.	892.476.947	894.844.009
Financial liabilities designated at fair value through profit or loss	4.19.	-	148.612.880
Issuance of debt securities	4.20.	5.791.365.039	4.769.621.682
Provisions	4.21.	47.215.958	4.883.234
Other liabilities	4.22.	29.644.261	58.188.728
Current taxes	4.15.	100.111.672	58.954.065
Deferred taxes	4.15.	86.149.649	58.327.625
Pension fund	4.23.	179.190.062	229.496.232
Sub-total of LIABILITIES (before equity capital) to be carried forward		**38.659.603.010**	**39.237.009.654**

EQUITY in euros	**31/12/2015**	**31/12/2016**
Sub-total of LIABILITIES (before equity capital) carried forward	**38.659.603.010**	**39.237.009.654**
Share capital	173.525.467	173.525.467
Revaluation reserve	760.854.618	661.775.701
Available-for-sale financial assets	*760.720.239*	*661.880.411*
Consolidated reserves	2.942.127.352	3.133.980.137
Equity method adjustment	*247.189.320*	*278.196.348*
Income for the year	273.161.115	259.792.789
Sub-total of equity attributable to equity holders of the parent company	**4.149.668.552**	**4.229.074.094**
Minority interests	2.200.598	2.541.387
Total equity	**4.151.869.150**	**4.231.615.481**
TOTAL LIABILITIES, including EQUITY	**42.811.472.160**	**43.468.625.135**

The notes on pages 29 to 122 are an integral part of these consolidated financial statements.

C. Consolidated income statement as at 31 December 2016

in euros	Notes	31/12/2015	31/12/2016
Interest income	5.1.	383.019.459	365.671.140
Income from variable-income securities	5.2.	38.302.833	44.574.661
Fee and commission income	5.3.	130.477.337	128.419.457
INCOME FROM INTEREST, DIVIDENDS AND FEES AND COMMISSIONS		**551.799.629**	**538.665.258**
Income from financial instruments not recognised at fair value through profit or loss	5.4.	45.653.542	13.165.618
Income from financial instruments held for trading	5.5.	19.437.586	16.158.995
Income from financial instruments designated at fair value through profit or loss	5.6.	-	2.369.213
Income from hedging transactions	5.7.	4.304.639	1.520.235
Exchange gains or losses		12.156.367	11.573.568
Other operating income	5.8.	10.082.185	10.259.352
Other operating expenditure	5.8.	-4.207.920	-13.505.468
BANKING INCOME		**639.226.028**	**580.206.771**
Personnel expenses	5.9.	-197.548.725	-201.574.064
Other general and administrative expenses	5.10.	-78.023.759	-83.844.376
Depreciation allowances for tangible and intangible assets	5.11. 5.12. 5.13.	-24.915.609	-29.339.458
INCOME AFTER GENERAL EXPENSES		**338.737.935**	**265.448.873**
Net allowances for impairment of individual and collective credit risks	5.14.	20.831.981	581.530
Provisions and reversal of provisions	5.15.	-42.393.174	11.202.147
Share in the profit of equity-accounted associates		21.830.076	29.240.958
INCOME BEFORE TAXES AND NON-CURRENT ASSETS		**339.006.818**	**306.473.508**
Profit from non-current assets and disposal groups classified as held for sale and not qualifying as discontinued operations		-	338.072
Tax on income from continuing operations	5.16.	-64.241.363	-63.763.700
Deferred taxes	5.16.	222.711	18.748.188
INCOME FOR THE YEAR		**274.988.166**	**261.796.068**
OF WHICH INCOME FOR THE YEAR ATTRIBUTABLE TO			
- MINORITY INTERESTS		*1.827.051*	*2.003.279*
- EQUITY HOLDERS OF THE PARENT		*273.161.115*	*259.792.789*

The notes on pages 29 to 122 are an integral part of these consolidated financial statements.

D. Consolidated statement of comprehensive income as at 31 December 2016

in euros	31/12/2015	31/12/2016
INCOME FOR THE YEAR	**274.988.166**	**261.796.068**
Items not reclassified in net income subsequently	**-52.248.068**	**-49.838.706**
Actuarial gains/(losses) on the defined-benefit pension scheme	-61.778.873	-71.218.221
Contribution of equity-accounted associates	-8.520.982	7.573.222
Impact of deferred taxes	18.051.787	13.806.293
Items to be reclassified in net income subsequently	**-202.496.407**	**-99.078.917**
Available-for-sale financial assets	-208.026.382	-94.013.011
- Variation in measurement results	*-162.570.888*	*-80.625.697*
- Net reclassification to the income statement of realised net gains	*-45.455.494*	*-13.387.314*
Cash flow hedges	-7.793.359	-333.449
Impact of deferred taxes	13.323.334	-4.732.457
Total items of comprehensive income for the year - net of tax	**-254.744.475**	**-148.917.623**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**20.243.691**	**112.878.445**
share attributable to		
- minority interests:	*1.827.051*	*2.003.279*
- equity holders of the parent company:	*18.416.640*	*110.875.166*

For purposes of comparability, the period ending 31 December 2015 has been restated in accordance with the amendment to IAS 1 §82A (b).

The notes on pages 29 to 122 are an integral part of these consolidated financial statements.

E. Consolidated statement of changes in equity as at 31 December 2016

The Group's parent company has appropriated the sum of EUR 40,000,000 (same amount as in 2015) from its net income for financial year 2016 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 2016	**173.525.467**	**2.942.127.352**	**760.854.618**	**273.161.115**	**4.149.668.552**	**2.200.598**	**4.151.869.150**
Appropriation of 2015 income	-	273.161.115	-	-273.161.115	-	-	-
2016 net income	-	-	-	259.792.789	259.792.789	2.003.279	261.796.068
Distribution for FY 2015	-	-40.000.000	-	-	-40.000.000	-	-40.000.000
Actuarial gains/(losses) on pension fund	-	-57.411.928	-	-	-57.411.928	-	-57.411.928
Net measurement results of available-for-sale financial instruments	-	-	-98.839.828	-	-98.839.828	-	-98.839.828
Net measurement results of cash flow hedges	-	-	-239.089	-	-239.089	-	-239.089
Other	-	16.103.599	-	-	16.103.599	-1.662.490	14.441.109
As at 31 December 2016	**173.525.467**	**3.133.980.137**	**661.775.701**	**259.792.789**	**4.229.074.094**	**2.541.387**	**4.231.615.481**

in euros	Share capital	Consolidated reserves	Revaluation reserve	Net income of the parent	Total equity holders	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**

The notes on pages 29 to 122 are an integral part of these consolidated financial statements.

F. Consolidated statement of cash flow as at 31 December 2016

in euros	31/12/2015	31/12/2016
Cash and cash equivalents		
Cash and sight accounts with central banks	1.313.391.597	2.685.668.850
Loans and receivables at amortised cost – Credit institutions	2.457.868.404	1.217.012.620
Loans and receivables at amortised cost – Customers	1.897.391.042	1.656.102.720
Financial instruments held for trading	-	98.512
Held-to-maturity securities	3.948.714	-
Total	**5.672.599.757**	**5.558.882.703**

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 and subject to an insignificant risk of change in fair value.

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	31/12/2015	31/12/2016
Interest received	866.122.867	850.865.685
Interest paid	-461.293.743	-459.922.533
Income from variable-income securities	38.302.833	44.574.661
Fees and commissions received	171.222.653	174.398.522
Fees and commissions paid	-40.745.316	-45.979.065
Other operating income	10.156.713	9.859.482
Other operating expenditure	-3.962.939	-30.194.148
Current taxes	-64.241.363	-63.763.700
General and administrative expenses	-265.763.705	-272.458.782
Sub-total	**249.798.000**	**207.380.122**

The notes on pages 29 to 122 are an integral part of these consolidated financial statements.

- Cash flow from changes in operating assets:

Net changes in euros	31/12/2015	31/12/2016
Financial instruments held for trading	-422.495	977.657
Financial assets designated at fair value through profit or loss	-	-262.111.460
Available-for-sale securities – Fixed-income securities	-379.886.459	190.322.898
Available-for-sale securities – Variable-income securities	-2.329.088	-11.564.817
Loans and receivables at amortised cost – Credit institutions	-171.958.364	253.898.787
Loans and receivables at amortised cost – Customers	-559.487.858	-861.549.103
Hedging derivative financial instruments	4.332.258	-360.284
Other assets	-36.862.288	-31.651.809
Sub-total	**-1.146.614.293**	**-722.038.132**

- Cash flow from changes in operating liabilities:

Net changes in euros	31/12/2015	31/12/2016
Financial instruments held for trading	834.820	15.098.900
Financial liabilities designated at fair value through profit or loss	-	148.056.795
Deposits at amortised cost – Credit institutions	294.672.900	280.504.010
Deposits at amortised cost – Customers	1.855.413.345	1.191.523.201
Hedging derivative financial instruments	8.824.595	76.533.165
Other liabilities	-5.051.468	28.789.125
Issuance of debt securities	-462.830.984	-998.507.757
Sub-total	**1.691.863.207**	**741.997.439**
Cash flow from operating activities	**795.046.914**	**227.339.430**

Cash flow from investment activities

in euros	31/12/2015	31/12/2016
Acquisition of available-for-sale securities – Variable-income securities	-17.357.633	-173.827.950
Disposals of available-for-sale securities – Variable-income securities	45.013.830	13.203.553
Acquisition of held-to-maturity securities	-1.539.058.298	-980.895.637
Redemption of held-to-maturity securities	1.533.333.706	1.053.680.838
Acquisitions/disposals of intangible and tangible assets	-141.706.203	-36.703.184
Cash flow from investment activities	**-119.774.598**	**-124.542.380**

The notes on pages 29 to 122 are an integral part of these consolidated financial statements.

Cash flow from financing activities

in euros	31/12/2015	31/12/2016
Proceeds from subordinated liabilities	-23.775.722	-25.000.000
Income distribution	-40.000.000	-40.000.000
Cash flow from financing activities	**-63.775.722**	**-65.000.000**
Net change	**611.496.594**	**37.797.049**

Change in cash and cash equivalents

in euros	2015	2016
Position as at 1 January	**4.816.199.514**	**5.672.599.757**
Net change in cash	611.496.594	37.797.049
Effect of exchange rates on cash and cash equivalents	244.903.649	-151.514.103
Position as at 31 December	**5.672.599.757**	**5.558.882.703**

The notes on pages 29 to 122 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 an autonomous public 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 2016 of 1.818 (1.807 for 2015), 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 23 March 2017.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 COMPLIANCE WITH GENERAL ACCOUNTING PRINCIPLES

The Group's consolidated financial statements for the 2016 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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, derivative financial instruments and pension fund assets.

a) New or revised standards adopted by the Group's parent company

The following standards, whose application is compulsory in financial years beginning on or after 1 January 2016, were adopted by the Group's parent company and have had no material impact on the annual financial statements:
- Amendment to IAS 1: Disclosure Initiative,
- Amendment to IAS 19: Employee Contributions to Defined Benefit Plans,
- Amendment to IAS 27: Equity Method in Separate Financial Statements,
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation,
- Amendment to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations,
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception,
- Improvements to IFRS, 2012-2014 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 2016, have not yet been adopted by the Group's parent company:
- IFRS 9: Financial Instruments,
- IFRS 15: Revenue from Contracts with Customers.

c) New and revised standards and interpretations, relevant for the Group's parent company, which are not yet compulsory and which have not been adopted by the European Union:
- Amendment to IFRS 2: Classification and Measurement of Share-based Payment Transactions,
- IFRS 15 (clarifications): Revenue from Contracts with Customers,
- IFRS 16: Leases,
- Improvements to IFRS, 2014-2016 cycle, which are a series of amendments to the existing standards,
- Amendment to IAS 7: Disclosure Initiative,

- Amendment to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses,
- Amendment to IAS 40: Transfers of Investment Property,
- IFRIC 22: Foreign Currency Transactions and Advance Consideration.

d) In light of the European Parliament's adoption of IFRS 9 on 22 November 2016, the Group's parent company provides the following overview of the status of its analytical and implementation work ahead of effective application of IFRS 9 in financial years beginning on or after 1 January 2018:

- Phase 1: Classification and measurement. For the purposes of this phase, the Group's parent company reviewed all its portfolios of financial asset instruments so they could be grouped together based on a business-model assessment and subjected to a "solely payment of principal and interest" (SPPI) test. Implementation is underway and not SPPI positions will be transferred in the first half of 2017. Many of the positions currently measured at fair value through the revaluation reserve satisfy the conditions of the SPPI test and will therefore be eligible for measurement at amortised cost.

  For positions in financial assets held as shares, measured under IAS 39 at fair value through the revaluation reserve with gains or losses reclassified through profit or loss, the Group's parent company has opted to continue to use this measurement method under IFRS 9. However, this approach no longer allows gains or losses to be reclassified through profit or loss.

- Phase 2: Impairment. The Group's parent company has defined the allocation and migration procedures for the three levels of impairment provided for in the standard. These procedures account, among others, for changes in the internal rating of the counterparty as well as the status of the exposure. The different types of status that determine the migration of an exposure between the three levels of impairment are as follows: performing, past due, non-performing, forbearance and default. The calibration of the calculation of the losses expected over the life of the exposure is being finalised.

- Phase 3: Hedge accounting. Application of this phase of IFRS 9 relates to the principles of hedge accounting. However, implementation is not compulsory in financial years beginning on or after 1 January 2018. The standard-setter is allowing entities the freedom to apply the earlier version of IAS 39 until the macro-hedging project is completed. The Group's parent company has therefore not yet made a final decision.

e) The Group's parent company has not yet begun to implement IFRS 16 "Leases" applicable in financial years beginning on or after 1 January 2019.

2.2 CONSOLIDATION

2.2.1 Scope of consolidation

The consolidated financial statements comprise the parent company, subsidiaries and entities over which the Bank has control when it has rights to variable returns, because of its relationships with those entities, and the ability to affect those returns through its power over those entities. 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 subsidiaries have been majority Group-owned 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 can 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 Group equity attributable to minority interests is given on a separate line. Similarly, the portion of Group 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 held	
	31/12/15	31/12/16
Lux-Fund Advisory S.A.	89,16	88,58
BCEE Asset Management S.A.	90,00	90,00
Bourbon Immobilière S.A.	99,90	99,90
Luxembourg State and Savings Bank Trust Company S.A.	100,00	100,00
Spuerkeess Ré S.A.	100,00	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 no longer has significant influence over the shareholding, 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	
	31/12/15	31/12/16
Direct interests		
Société Nationale de Circulation Automobile S.à r.l.	20,00	20,00
Luxair S.A.	21,81	21,81
Société de la Bourse de Luxembourg S.A.	22,75	22,75
Europay Luxembourg S.C.	25,40	25,40
FS-B S.à.r.l	28,70	28,70
FS-T S.à.r.l	28,70	28,70
Visalux S.C.	36,26	36,26
La Luxembourgeoise S.A.	40,00	40,00
La Luxembourgeoise-Vie S.A.	40,00	40,00
BioTechCube (BTC) Luxembourg S.A.	50,00	50,00
Indirect interests		
Pecoma International S.A.	33,33	33,33
EFA Partners S.A.	29,05	29,05

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	31/12/15	31/12/16
CHF	1,0828	1,0747
GBP	0,7368	0,8578
JPY	131,4000	123,2500
SEK	9,1796	9,5720
USD	1,0916	1,0547

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.

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

Derivative financial instruments 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 financial 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 derivative financial instruments 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, financial instruments designated at fair value through profit or loss, and loans and receivables.

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, and a Bank-specific adjustment for credit risk, or a "Debit Value Adjustment" (DVA), for derivative financial instruments recognised on the liabilities 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 derivative financial instruments. 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 the 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 derivative financial instruments 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 inputs 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 derivative financial instruments 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 among others:
- 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), taking any collateral into account, 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 receivables belonging to the "Loans and receivables 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 reimbursements,
- 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 cash with central banks.

This item also includes the minimum mandatory reserve funded to satisfy the reserve requirement imposed by the BCL. Hence, these funds are not available to finance the Bank'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 de 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 derivative financial instruments 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 spread 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 four asset categories (assets held for trading, financial assets designated at fair value through profit or loss, 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 Derivative financial instruments used for hedging purposes

The Group uses derivative financial instruments to hedge interest rate, foreign exchange, credit and price risk such as stock market indices or share prices. The derivative financial instruments 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. Only structures that are closely related are hedged in this way.

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 derivative 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 and, secondarily, cash flow 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: effectiveness is assessed retrospectively (results within a range of 80 to 125%) at each reporting date.

Changes in the fair value of derivative financial instruments 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".

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 derivative financial instruments 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 derivative financial instruments.

3.2.5 Financial assets and liabilities designated at fair value through profit or loss

The Group's parent company designates as financial instruments measured at fair value through profit or loss any financial assets and liabilities with structures that are not closely related and therefore not initially eligible for measurement at fair value through the revaluation reserve, but that are hedged economically with derivative financial instruments. With this designation for the financial asset or liability, the Bank offsets the impact of the accounting mismatch with the derivative financial instrument. Derivative financial instruments used for that purpose are exclusively IRS or CIRS instruments. The fair values are simply offset at the Bank's profit or loss level under "Income from financial instruments held for trading" and "Income from financial instruments designated at fair value through profit or loss". The Group implemented this new category effective 1 January 2016 for new acquisitions of financial assets and new issues of financial liabilities.

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

3.2.6.1 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 firm 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 receivables 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 and expenses from repurchase and reverse repurchase agreements are entered under "Interest income" in the income statement.

3.2.6.2 Lending and borrowing of securities

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

3.2.7 Loans and receivables at amortised cost

Loans and receivables 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 receivables 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 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 receivables at amortised cost" category.

3.2.8 Interbank market

3.2.8.1 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.

3.2.8.2 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 derivative financial instruments whose price fluctuations are hedged by swaps with a structure identical to that of the swap contained in the bond.

The Group's parent company has designated closely related transactions as fair value hedge relationships. This allows it to offset the impact of changes in market prices at the income statement level.

For transactions that are not closely related, the Group's parent company applies the fair value option by including them under "Financial liabilities designated at fair value through profit or loss". As the heading indicates, they are measured at fair value through profit of loss.

3.2.9 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 receivables 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".

3.2.10 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.

3.2.11 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 - 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 "Profit from non-current assets and disposal groups classified as held for sale and not qualifying as discontinued operations" 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 receivables at amortised cost" for customers or credit institutions respectively. 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.
- Derivative financial instruments: 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 derivative financial instruments, financial indices or financial measures.
- Liquidity:
  - All forms of conventional deposits at sight and at term.
- Other instruments: this category includes instruments that do not fall under one of the above-referenced categories, for example, units in specialised investment funds, in venture capital firms, etc., as well as real estate and land.

The "CLP-BCEE" sub-fund invests a minimum of 65% of its gross assets in bonds, debt securities and money market financial instruments. Secondarily, "CLP-BCEE" can invest up to 35% of its assets in shares, equivalent securities and other instruments, but may not exceed the limit of 10% of gross assets for other instruments. For the purpose of diversification, investments made with the same issuer or counterparty may not exceed 25% of gross assets. The use of derivative financial instruments 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 BBB- (Standard & Poor's) or Baa3 (Moody's); similarly, the issuer must be from a member country of the European Union or the OECD.

The "CLP-BCEE" sub-fund's investment policy authorises securities lending and repo transactions.

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 covers 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. This provision was used in full in 2016.

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 derivative financial instruments 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".

4. NOTES TO THE STATEMENT OF FINANCIAL POSITION [1] (in euros)

4.1 CASH AND SIGHT ACCOUNTS WITH CENTRAL BANKS

Cash consists of cash, cash balances with central banks and other sight deposits with banks. The minimum reserve requirement with the Banque centrale du Luxembourg is entered under "Deposits with central banks". 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]	31/12/2015	31/12/2016
Cash	81.173.833	65.263.697
Deposits with central banks	1.034.557.318	2.444.190.562
Other sight deposits	197.597.078	178.470.127
Total	**1.313.328.229**	**2.687.924.387**

[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 LOANS AND RECEIVABLES AT AMORTISED COST – CREDIT INSTITUTIONS

Headings	31/12/2015			31/12/2016		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Interbank loans	3.297.098.213	5.285.818	3.302.384.031	2.639.186.453	100.460.473	2.739.646.926
Reverse repurchase/Repurchase agreements	1.981.927.781	88.203	1.982.015.984	887.762.601	-	887.762.601
Roll-over loans	42.146.088	-420.710	41.725.378	52.679.714	-380.959	52.298.755
Finance leases	107.322	126.745	234.067	19.189	644.410	663.599
Fixed-income securities	152.234.534	60.427.343	212.661.878	265.431.436	149.056.108	414.487.544
Other	58.586.858	-	58.586.858	10.372.173	-	10.372.173
Sub-total	**5.532.100.797**	**65.507.400**	**5.597.608.197**	**3.855.451.566**	**249.780.033**	**4.105.231.598**
Undrawn confirmed loans			414.589.158			133.073.006
Impairment of financial assets			-			-

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 2016.

The Group does not include in this category of loans and receivables outstanding loans that are defined as restructured loans according to the EBA.

Impairment of loans and receivables – Credit institutions

	Credit institutions
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	**-**
Position as at 1 January 2016	**-**
Reclassification	-
Additions	-
Reversals	-
Write-off of receivables	-
Exchange gain or loss	-
Position as at 31 December 2016	**-**

4.3 LOANS AND RECEIVABLES AT AMORTISED COST – CUSTOMERS

Headings	31/12/2015			31/12/2016		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
"Retail" customers	385.109.542	11.718.515.817	12.103.625.359	407.250.704	12.462.249.821	12.869.500.525
"Corporate" customers	1.610.776.748	3.144.158.817	4.754.935.565	1.444.242.773	3.418.295.199	4.862.537.972
Public sector	870.427.825	1.495.849.374	2.366.277.199	540.179.213	1.543.528.119	2.083.707.332
Sub-total	**2.866.314.115**	**16.358.524.008**	**19.224.838.123**	**2.391.672.691**	**17.424.073.139**	**19.815.745.830**
Undrawn confirmed loans			4.540.799.967			4.443.842.905
Impairment of financial assets			-95.013.749			-99.947.678

Of which finance leases:

Headings	31/12/2015			31/12/2016		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Finance leases	15.801.208	90.963.700	106.764.908	9.957.968	96.776.040	106.734.007
Sub-total	**15.801.208**	**90.963.700**	**106.764.908**	**9.957.968**	**96.776.040**	**106.734.007**

Impairment of loans and receivables - Customers

	Retail customers	Corporate	Total
Position as at 1 January 2015	**31.890.072**	**81.087.522**	**112.977.593**
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**
Position as at 1 January 2016	**30.588.831**	**64.424.918**	**95.013.749**
Additions	5.632.288	26.217.404	31.849.692
Reversals	-4.376.901	-19.386.723	-23.763.624
Write-off of receivables (*)	-227.588	-2.275.323	-2.502.911
Exchange gain or loss	-	-649.226	-649.226
Position as at 31 December 2016	**31.616.628**	**68.331.050**	**99.947.679**
Impairment of assets - individual risk	18.013.531	68.331.050	86.344.581
Impairment of assets - collective risk	13.603.097	-	13.603.097
Total	**31.616.628**	**68.331.050**	**99.947.678**

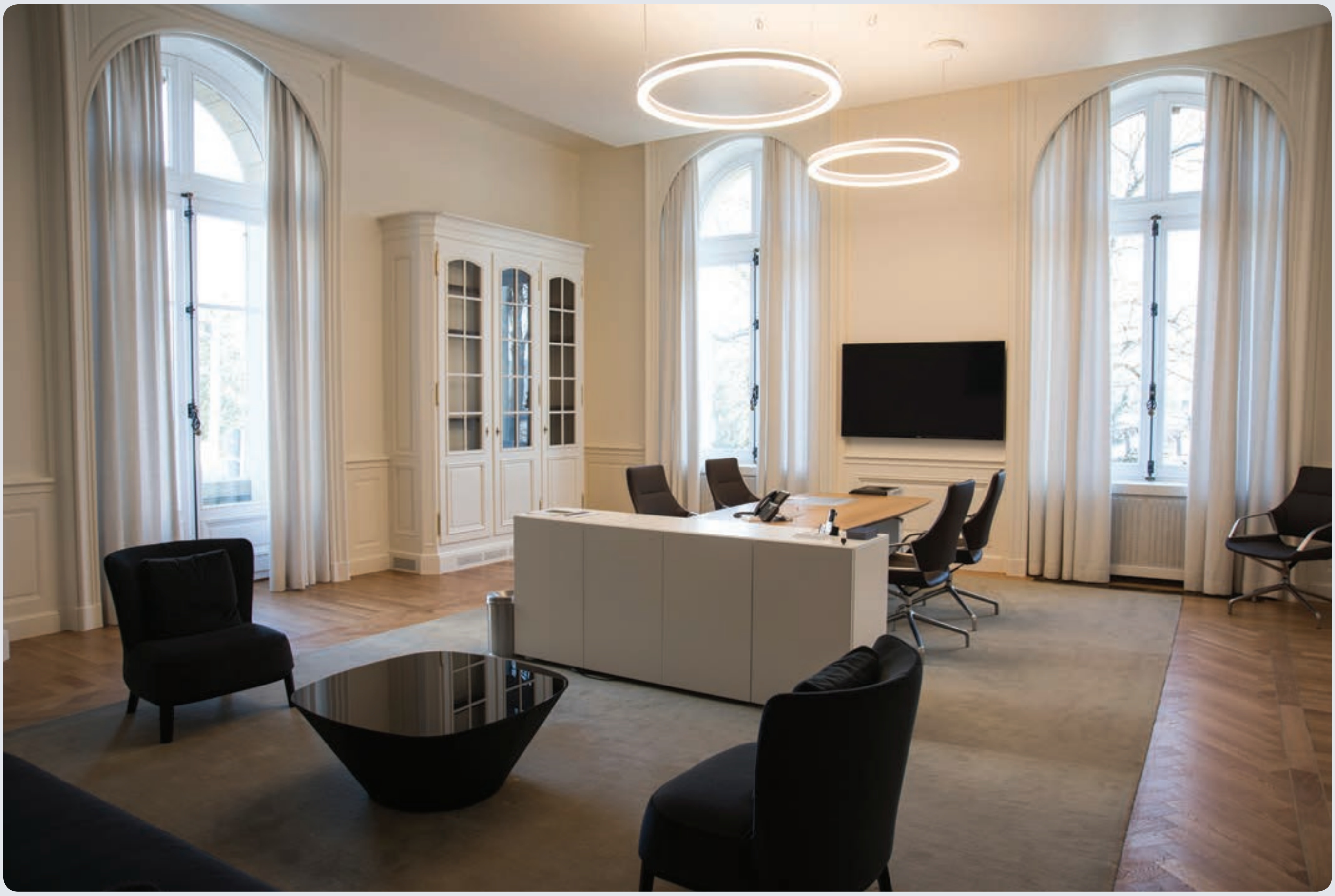
(*) Write-off of receivables represents the amounts considered as permanently lost on impaired assets.

Outstanding amounts of impaired loans: EUR 262.049.637 as at 31 December 2016, compared with EUR 225.673.254 a year earlier. Value adjustments cover the principal and interest.

In addition to information on impairments of loans and receivables 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 31/12/2016	Unimpaired restructured loans	Impaired restructured loans			Total restructured loans
		Carring amount	Impairment	Total	
"Retail" customers	33.725.865	13.073.834	1.953.561	11.120.273	44.846.138
"Corporate" customers	102.620.861	95.606.685	36.583.649	59.023.036	161.643.898
Total	**136.346.727**	**108.680.519**	**38.537.210**	**70.143.309**	**206.490.036**

as at 31/12/2015	Unimpaired restructured loans	Impaired restructured loans			Total restructured loans
		Carring amount	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**



4.4 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.

4.4.1 Assets and liabilities held for trading

Assets	31/12/2015			31/12/2016		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Non-derivative financial instruments	166.342	251.422	417.765	530.849	218.162	749.011
Derivative financial instruments (note 4.9.)	154.228.960	46.468.831	200.697.791	245.859.185	47.936.005	293.795.190
Total	**154.395.302**	**46.720.254**	**201.115.555**	**246.390.034**	**48.154.167**	**294.544.201**

Liabilities	31/12/2015			31/12/2016		
Non-derivative financial instruments	-	785	785	378.511	9.571	388.083
Derivative financial instruments (note 4.9)	106.791.783	63.539.784	170.331.566	82.621.136	73.425.619	156.046.755
Total	**106.791.783**	**63.540.569**	**170.332.351**	**82.999.648**	**73.435.190**	**156.434.838**

Assets - Non-derivative financial instruments	31/12/2015			31/12/2016		
Debt instruments	**166.342**	**251.422**	**417.765**	**530.849**	**218.162**	**749.011**
Public sector	-	-	-	-	-	-
Credit institutions	*121.682*	*63.715*	*185.397*	*151.389*	*9.217*	*160.607*
Corporate customers	*44.660*	*187.708*	*232.368*	*379.460*	*208.944*	*588.405*
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
Total	**166.342**	**251.422**	**417.765**	**530.849**	**218.162**	**749.011**
Unrealised profit/loss at the reporting date	*566*	-	*566*	-	*7.436*	*7.436*

Liabilities - Non-derivative financial instruments	31/12/2015			31/12/2016		
Short sales						
Bonds	-	*785*	*785*	*378.511*	*9.571*	*388.083*
Shares	-	-	-	-	-	-
Total	**-**	**785**	**785**	**378.511**	**9.571**	**388.083**

4.4.2 Available-for-sale financial assets

Headings	31/12/2015			31/12/2016		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Debt instruments	**2.511.965.171**	**7.486.574.394**	**9.998.539.565**	**1.677.692.041**	**8.127.407.216**	**9.805.099.257**
Public sector	*427.812.071*	*2.224.857.745*	*2.652.669.817*	*285.691.014*	*1.979.864.215*	*2.265.555.229*
Credit institutions	*1.487.938.200*	*3.643.625.069*	*5.131.563.268*	*929.691.960*	*4.073.054.292*	*5.002.746.252*
Corporate customers	*596.214.900*	*1.618.091.580*	*2.214.306.480*	*462.309.067*	*2.074.488.709*	*2.536.797.776*
Equity instruments	**1.005.562.944**	**-**	**1.005.562.944**	**1.074.144.424**	**-**	**1.074.144.424**
Credit institutions	*4.312.411*	-	*4.312.411*	*3.487.377*	-	*3.487.377*
Corporate customers	*1.000.517.065*	-	*1.000.517.065*	*1.069.758.547*	-	*1.069.758.547*
Other	*733.468*	-	*733.468*	*898.500*	-	*898.500*
Total	**3.517.528.115**	**7.486.574.394**	**11.004.102.509**	**2.751.836.464**	**8.127.407.216**	**10.879.243.681**
Impairment of financial assets	-13.140.711	-47.339.316	-60.480.026	-18.279.111	-25.434.693	-43.713.804
Unrealised profit/loss at the reporting date	753.202.704	350.196.534	1.103.399.237	627.175.701	341.834.062	969.009.764

Impairment of available-for-sale financial assets:

	Corporate customers		Credit institutions	Total
	ABS/MBS	Other		
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[1]	-	-	-	-
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**	**60.480.028**
Position as at 1 January 2016	**33.578.106**	**15.701.922**	**11.200.000**	**60.480.028**
Additions	-	9	-	9
Reversals	-5.262.890	-2.012	-3.400.692	-8.665.594
Write-off of receivables[1]	-	-	-7.799.308	-7.799.308
Exchange gain or loss	-509.657	208.328	-	-301.329
Position as at 31 December 2016	**27.805.559**	**15.908.247**	**-**	**43.713.806**

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

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 derivative financial instruments (asset swaps). The Group applies fair value hedge accounting to these transactions. The prospective and retrospective efficiencies are close to 100%.

31/12/2016	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	52.750.909	293.218.390	-293.218.390	100,00%
Variable-rate bonds	6.664.132			

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			

Breakdown of changes in carrying amount:

Debt instruments	2015	2016
Position as at 1 January	**9.750.181.015**	**9.998.539.565**
Acquisitions	2.210.496.540	2.338.827.314
Sales	-33.118.160	-40.478.982
Repayments	-1.844.341.731	-2.510.175.757
Realised profit/(loss)	441.590	185.135
Pro-rata interest	-23.337.189	-535.095
Unrealised valuations	-112.117.050	-17.981.972
Impairment	3.002.003	16.974.548
Exchange gain or loss	47.332.547	19.744.502
Position as at 31 December	**9.998.539.565**	**9.805.099.257**

Equity instruments

Headings	31/12/2015	31/12/2016
Equity instruments	1.005.562.944	1.074.144.424
Total	**1.005.562.944**	**1.074.144.424**
Impairment of financial assets	-10.949.922	-11.158.250
Unrealised profit/loss at the reporting date	732.977.818	616.376.333

Breakdown of changes in carrying amount:

Equity instruments	2015	2016
Position as at 1 January	**1.153.020.266**	**1.005.562.944**
Acquisitions	71.542.822	231.393.824
Sales	-46.453.383	-47.899.129
Realised profit/(loss)	24.320.973	13.201.972
Unrealised valuations	-200.770.106	-129.803.457
Impairment	-607.408	-208.328
Exchange gain or loss	4.509.778	1.896.598
Position as at 31 December	**1.005.562.944**	**1.074.144.424**

4.5 SECURITIES HELD TO MATURITY

Headings	31/12/2015			31/12/2016		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Debt instruments						
Public sector	*89.255.453*	*876.492.822*	*965.748.275*	*90.204.773*	*687.730.575*	*777.935.349*
Credit institutions	*715.001.018*	*2.093.586.193*	*2.808.587.211*	*1.052.383.514*	*1.779.528.827*	*2.831.912.342*
Corporate customers	*233.828.001*	*675.337.939*	*909.165.940*	*334.364.359*	*628.571.421*	*962.935.780*
Total	**1.038.084.472**	**3.645.416.954**	**4.683.501.426**	**1.476.952.647**	**3.095.830.823**	**4.572.783.470**

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	2015	2016
Position as at 1 January	**4.699.397.776**	**4.683.501.426**
Acquisitions	1.530.998.811	976.290.449
Repayments	-1.531.637.151	-1.053.341.489
Pro-rata interest	-15.505.388	-33.666.916
Exchange gain or loss	247.379	-
Position as at 31 December	**4.683.501.426**	**4.572.783.470**

4.6 INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

	31/12/2015	31/12/2016
Acquisition value as at 1 January	**54.227.635**	**54.227.635**
Establishment	-	-
Disposals	-	-
Total (as acquisition value)	**54.227.635**	**54.227.635**

List of associates:

Associates	Fraction of capital held (%)	Acquisition value	Equity-accounted value 2016
Société Nationale de Circulation Automobile S.à r.l.	20,00	24.789	7.212.095
Luxair S.A.	21,81	14.830.609	98.195.329
Société de la Bourse de Luxembourg S.A.	22,75	128.678	23.771.577
Europay Luxembourg S.C.	25,40	96.279	3.342.696
FS-B S.à.r.l.	28,70	3.003.694	3.686.819
FS-T S.à.r.l.	28,70	1.104.793	1.083.292
Visalux S.C.	36,25	412.506	8.706.031
La Luxembourgeoise S.A.	40,00	16.856.760	128.413.431
La Luxembourgeoise-Vie S.A.	40,00	12.047.625	87.962.975
BioTechCube (BTC) Luxembourg S.A.	50,00	5.000.000	752.205
Sub-total direct holdings in associates		**53.505.734**	**363.126.451**
EFA Partners S.A.	29,05	551.900	598.236
Pecoma International S.A.	33,33	170.000	187.610
Sub-total indirect holdings in associates		**721.900**	**785.846**
Total		**54.227.634**	**363.912.297**

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**

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	2016			
	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.	111.502	-	142.566	254.068
Luxair S.A.	433.284	-	8.849.345	9.282.629
Société de la Bourse de Luxembourg S.A.	2.965.194	-	-1.583.258	1.381.936
Europay Luxembourg S.C.	132.738	-	2.817.401	2.950.139
FS-B S.à.r.l.	70.725	-	-	70.725
FS-T S.à.r.l.	18.766	-	-	18.766
Visalux S.C.	8.391.645	-	-140.547	8.251.098
La Luxembourgeoise S.A.	13.214.457	-	-2.529.316	10.685.141
La Luxembourgeoise-Vie S.A.	6.180.531	-	17.030	6.197.561
BioTechCube (BTC) Luxembourg S.A.	-9.264	-	-	-9.264
Indirect interests				
EFA Partners S.A.	-2.371	-	-	-2.371
Pecoma International S.A.	-18.892	-	-	-18.892

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	-	1.437.280	1.560.267
Luxair S.A.	3.645.137	-	494.568	4.139.705
Société de la Bourse de Luxembourg S.A.	2.959.780	-	-3.373.657	-413.877
Europay Luxembourg S.C.	17.229	-	-129.748	-112.519
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	-	-351.456	-422.854
La Luxembourgeoise S.A.	14.614.076	-	-280.867	14.333.209
La Luxembourgeoise-Vie S.A.	2.092.895	-	-6.324.974	-4.232.079
BioTechCube (BTC) Luxembourg S.A.	-7.783	-	7.872	89
Indirect interests				
EFA Partners S.A.	-4.167	-	-	-4.167
Pecoma International S.A.	-15.376	-	-	-15.376

The table for financial year 2015 has been included to facilitate the comparison with the new format of the table for financial year 2016. The Group has no structured investment vehicles and has not issued any securitisations.

4.7 SECURITIES COLLATERALISED

- Securities collateralised in the framework of repurchase agreements

Headings	31/12/2015	31/12/2016
Debt instruments issued by the public sector	250.169.147	382.035.302
Debt instruments issued by credit institutions	136.080.118	4.522.630
Debt instruments issued - others	11.496.150	1.897.074
Equity instruments	13.457.516	-
Total	**411.202.931**	**388.455.006**

Debt instruments issued are primarily available-for-sale and held-to-maturity assets.

The decrease observed in debt instruments issued by credit institutions stems from the lower number of collateral security agreements as at 31 December 2016.

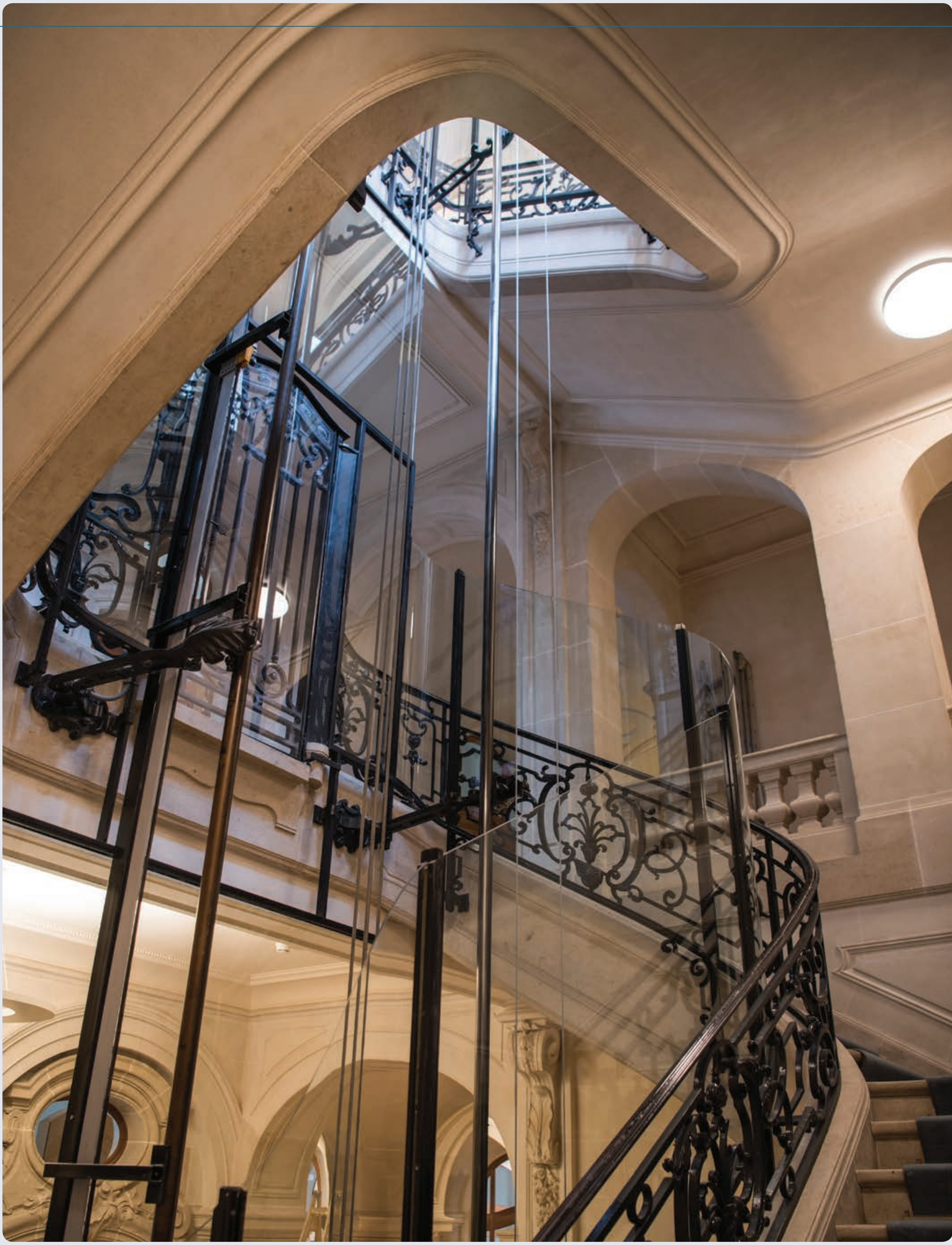
- Securities lent and other collateral

Headings	31/12/2015	31/12/2016
Securities lending		
Debt instruments issued by the public sector	177.989.435	275.591.249
Debt instruments issued by credit institutions	22.376.369	153.128.809
Debt instruments issued - others	-	37.545.163
Other collateral		
Debt instruments issued by the public sector	37.184.960	11.220.393
Total	**237.550.764**	**477.485.614**

4.8 CONVERTIBLE BONDS INCLUDED IN THE DIFFERENT PORTFOLIOS

Headings	31/12/2015	31/12/2016
Convertible bonds	-	-

As in the prior year, the Group held no convertible bonds in its portfolio at 31 December 2016.



4.9 DERIVATIVES

Balances as at 31/12/2016	Assets	Liabilities	Notional
Derivative financial instruments held for trading	**293.795.190**	**156.046.755**	**15.456.350.456**
Operations linked to exchange rates	240.877.112	73.222.832	13.498.790.756
- Foreign exchange swaps and forward exchange contracts	*240.126.534*	*73.013.627*	*13.292.261.196*
- CCIS economic hedge (FVO)	*743.144*	*-*	*3.763.000*
- other	*7.434*	*209.204*	*202.766.559*
Operations linked to interest rates	49.838.662	79.744.508	1.801.183.947
- IRS	*47.565.808*	*61.793.370*	*1.245.011.854*
- IRS economic hedge (FVO)	*654.722*	*16.010.539*	*390.407.000*
- other	*1.618.133*	*1.940.600*	*165.765.093*
Operations linked to equity	3.079.415	3.079.415	156.375.753
- Equity and index options	*3.079.415*	*3.079.415*	*156.375.753*
Fair value hedges (micro)	**50.612.290**	**762.595.111**	**8.872.933.993**
Operations linked to exchange rates	37.766.679	181.160.462	1.498.702.420
- CCIS	*37.766.679*	*181.160.462*	*1.498.702.420*
Operations linked to interest rates	10.473.198	533.520.886	6.325.921.922
- IRS (interest rate)	*10.473.198*	*533.520.886*	*6.325.921.922*
Operations linked to other indices	2.372.413	47.913.762	1.048.309.651
- IRS (other indices)	*2.372.413*	*47.913.762*	*1.048.309.651*
Fair value hedges (macro)	**7.027.110**	**116.582.787**	**1.127.307.347**
Operations linked to interest rates	7.027.110	116.582.787	1.127.307.347
- IRS (interest rate)	*7.027.110*	*116.582.787*	*1.127.307.347*
Cash flow hedges	**10.256.556**	**15.666.111**	**493.003.125**
Operations linked to exchange rates	4.432.589	15.666.111	453.403.125
- CCIS	*4.432.589*	*15.666.111*	*453.403.125*
Operations linked to interest rates	5.823.967	-	39.600.000
- IRS	*5.823.967*	*-*	*39.600.000*

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*

4.10 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Headings	31/12/2015			31/12/2016		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Debt instruments						
Credit institutions	-	-	-	-	174.490.246	174.490.246
"Corporate" customers	-	-	-	-	87.660.425	87.660.425
Total	**-**	**-**	**-**	**-**	**262.150.671**	**262.150.671**
Unrealised profit/loss at the reporting date	-	-	-	-	*689.762*	*689.762*

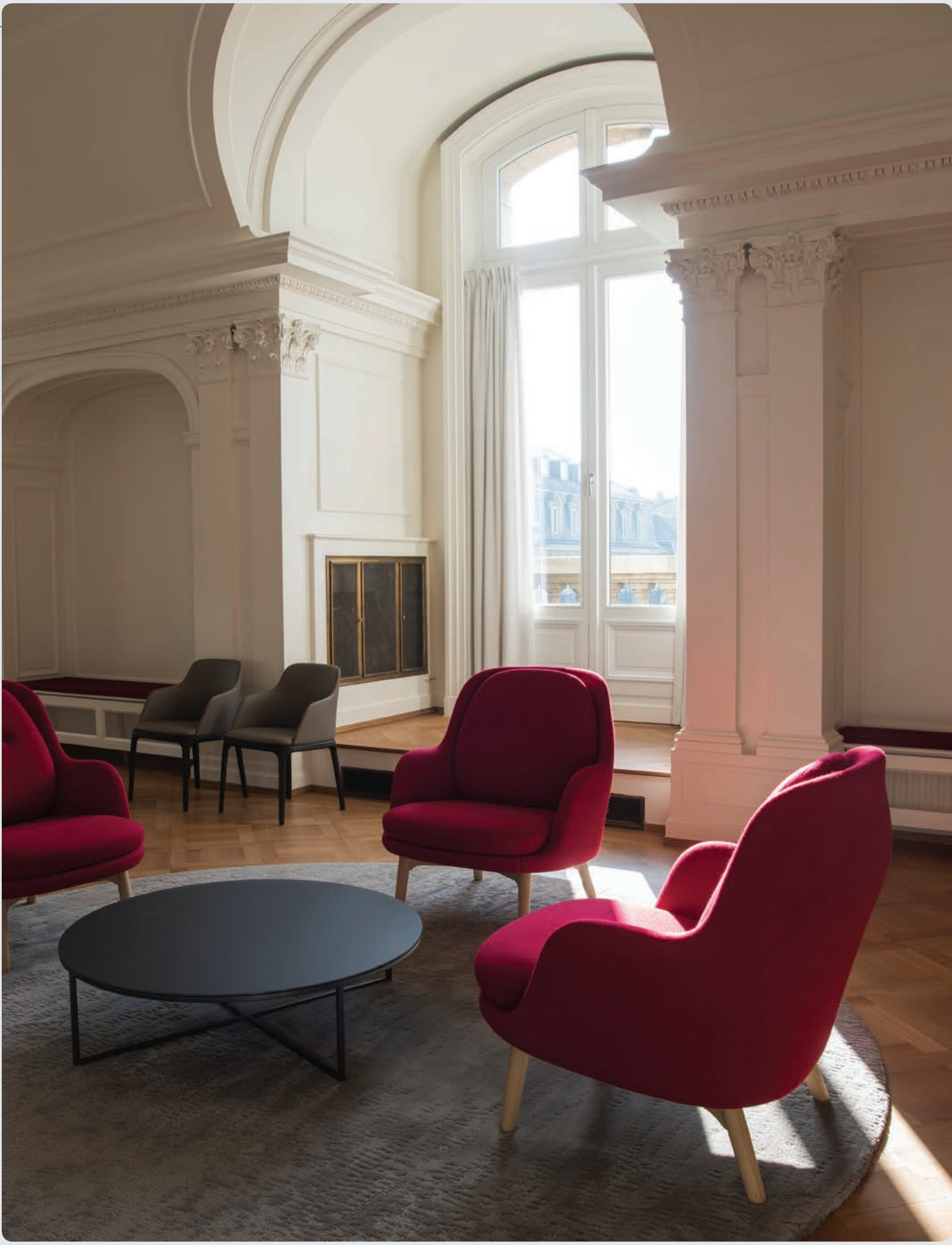
This item includes financial instruments which, depending on their characteristics, incorporate derivative components that are not directly related and are therefore not eligible for measurement at fair value through the revaluation reserve.

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

Headings	31/12/2015	31/12/2016
Assets: Change in fair value of a portfolio of financial instruments hedged against interest rate risk	52.453.419	80.022.997
Total	**52.453.419**	**80.022.997**

This item includes the fair value of the "Loans and receivables 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 derivative financial instruments.

The change in this item between 2015 and 2016 is due primarily to a volume effect and to the change in the interest-rate curves used to determine fair value.



4.12 TANGIBLE ASSETS FOR OWN USE

	Land and construction	Other equipment and furniture	Total
Position as at 1 January 2016	**370.031.349**	**63.944.361**	**433.975.710**
Increase	20.390.221	7.305.751	27.695.972
Decrease	-1.580.706	-9.406.237	-10.986.943
Position as at 31 December 2016	**388.840.864**	**61.843.875**	**450.684.739**
Accumulated depreciation			
Position as at 1 January 2016	**111.983.899**	**31.348.255**	**143.332.154**
Basis adjustment	-935.798	-9.370.563	-10.306.361
Additions	10.123.602	8.919.768	19.043.370
Position as at 31 December 2016	**121.171.703**	**30.897.460**	**152.069.163**
Net book value			
Position as at 1 January 2016	**258.047.450**	**32.596.106**	**290.643.556**
Position as at 31 December 2016	**267.669.161**	**30.946.415**	**298.615.576**

	Land and construction	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**
Basis adjustment	-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**

The significant increase in 2015 in net book value relates to the Group's parent company's acquisition of the “19 Liberté” building at the beginning of the first quarter of 2015.

4.13 INVESTMENT PROPERTY

Position as at 1 January 2016	**30.579.274**
Increase (acquisitions)	-
Increase (investment expenditure)	484.573
Decrease	-699.208
Position as at 31 December 2016	**30.364.639**

Accumulated depreciation

Position as at 1 January 2016	**15.364.475**
Basis adjustment	-347.984
Additions	1.037.095
Position as at 31 December 2016	**16.053.586**

Net book value

Position as at 1 January 2016	**15.214.799**
Position as at 31 December 2016	**14.311.053**

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**
Basis adjustment	-
Additions	1.040.768
Position as at 31 December 2015	**15.364.475**

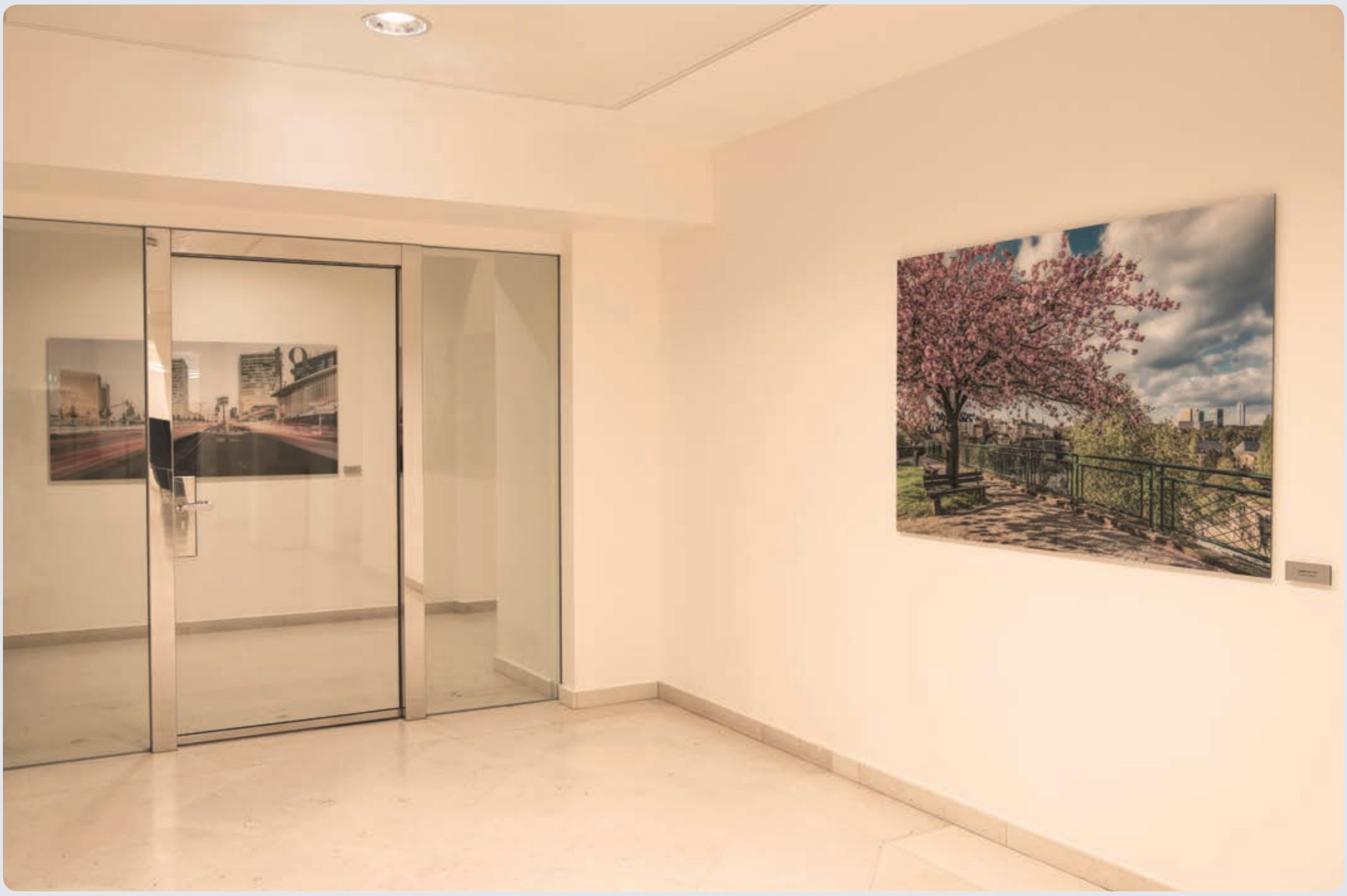
Net book value

Position as at 1 January 2015	**16.114.382**
Position as at 31 December 2015	**15.214.799**

Rental income from rented investment property amounted to EUR 2.588.894 for the 2016 financial year, versus EUR 2.545.303 in the prior year. Maintenance costs related to investment property were EUR 329.877 in 2016, down from EUR 435.931 one year earlier.

The fair value of investment property stood at EUR 61.422.940 at year-end 2016, compared with EUR 59.812.131 at end-2015. 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.



4.14 INTANGIBLE ASSETS

Position as at 1 January 2016	**27.745.317**
Increase	10.760.937
Decrease	-
Position as at 31 December 2016	**38.506.254**

Accumulated depreciation

Position as at 1 January 2016	**12.728.105**
Basis adjustment	-
Additions	9.258.992
Position as at 31 December 2016	**21.987.097**

Net book value

Position as at 1 January 2016	**15.017.211**
Position as at 31 December 2016	**16.519.156**

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**
Basis adjustment	-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**

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

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 58.954.065 as at 31 December 2016 versus EUR 100.111.672 in the previous year.

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 2016, the Group posted a deferred tax asset of EUR 104.323.210, and a deferred tax liability of EUR 162.650.834.

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	01/01/2016	Movements in equity	Movements in income statement	31/12/2016
Deferred tax assets	91.996.961	12.326.249	-	104.323.210
Deferred tax liabilities	-178.146.610	-3.252.412	18.748.187	-162.650.835
Net deferred tax assets / liabilities	**-86.149.649**	**9.073.837**	**18.748.187**	**-58.327.625**

Headings	01/01/2015	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**

4.15.1 Tax assets

Headings	31/12/2015	31/12/2016
Deferred taxes	91.996.961	104.323.210
Tax assets	**91.996.961**	**104.323.210**

Breakdown of deferred tax assets according to origin:

Headings	31/12/2015	31/12/2016
Derivative financial instruments - application of fair value	1.853.467	1.614.763
Debt instruments - application of fair value	9.028.872	6.718.311
Equity instruments - application of fair value	1.192.634	1.971.568
Pension funds - actuarial gain or loss	79.921.988	94.018.568
Deferred tax assets	**91.996.961**	**104.323.210**

4.15.2 Tax liabilities

Headings	31/12/2015	31/12/2016
Current tax liabilities	100.111.672	58.954.065
Income tax	*59.015.599*	*35.472.913*
Municipal business tax	*41.074.673*	*23.459.752*
Wealth tax	*21.400*	*21.400*
Deferred taxes	178.146.610	162.650.834
Tax liabilities	**278.258.282**	**221.604.899**

Breakdown of deferred tax liabilities according to origin:

Headings	31/12/2015	31/12/2016
Derivative financial instruments - application of fair value	1.908.942	1.575.878
Debt instruments - application of fair value	19.789.596	22.807.904
Equity instruments - application of fair value	4.042.739	4.319.620
Regulatory and other provisions	147.302.941	128.554.753
Pension funds - actuarial gain or loss	5.102.392	5.392.679
Deferred tax liabilities	**178.146.610**	**162.650.834**

4.16 OTHER ASSETS

Headings	31/12/2015	31/12/2016
Operational outstandings	4.646.806	5.743.579
Preferential or secured debtors	6.615.162	3.536.490
Other	30.676	444.191
Total	**11.292.644**	**9.724.260**

4.17 DEPOSITS AT AMORTISED COST - CREDIT INSTITUTIONS

Headings	31/12/2015			31/12/2016		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Inter-bank deposits	3.863.496.486	189.372.404	4.052.868.890	4.589.192.076	132.277.203	4.721.469.279
Repurchase agreements	386.750.291	9.859	386.760.150	20.240.967	-	20.240.967
Total	**4.250.246.777**	**189.382.263**	**4.439.629.039**	**4.609.433.043**	**132.277.203**	**4.741.710.246**

4.18 DEPOSITS AT AMORTISED COST - CUSTOMERS

Headings	31/12/2015			31/12/2016		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Private sector	**21.015.084.258**	**1.222.276.989**	**22.237.361.247**	**22.211.262.928**	**813.125.092**	**23.024.388.020**
Demand deposit and notice accounts	*6.886.156.912*	-	*6.886.156.912*	*7.090.126.964*	-	*7.090.126.964*
Time deposit accounts	*3.648.589.611*	*1.222.276.989*	*4.870.866.600*	*3.122.863.671*	*813.125.092*	*3.935.988.764*
Savings	*10.453.520.746*	-	*10.453.520.746*	*11.998.272.293*	-	*11.998.272.293*
Repurchase agreements	*26.816.989*	*-26.816.989*	-	-	-	-
Public sector	**4.675.925.127**	**10.201.657**	**4.686.126.784**	**4.199.307.047**	**892.241.048**	**5.091.548.095**
Total	**25.691.009.385**	**1.232.478.646**	**26.923.488.031**	**26.410.569.975**	**1.705.366.140**	**28.115.936.115**

4.19 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Headings	31/12/2015			31/12/2016		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Issues	-	-	-	-	148.612.880	148.612.880
Total	**-**	**-**	**-**	**-**	**148.612.880**	**148.612.880**
Unrealised profit/loss at the reporting date	-	-	-	-	*1.679.451*	*1.679.451*

This item includes financial instruments which, depending on their characteristics, incorporate derivative components that are not directly related and are therefore not eligible for measurement at fair value through the revaluation reserve.

4.20 ISSUANCE OF DEBT SECURITIES

Headings	31/12/2015			31/12/2016		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Cash certificates	183.321.626	223.213.925	406.535.551	95.955.811	141.724.486	237.680.296
Commercial paper	3.760.296.156	-	3.760.296.156	4.041.253.629	-	4.041.253.629
Medium Term Notes and other securities issued	1.401.904.454	222.628.878	1.624.533.332	-	490.687.756	490.687.756
Total	**5.345.522.236**	**445.842.803**	**5.791.365.039**	**4.137.209.440**	**632.412.242**	**4.769.621.682**
of which:						
- Subordinated notes	*25.683.615*	*102.028.137*	*127.711.752*	-	*101.479.685*	*101.479.685*

The Group issued EMTNs for a nominal amount of EUR 276.620.000 in 2016, as against EUR 1.404.675.877 the previous year.

New issues	2015	2016
maturing in < 2 years	1.323.863.943	-
maturing in 2 - 5 years	-	40.500.000
maturing in > 5 years	80.811.934	236.120.000
Total	**1.404.675.877**	**276.620.000**
of which:		
- Structured notes (at issue value)	*1.404.675.877*	*90.000.000*

The main structured notes issued in 2016 were in the plain vanilla category.

Securities issued which have either come to maturity or have been reimbursed prior to maturity during 2015 and 2016, respectively:

	2015	2016
Maturities/repayments	1.580.183.207	1.412.871.538
Total	**1.580.183.207**	**1.412.871.538**
of which:		
- Subordinated notes (at issue value)	*23.800.000*	*25.000.000*
- Structured notes (at issue value)	*1.547.163.207*	*33.442.595*

The Group bought back its own issues in the amount of EUR 390.000 during 2016 (vs. EUR 1.290.000 in 2015).

Breakdown of subordinated loans as at 31 December 2016

Description	Rate	Issue currency	Nominal amount issued - EUR	Assimilated portion EUR	Non assimilated portion - EUR
Loan 2000-2020	0,058	EUR	8.600.000	6.239.562	2.360.438
Loan 2001-2021	0,162	EUR	11.000.000	8.950.582	2.049.418
Loan 2001-2021	0,162	EUR	30.000.000	24.410.678	5.589.322
Loan 2002-2022	0,185	EUR	50.000.000	50.000.000	-
Total			**99.600.000**	**89.600.821**	**9.999.179**

The interest expense on subordinated notes stood at EUR 978.026 as at 31 December 2016, compared with EUR 1.871.271 as at 31 December 2015.

4.21 PROVISIONS

Changes during the financial year:

	2015	2016
Position as at 1 January	**4.899.785**	**47.215.958**
Additions	43.035.888	101.766
Reversals	-642.715	-11.303.913
Application	-77.000	-31.130.577
Position as at 31 December	**47.215.958**	**4.883.234**

The “Provisions” line 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. The decrease in this provision primarily stems from the first contribution to the "Fonds de garantie des dépôts, Luxembourg" and from payment made to the German authorities under the settlement reached in a tax matter. The excess provision related to these proceedings against BCEE was reversed through the income statement.

4.22 OTHER LIABILITIES

Headings	31/12/2015	31/12/2016
Operational outstandings	1.791.387	28.982.559
Preferential or secured creditors	24.036.392	26.042.764
Other	3.816.482	3.163.405
Total	**29.644.261**	**58.188.728**

4.23 PENSION FUNDS - DEFINED-BENEFIT PENSION PLAN

Main estimates used to determine pension commitments:

Variables	31/12/2015	31/12/2016
Discount rate for active employees	2,20%	1,65%
Discount rate for beneficiaries	1,80%	1,20%
Salary increases (including indexation)	3,25%	3,25%
Pension increases (including indexation)	2,25%	2,25%
Induced yield	1,98%	1,40%

The induced yield of 1,40% in 2016 corresponds to the weighted average of the discount rates for working people and for annuitants as fixed at the end of the 2016 financial year.

Net pension fund allowance under heading “Personnel expenses” in the income statement:

Components	31/12/2015	31/12/2016
Current service cost	7.364.779	9.418.011
Interest cost	8.696.608	11.051.611
Induced yield	-6.252.608	-7.509.964
Total	**9.808.779**	**12.959.658**

Pension commitments:

	2015	2016
Commitments as at 1 January	**495.752.808**	**559.157.615**
Current service cost	7.364.779	9.418.011
Interest cost	8.696.608	11.051.611
Benefits paid	-11.732.352	-11.871.096
Actuarial gains or losses	59.075.773	73.670.117
Commitments as at 31 December	**559.157.615**	**641.426.258**

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 11.871.096 include the repayments to the Luxembourg State of civil servants’ pensions in respect of the 2015 financial year.

Breakdown of actuarial gains and losses:

	2015	2016
Actuarial gains and losses arising from changes in actuarial assumptions	53.125.164	73.397.696
- financial assumptions	*-21.751.712*	*73.397.696*
- demographic assumptions	*74.876.876*	-
Actuarial gains and losses arising from experience adjustments	5.950.609	272.421
Total actuarial gains and losses	**59.075.773**	**73.670.117**

Sensitivity analysis of pension commitments:

Impact of changes in actuarial assumptions on the pension commitment as at 31/12/2016	decrease	increase
Change in average actuarial rate (-/+ 50 bps)	76.397.984	-64.921.709
Change in wage increase rate (-/+ 50 bps)	-67.252.028	86.153.781
Change in pension increase rate (-/+ 25 bps)	-27.314.254	29.093.752
Change in mortality tables (-/+ 5 years)	136.485.307	-126.166.591
Cumulative effect	**118.317.009**	**-75.840.767**

Impact of changes in actuarial assumptions on the pension commitment as at 31/12/2015	decrease	increase
Change in average actuarial rate (-/+ 50 bps)	63.377.907	-54.137.748
Change in wage increase rate (-/+ 50 bps)	-65.706.428	76.033.057
Change in pension increase rate (-/+ 50 bps)	-22.705.693	24.138.133
Change in mortality tables (-/+ 5 years)	116.021.723	-109.053.480
Cumulative effect	**90.987.509**	**-63.020.038**

Maturity analysis of pension commitments:

	31/12/2015	31/12/2016
Average duration of the pension commitment	**21.36 years**	**22.30 years**
Analysis of maturities of commitments to be paid	**559.157.616**	**641.426.257**
Pensions outstanding for the year	6.733.651	6.946.714
Commitments to be paid within 12 months	12.435.454	12.299.186
Commitments to be paid in 1-3 years	26.170.543	25.942.819
Commitments to be paid in 3-6 years	41.331.965	42.205.210
Commitments to be paid in 6-11 years	71.388.676	75.550.159
Commitments to be paid in 11-16 years	73.447.846	80.979.139
Commitments to be paid after 16 years	327.649.481	397.503.031

Pension plan assets:

	2015	2016
Assets as at 1 January	**356.431.857**	**379.967.554**
Benefits paid	-11.732.352	-11.871.096
Contribution	31.718.541	33.871.709
Induced yield	6.252.608	7.509.964
Fair value gain / loss	-2.703.099	2.451.896
Assets as at 31 December	**379.967.554**	**411.930.026**

In 2016, the Group's parent company made an annual contribution of EUR 9.871.709 and an extraordinary contribution of EUR 24.000.000 compared with a contribution of EUR 7.718.541 and an extraordinary contribution of EUR 24.000.000 in the previous year. The extraordinary contributions for 2015 and 2016 were used to offset the impact of the switch from the IGSS mortality tables to DAV2004R.

Pension plan investments:

2016	Credit institutions	Public sector	Corporate	Total
Fixed-income securities	101.617.521	144.909.333	19.828.256	266.355.110
Variable-income securities	-	-	121.024.297	121.024.297
Other assets (primarily deposits)	24.550.619	-	-	24.550.619
Total	**126.168.140**	**144.909.333**	**140.852.553**	**411.930.026**

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	**207.023.176**	**123.060.588**	**49.883.790**	**379.967.553**

Net pension commitments:

	2014	2015	2016
Pension commitments	495.752.808	559.157.615	641.426.257
Plan assets measured at fair value	-356.431.857	-379.967.554	-411.930.026
Unfinanced commitments	**139.320.951**	**179.190.062**	**229.496.231**

Stock of actuarial gains and losses:

Stock as at 1 January 2016	**191.832.821**
2016 net change	71.218.221
Stock as at 31 December 2016	**263.051.042**

Stock as at 1 January 2015	**130.053.949**
2015 net change	61.778.872
Stock as at 31 December 2015	**191.832.821**

The Group's parent company's estimated total contribution to the pension fund for 2017 is EUR 32.974.689. This contribution is divided into an extraordinary contribution of EUR 24.000,000 to offset the impact of the switch from the IGSS mortality tables to DAV2004R and an annual contribution of EUR 8.974.689.

4.24 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.

4.24.1 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 an autonomous public 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	31/12/2015	31/12/2016
ASSETS (mainly loans at amortised cost)	**3.596.212.235**	**3.304.634.344**

in euros	31/12/2015	31/12/2016
LIABILITIES (deposits at amortised cost)	**3.160.746.884**	**4.129.756.087**

4.24.2 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:

	31/12/2015	31/12/2016
Board of Directors (nine members)	120.450	357.000
Management body (five directors at 31/12/2015 and four directors at 31/12/2016)	1.014.106	867.143
Total	**1.134.556**	**1.224.143**

Like all civil servants, the members of the management body participate in the Luxembourg civil service pension scheme. These government pensions are paid out by the Group's pension fund.

4.24.3 Loans and receivables 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:

	31/12/2015	31/12/2016
Board of Directors (nine members)	2.594.592	2.530.234
Management body (five directors at 31/12/2015 and four directors at 31/12/2016)	1.773.559	472.512
Total	**4.368.151**	**3.002.745**

4.25 STATUTORY AUDITOR’S FEES

	31/12/2015	31/12/2016
Statutory audit of the annual financial statements	509.885	535.500
Other audit services	135.380	142.475
Tax services	-	3.100
Other	166.775	331.000
Total	**812.040**	**1.012.075**

The amounts included in the above item are exclusive of VAT.

4.26 DIRECT FEES AND CONTRIBUTIONS RELATED TO THE EUROPEAN BANKING UNION

	2015	2016
European Central Bank supervision fees	689.028	967.270
CSSF supervision fees	133.500	133.500
Single Resolution Board fees	-	108.299
Total	**822.528**	**1.209.069**
Contribution to the "Fonds de Garantie des Dépôts, Luxembourg"	-	22.437.405
Contribution to the "Fonds de Resolution Luxembourg"	2.478.856	6.403.010
Total	**2.478.856**	**28.840.415**

4.27 OFF-BALANCE SHEET ITEMS

Type of guarantees issued

Headings	31/12/2015	31/12/2016
Completion bonds	323.133.147	367.502.011
Letters of credit	41.223.892	56.906.464
Counter-guarantees	408.246.517	362.821.031
Documentary credits	13.191.609	-
Other	6.406.041	25.762.576
Total	**792.201.205**	**812.992.082**

Commitments

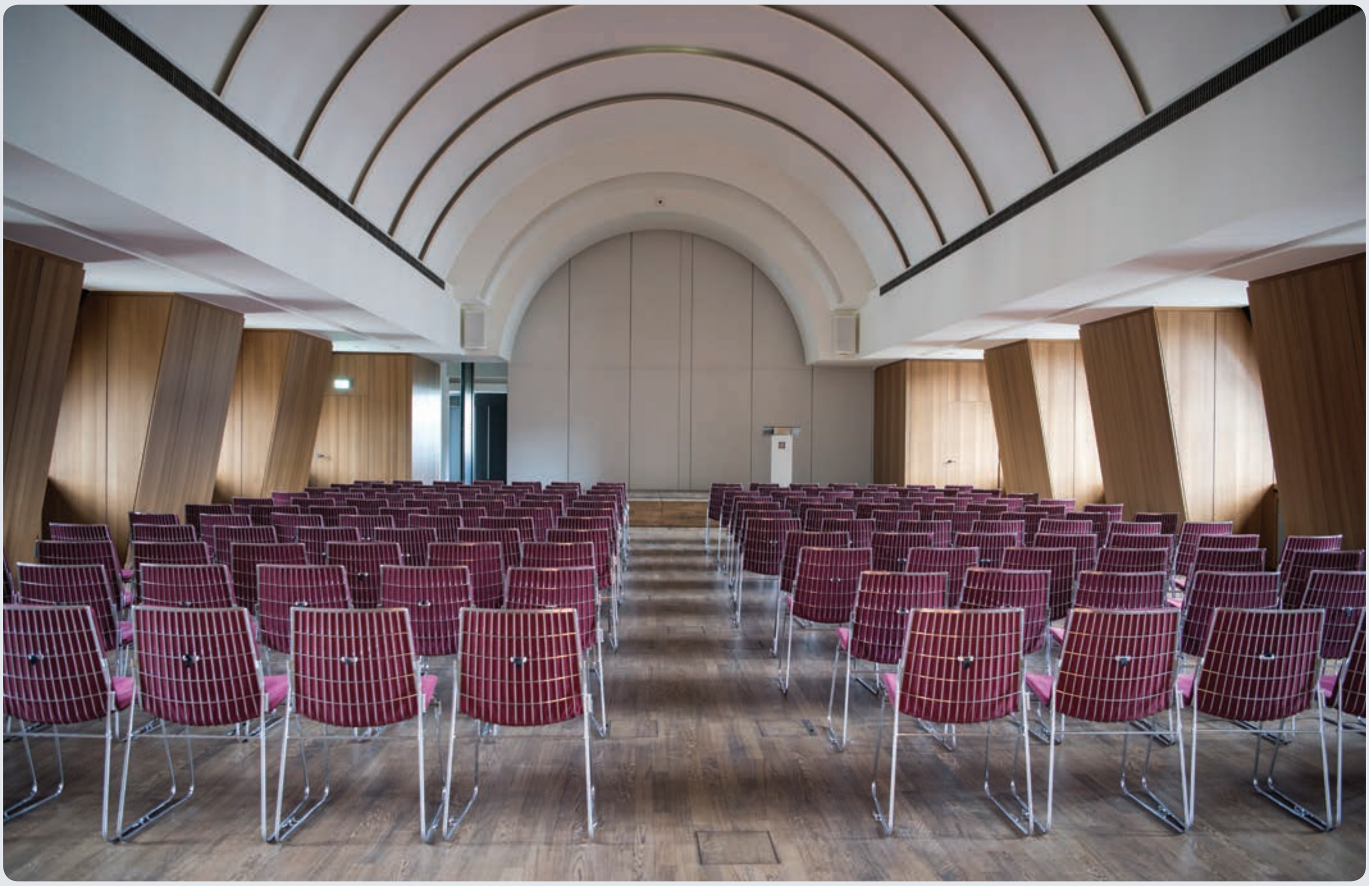
Headings	31/12/2015	31/12/2016
Amounts subscribed and unpaid on securities, equity interests and shares in affiliated companies	9.993.882	6.640.000
Undrawn confirmed loans	4.955.389.125	4.576.915.911
Financing	*2.289.688.993*	*1.878.365.528*
Current accounts	*1.737.325.997*	*2.250.906.966*
Money-market contracts	*471.196.867*	-
Other	*457.177.269*	*447.643.417*
Other	160.680.424	13.344.619
Total	**5.126.063.431**	**4.596.900.530**

Starting in 2016, the Group reclassified documentary credits from "Type of guarantees issued" to the "Other" subheading under "Commitments", to comply with the requirements of the reporting methods defined by the EBA.

The Bank acquired a 12% stake in the capital of Encevo S.A., the holding company for Luxembourg's market-leading energy group. The transaction was finalised on 7 March 2016. In 2015, the commitment reflecting the acquisition is included 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	2015	2016
Assets repayable on demand	46.884	43.754
Financial assets held for trading	64.320.713	117.375.057
Financial assets designated at fair value through profit or loss	-	1.018.236
Available-for-sale financial assets	209.585.075	199.512.401
Receivables at amortised cost - Loans and advances	401.761.880	383.135.846
Investments held to maturity at amortised cost	75.706.301	63.439.177
Derivatives - Hedge accounting, interest rate risk	115.456.591	89.097.890
Other assets	5.200.966	6.958.538
Total	**872.078.408**	**860.580.899**

Interest paid and similar expenses	2015	2016
Financial liabilities held for trading	-21.042.110	-28.851.333
Financial liabilities designated at fair value through profit or loss	-	-3.520.696
Liabilities at amortised cost - Deposits	-72.006.649	-75.328.843
Liabilities at amortised cost - Debt certificates	-36.114.847	-39.224.582
Liabilities at amortised cost - Subordinated loans	-1.173.169	-355.150
Derivatives - Hedge accounting, interest rate risk	-350.522.654	-331.847.449
Other liabilities	-8.199.522	-15.781.706
Total	**-489.058.950**	**-494.909.759**

Interest income	383.019.458	365.671.140
Total interest received and similar income not recognised at fair value through the income statement	807.757.695	743.205.842
Total interest paid and similar expenses not recognised at fair value through the income statement	-468.016.840	-466.058.426

5.2 INCOME FROM VARIABLE-INCOME SECURITIES

Headings	2015	2016
Available-for-sale financial assets	38.302.833	44.574.661
Income from variable-income securities	**38.302.833**	**44.574.661**

[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	2015	2016
Loan activities	42.607.290	43.611.098
Asset management	39.079.661	37.970.132
Investment fund activities	48.328.495	49.519.189
Demand deposit accounts and related activities	29.535.253	30.186.158
Insurance premiums	5.311.042	4.937.654
Other (*)	6.360.912	8.174.291
Total commissions received	**171.222.653**	**174.398.522**
Loan activities	-2.527.254	-2.472.667
Asset management	-17.202.647	-19.684.686
Investment fund activities	-10.295.883	-10.666.936
Demand deposit accounts and related activities	-7.517.446	-8.179.289
Other (*)	-3.202.086	-4.975.487
Total commissions paid	**-40.745.316**	**-45.979.065**
Total commissions	**130.477.337**	**128.419.457**

(*) mostly fees on derivative financial instruments

The fee breakdown for 2015 has been restated for comparison purposes.

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

Headings	2015	2016
Available-for-sale financial instruments	45.455.523	13.387.314
Loans and receivables at amortised cost	135.877	-221.696
Financial liabilities at amortised cost	62.142	-
Total	**45.653.542**	**13.165.618**

The amount in "Available-for-sale financial instruments" for 2016 relates primarily to the sale of SES S.A. shares.

5.5 INCOME FROM FINANCIAL INSTRUMENTS HELD FOR TRADING

Headings	2015	2016
Equity instruments and related derivatives	4.173.287	5.229.942
Foreign exchange instruments and related derivatives	-3.072.240	1.193.059
Interest rate instruments and related derivatives	17.854.399	9.733.691
Credit derivatives	30.291	2.303
Commodities and related derivatives	451.850	-
Total	**19.437.586**	**16.158.995**

5.6 INCOME FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Headings	2015	2016
Financial assets designated at fair value through profit or loss	-	689.762
Financial liabilities designated at fair value through profit or loss	-	1.679.451
Total	**-**	**2.369.213**

5.7 NET INCOME FROM HEDGING TRANSACTIONS

Headings	2015	2016
Fair value hedge		
Debt instruments (assets) hedged by derivative financial instruments	2.103.742	-155.927
Debt issues hedged by derivative financial instruments	-49.454	110.505
Loans hedged by derivative financial instruments	2.250.351	1.565.657
Total	**4.304.639**	**1.520.235**
Value adjustment on hedged instruments	-159.589.329	-33.594.887
Value adjustment on hedging instruments	163.893.968	35.115.122
Total	**4.304.639**	**1.520.235**

Market risk hedging operations are highly efficient. Loans are hedged by derivative financial instruments using micro-hedge or macro-hedge transactions, in accordance with IAS 39.

5.8 OTHER NET OPERATING INCOME

Headings	2015	2016
Other operating income	10.082.185	10.259.352
Other operating expenditure	-4.207.920	-13.505.468
Other net operating income	**5.874.265**	**-3.246.116**

"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 loans,
- the share of annual contributions to the FRL and FGDL for which no provision has been recorded.

5.9 PERSONNEL EXPENSES

Headings	2015	2016
Compensation	161.798.304	162.819.659
Social security charges	9.582.996	9.336.777
Pensions and similar expenses	12.545.220	12.639.697
Pension fund expense	9.808.779	12.959.658
Other personnel expenses	3.813.426	3.818.273
Total	**197.548.725**	**201.574.064**

5.10 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Headings	2015	2016
Expenses related to movable and immovable property	20.869.848	22.844.983
Rents and maintenance of software	18.561.989	20.191.216
Operating expenditure related to the banking business	25.833.299	27.431.518
Other	12.758.623	13.376.659
Total	**78.023.759**	**83.844.376**

5.11 DEPRECIATION ALLOWANCES FOR TANGIBLE ASSETS

Depreciation

Headings	2015	2016
Depreciation - buildings	7.964.080	10.123.604
Depreciation - equipment and furniture	8.704.312	8.919.766
Depreciation of tangible assets	**16.668.392**	**19.043.370**

The increase in the "Depreciation - buildings" line stems from the opening of the "19 Liberté" beginning in the second half of 2016.

Impairment

No impairment of tangible assets according to IAS 36 was recognised by the Group in 2015 or 2016.

5.12 DEPRECIATION ALLOWANCES FOR INTANGIBLE ASSETS

Depreciation

Headings	2015	2016
Depreciation	7.206.449	1.037.095
Depreciation of intangible assets	**7.206.449**	**1.037.095**

Impairment

No impairment of intangible assets according to IAS 36 was recognised by the Group in 2015 or 2016.

5.13 DEPRECIATION ALLOWANCES FOR INVESTMENT PROPERTIES

Depreciation

Headings	2015	2016
Depreciation	1.040.768	9.258.993
Depreciation of tangible assets - investment	**1.040.768**	**9.258.993**

Impairment

No impairment of investment properties according to IAS 36 was recognised by the Group in 2015 or 2016.

5.14 NET IMPAIRMENT ALLOWANCES FOR INDIVIDUAL AND COLLECTIVE CREDIT RISKS

			2015			2016
	Additions	**Reversals**	**Total**	**Additions**	**Reversals**	**Total**
Available-for-sale securities	-3.002.020	7.046.650	4.044.629	-9	8.665.594	8.665.585
Loans and receivables	-18.204.056	34.991.407	16.787.352	-31.849.692	23.765.636	-8.084.056
of which individual impairment	*-17.631.892*	*34.716.852*	*17.084.959*	*-31.454.902*	*23.126.398*	*-8.328.504*
of which collective impairment	*-572.163*	*274.556*	*-297.608*	*-394.790*	*639.238*	*244.448*
	-21.206.076	**42.038.057**	**20.831.981**	**-31.849.701**	**32.431.230**	**581.529**

	2015	2016
Interest on impaired available-for-sale financial assets	387.190	515.432
Interest on impaired loans and receivables	6.717.337	4.934.297
Total	**7.104.526**	**5.449.729**

5.15 PROVISIONS AND REVERSAL OF PROVISIONS

Headings	2015	2016
Provisions	-43.548.472	-614.349
Reversal of provisions	1.155.299	11.816.496
Net allowances	**-42.393.173**	**11.202.147**

The significant allowance 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.

5.16 TAX EXPENSE

Headings	2015	2016
Tax on income from continuing operations	64.241.363	63.763.700
Deferred taxes	-222.711	-18.748.188
Tax on profit/(loss) for the period	**64.018.652**	**45.015.512**

The standard tax rate applicable in Luxembourg was 29,22% as at 31 December 2016 and 31 December 2015. The Group's effective tax rate was 14,67% in 2016 and 18,88% 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.

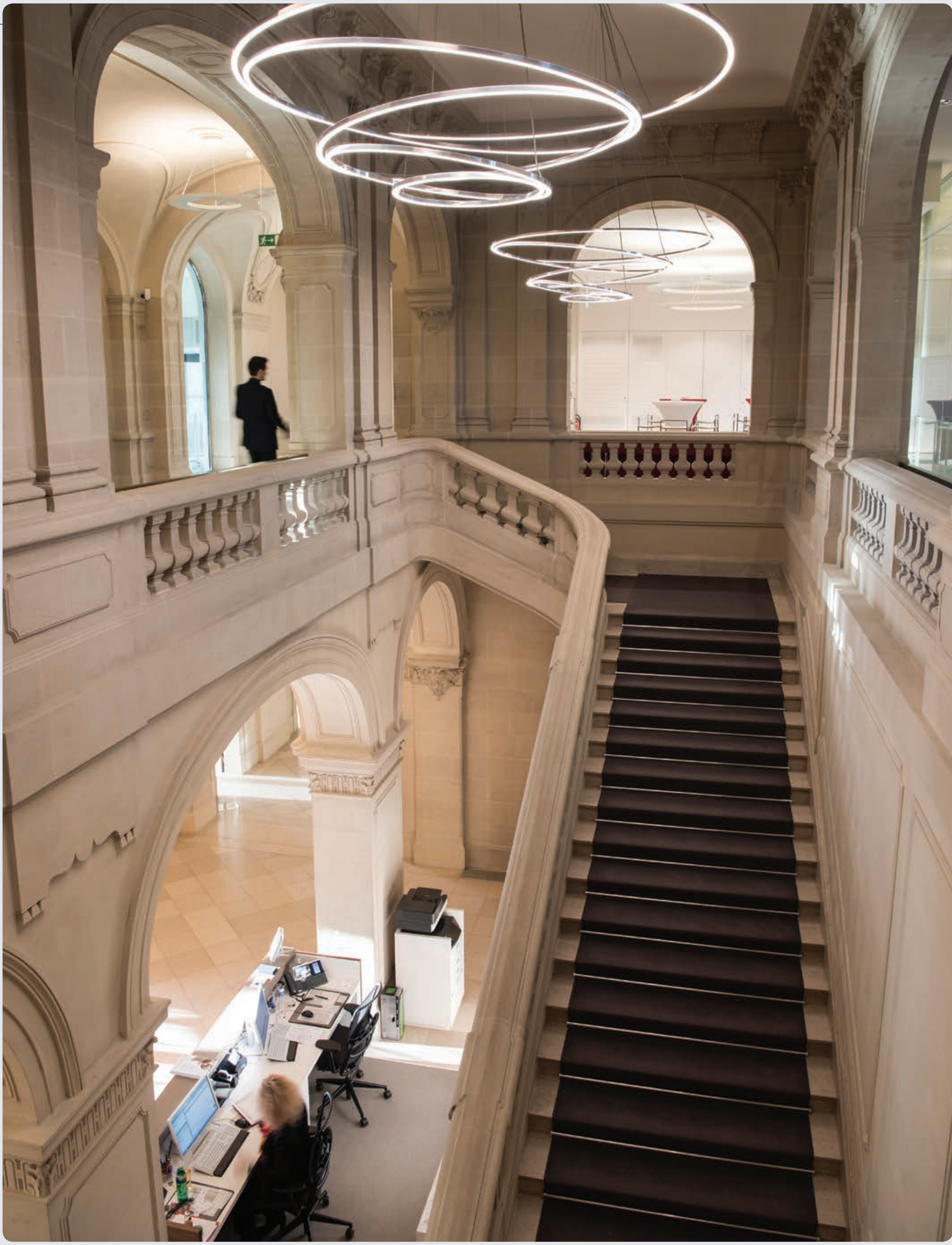
The difference between these two rates may be analysed as follows:

	2015	2016
Income before tax	339.006.818	306.811.580
Tax rate	29,22%	29,22%
Theoretical tax at standard rate	99.057.792	89.650.344
Tax impact of non-deductible expenses	7.373.567	141.122
Tax impact of non-taxable income	-14.862.548	-20.763.084
Share in the income of equity-accounted associates	-6.378.748	-8.544.208
Tax rebates and reductions	-18.393.214	-6.010.386
Change in deferred tax rate	-	-9.726.280
Tax refund/payment from previous financial years	-	-1.980.041
Other	-2.778.197	2.248.046
Tax on profit/(loss) for the period	**64.018.652**	**45.015.512**

As in 2015, the Group had the benefit of an investment tax allowance in respect of 2016, deducted at the line "Tax rebates and reductions".

5.17 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 0,60% versus 0,64% 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 function

From an organisational point of view, the risk control function is delegated to the Risk Management function. This function reports directly to the Executive Committee and operates independently from all commercial activities within the Bank.

On 1 July 2016, the Bank established a set of risk monitoring committees made up of the heads of different Bank units.

6.1.5 Responsibilities of the Credit Analysis and Management department

From an organisational point of view, credit risk control is delegated to the Credit Risk Analysis and Management department, a unit which operates independently from all commercial activities. It is responsible for:

- establishing a consistent framework to analyse credit risks, performing the analysis itself and continuously monitoring this risk;
- 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.

The Credit Analysis unit therefore monitors both credit risk and counterparty risk. This involves analysing loan applications from all commercial entities and performing analyses in order to set ex ante limits, including responsibility for internal ratings-based models for wholesale exposures (appraiser models). The head of the Credit Analysis unit is in charge of the Credit Risk Analysis and Management department.

[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.

6.1.6 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.

6.1.7 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.

6.1.8 Systems for measuring and tracking limits

6.1.8.1 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 gap analysis 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.

6.1.8.2 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.

6.1.8.3 Counterparty risk stemming from derivative financial instrument 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 derivative financial instrument trades with a positive mark-to-market valuation. At end-2016, 75,1% of derivative financial instrument transaction outstandings were covered by such agreements.

Alongside ISDA-CSA framework agreements, the parent company uses increasingly central counterparties (CCPs) to limit counterparty risk. At end-2016, 13,1% of derivative financial instrument transaction outstandings were liquidated through these CCPs.

6.1.8.4 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 2016 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 2016, this portfolio amounted to EUR 3,5 billion. At year-end 2016, 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 by the CLS. 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 the 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 Credit Analysis and Management department.

For loans granted to the domestic economy recognised in the statement of financial position under "Loans and receivables 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, loan files 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 receivables. Basel III methodology is used to continuously monitor risk trends across all portfolios.

The parent company did not change its risk management policy in the 2016 financial year.

For interbank markets and international loans, contracts are recognised in the statement of financial position under "Loans and receivables at amortised cost - Credit institutions", "Loans and receivables at amortised cost - Customers", "Available-for-sale financial assets - Fixed-income securities", "Held-to-maturity securities" and "Assets designated at fair value through profit or loss"; 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 2016, 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 statement of financial position under "Loans and receivables at amortised cost - Customers", "Available-for-sale financial assets - Fixed-income securities", "Held-to-maturity securities" and "Assets designated at fair value through profit or loss", 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 derivative financial instruments 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	31/12/2015	31/12/2016
Cash and sight accounts with central banks	1.313.328.229	2.687.924.387
Loans and receivables at amortised cost – Credit institutions	5.597.608.197	4.105.231.598
Loans and receivables at amortised cost – Customers	19.224.838.123	19.815.745.830
Financial instruments held for trading	201.115.555	294.544.201
Hedging derivative financial instruments	77.502.528	67.895.956
Financial assets designated at fair value through profit or loss	-	262.150.671
Available-for-sale securities – Fixed-income securities	9.998.539.565	9.805.099.257
Held-to-maturity securities	4.683.501.426	4.572.783.470
Exposure of balance sheet commitments	**41.096.433.623**	**41.611.375.370**
Completion bonds	323.133.147	367.502.011
Letters of credit	41.223.892	56.906.464
Counter-guarantees	408.246.517	362.821.031
Documentary credits	13.191.609	-
Other	6.406.041	25.762.576
Undrawn confirmed loans	4.955.389.125	4.576.915.911
Exposure off-balance sheet commitments	**5.747.590.330**	**5.389.907.993**
Total exposure	**46.844.023.954**	**47.001.283.363**

Variable-income securities are not included in the above table.

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

Breakdown by type of collateral	31/12/15	31/12/16
Mortgages	12.371.600.949	13.216.386.919
Reverse repurchase agreements	2.616.441.507	1.643.048.260
Pledge through cash or securities deposits	116.734.465	106.585.815

- personal guarantees: EUR 54.955.960 at year-end 2016, compared with EUR 56.160.060 one year earlier,
- ISDA – CSA contracts,
- Global Master Repurchase Agreements (GMRA).

Financial assets, subject to 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		
31/12/2016	**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	1.643.108.329	375.304.222	1.267.804.107	-	1.272.466.104	-
Derivatives	181.890.223	-	181.890.223	43.975.716	133.638.589	4.275.918
Total assets	**1.824.998.553**	**375.304.222**	**1.449.694.331**	**43.975.716**	**1.406.104.694**	**4.275.918**

	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
Derivatives	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 liabilities, subject to 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		
31/12/2016	**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	20.240.967	-	20.240.967	-	20.058.237	182.730
Derivatives	987.451.854	-	987.451.854	143.117.201	772.685.121	71.649.532
Total liabilities	**1.007.692.822**	**-**	**1.007.692.822**	**143.117.201**	**792.743.358**	**71.832.263**

	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
Derivatives	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**

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 to reduce the risk of the underlying asset.
Credit risk is shown according to exposures:

- by geography;
- by counterparty category;
- by risk class (internal ratings).

Exposure by geographical area:

Geographical area as at 31/12/2016 (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	2.642.281	1.197	27.463	4.666	55	12.263	2.687.924
Loans and receivables at amortised cost	23.327.400	20.873	314.994	96.872	4.340	156.499	23.920.977
Financial instruments held for trading and hedging derivative financial instruments	341.266	176	17.987	2.978	-	33	362.440
Available-for-sale securities	8.068.564	203.701	1.632.324	652.363	568.825	117.379	11.243.156
Held-to-maturity securities	3.566.243	172.328	631.356	68.657	134.200	-	4.572.783
Other	561.004	11.349	84.907	-	1.915	22.170	681.344
Total	**38.506.757**	**409.624**	**2.709.031**	**825.535**	**709.335**	**308.343**	**43.468.625**

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 receivables 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 financial 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**

In the following table, to meet the requirements of IFRS 7 "Financial instruments: Disclosures", exposure to credit risk as at 31 December 2015 and 2016 is presented according to internal ratings.

Exposure by counterparty category and risk class:

	2015			2016		
	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio
Cash and sight accounts with central banks						
High grade	1.138.428.726	1.138.428.726	-	2.538.955.467	2.538.955.467	-
Standard grade	174.471.838	174.471.838	-	146.355.860	146.355.860	-
Sub-standard grade	20	20	100,00%	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	4.025	2.013	-	-	-	-
Not rated	425.632	425.632	-	2.613.060	2.613.060	-
Total of categories	**1.313.330.241**	**1.313.328.229**		**2.687.924.387**	**2.687.924.387**	
Loans and receivables at amortised cost						
Banks						
High grade	2.892.231.663	2.892.231.663	17,76%	1.342.519.969	1.342.519.969	11,95%
Standard grade	2.562.254.230	2.562.254.230	57,29%	2.750.969.196	2.750.969.196	37,21%
Sub-standard grade	74.626.707	74.626.707	3,88%	7.908.788	7.908.788	0,00%
Past due but not impaired	-	-	-	2.895.600	2.895.600	100,00%
Impaired	-	-	-	-	-	-
Not rated	68.495.597	68.495.597	0,13%	938.046	938.046	-
Corporates						
High grade	1.858.617.539	1.858.617.539	31,31%	2.170.513.630	2.170.513.630	34,41%
Standard grade	1.733.294.356	1.733.294.356	53,10%	1.437.939.621	1.437.939.621	45,70%
Sub-standard grade	680.345.560	680.345.560	45,90%	923.298.741	923.298.741	47,82%
Past due but not impaired	203.444.520	203.444.520	20,98%	49.201.367	49.201.367	90,95%
Impaired	117.836.254	53.411.334	70,29%	247.104.127	178.773.077	34,49%
Not rated	225.822.255	225.822.255	62,19%	102.811.536	102.811.536	20,60%
Sovereigns						
High grade	2.313.066.006	2.313.066.006	-	2.060.711.501	2.060.711.501	-
Standard grade	7.739	7.739	-	8.245	8.245	-
Sub-standard grade	-	-	-	3	3	-
Past due but not impaired	53.195.129	53.195.129	-	22.985.325	22.985.325	-
Impaired	-	-	-	-	-	-
Not rated	8.324	8.324	-	2.258	2.258	-
Retail						
High grade	8.684.362.085	8.684.362.085	91,94%	9.296.027.275	9.296.027.275	92,13%
Standard grade	1.765.814.203	1.765.814.203	92,57%	1.940.260.139	1.940.260.139	92,52%
Sub-standard grade	1.418.777.710	1.418.777.710	89,50%	1.393.401.453	1.393.401.453	88,62%
Past due but not impaired	123.129.635	123.129.635	93,70%	149.777.876	149.777.876	92,32%
Impaired	107.837.000	91.095.716	85,76%	108.047.817	90.034.286	81,13%
Not rated	20.446.011	20.446.011	9,75%	-505	-505	-
Total of categories	**24.903.612.524**	**24.822.446.320**		**24.007.322.009**	**23.920.977.428**	

	2015			2016		
	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	82.317.344	82.317.344	11,16%	170.500.449	170.500.449	77,80%
Standard grade	143.416.408	143.416.408	24,61%	137.518.285	137.518.285	49,70%
Sub-standard grade	1.084.189	1.084.189	100,00%	223.112	223.112	98,61%
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	151.331	151.331	-	-	-	-
Corporates						
High grade	7.197.944	7.197.944	-	10.689.768	10.689.768	-
Standard grade	26.303.019	26.303.019	-	19.500.890	19.500.890	-
Sub-standard grade	5.092.560	5.092.560	-	3.160.379	3.160.379	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	9.142.080	9.142.080	-	20.172.004	20.172.004	-
Sovereigns						
High grade	-	-	-	-	-	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Retail						
High grade	2.430.066	2.430.066	-	504.278	504.278	-
Standard grade	457.108	457.108	-	4.547	4.547	-
Sub-standard grade	12.815	12.815	-	24.564	24.564	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	1.013.219	1.013.219	-	141.880	141.880	-
Total of categories	**278.618.084**	**278.618.084**		**362.440.156**	**362.440.156**	

	2015			2016		
	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	4.097.029.359	4.097.029.359	-	3.531.593.231	3.531.593.231	-
Standard grade	1.029.280.797	1.029.280.797	-	1.475.538.898	1.475.538.898	-
Sub-standard grade	8.251.866	8.251.866	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	12.513.658	1.313.658	-	-	-	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	1.193.879.313	1.193.879.313	-	1.336.685.336	1.336.685.336	-
Standard grade	2.005.919.403	2.005.919.403	-	2.339.475.765	2.339.475.765	-
Sub-standard grade	76.854.355	76.854.355	-	75.133.315	75.133.315	-
Past due but not impaired	-	-	-	-	-	-
Impaired	33.513.503	11.190.338	-	28.611.536	11.164.593	-
Not rated	93.350.345	93.350.345	-	108.620.898	108.620.898	-
Sovereigns						
High grade	1.638.272.097	1.638.272.097	-	1.580.378.447	1.580.378.447	-
Standard grade	985.609.533	985.609.533	-	657.025.344	657.025.344	-
Sub-standard grade	29.112.152	29.112.152	-	28.151.438	28.151.438	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Securitisation						
High grade	91.701.325	91.701.325	-	64.235.993	64.235.993	-
Standard grade	35.776.895	35.776.895	-	12.169.620	12.169.620	-
Sub-standard grade	2.927.449	2.927.449	-	2.566.357	2.566.357	-
Past due but not impaired	-	-	-	-	-	-
Impaired	60.444.447	28.487.583	-	46.683.607	20.416.742	-
Not rated	-	-	-	-	-	-
Other						
High grade	-	-	-	-	-	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories	**11.394.436.498**	**11.328.956.469**		**11.286.869.786**	**11.243.155.978**	

	2015			2016		
	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	2.029.170.330	2.029.170.330	-	1.889.005.877	1.889.005.877	-
Standard grade	753.056.683	753.056.683	-	932.652.716	932.652.716	-
Sub-standard grade	26.360.198	26.360.198	-	10.253.749	10.253.749	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	462.829.478	462.829.478	-	320.379.720	320.379.720	-
Standard grade	446.336.462	446.336.462	-	642.556.060	642.556.060	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Sovereigns						
High grade	891.711.988	891.711.988	-	706.202.684	706.202.684	-
Standard grade	74.036.287	74.036.287	-	71.732.664	71.732.664	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories	**4.683.501.426**	**4.683.501.426**		**4.572.783.470**	**4.572.783.470**	
Other (*)	384.621.631	384.621.631	-	681.343.714	681.343.714	-
Total of categories	**384.621.631**	**384.621.631**		**681.343.714**	**681.343.714**	
Total	**42.958.120.404**	**42.811.472.161**		**43.598.683.523**	**43.468.625.135**	

(*) "Other" comprises "Assets designated at fair value through profit or loss", "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".

For simplicity's sake, “Shares in associates and subsidiaries” was included in “Available-for-sale securities”.

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 receivables 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 and unit 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 Management 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 2016 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 2016**	**Maximum daily VaR in 2016**	**VaR limit for the scope in question in 2016**
ALM	8,98	10,45	12,50
Treasury	0,27	0,67	2,50
Trading	0,04	0,23	no limit

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

In addition to VaR, 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%) shift in the yield curve on each positions' net present value (NPV). 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 31/12/2016	Carrying amount	Fair value	Unrealised valuation
Financial assets			
Cash and sight accounts with central banks	2.687.924.387	2.687.924.387	-
Loans and receivables at amortised cost – Credit institutions	4.105.231.597	4.105.020.275	-211.322
Loans and receivables at amortised cost – Customers	19.815.745.830	22.238.030.315	2.422.284.485
of which measured at fair value for hedging purposes	*1.620.406.763*	*1.620.406.763*	-
Financial instruments held for trading	294.544.201	294.544.201	-
Hedging derivative financial instruments	67.895.956	67.895.956	-
Financial assets designated at fair value through profit or loss	262.150.671	262.150.671	-
Available-for-sale securities – Fixed-income securities	9.805.099.257	9.805.099.257	-
Available-for-sale securities – Variable-income securities	1.074.144.424	1.074.144.424	-
Held-to-maturity securities	4.572.783.470	4.736.608.990	163.825.520
Investments in associates accounted for using the equity method	363.912.298	363.912.298	-
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	80.022.997	80.022.997	-
TOTAL	**43.129.455.088**	**45.715.353.771**	**2.585.898.683**
Financial liabilities			
Deposits at amortised cost – Credit institutions	4.741.710.246	4.741.710.246	-
Deposits at amortised cost – Customers	28.115.936.115	28.470.177.029	354.240.914
Financial instruments held for trading	156.434.838	156.434.838	-
Hedging derivative financial instruments	894.844.009	894.844.009	-
Financial liabilities designated at fair value through profit or loss	148.612.880	148.612.880	-
Debt securities in issue	4.769.621.682	4.769.753.068	131.386
of which measured at fair value for hedging purposes	*329.208.071*	*329.208.071*	-
TOTAL	**38.827.159.770**	**39.181.532.070**	**354.372.300**

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 receivables at amortised cost – Credit institutions	5.597.608.197	5.597.016.193	-592.004
Loans and receivables 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 derivative financial instruments	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
Investments in associates accounted for using the equity method	324.853.964	324.853.964	-
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	52.453.419	52.453.419	-
TOTAL	**42.479.303.950**	**44.963.471.336**	**2.484.167.386**
Financial liabilities			
Deposits at amortised cost – Credit institutions	4.439.629.040	4.439.629.040	-
Deposits at amortised cost – Customers	26.923.488.031	27.197.078.625	273.590.594
Financial instruments held for trading	170.332.351	170.332.351	-
Hedging derivative financial instruments	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**

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

The fair value measurements presented in “Loans and receivables 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 coast in the statement of financial position with a fair value close to the carrying amount

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 statement of financial position with a fair value different from the carrying amount

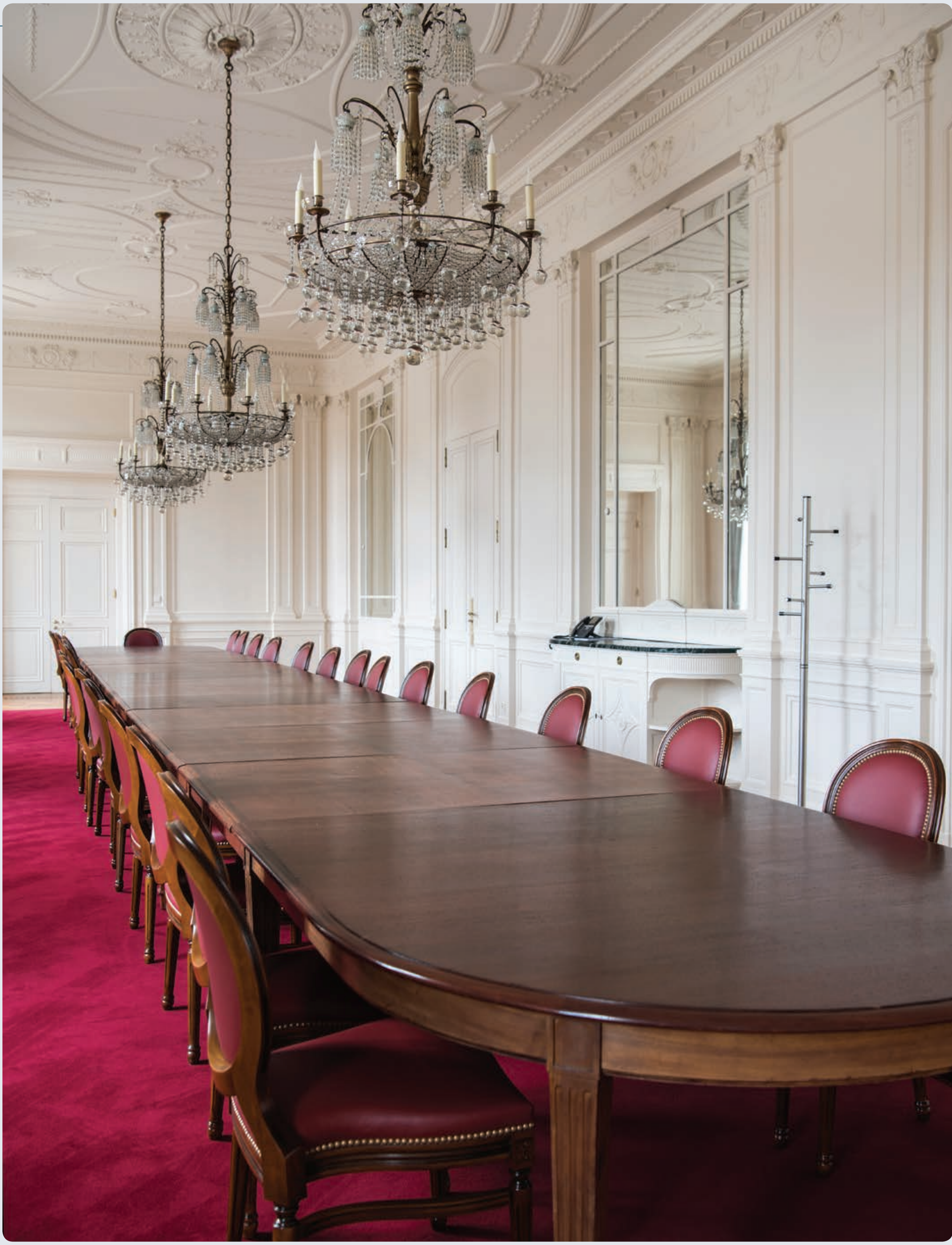
Financial assets and liabilities towards customers, as well as fixed income securities held to maturity are recognised at amortised cost in the statement of financial position.

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 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
- Debt instruments	749.011	-	-	749.011
- Equity instruments	-	-	-	-
- Derivative financial instruments	-	293.795.190	-	293.795.190
Available-for-sale financial assets				
- Debt instruments	6.628.511.963	3.066.786.194	109.801.099	9.805.099.257
- Equity instruments	206.208.769	703.197.263	164.738.391	1.074.144.424
Financial assets designated at fair value through profit or loss	-	262.150.671	-	262.150.671
Hedging derivative financial instruments	-	67.895.956	-	67.895.956
TOTAL	**6.835.469.744**	**4.393.825.273**	**274.539.491**	**11.503.834.508**
Financial liabilities				
Financial instruments held for trading	388.083	-	-	388.083
Derivative financial instruments held for trading	-	156.046.755	-	156.046.755
Financial liabilities designated at fair value through profit or loss	-	148.612.880	-	148.612.880
Hedging derivative financial instruments	-	894.844.009	-	894.844.009
TOTAL	**388.083**	**1.199.503.644**	**-**	**1.199.891.727**

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 financial 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 derivative financial instruments	-	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 derivative financial instruments	-	892.476.947	-	892.476.947
TOTAL	**785**	**1.062.808.513**	**-**	**1.062.809.298**

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-2016, offset by an increase in investments in debt instruments, and of the increase in derivative financial instruments.

A comparison of the breakdown of financial assets by level at end-2016 and end-2015 shows that 59,4% of financial assets are classified as Level 1 (65,2% in 2015), 38,2% as Level 2 (32,1% in 2015) and 2,4% as Level 3 (2,7% in 2015). Debt instruments account for most of the 5,8% migration from Level 1 to Level 2. New acquisitions in 2016 generally used less liquid instruments.

The Bank therefore 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 increased due primarily to higher share prices.

Level 3 breakdown:

	Available-for-sale financial assets		Hedging derivatives financial instruments	Total financial assets	Financial liabilities		Total financial liabilities
	Debt instruments	Equity instruments			Debt securities in issue	Hedging derivates financial instruments	
Total as at 1 January 2016	**170.634.299**	**134.201.738**	**-**	**304.836.037**	**-**	**-**	**-**
Total gains / losses	18.657.986	28.662.817	-	47.320.803	-	-	-
- Income statement	*16.884.343*	*-208.328*	-	*16.676.016*	-	-	-
- Revaluation reserve	*1.773.642*	*28.871.145*	-	*30.644.787*	-	-	-
Purchases	17.933.484	1.896.598	-	19.830.081	-	-	-
Reimbursements/sales	-97.424.669	-22.762	-	-97.447.431	-	-	-
Transfers from Level 1 to Level 3	-	-	-	-	-	-	-
Transfers from Level 2 to Level 3	-	-	-	-	-	-	-
Transfers from Level 3	-	-	-	-	-	-	-
Total as at 31 December 2016	**109.801.100**	**164.738.391**	**-**	**274.539.491**	**-**	**-**	**-**
Total gains/losses for the period included in the income statement for financial assets and liabilities held as at 31 December 2016	16.884.343	-208.328	-	16.676.016	-	-	-

	Available-for-sale financial assets		Hedging derivatives financial instruments	Total financial assets	Financial liabilities		Total financial liabilities
	Debt instruments	Equity instruments			Debt securities in issue	Hedging derivates financial instruments	
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 Level 1 to Level 3	-35.455.857	-		-35.455.857		-	-
Transfers from Level 2 to Level 3	-	-		-			
Transfers from Level 3	-	-		-			
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		-	-

Financial assets total Level 3 volume corresponds to 2,4% of total financial assets measured at fair value for financial year 2016, compared with 2,7% in 2015. The Group did not include Level 3 financial liabilities measured at fair value in financial years 2016 and 2015.

Methods used for the Level 3 valuation:

Category	Method
- Debt instruments	Securitisations 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 Bank 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 31/12/2016	Sensitivity to a one-basis-point increase in credit risk
Debt instruments	109.801.099	-28.306

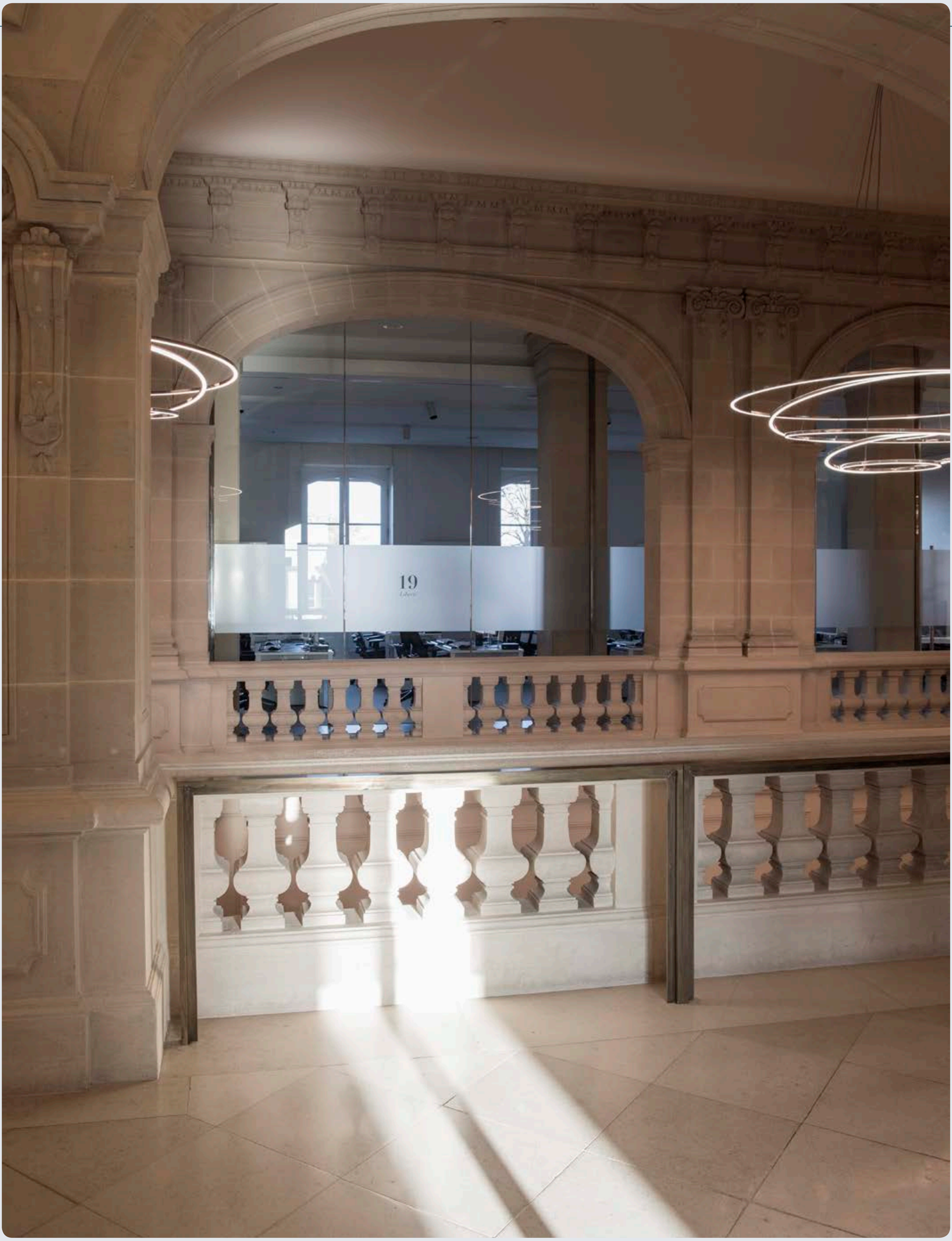
Category	Fair value as at 31/12/2015	Sensitivity to a one-basis-point increase in credit risk
Debt instruments	170.634.299	36.404

6.3.3 Analysis of foreign exchange risk: Net currency positions

As at 31/12/2016	Net balance sheet position
CHF	2.819.110
USD	28.728.718
Other	1.631.754
Total	**33.179.582**

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**

Only currencies with a net currency position exceeding EUR 2 million are recorded on a separate line.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6.4 LIQUIDITY RISK

6.4.1 Schedule of liabilities

Tables showing 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 2016
Issuance of debt securities*	2.274.946.650	1.880.737.783	**4.155.684.433**	258.987.983	643.747.554	**902.735.537**	**5.058.419.970**
Deposits at amortised cost -							
Credit institutions	3.948.986.995	667.413.906	**4.616.400.901**	89.050.319	56.626.264	**145.676.583**	**4.762.077.484**
Customers	24.464.820.316	2.110.702.024	**26.575.522.340**	1.586.006.618	11.154.925	**1.597.161.542**	**28.172.683.882**
Total	**30.688.753.960**	**4.658.853.713**	**35.347.607.673**	**1.934.044.920**	**711.528.743**	**2.645.573.663**	**37.993.181.336**

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**
Customers	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**	**37.249.674.282**

** including financial liabilities designated at fair value through profit or loss*

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 2016
Deposits at amortised cost -							
Customers	8.294.468.700	4.764.476.014	**13.058.944.714**	9.134.179.361	6.030.858.437	**15.165.037.799**	**28.223.982.513**

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 -							
Customers	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**

6.4.2 Schedule of derivative financial instruments

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 2016 and 31 December 2015.

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2016
Derivative instruments held for trading					
Foreign exchange swaps and forward exchange contracts					
Inflows	10.362.470.537	2.986.663.342	131.381.192	5.363.083	**13.485.878.154**
Outflows	-10.217.819.124	-2.948.401.898	-129.768.759	-4.610.296	**-13.300.600.077**
Derivative financial instruments used for hedging purposes					
CCIS					
Inflows	208.426.502	400.857.765	1.122.299.490	146.239.732	**1.877.823.489**
Outflows	-219.810.002	-446.335.298	-1.304.206.989	-163.123.223	**-2.133.475.511**
Total inflows	**10.570.897.039**	**3.387.521.107**	**1.253.680.682**	**151.602.815**	**15.363.701.643**
Total outflows	**-10.437.629.126**	**-3.394.737.196**	**-1.433.975.748**	**-167.733.518**	**-15.434.075.588**

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**
Derivative financial instruments 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**

Table showing derivative financial instruments settled in net cash flows:

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

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2016
Derivative financial instruments held for trading					
IRS	975.858	8.132.120	7.608.176	-36.002.409	**-19.286.255**
Derivative financial instruments used for hedging purposes					
IRS	50.703.891	110.849.691	366.547.067	256.608.911	**784.709.560**
Total outflows	**51.679.749**	**118.981.811**	**374.155.243**	**220.606.502**	**765.423.305**

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2015
Derivative financial instruments held for trading					
IRS	1.851.365	11.397.749	13.655.936	2.263.275	**29.168.325**
Derivative financial instruments 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**

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 2. 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 2016, 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 ICAAP report and the 2016 ILAAP report were 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 as needed or in the case of a major change in methodology.

Equity, Regulatory Own Funds and Solvency Ratio (in euros)	**31/12/2015**	**31/12/2016**
Total equity	**4.151.869.150**	**4.231.615.481**
Prudential provision adjustments	349.007.522	345.388.174
Profit or loss adjustments transition to IFRS	-3.619.348	-13.967.445
Consolidation adjustments	-470.809.250	-489.457.750
Total adjusted equity	**4.026.448.074**	**4.073.578.460**
IFRS income for the year not included in Common Equity Tier 1 (CET1)	-226.173.815	-226.516.491
CET1 before regulatory adjustments	**3.800.274.259**	**3.847.061.969**
Regulatory adjustments to CET1	**-1.271.930.671**	**-1.220.064.779**
Fair value reserves related to gains or losses on cash flow hedges	-134.378	104.709
Intangible assets	-15.017.211	-16.519.158
Negative amounts resulting from the calculation of expected loss amounts	-58.216.999	-93.203.294
Direct, indirect and synthetic holdings of CET1 instruments of financial sector entities in which the institution has a significant investment	-4.928.618	-12.785.008
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	-998.980.798	-917.245.709
Amount to be deducted or added to CET1 pursuant to circular CSSF 14/599 on the treatment of the flat-rate provision and the AGDL provision	-194.652.666	-180.416.319
Tier 1 Regulatory Own Funds (CET 1)	**2.528.343.588**	**2.626.997.190**
Tier 2 Regulatory Own Funds	**100.071.923**	**89.600.821**
Tier 2 Regulatory Own Funds	100.071.923	89.600.821
Total regulatory Own Funds	**2.628.415.511**	**2.716.598.011**
Total capital requirement	**1.134.090.186**	**1.186.721.040**
Solvency ratios		
Tier 1 solvency ratio	17,84%	17,71%
Total solvency ratio	18,54%	18,31%

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

In 2016, regulatory own funds were determined in accordance with the Basel III regulation on the basis of IFRS balance sheet equity, and including AGDL, flat-rate and immune provisions.

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, as defined by the parent company's Executive Committee, 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.

  In 2016, 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.

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.

31/12/2016 Thousands of euros	**Retail, Professional, Corporate and Public Sector Banking**	**Financial Markets and Investment Funds**	**Other**	**Reconciliation**	**Total**
Net interest margin	249.680	82.345	35.488	-1.842	365.671
Income from variable-income securities	-	11.004	33.571	-	44.575
Fee and commission income	40.247	33.235	54.938	-	128.419
External commissions	*71.273*	*48.618*	*8.529*	-	*128.419*
Internal commissions	*-31.026*	*-15.383*	*46.409*	-	-
Income from financial instruments and foreign exchange	3.855	40.532	401	-	44.788
Net Banking Income	**293.782**	**167.116**	**124.397**	**-1.842**	**583.453**
Other operating income and expenses	-	39	-3.285	-	-3.246
Banking income	**293.782**	**167.155**	**121.112**	**-1.842**	**580.207**
General administrative expenses plus valuation allowances in respect of intangible and tangible assets	-175.146	-32.000	-107.612	-	-314.758
Net allowances for valuation and impairment	-8.170	9.007	10.946	-	11.784
Other	-	338	-	-	338
Income before tax	**110.466**	**144.501**	**24.446**	**-1.842**	**277.571**
Tax on income for the period and deferred taxes	-	-	-45.016	-	-45.016
Minority interests / income from associates	-	-2.025	29.262	-	27.238
Income/(loss)	**110.466**	**142.476**	**8.693**	**-1.842**	**259.793**
Assets	**17.806.317**	**24.769.123**	**893.186**	**-**	**43.468.625**
Liabilities	**25.518.738**	**14.943.248**	**3.008.481**	**-1.842**	**43.468.625**

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**

Net banking income in thousands of euros	**31/12/2015**	**31/12/2016**
Deposits from private customers, business customers, corporates and the public sector	78.458	41.200
Loans and receivables to private customers, business customers, corporates and the public sector	180.939	210.590
Other products for private customers, business customers, corporates and the public sector	48.429	41.992
Other products	333.983	289.671

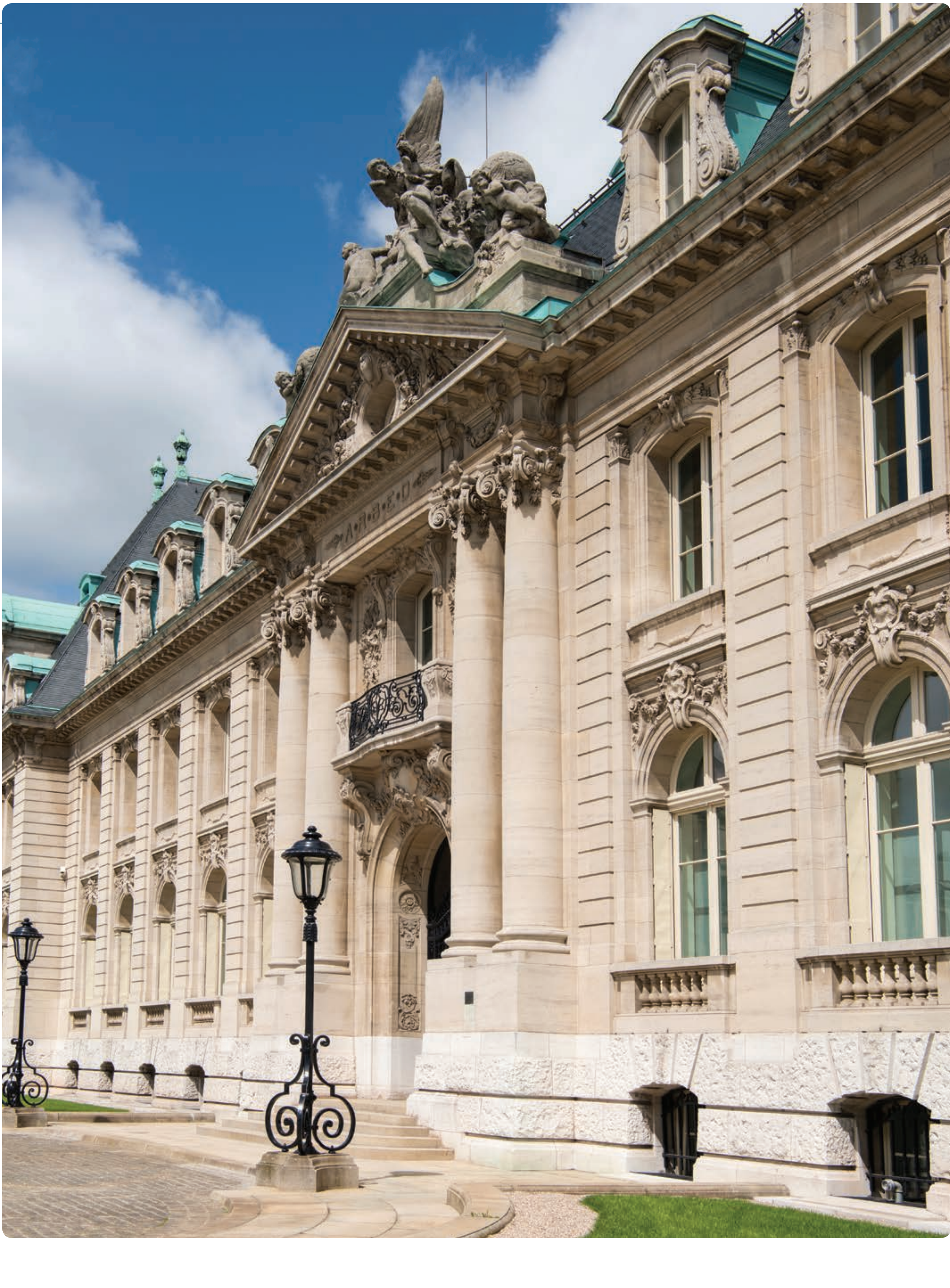
6 ORGANISATION CHART OF THE BANK (as at 1 March 2017)

EXECUTIVE COMMITTEE

Françoise THOMA	Chief Executive Officer President of the Executive Committee
Michel BIREL	Deputy Chief Executive Officer
Aly KOHLL	Executive Vice President and Member of the Executive Committee
Guy ROSSELJONG	Executive Vice President and Member of the Executive Committee
Romain WEHLES	Executive Vice President and Member of the Executive Committee

- Internal Audit – Jean-Nico SCHAMBOURG
- Compliance – Frank MOSAR
- Risk Management – Jean-Claude WILMES

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 **Norbert BRAUSCH**	Corporate Banking Norbert BRAUSCH			
Financial Markets **Claude ORIGER**	Financial Markets Claude ORIGER			
Legal **Joseph DELHAYE**	Juridique et Contentieux Joseph DELHAYE			
Loans and Credits **Christian SCHOTT**	Crédits aux Professionnels Christian SCHOTT	Crédits aux Particuliers Jean THEIN		
Financial Reporting **Doris ENGEL**	Compt. Centrale et Budgétisation Doris ENGEL	Administration des Marchés Financiers Jean LAUX	Securities Alex REVELANT	
Institutional Clients **Paolo VINCIARELLI**	Correspondent Banking and Control Luc HIERONIMY	Institutional Relationship Manag. Alain UHRES	Operations and Support Michel KIEFFER	
Operations **Marc ANDRE**	Organisation Marc ANDRE	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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