ANNUAL REPORT 2019

164th Financial Year

SPUERKEESS

SPUERKEESS.LU

BANQUE ET CAISSE D’ÉPARGNE DE L’ÉTAT, LUXEMBOURG

Head office:
1, Place de Metz, Luxembourg

Luxembourg Trade and Companies Register (R.C.S.): B 30775

Self-governing public institution, established pursuant to the law of 21 February 1856 (Memorandum 1, no. 6 of 10 March 1856) and governed by the constitutional law of 24 March 1989 (Memorandum A, no. 16 of 28 March 1989)

2019 Audited Consolidated Financial Statements

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BANQUE ET CAISSE D’EPARGNE DE L’ETAT,
LUXEMBOURG

STATEMENT ON THE COMPLIANCE
OF THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

Luxembourg, 25 March 2020

Re: **Statement on the compliance of the consolidated financial statements and management report in accordance with the provisions of article 3 of the coordinated version of the Luxembourg transparency law ("Loi Transparence") of 11 January 2008**

We hereby declare that, to the best of our knowledge, the consolidated financial statements of Banque et Caisse d'Epargne de l'Etat, Luxembourg as at 31 December 2019 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 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

Doris Engel	Françoise Thoma
Executive Vice President	Chief Executive Officer
Member of the Executive Committee	President of the Executive Committee

BANQUE ET CAISSE D'EPARGNE DE L'ETAT, LUXEMBOURG

CONSOLIDATED MANAGEMENT REPORT
31 December 2019

SPUERKEESS GROUP CONSOLIDATED MANAGEMENT REPORT

The Spuerkeess Group comprises Spuerkeess, Luxembourg as the parent company and its fully consolidated subsidiaries and associates consolidated using the equity method.

INCREASED ACTIVITY IN PRIVATE AND CORPORATE BANKING

Private Banking

Spuerkeess continued to invest heavily in 2019 in infrastructure designed to give its customers the best possible welcome and service.

While the Merl-Belair, Bettembourg, Bonnevoie and Mersch branches have been upgraded and adapted to customers' current needs, Spuerkeess took advantage of the opening of the Cloche d'Or shopping centre to create new branch for the modern era.

Our branches' new interior, where technology and ambiance work in harmony, offers a warm welcome and specially designed spaces for friendly, private discussions.
Additional local service was provided through the Mobile Branch, which regularly serves five villages in various parts of the country, and the presence of mobile automated teller machines (ATMs) at 16 major events over the course of 2019.

In addition to installing a B-BOX in Lorentzweiler, Spuerkeess made improvements to a number of ATM locations across the country. With new interfaces and cash deposit and withdrawal features on several models, Spuerkeess's ATMs now offer a choice of denominations and a supply of the most common currencies 24/7.

Spuerkeess takes advantage of technological innovations to give its customers access to state-of-the-art tools that help them manage their finances. For instance, the ongoing development of S-Net and S-Net Mobile enhances the customer experience by allowing users to check their accounts at other banks and providing a simulator for loans and project financing plans. In terms of daily management, customers can now schedule appointments, manage their credit cards and update their personal data online.

The Bank also launched a new branch, "Spuerkeess Direct", where specially trained agents can be reached only by telephone or digitally. The quality and speed of the service provided at this centre of expertise thus meet the expectations of a demanding customer base seeking personal and efficient remote support.

Since 2019, Spuerkeess customers have been able to make in-store or online purchases using their Apple devices with Apple Pay, even if they do not have a physical credit card.

In an effort to continually improve customer support, the service provided by advisors has been optimised with the rollout of a number of new digital tools that they can use in the branches. Individual and tailored support is therefore provided with a focus on the customer's needs.

In terms of current account management, the number of individuals with a Spuerkeess ZEBRA or ZEBRA Premium package rose by 6,4% in 2019. At the same time, the number of customers who took advantage of the ZEBRA Business package for professional and institutional clients increased by 8,6%.

The Bank, as the Luxembourg financial centre's leader in housing loans, with volumes up 6,1%, continues to adapt to ongoing market developments while creating synergies with the various real estate sector professionals. Particularly close attention is paid to the quality of advice provided on housing by its dedicated advisors. In parallel, Spuerkeess continues to support young people with a 6,9% increase in student loans.

The Bank worked with its partner Lalux to launch a supplemental pension insurance product to support self-employed customers seeking to accumulate private pension capital while enjoying significant tax benefits over the course of their working life.

The "Lease Plus" private leasing solution, designed to finance private use vehicles, was launched at the end of 2018. This new financing solution gives customers an added layer of security: the Leaseplan partner covers regular maintenance and incidental expenses and also provides protection against uncertainties related to the residual value of the vehicle in a fast-changing automotive market.

Spuerkeess also developed a special offer for expat customers newly arrived in Luxembourg. Given these customers' specific needs and consistent with the Bank's goal of providing high-quality, customised assistance to all its clients, this new offer is marketed by dedicated representatives who can best advise and support this particular segment.

Private Banking continued to expand by retaining existing customers and winning new domestic and international customers in search of a stable and expert banking partner. This strategy is consistent with its business model.

The primary Private Banking expansion priorities concern various strategic pillars. Three key pillars of Private Banking's success are offering a solution, not a product; providing value-added asset management; and promoting the customer experience.

Customers are offered tailored solutions for every type of investor. For instance, investors looking to make their own decisions without an advisor and to manage the contents of their portfolios autonomously can take advantage of the Selfinvest offer. In parallel, a number of solutions are suitable for customers seeking investment advice or discretionary management of their portfolio. The Activinvest and Activinvest+ offers thus enable customers to monitor and approve investment proposals while the Activmandate service is a management mandate under which a team of experts makes investment decisions in accordance with the customer's investor profile.

Spuerkeess has also formed a discretionary management partnership with ODDO BHF, a Franco-German financial group. This partnership makes it possible to provide customers with high value-added services and to combine the best of both worlds: the soundness and security of Spuerkeess, whose highly qualified and experienced advisors handle customer relations, and the expertise and know-how of ODDO-BHF, which is responsible for the investment strategy.

To meet the needs of high net worth individuals seeking specific investment services, Private Banking worked with BCEE-Asset Management to develop an "à la carte" management offer.
Thanks to an investment assistance tool and the integration of sophisticated technical solutions in the advisory activity, advisors can monitor and manage customer portfolios on a daily basis in relation to centrally managed model portfolios. The result is active advice and optimised performance.

Corporate and Public Sector

In 2019, funding granted by Spuerkeess to Luxembourg companies was once again well above the EUR 2 billion mark.
Efforts were made throughout the year to significantly enhance the synergies between Corporate Banking and Private Banking. Spuerkeess intends to offer a global financing and investment solution suitable for both companies and entrepreneurs.
Alongside companies active in various sectors of the Luxembourg economy that the Bank has backed for many years, Spuerkeess plans to further increase its support for innovative and newly created companies. The Bank thus signed a collaboration agreement with Nyuko to promote entrepreneurship and start-up creation. This initiative targets companies active in new technologies as well as those operating in the traditional trade and craft sectors.
The support provided by Nyuko covers both the business component and the need for financing: entrepreneurs' ideas and business plans are analysed then put to the test by Nyuko before being referred to Spuerkeess's SME advisors who specialise in support for entrepreneurs. Spuerkeess and Nyuko are well aware of the importance of entrepreneurship as an economic driver and job creator and, with that in mind, launched a special "Welcome Entrepreneurs" package to support business creators as they take their first steps towards their new life.
In the area of financing for public and similar institutions, Spuerkeess continues to defend its position as leader and preferred partner of the public sector.

REVENUE PERFORMANCE BY INSTITUTIONAL CLIENTS AND FINANCIAL MARKETS

Institutional Clients

Institutional clients, such as banks, financial sector professionals, investment funds, and government and supranational institutions, are served by the "Institutional Clients" department. This department also carries out correspondent banking activities and, as such, manages the network of cash correspondents and securities sub-custodians.

At 31 December 2019, the department's total assets stood at EUR 69,1 billion, including EUR 46 billion in third-party assets in the form of securities and EUR 13,6 billion in liquid funds.
Private Equity fund assets reached EUR 9,6 billion.

Volumes rose sharply in 2019, mainly due to the upward trend in the stock markets and new customer acquisition. Customer deposits rose 28,5%, while liquid funds remained stable, mainly due to changes in the behaviour of supranational and state customers. There was an increase in assets for all types of customers, but the largest increase was among investment fund customers. Growth was also robust in the custodian bank activity for Private Equity entities due to increased customer demand for this type of product.

As of 31 December 2019, there were six open-end investment funds in the in-house lux|funds range, totalling 26 sub-funds and representing EUR 3,4 billion in total assets.

Lux-Bond Green, a sub-fund of the Lux-Bond bond fund, was launched, in line with Spuerkeess's commitment to sustainable development. This new sub-fund invests in bond issues that support projects with a positive impact on climate change, as defined in the Paris Agreement.

Financial Markets

The treasury activity remained strong in 2019. Interbank volumes were fairly stable during the year, as was the refinancing programme trend.

The Bank maintained the volume, high credit quality and liquidity of its bond investment portfolio. Loans and advances to credit institutions also increased in 2019 to EUR 3 billion.

In order to improve the performance of cash transactions and reduce their credit risk, Spuerkeess continued to make use of derivatives. At the end of 2019, outstanding foreign exchange swaps and forward transactions amounted to more than EUR 15,0 billion. At the same date, outstanding interest rate swaps (IRS) and cross currency interest rate swaps (CIRS) totalled EUR 13,6 billion. Loans totalling EUR 1,0 billion were guaranteed by eurozone public debt securities as part of repurchase agreements.

The key events of 2019 on the financial markets were as follows: a strong stock market performance, despite the economic downturn in developed countries and in China; and a new wave of cuts to key interest rates in developed countries. After the significant decline in the major stock indices at the end of 2018, the market did not disappoint. Investors benefited from a strong performance in 2019, mainly due to policies implemented by the central banks in the US and Europe to combat the downturn.

More specifically, the European Central Bank cut the deposit rate from -0,40% to -0,50% and resumed its bond purchase programme on the secondary market. It took these actions to boost growth and counteract the decline in inflation, which fell from 1,8% in 2018 to 1% at the end of 2019. As a result, refinancing conditions for eurozone companies and banks improved and bond yields declined.

The Federal Reserve cut rates three times to support growth in US gross domestic product (GDP) amid the US/China trade war.

The foreign exchange market was characterised by the strength of the US dollar against most developed country currencies. Thus, the USD appreciated slightly against the EUR, moving from 1,15 in January to 1,10 in early December 2019. Only the Japanese yen was able to stand up to the USD with a higher level of appreciation. The pound sterling, not surprisingly, had another very volatile year. It hit a low against the EUR of 0,93 before starting to appreciate sharply during the year to end at about 0,85.

RISK MANAGEMENT POLICY

To ensure effective management of risk at all levels, Spuerkeess has implemented governance based on the concept of the three lines of defence.

The Bank has an independent Risk Management function, which reports directly to the Executive Committee, as does the Compliance function. These two functions provide the second line of defence in the Spuerkeess governance model, while the "Internal Audit" function represents the third line of defence and, as such, like the Risk Management and Compliance functions, has a dual reporting line to the Executive Committee and the Board of Directors.

The Bank has opted for a "defensive" risk profile defined in the "Risk Appetite Framework" (RAF). The RAF includes indicators of the Bank's major risk categories and enables the Executive Committee and the Board of Directors to regularly monitor Spuerkeess's overall risk situation in detail. Risk appetite is defined as the level of risk that Spuerkeess is willing and able to bear while ensuring it can pursue its strategic objectives. The levels of risk to which Bank is exposed are measured using a set of strategic indicators, operational metrics, and macroeconomic indicators. Risk appetite is defined through

surveillance levels set for the different indicators and transposed into a set of limits intended to manage and control Spuerkeess's various risks.

Risk management is described in detail in note 6 to the financial statements as at 31 December 2019. This chapter is subdivided into several major risk categories.

Risk management is supervised by various working groups and committees, including the Risk Management Committee at the Executive Committee level and the Risk Committee at the Board of Directors level.

Credit risk

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

Each material Bank commitment giving rise to a credit risk is subject to prior analysis of the borrower's credit quality by the "Loans and Credit" Department. The borrower'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.

The Risk Management function is responsible for the initial and recurrent validation of all internal rating models, but without any involvement in the day-to-day management of credit files, thus ensuring independence from the business units.

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. Credit risk is assessed on the basis of customers' general creditworthiness and through the process of assessing their ability to repay loans or the existence of collateral.
A majority of counterparties in the international portfolio are still 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 Organisation for Economic Co-operation and Development (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 reviewed annually.

The European Market Infrastructure Regulation (EMIR) aims to reduce bilateral counterparty risk by requiring the use of Central Counterparty Clearing (CCP) 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 arising from structural mismatches between the maturities of resources and the use made of those resources in the Bank's balance sheet, and the risk associated with cash management and trading activities.

Mismatch risk is handled by the Asset Liability Management (ALM) Committee, composed of members of the Executive Committee, several commercial department heads, and the heads of the Loans and Credit and Accounting departments and of the Risk Management unit. 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 Working Group, which meets monthly.

Interest Rate Risk in the Banking Book (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"). After the tool selection phase in 2016, 2017 was devoted to implementation of the new system. In the first half of 2018, the tool was used for the first time for the production of interest rate risk indicators; it has since been supplemented by other applications and calculations, like interest rate risk management.

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 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, Spuerkeess has, since 2015, published its liquidity coverage ratio (LCR), intended to ensure sufficient 30-day liquidity. At 31 December 2019, the LCR was 142%, well above the minimum threshold of 100%. Moreover, Spuerkeess is aiming to maintain an LCR level far above the regulatory minimum. The Net Stable Funding Ratio (NSFR), intended to ensure sufficient one-year liquidity, entered into force on 1 January 2018 and is also one of the indicators tracked in the Risk Appetite Framework. The NSFR at 31 December 2019 was 111,9%.

Leverage ratio

The leverage ratio measures the proportion of core capital to the Bank's exposures without taking collateral into account and adding off-balance-sheet commitments. In exact terms, this is the ratio of "CET 1 capital / Balance sheet sum and weighted off-balance-sheet commitments". This ratio is not based on the risk represented by the various exposures but is an additional tool intended to limit the use of excessive leverage in the banking sector. Spuerkeess's leverage ratio stood at 7,9% as at 31 December 2019, well above the regulatory minimum of 3,0%.

Operational risk

The roles and responsibilities of the control functions as well as the first line of defence are clearly highlighted in the Operational Risk Management Policy. The guidelines as well as the ultimate supervision and definition of operational risk appetite come directly from the Board of Directors, and implementation is ensured by the Executive Committee.

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

IT/cyber risk

The ICT Risk Management Policy outlines IT and cyber risk governance. A separate entity was established within the Risk Management function in 2019 to help manage the IT and cyber risks generated by the Bank's activities. An Information Security Officer is responsible for overseeing IT security, reports to the head of the Risk Management function and has a direct reporting line to the Chief Risk Officer. This IT and cyber risk management structure allows the Bank to operate within the limits set by the risk appetite.

AML/FT risk

As part of the fight against money laundering and the financing of terrorism (AML/FT), the Compliance unit performs analyses of customers or groups of customers if there are any doubts or suspicions about a transaction's legality or legitimacy.

Based on the results of these analyses and the seriousness of the facts, the Compliance unit will take any necessary measures. This may result in the closure of the matter, closer monitoring of transactions, the filing of a suspicious activity report with the Prosecutor’s Office, or even the termination of the business relationship.

Compliance risk reporting and management

The Compliance unit, together with the Bank's units, has mapped compliance risks with the aim of reflecting Spuerkeess’s exposure to these risks as they relate to its banking and financial activities.

Based on the compliance risk mapping and the changes in the regulatory landscape, the Compliance unit is developing a multi-year permanent and periodic control plan. The general permanent controls, combined with periodic controls by regulatory topic or business activity, help ensure compliance with the legal and regulatory requirements applicable to Spuerkeess’s activities.

Regulatory watch

The Compliance unit carries out its regulatory watch by means of heatmaps that address the regulatory themes affecting Spuerkeess based on their respective degree of risk and complexity.

Internal fraud risk management

Managing internal fraud risk requires prevention and supervision. Thus, staff are actively educated on the importance of complying with the current Code of Conduct, conflict of interest policy and whistleblowing procedure.
The Compliance unit, in conjunction with the department heads, maintains a conflict of interest register to ensure conflict of interest management. Employee transactions are also monitored.

Data Protection

The creation of the Data Protection Office (DPO) allowed the Bank to centrally manage data protection. The DPO thus plays an active role in developing new products and all kinds of projects by analysing their data protection aspects and making suggestions.

Financial risk and hedge accounting

The consolidated financial statements of the Spuerkeess Group have been prepared in accordance with IFRS as adopted by the European Union and comprise the financial statements of the Bank, subsidiaries, and special purpose entities over which the Group 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.

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 and, secondarily, cash flow hedges. Beyond these contract-by-contract hedges, the Bank 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. This hedging is done exclusively using IRS financial instruments. In accordance with IFRS 9, the Bank continues to apply hedging principles according to the old IAS 39.

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 expenses, and verifies the completeness of the information gathered through different IT applications before being fed into the accounting information system. The Bank reconciles the balances of pending accounts, interest accrual accounts and other internal accounts on a monthly basis.

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

The accounting and risk management departments work in close cooperation to evaluate portfolio positions or to calculate valuation allowances for assets showing evidence of impairment. Since the introduction of IFRS 9, the impairment model for financial assets has been based on the recognition of expected losses. The calculation is performed monthly.

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 16 "Leases"

IFRS 16 "Leases" replaced the current IAS 17 of the same name as from 1 January 2019. IFRS 16 mainly introduces a single accounting treatment for leasing. While the new standard continues to distinguish between operating and finance leases for lessors and does not introduce any accounting changes for lessors, it removes this distinction for leases where the entity is a lessee.

Under IFRS 16, all leasing operations will require recognition of a "right-of-use asset" and a "lease liability" on the asset side and the liability side of the balance sheet respectively.

The Bank has identified all leases that require capitalisation under IFRS 16. These primarily consist of leases on buildings, parking spaces and locations for automatic teller machines.

Brexit

In a referendum held on 23 June 2016 in the United Kingdom, a majority voted in favour of the country's exit from the European Union, and the leave process officially started on 29 March 2017 when the British government triggered Article 50 of the Lisbon Treaty. After several postponements, the United Kingdom exited the European Union on 31 January 2020, with a transitional period that is due to last until at least 31 December 2020.

The Bank has taken all necessary steps to ensure the continuity of its activities and its services for customers, including customers residing in the United Kingdom, with a transitional period that is due to last until at least 31 December 2020.

Compliance with the CRR

Spuerkeess 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 risk categories.

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 financial year 2019, which details how the Bank is organised to ensure that all the risks to which the institution is or could be exposed are anticipated, detected, measured, controlled and reported, is available on the Bank's website.

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. Spuerkeess continues its efforts to improve its systems and processes in order to adapt to market developments and increase its efficiency.

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

Regulatory activities

Spuerkeess's teams paid particularly close attention to a number of regulatory issues during financial year 2019:

1. Directive on Administrative Cooperation (DAC6) – 2018/882 EU

The new European directive on administrative cooperation, referred to as "DAC6", expands the scope of application of the mandatory automatic exchange of information.
This new directive, applicable to individuals and companies with respect to direct taxes, requires that the tax authorities of Member States be notified of cross-border transactions with certain features referred to as "hallmarks", which are indicators of aggressive tax planning. In addition to its dissuasive purpose, the directive aims to make it easier to quickly identify tax planning transactions.

The first steps towards compliance were taken in 2019 and the work should be completed on schedule.

2. Fifth Anti-Money Laundering Directive

Now that the fifth AML directive has been adopted, preparations are underway for its transposition into Luxembourg law. A number of changes have already been identified, such as:

- Expansion of the categories of subject persons;
- Prevention of risks related to the use of virtual currency;
- Strengthening and standardisation of the treatment applicable to countries the European Commission considers to be high risk;
- Clarifications on entering into business relationships remotely.

As the Luxembourg legislature has already anticipated the effects of this new directive in the national legislation, the changes that will now have to be made will have a limited impact on the Bank.

3. Green Finance

In light of the scientific research on climate change and after ratifying the 2016 Paris Agreement, the European Commission launched an effort to encourage the financial sector to participate in the energy transition in order to make the EU the first climate-neutral bloc worldwide by 2050.

Given the importance of the new environmental and social issues, Spuerkeess intends to fulfil its responsibilities as a responsible financial actor. As the leading Luxembourg financial centre bank, in October 2019 Spuerkeess thus signed on to the United Nations Principles for Responsible Banking (UNEP FI), demonstrating its commitment to stepping up its efforts to implement environmental, social and governance (ESG) criteria. These efforts target implementation of a financing strategy for the energy transition with the twofold objective of making a significant contribution to the international fight against climate change and strengthening Spuerkeess's role as the national leader in sustainable finance.

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, Spuerkeess holds equity interests, directly or indirectly, in key sectors of Luxembourg's economy. It also supports the start-up and development of businesses with a national interest.

Since 1989, Spuerkeess has been a 40,0% shareholder of the Lalux group. In addition, 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.

In collaboration with three other players in the Luxembourg financial centre, Spuerkeess participated in the 2018 creation of LuxHub S.A., in which it holds 32,5% of the capital.

Media and telecommunications are 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% interest in the share capital of SES S.A. in the form of Class B shares. These Class B shares grant a voting right corresponding to this stake, in accordance with the "one share, one vote" principle. Spuerkeess also holds Class A shares representing 0,82% of the share capital of SES S.A. The Class A shares also grant a voting right corresponding to this stake, in accordance with the "one share, one vote" principle. In terms of the economic right, SES S.A.'s by-laws specify that a Class B share gives the holder the right to a dividend that is 40% of the dividend paid for a Class A SES S.A. share.

In the air transport sector, Spuerkeess 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 also holds a 12,0% stake in the capital of Encevo S.A., the holding company for Luxembourg's market-leading energy group, and an 11% stake in Paul Wurth S.A.

Through its 11,0% stake in the capital of Société Nationale des Habitations à Bon Marché S.A. (S.N.H.B.M.), a national player specialising in the design and construction of single-family homes and apartment buildings at affordable prices and under long-term leases, Spuerkeess is fulfilling its social mission of facilitating home ownership for personal needs.

In addition to these major shareholdings, Spuerkeess actively supports the country's economic development by acquiring smaller stakes in Luxembourg companies active in a wide range of sectors.

Human resources

Because a strong employer/employee relationship is key to a company's success, Spuerkeess continues its efforts as a socially responsible employer and remains attentive to its employees in order to support their personal and professional development.
Through continued professional development that meets the needs identified by staff members and the human resources department, targeted internal mobility, and measures that promote a good work/life balance, Spuerkeess creates a collegial and dynamic work environment with a special emphasis on engaging all employees.
One of the Bank's major concerns is promoting and protecting the health, well-being and safety at work of its staff. Spuerkeess is expressly committed to these values and discusses them in greater detail in its non-financial report.

In a fast-changing work environment where digitalisation is on the rise and the regulatory framework is increasingly demanding, the Bank is preparing for the future right now so it will be able to meet the challenges not only of today but also in the years to come. Thus, in 2019, Spuerkeess launched a cross-functional project called "CONNECT" as part of the Bank's digital transformation. The project aims to collaborate with employees to find solutions to optimise the products and services offered, as well as the Bank's own internal processes. Against this backdrop, Spuerkeess held a hackathon in November to give employees an opportunity to present their best ideas to a jury that included two members of the Executive Committee. Four ideas were then selected for implementation by the Bank's IT teams. The CONNECT concept allowed Spuerkeess staff to play an active role in modernising the Bank's activities.

To play a meaningful role in the digital transformation process, team leaders need to provide outstanding support and competent management to guide all employees towards achieving the targets set at both the individual and group level. An ambitious leadership programme is thus being developed in order to optimise working relationships in a changing environment and promote a rewarding employee experience that is aligned with Spuerkeess's needs.

The Bank offers a wide range of career opportunities. The systematic, proactive use of internal mobility provides optimal guidance for the Bank's staff based on newly developed professional skills at the individual level while also taking the transformation of the various business lines into account.
All these efforts have been recognised internally and externally and have been confirmed by the low turnover rate, large number of high-quality applicants for the job offers posted, and very high position in the ranking of Luxembourg's most attractive employers.

In 2019, Spuerkeess hired 68 new employees, including 22 women and 46 men.

Corporate social responsibility (CSR)

Since 2017, Spuerkeess has published a non-financial report in accordance with the "GRI Standard" detailing the Bank's strategy and activities in the area of Corporate Social Responsibility (CSR).

Cultural, sponsorship and patronage activities

Spuerkeess has traditionally supported actions promoting culture, sports, the environment, and social welfare. Together with its partners, the Bank has made a proactive commitment to various initiatives and events that exemplify its values and ethical considerations.

Numerous events and conferences on topical issues and financial questions were held in 2019 in the prestigious setting of the "19 Liberté" Banking Centre, at the Rousegäertchen Banking Centre and in non-Bank locations.

Spuerkeess continues to demonstrate its cultural commitment by organising exhibits at its 'Am Tunnel' Contemporary Art Gallery, where it showcases artists from Luxembourg and abroad.

Similarly, the Bank Museum, which traces the history of Luxembourg's financial centre and of Spuerkeess since 1856, continued in 2019 to spark great interest, particularly among Luxembourg and foreign student groups.

THE BANK'S FINANCIAL RESULTS AT 31 DECEMBER 2019

At EUR 588,5 million as of 31 December 2019, the Group's banking income was up EUR 77,8 million (15,2%) compared with the 2018 financial year.

Net interest margin increased by 5,9%, due to higher business volumes and the adjustment of certain rates to market conditions and to the scope of the monitoring and control work specific to certain products. However, the still low, if not negative, interest rate environment continued to have an adverse impact on retail banks' opportunities for investment and maturity swapping.

Fee income was up 6,4% due to the increase in fees from loans and payments as well as from asset management thanks to the development of the new ActivInvest advisory packages.

Other operating income and expenses fell to -EUR 18,3 million at year-end 2019 from -EUR 28,6 million at the end of 2018. The nature of its composition makes this item volatile and the change is due to specific non-recurring factors.

Spuerkeess made its contribution to the national compartment of the *Fonds de Résolution Luxembourg* (Luxembourg resolution fund, or FRL), which has gradually merged over an eight-year period with the single resolution fund established by the Single Resolution Mechanism (SRM). The contribution to the FRL, like the contribution to the *Fonds de garantie des dépôts Luxembourg* (Luxembourg deposit guarantee fund, or FGDL), is recognised in the income statement on the Other Operating Income and Expenses line.

Total general expenses rose by 4,3% due to the increase in personnel expenses resulting from the transposition of the civil service wage agreement, wage indexation in August 2018 and the increase in allowances for impairment of tangible and intangible assets stemming from the substantial investments in IT and the new amortisation of leases following the entry into force of IFRS 16.

The resolution of certain loans in default, for which an allowance for impairment was recognised, enabled the Bank to record write-backs of net allowances for impairment of individual credit risks totalling EUR 7,2 million in 2019. The total amount of provisions for risks and charges was EUR 1,6 million in 2019.

In view of the above, the Group posted a net profit of EUR 206,3 million for the 2019 financial year, up EUR 47,4 million (29,8%) from a net profit of EUR 158,9 million in the prior year.

ANALYSIS OF MAIN BALANCE SHEET ITEMS

The balance sheet totalled EUR 47.903,8 million at 31 December 2019, an increase of EUR 1.920,2 million compared with 31 December 2018, mainly due to the increase in deposits from non-bank customers.

On the asset side of the balance sheet, "Cash and sight accounts with central banks" rose by EUR 1.095,9 million to EUR 5.333,1 million, mainly because of the increase in sight assets deposited with other banks.

The outstanding amount of fixed-income securities recognised at amortised cost was EUR 13.483,0 million, a decrease of EUR 743,7 million compared with 31 December 2018. This reflected the lack of opportunities to replace maturing securities on a low-yield bond market.

The outstanding amount of financial assets mandatorily recognised at fair value through profit or loss totalled EUR 1.234,4 million, a decrease of EUR 0,5 million compared with 31 December 2018. This item includes financial instruments that do not qualify for measurement at amortised cost and are therefore to be measured at fair value through profit or loss.

The outstanding amount of variable-income securities recognised at fair value through the revaluation reserve was EUR 820,7 million, a decrease of EUR 42,7 million compared with 31 December 2018, due to the decline in the stock prices of certain shareholdings and, secondarily, to the movements in and out during the year.

Compared with 31 December 2018, the outstanding amount of loans to credit institutions increased by EUR 419,5 million to EUR 3.000,1 million at 31 December 2019. This item also includes the Bank's deposits with other banks, whether or not they are collateralised with securities.

Outstanding customer loans totalled EUR 22.857,1 million at 31 December 2019, an increase of EUR 1.060,9 million since 31 December 2018. The increase was driven by the development of the housing loan and corporate loan businesses, illustrating the continued desire of Spuerkeess to support the projects of individuals and businesses in the country.

On the liabilities side of the balance sheet, issues of securities increased by EUR 183,1 million to EUR 3.981,2 million. This increase was due to market demand for the Euro Commercial Paper (ECP) and US Commercial Paper (USCP) refinancing programmes issued by the Bank.

Credit institution deposits decreased by EUR 148,8 million to EUR 4.692,0 million. This item also includes the Bank's loans from other banks, whether or not they are collateralised with securities.

Customer deposits totalled EUR 33.379,7 million, an increase of EUR 1.502,5 million. This growth was driven by strong inflows of deposits from corporates and individuals. Public sector deposits decreased significantly, as changes in this item are more volatile and depend on the State's needs and cash management policy.

In accordance with Article 38-4 of the Law on the Financial Sector, as amended on 5 April 1993, the Bank reported its return on assets, which stood at 0,43% for financial year 2019 versus a return of 0,38% in the prior year.

CHANGE IN OWN FUNDS

The Spuerkeess Group's total equity attributable to owners of the parent company amounted to EUR 4.414,2 million as at 31 December 2019 compared with EUR 4.346,8 million at the end of 2018, i.e. an increase of 1,5%.

This increase in equity of EUR 67,3 million was due to an increase in consolidated reserves of EUR 97,6 million, an increase in income of EUR 47,4 million and a decrease in actuarial gains and losses on the pension fund of EUR 82,9 million.

2020 OUTLOOK

Amid a slowing global economy, at a time when the outlook for 2020 is uncertain and the central banks are extremely cautious, interest rates are likely to remain at an all-time low and will continue to have a significant impact on credit institutions' interest margins.

The entry into force of the second Payment Services directive in 2019, which opens the single payment

market up to non-financial institution players, prompted significant innovation by traditional banks, which have seen the new entrants on the market try to lure their customers away. This is the 2020 context in which Spuerkeess will continue to implement the digital transformation project it began in 2019. The Bank will thus seek to use digital channels to develop innovative financial products and services for its customers.

Given its strong identity as a responsible financial actor, Spuerkeess also intends to actively support the sustainable development of the Luxembourg economy and contribute to the ecological transition in accordance with the Paris Climate Agreement. ESG principles are therefore critical to the development of the 2025 strategic plan to fully meet the requirements of the UNEP FI Principles for Responsible Banking, which the Bank signed on to in 2019 as the leading Luxembourg financial centre bank.

Similarly, the Executive Committee confirms that the Bank will continue to fully assume its mission of supporting the national economy in 2020.

EVENTS AFTER THE REPORTING PERIOD

Spuerkeess is aware of the need to take immediate concrete measures to fulfil its key role in supporting companies dealing with unprecedented impacts. It will participate in the measures to support the national economy and will take them into account when analysing loan applications. It will take care to maintain its balance sheet equilibrium and monitor its liquidity and capital ratios at a time when demand for credit will increase significantly in the medium term.

Spuerkeess is closely monitoring developments in the international financial markets, which trended down in March 2020 between announcements on the spread of the SARS-CoV-2 virus and the collapse in oil prices. The Bank confirms that these downward movements are having a significant impact on the valuation of balance sheet positions measured at fair value, and more specifically on the valuation of some of its shareholdings, but that they have not affected the normal course of business.

The Bank also confirms that its business continuity plan has been implemented with the goal of ensuring a presence on the financial markets and seamless service to its customers during the pandemic that emerged in the first quarter of 2020.

Luxembourg, 25 March 2020

For the Executive Committee

Doris Engel Executive Vice President Member of the Executive Committee	Françoise Thoma Chief Executive Officer President of the Executive Committee

BANQUE ET CAISSE D'EPARGNE DE L'ETAT, LUXEMBOURG

STATUTORY AUDITOR'S REPORT
31 December 2019

REPORT OF THE “REVISEUR D’ENTREPRISES AGREE”

To the Executive Committee of
Banque et Caisse d’Epargne de l’Etat, Luxembourg
1, place de Metz
L-2954 Luxembourg

Report on the audit of the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Banque et Caisse d’Epargne de l’Etat, Luxembourg, (the “Bank”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated annual accounts, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated annual accounts give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the “Commission de Surveillance du Secteur Financier” (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the section « Responsibilities of “Réviseur d’Entreprises Agréé” for the Audit of the Consolidated Annual Accounts » of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated annual accounts, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts of the current year. These matters were addressed in the context of the audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and valuation of fixed income financial instruments and valuation of derivative instruments

Fixed income financial instruments and derivatives held by the Bank are presented in the annual accounts as financial instruments held for trading, hedging derivative financial instruments, financial assets mandatorily at fair value through the statement of profit and loss, fixed income financial instruments at fair value through the other comprehensive income and fixed income securities at amortized cost. As of 31 December 2019, these instruments represent a net book value of EUR 14,9 billion, representing 31,2% of the balance sheet of the Bank.

According to the requirements of the IFRS 9 standard related to the classification and measurement of financial assets, fixed income financial instruments have to be recorded at amortized cost or at fair value, depending upon their classification. This classification depends on the management intention ("business model") and the outcome of the "SPPI" (Solely Payments of Principal and Interest) test which determines the measurement method to be used.

The other fixed income instruments and derivative instruments are classified at fair value in other portfolios. The fair value measurement of fixed income financial instruments and derivatives is inherently complex due to nature of some instruments, the availability of prices on an active market and/or limited availability of observable data. For certain instruments, the limited availability of such information increases the degree of subjectivity of their valuation, therefore requiring management judgement.

As of 31 December 2019, 90,4% of the financial instruments have been measured at amortized cost and 9,6% of the other fixed income financial instruments and derivatives are measured at fair value. We consider the classification and measurement of such fixed income financial instruments and the measurement of derivative financial instruments to be a key audit matter because of their importance to the presentation and the valuation of the financial situation and the necessary degree of judgement required to determine the fair value for certain of these assets.

How the matter was addressed in our audit

In relation with the classification of fixed income financial instruments, we have verified whether the conditions established in the "Business model" of the Group are respected and have proceeded with walkthroughs and tests of controls related to the classification process (SPPI test). Also, the correct classification of these instruments in asset classes measured at amortized cost or at fair value has been verified based on a sample of such assets based on a random approach.

For financial instruments, including derivatives instruments, we have verified the effectiveness of key controls of the valuation process related to the input of such instruments in the management or accounting tools operated by the Bank and the application of appropriate valuation methods by the latter.

Financial instruments presented as assets in the balance sheet, including derivative instruments, were subject to verifications to ensure that the book values recorded by the Group have been correctly determined and recorded. For that purpose, the approach applied in determining the amortized cost has been analyzed. Financial instruments measured at fair value, as well as financial derivative instruments were subject to an independent valuation or validation of the valuation method based on a randomly selected sample.

Depreciation of loans and advances at amortized cost for “Corporate” customers

Loans and advances to “Corporate” customers represent a key activity of the Bank and are recorded in the annual accounts under the section Loans and advances at amortized cost – Customers. These loans and advances are accounted at amortized cost, less value adjustment for expected credit losses. They represent on the asset side of the balance sheet a net exposure of EUR 5,7 billion, including a balance of expected credit losses for individual risks of EUR 81,2 million.

The application of value adjustments to such instruments requires judgement by the Executive Committee which is based on a credit analysis prepared by the department in-charge of credit risk monitoring following the principles of the IFRS 9 standard regarding the determination of depreciations for expected credit losses. This calculation is based on a categorization of all credits based on the change of their internal ratings (staging) and on estimates primarily related to probabilities of defaults and effective exposures in the moment of default.

The process to determine expected credit losses is based on numerous factors and is inherently complex, and includes a certain degree of judgement in identifying quantitative and qualitative factors of a significant increase in credit risk and to determine the required levels of depreciations needed.

We have considered the depreciations of loans and advances to “Corporate” customers as a key audit matter because of the level of judgement required for their determination, the complexity of the modalities to compute value adjustments for expected credit losses as defined by the IFRS 9 standard as well as because of their importance for the presentation of the financial position and the statement of comprehensive income for the year ended 31 December 2019.

How the matter was addressed in our audit

Within the context of the audit, we proceeded with walkthroughs and test of controls related to the identification process and the monitoring process of overdue exposures of the Bank, the periodical review of such exposures, the elaboration of a list of specific provisions and consideration of others quantitative indicators, as defined by the Bank.

We made interviews with heads of departments regarding the approach applied by the Bank to proceed with the categorization of loans and advances for “Corporate” customers (staging) and to estimate the qualitative and quantitative data used as a basis for the computation of credits impairments.

We have examined the internal control environment of the Bank related to the appreciation of the level of impairment of loans and advances through interviews, the review of key controls, the review of the governance and decision-making process as well as the validation by Management of the level of specific impairment for these exposures.

For loans and advances, subject to a specific impairment, we assessed on a sample basis the reasonableness of the amount of impairment. Our procedures have, among others, included the verification of information related to the files and, where applicable, a verification that the existence and valuation of collateral was duly considered.

In addition, based on a sample of loans and advances with low internal ratings, we have ensured that the latter should not have been subject to an impairment due to particular circumstances.

Other information

The Executive Committee is responsible for the other information which is subject to the approval of the Board of Directors. The other information comprises the information included in the consolidated management report and the Corporate Governance Statement but does not include the consolidated annual accounts and our report of “Réviseur d’Entreprises Agréé” thereon.

Our opinion on the consolidated annual accounts 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 annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated annual accounts 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.

Responsibilities of the Executive Committee and the Board of Directors for the Consolidated Annual Accounts

The Executive Committee is responsible for the preparation and fair presentation of the consolidated annual accounts in accordance with IFRS as adopted by the European Union, and for such internal control as the Executive Committee determines is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error. Such consolidated annual accounts are subject to approval by the Board of Directors pursuant the organic Law of 24 March 1989.

In preparing the consolidated annual accounts, the Executive Committee is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Executive Committee either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Responsibilities of the “Réviseur d’Entreprises Agréé” for the Audit of the Consolidated Annual Accounts

The objectives of our audit are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of “Réviseur d’Entreprises Agréé” that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting

a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Committee.

- Conclude on the appropriateness of the Executive Committee use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises Agréé" to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current year and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

We have been appointed as "Réviseur d'Entreprises Agréé" by the Government of the Grand-Duché of Luxembourg on 21 June 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is two years.

The consolidated management report is consistent with the consolidated annual accounts and has been prepared in accordance with applicable legal requirements.

The corporate governance statement, included in the consolidated management report, is the responsibility of the Executive Committee. The information required by article 70bis paragraph 1 of the law of 17 June 1992 relating to the annual and consolidated accounts of credit institutions governed by the laws of Luxembourg, as amended, is consistent with the consolidated annual accounts and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014 were not provided and that we remain independent of the Group in conducting the audit.

Other subject

The declaration of the corporate governance includes the information required by the article 70 bis paragraph (1) of the modified law of 17 June 1992 related to the annual and consolidated accounts of credit institutions governed by the law of Luxembourg.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Christoph Haas

Luxembourg, 25 March 2020

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.

BANQUE ET CAISSE D'EPARGNE DE L'ETAT, LUXEMBOURG

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019

Consolidated balance sheet as at 31 December 2019

ASSETS in euros	Notes	31/12/2018	31/12/2019
Cash and sight accounts with central banks	4.1	4 237 236 592	5 333 118 189
Loans and advances at amortised cost – Credit institutions	4.2	2 580 582 943	3 000 087 638
Loans and advances at amortised cost - Customers	4.3	21 796 184 932	22 857 068 335
Financial instruments held for trading	4.4 4.12	220 216 547	143 054 603
Hedging derivative financial instruments	4.12	65 470 560	59 282 590
Financial assets mandatorily recognised at fair value through profit or loss	4.5	1 234 840 351	1 234 389 882
Fixed-income securities recognised at amortised cost	4.6	14 226 659 024	13 482 939 931
Fixed-income securities recognised at fair value through the revaluation reserve	4.7	-	16 069 764
Variable-income securities recognised at fair value through the revaluation reserve	4.8	863 396 081	820 716 989
Investments in associates accounted for using the equity method	4.9	355 552 522	387 639 750
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	4.13	69 027 154	215 762 686
Tangible assets for own use	4.14	277 961 253	282 713 923
Investment property	4.15	12 762 728	12 030 574
Intangible assets	4.16	27 475 050	29 399 062
Deferred taxes	4.17	2 273 119	20 822 906
Other assets	4.18	13 963 485	8 713 342
TOTAL ASSETS		**45 983 602 339**	**47 903 810 164**

LIABILITIES in euros	Notes	31/12/2018	31/12/2019
Deposits at amortised cost – Credit institutions	4.19	4 840 845 065	4 691 999 282
Deposits at amortised cost – Customers	4.20	31 877 149 050	33 379 682 748
Financial instruments held for trading	4.4 4.12	133 331 389	157 060 590
Hedging derivative financial instruments	4.12	606 826 289	873 308 000
Financial liabilities designated at fair value through profit or loss	4.21	151 566 706	166 144 407
Issuance of debt securities	4.22	3 646 594 429	3 815 080 561
Provisions	4.23	21 825 180	24 096 330
Other liabilities	4.24	83 759 400	41 599 116
Current taxes	4.17	46 813 738	9 820 434
Pension fund	4.25	225 285 987	328 087 363
Sub-total of LIABILITIES (before equity capital) to be carried forward		**41 633 997 232**	**43 486 878 831**

The notes on pages 37 to 157 are an integral part of these consolidated financial statements.

Consolidated balance sheet as at 31 December 2019 (continued)

EQUITY in euros	**31/12/2018**	**31/12/2019**
Sub-total of LIABILITIES (before equity capital) carried forward	**41 633 997 232**	**43 486 878 831**
Share capital	173 525 467	173 525 467
Revaluation reserve	539 724 951	
° *Variable-income securities recognised at fair value through the revaluation reserve*	*537 630 440*	
Consolidated reserves	3 474 618 717	3 572 183 229
° *Equity method adjustment*	*288 716 938*	
° *Gains or losses on disposals of variable-income securities measured at fair value*	*688 104*	
Other items of comprehensive income		462 101 584
° *Variable-income securities recognised at fair value through the revaluation reserve*		*495 789 153*
° *Actuarial gains and losses on the pension fund*		*-349 897 106*
° *Equity method adjustment*		*315 244 302*
° *Gains or losses on disposals of variable-income securities measured at fair value*		*93 912*
Income for the year	158 938 807	206 340 539
Sub-total of equity attributable to equity holders of the parent company	4 346 807 942	4 414 150 819
Minority interests	2 797 165	2 780 514
Total equity	**4 349 605 107**	**4 416 931 333**
TOTAL LIABILITIES, including EQUITY	**45 983 602 339**	**47 903 810 164**

The notes on pages 37 to 157 are an integral part of these consolidated financial statements.

Consolidated income statement as at 31 December 2019

in euros	Notes	31/12/2018	31/12/2019
Interest income	5.1	356.707.138	377.631.632
Income from securities	5.2	31.356.637	31.464.134
Fee and commission income	5.3	145.805.502	155.079.261
INCOME FROM INTEREST, DIVIDENDS AND FEES AND COMMISSIONS		**533.869.277**	**564.175.027**
Income from financial instruments not recognised at fair value through profit or loss	5.4	337.906	218.814
Income from financial instruments held for trading	5.5	5.789.730	29.749.292
Income from financial instruments designated at fair value through profit or loss	5.6	-2.612.343	-12.597.932
Income from financial instruments mandatorily measured at fair value through profit or loss	5.7	-13.366.171	8.133.065
Income from hedging transactions	5.8	2.587.336	687.008
Exchange gains or losses		12.688.151	16.473.420
Other operating income	5.9	14.141.187	12.750.617
Other operating expenditure	5.9	-42.727.204	-31.060.294
BANKING INCOME		**510.707.869**	**588.529.017**
Personnel expenses	5.10	-224.496.933	-232.623.536
Other general and administrative expenses	5.11	-86.729.345	-88.865.251
Allowances for impairment of tangible and intangible assets	5.12 5.13 5.14	-34.845.391	-39.554.570
INCOME AFTER GENERAL EXPENSES		**164.636.200**	**227.485.660**
Net allowances for impairment of individual and collective credit risks	5.15	20.235.650	7.211.690
Provisions	5.16	1.961.888	1.590.042
Share in the profit of equity-accounted associates		12.440.217	13.821.166
INCOME BEFORE TAXES AND NON-CURRENT ASSETS		**199.273.955**	**250.108.558**
Profit from non-current assets and disposal groups classified as held for sale and not qualifying as discontinued operations		258.589	1.161.187
Tax on income from continuing operations	5.17	-49.096.004	-38.394.720
Deferred taxes	5.17	10.541.836	-4.567.067
INCOME FOR THE YEAR		**160.978.376**	**208.307.958**
of which income for the year attributable to			
- minority interests		*2.039.569*	*1.967.419*
- equity holders of the parent company		*158.938.807*	*206.340.539*

The notes on pages 37 to 157 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income as at 31 December 2019

in euros	31/12/2018	31/12/2019
INCOME FOR THE YEAR	**160 978 376**	**208 307 958**
Items not reclassified in net income subsequently	**141 030 477**	**-98 075 462**
Actuarial gains/(losses) on the defined-benefit pension scheme	-44 317 761	-105 240 677
Contribution of equity-accounted associates	1 502 053	26 527 365
Variable-income securities recognised at fair value through the revaluation reserve	170 237 760	-42 032 227
° *Variation in measurement results*	*169 429 361*	*-42 126 139*
° *Income from sales*	*808 399*	*93 912*
Impact of deferred taxes	13 608 425	22 670 077
Items to be reclassified in net income subsequently	**-334 886**	**-1 187 231**
Cash flow hedges	-452 610	-1 622 062
Impact of deferred taxes	117 724	434 831
Total items of comprehensive income for the year - net of tax	**140 695 590**	**-99 262 693**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**301 673 966**	**109 045 265**
share attributable to		
- minority interests	*2 039 569*	*1 967 419*
- equity holders of the parent company	*299 634 397*	*107 077 846*

The notes on pages 37 to 157 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity as at 31 December 2019

During the 2019 financial year, the Group's parent company distributed EUR 40.000.000 (same as in 2018) from its 2018 net income to the State. Consolidated own funds were reinforced by an allocation of EUR 118.938.807 to the reserve.

in euros	Share capital	Consolidated reserves	Revaluation reserve	Other comprehensive income	Net income	Total equity owners	Minority interests	Total equity
At 1 January 2019	**173.525.467**	**3.474.618.717**	**539.724.951**	**-**	**158.938.807**	**4.346.807.942**	**2.797.165**	**4.349.605.107**
Transfert revaluation reserve	-	-	**-539.724.951**	**539.724.951**	**-**	**-**	**-**	**-**
Transfert actuarial gains/losses on defined-benefit pesnion scheme	-	**267.041.654**	**-**	**-267.041.654**	-	**-**	**-**	**-**
Transfert of equity method ajustment	-	**-288.716.938**	**-**	**288.716.938**	-	**-**	**-**	**-**
Appropriation of 2018 income	-	158.938.807	-	-	-158.938.807	-	-	-
2019 net income	-	-	-	-	206.340.539	206.340.539	1.967.419	208.307.958
Distribution for FY 2018	-	-40.000.000	-	-	-	-40.000.000	-	-40.000.000
Actuarial gains/(losses) on pension fund	-	-	-	-82.855.452	-	-82.855.452	-	-82.855.452
Value adjustment on financial instruments measured at fair value through the revaluation reserve net of deferred taxes	-	-	-	-41.877.244	-	-41.877.244	-	-41.877.244
Net measurement results of cash flow hedges	-	-	-	-1.187.231	-	-1.187.231	-	-1.187.231
Equity method adjustment	-	-113.343	-	26.527.365	-	26.414.022	-	26.414.022
Other	-	414.331	-	93.912	-	508.243	-1.984.070	-1.475.827
at 31 December 2019	**173.525.467**	**3.572.183.228**	-	**462.101.585**	**206.340.539**	**4.414.150.819**	**2.780.514**	**4.416.931.333**

in euros	Share capital	Consolidated reserves	Revaluation reserve	Net income	Total equity owners	Minority interests	Total equity
At 1 January 2018	**173.525.467**	**3.316.699.029**	**367.037.194**	**256.610.845**	**4.113.872.535**	**2.896.600**	**4.116.769.135**
Appropriation of 2017 income	-	256.610.845	-	-256.610.845	-	-	-
2018 net income	-	-	-	158.938.807	158.938.807	2.039.569	160.978.376
Distribution for FY 2017	-	-40.000.000	-	-	-40.000.000	-	-40.000.000
Actuarial gains/(losses) on pension fund	-	-32.790.712	-	-	-32.790.712	-	-32.790.712
Value adjustment on financial instruments measured at fair value through the revaluation reserve net of deferred taxes	-	-	173.022.644	-	173.022.644	-	173.022.644
Net measurement results of cash flow hedges	-	-	-334.886	-	-334.886	-	-334.886
Other	-	-25.900.447	-	-	-25.900.447	-2.139.004	-28.039.451
at 31 December 2018	**173.525.467**	**3.474.618.717**	**539.724.951**	**158.938.807**	**4.346.807.942**	**2.797.165**	**4.349.605.107**

The notes on pages 37 to 157 are an integral part of these consolidated financial statements.

Consolidated statement of cash flow as at 31 December 2019

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.

in euros	31/12/2018	31/12/2019
Cash and cash equivalents		
Cash and sight accounts with central banks	4 237 468 414	5 334 980 265
Loans and advances at amortised cost – Credit institutions	417 447 145	1 180 767 296
Loans and advances at amortised cost – Customers	1 764 647 029	1 769 426 300
Total	**6 419 562 587**	**8 285 173 862**

The Group uses the indirect method to determine the cash flows. To do this, the Group 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.

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

- operating activities are the main income-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 comprise the acquisition and disposal of long-term assets and all other investments not included in cash equivalents;

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

in euros	31/12/2018	31/12/2019
CASH POSITION AT 1 JANUARY	**8 733 447 563**	**6 419 562 587**
Interest received	888 784 295	943 947 135
Interest paid	-514 664 025	-571 005 307
Income from securities	31 356 637	31 464 134
Fees and commissions received/paid	145 805 502	155 079 261
Other operating expenditure/income	-28 267 989	-20 013 873
Current taxes	-49 096 004	-38 394 720
Personnel expenses and other general and administrative expenses	-297 071 542	-305 878 867
Financial instruments recognised at fair value	29 742 306	86 598 938
Loans and advances at amortised cost	-1 340 001 553	-674 518 880
Deposits at amortised cost	567 429 499	1 923 624 234
Issuance of debt securities	-86 351 220	72 991 452
Other assets and liabilities	12 497 057	8 420 974
Total cash flow from operating activities	**-639 837 037**	**1 612 314 481**
Acquisition/disposal of variable-income securities	-1 009 064	1 474 437
Acquisition/disposal of investments in associates accounted for using the equity method	2 763 854	-4 969 771
Acquisition of fixed-income securities	-3 800 601 115	-3 443 381 362
Disposal/redemption of fixed-income securities	2 433 951 698	4 207 077 352
Acquisitions/disposals of intangible and tangible assets	-31 906 069	-27 821 132
Total cash flow from investment activities	**-1 396 800 696**	**732 379 524**
Proceeds from subordinated liabilities	-	-
Expenses related to leases	-	-3 289 044
Income distribution	-40 000 000	-40 000 000
Total cash flow from financing activities	**-40 000 000**	**-43 289 044**
NET CHANGE IN CASH	**-2 076 637 733**	**2 301 404 962**
Effect of exchange rates on cash and cash equivalents	-237 247 243	-435 793 687
CASH POSITION AT 31 DECEMBER	**6 419 562 587**	**8 285 173 862**

Reconciliation of cash flows from financing activities

in euros	01/01/2018	Cash flow	Unrelated to cash flow	31/12/2018
Proceeds from subordinated liabilities	100 971 040	-	-488 003	100 971 040

in euros	01/01/2019	Cash flow	Unrelated to cash flow	31/12/2019
Proceeds from subordinated liabilities	100 971 040	-	-457 609	100 513 431

The notes on pages 37 to 157 are an integral part of these consolidated financial statements.

BANQUE ET CAISSE D'EPARGNE DE L'ETAT, LUXEMBOURG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

1 GENERAL INFORMATION

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

Spuerkeess is subject to Luxembourg's banking regulations, particularly the law of 5 April 1993 on the financial sector. Starting on 4 November 2014, with the entry into force of the Single Supervisory Mechanism (SSM), the European Central Bank has taken over prudential supervision of Spuerkeess.

Spuerkeess'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, Spuerkeess's objective 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 Group had an average headcount in 2019 of 1.882 people (1.877 in 2018), including staff on skills-acquisition contracts.

The Group's commercial activity is carried out from the territory of the Grand Duchy of Luxembourg.

The financial year coincides with the calendar year.

The consolidated financial statements were approved by the Board of Directors meeting on 25 March 2020.

2 BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Compliance with general accounting principles

The Group's consolidated financial statements for the 2019 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 or amortised cost, adjusted to fair value for the recognition of financial assets mandatorily recognised at fair value through profit or loss, financial assets held for trading and derivatives. Variable-income securities, debt instruments included in the hold to collect and sell business model (HTCS, see section 3.2.4.1) and pension fund assets are recognised at fair value through the revaluation reserve.

2.1.1 New or revised standards adopted by the European Union, applicable since 1 January 2019

IFRS 16 (standard) "Leases", refer to Section 2.2.

The amendments to the following standards and interpretations have no impact on the Group:

- "Improvements to IFRS, 2015-2017 cycle", a series of amendments to the existing standards;
- IAS 19 (amendments) "Plan Amendment, Curtailment or Settlement";
- IAS 28 (amendments) "Long-term Interests in Associates and Joint Ventures";
- IFRIC 23 "Uncertainty over Income Tax Treatments";
- IFRS 9 (amendments) "Pre-payment Features with Negative Compensation".

2.1.2 New or revised standards adopted by the European Union and not yet applicable as of 1 January 2019

The amendments to the following current and new standards are not expected to have an impact on the Group's annual financial statements:

- "Amendments to the Conceptual Framework for Financial Reporting" (applicable from 1 January 2020);
- Amendments to IAS 1 and IAS 8 "Definition of Material" (applicable from 1 January 2020).

2.1.3 New or revised standards not yet adopted by the European Union and not yet applicable as of 1 January 2019

The amendments to the following current and new standards are not expected to have an impact on the Group:

- The amendments to IFRS 9, IAS 39 and IFRS 7 in connection with interest rate benchmark reform (amendments applicable as from 1 January 2020);
- IFRS 3 (amendments) "Business Combinations" (applicable from 1 January 2020);
- Amendments to IAS 1 on the classification of liabilities as current or non-current.

The amendments to the following current and new standards will have an impact on the Group:

- IFRS 17 (standard) "Insurance Contracts" (application postponed until 1 January 2022 by the IASB).

2.2 Information on the introduction of IFRS 16 "Leases"

IFRS 16 "Leases" replaced IAS 17 of the same name on 1 January 2019. IFRS 16 mainly introduces a single accounting treatment for leasing.

While the new standard continues to distinguish between operating and finance leases and does not introduce any accounting changes for the Group when it is the lessor, it removes this distinction for leases where the Group is the lessee.

Under IFRS 16, all leasing contracts require recognition of a right-of-use asset and a lease liability:

- the cost of the asset includes the initial amount of the lease liability as well as, where applicable, rent payments already made, initial direct costs and dismantling costs. This right of use is recognised under the asset item where the corresponding underlying assets would have been presented, i.e., the "tangible assets" item. Detailed information can be found in the table in Note 4.14;
- the lease liability represents the present value of the lease payments that are not yet paid. This lease liability is recognised on the liabilities side under "other liabilities". Detailed information can be found in the table in Note 4.24.

The Group has opted for the practical expedient in IFRS 16 §C3 whereby it is not required to reassess whether a contract is, or contains, a lease at the date of initial application. The Group has identified all leases that must be capitalised under IFRS 16 at 1 January 2019 based on leases considered as such under IAS 17. The leases covered by the new standard are mainly related to buildings, car parks and S-BANK ATMs.

After simulating the impact of a discount on rents based on the "Euro master yield curve 0 coupon", which corresponds to the parent company's financing rate excluding credit spread, and in view of the

non-material nature of the discount amount obtained, the Group has opted for capitalisation of undiscounted rents.

The Group used the modified retrospective approach to apply IFRS 16, with the cumulative effect of initially applying the standard recognised at the date of initial application in accordance with IFRS 16 §C5 (b).

At 1 January 2019, the impact of the capitalisation of leases where the Group is the lessee was quantified at EUR 14,4 million on the assets and liabilities sides, with no impact on equity.

2.3 Consolidation

2.3.1 Scope of consolidation

The consolidated financial statements comprise the parent company, subsidiaries and associates over which the Group 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 acquiror 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 a Group subsidiary or associate accounted for under the equity method 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 this closing date and that of the parent company.

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.

2.3.1.1 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.

Subsidiaries	Business	% of voting rights held	
		31/12/2018	31/12/2019
Lux-Fund Advisory S.A.	Investment advice	89,08	89,48
BCEE Asset Management S.A.	UCI management company	90,00	90,00
Bourbon Immobilière S.A.	Real estate	100,00	100,00
Luxembourg State and Savings Bank Trust Company S.A.	Acquisition of shareholdings	100,00	100,00
Spuerkeess Ré S.A.	Reinsurance	100,00	100,00

2.3.1.2 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	Business	% of capital held	
		31/12/2018	31/12/2019
Direct interests			
Société Nationale de Circulation Automobile S.à r.l.	Automotive services	20,00	20,00
Luxair S.A.	Air transport	21,81	21,81
Société de la Bourse de Luxembourg S.A.	Financial services	22,75	22,75
Europay Luxembourg S.C.	Financial services	30,10	30,10
European Fund Administration S.A.	Financial services	-	31,67
LuxHub S.A.	Financial services	32,50	32,50
Visalux S.C.	Financial services	34,66	34,66
Lalux Group S.A.	Insurance	40,00	40,00
BioTechCube (BTC) Luxembourg S.A.	Investments in biotechnology	50,00	50,00
Indirect interests			
Pecoma International S.A.	Consulting services	33,33	-
EFA Partners S.A.	Financial services	29,05	-

The scope of investments in associates has changed since 31 December 2018. The European Fund Administration S.A. position was equity accounted for the first time during 2019.

2.4 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 classified as a cash flow hedge.

For monetary assets measured at fair value through the revaluation reserve, 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	31/12/2018	31/12/2019
CHF	1,1268	1,0844
GBP	0,8985	0,8508
JPY	126,0000	121,7400
SEK	10,2395	10,4350
USD	1,1450	1,1218

2.5 Accounting judgements and estimates

The Group's parent company applies judgements or estimates in the treatment of:

- classification of financial instruments in the respective portfolios (Section 3.2) and their impairment (Section 3.3.4);
- determination of the fair value of certain financial instruments (Section 3.3.3);
- determination of the SPPI nature of certain financial instruments (Section 3.2.4.3);
- consideration of a current obligation for the recognition of provisions (Section 3.10);
- determination of value adjustments (CVA/DVA) of derivatives (Section 3.3.2.3);
- determination of the effectiveness of a hedging relationship (Section 3.2.2);
- determination of components related to construction-type tangible assets and their expected useful life (Section 3.6);
- actuarial assumptions used in the calculation of the defined-benefit obligation (Section 3.9.3).

3 INFORMATION ON THE GROUP'S MAIN ACCOUNTING POLICIES

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

3.2 Classification of financial instruments

Since 1 January 2018, the Group has prepared its consolidated financial statements in accordance with IFRS 9 "Financial Instruments".

The measurement categories established by IFRS 9 are as follows: financial instruments held for trading, hedging derivatives, financial instruments mandatorily recognised at fair value through profit or loss, financial instruments recognised at amortised cost and financial instruments recognised at fair value through the revaluation reserve.

Off-balance sheet financial instruments include financial guarantees and unused loan commitments in particular. These are recorded in the balance sheet of the Group's parent company as soon as they are disbursed.

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 as appropriate. This category includes certain fixed-income securities, variable-income securities and 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 IFRS, 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 securities" from the time the right to payment becomes established.

3.2.2 Derivative financial instruments used for hedging purposes

The Group decided to continue to apply the hedging principles according to IAS 39 and therefore does not apply IFRS 9 in this regard. It thus uses derivative financial instruments to hedge interest rate, foreign exchange, credit and price risk such as stock market indices or share prices. The derivatives commonly used are interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS) in standard plain vanilla hedging transactions. In addition to these standardised contracts, the Group uses swaps with structured components to specifically hedge structured Euro Medium Term Notes (EMTN) issues and acquisitions of structured bonds included in the portfolio of fixed-income securities recognised at amortised cost 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 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 derivatives designated as fair value hedges which meet the criteria for hedge accounting and have demonstrated their effectiveness relative to the hedged instrument are recognised in profit or loss under "Income from hedging transactions". At the same time, corresponding changes in the fair value of the hedged item are also recognised in profit or loss.

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

The ineffectiveness of the hedge is mainly due to:

- the difference in the timing of cash flows;
- the difference on the yield curve;
- the effect of the change in credit risk.

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

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

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

3.2.3 Variable-income securities

The Group measures variable-income securities at fair value through the revaluation reserve with the recognition of dividends in the income statement and income on sales in a dedicated equity category, without reclassification through profit or loss.

Changes in own funds of equity-accounted associates are recognised on the assets side of the balance sheet under "Investments in associates accounted for using the equity method", as well as in shareholders' equity under "Equity method adjustment".

3.2.4 Fixed-income financial instruments

The classification of other fixed-income financial instruments is based on the business model and the SPPI test as described below.

3.2.4.1 Business models

The core business model of the Group's parent company provides for the holding of long-term assets, regardless of the product:

- The fixed-income securities acquired are held long term. IFRS 9 introduces the notion of the business model, which, for the bond portfolio held by the Group, is defined by the management method according to the criteria of the holding period of the securities and the type of income generated, i.e., interest income or income on sale. Combined with the SPPI ("solely payments of principal and interest") test, which deals with coupon calculation and principal repayment, three types of portfolios are defined:

  - **HTC ("Hold to collect")** portfolio: the bond portfolio is eligible for the HTC classification, provided that it is held for the long term in order to collect cash flows based on coupons due and repayment of principal. According to IFRS 9, sales are permitted in the following cases: (i) the impact is non-material, (ii) the impact is material and sales should therefore be infrequent, (iii) they are made as the instrument approaches maturity and (iv) they are related to exceptional circumstances such as a significant deterioration in the credit quality of the counterparty or legal or tax changes.

    HTC portfolio bond positions that pass the SPPI test are classified in the portfolio of financial assets recognised at amortised cost and are included in the balance sheet item "fixed-income securities recognised at amortised cost".

  - **HTCS ("Hold to collect and sell")** portfolio: this involves holding long-term securities, but with the possibility of selling them based on opportunities in the financial markets.

    Unlike the HTC portfolio, which is limited to a longer-term holding, the HTCS portfolio is based on management objectives. This portfolio consists of securities that meet the SPPI criteria but do not meet all the criteria defined for the HTC portfolio, provided that they are not considered as trading positions.

    Bond positions in the HTCS portfolio are classified in the portfolio of financial assets recognised at fair value through the revaluation reserve.

- **FVTPL ("Fair value through profit or loss")** portfolio with revaluation at fair value through profit or loss. For this business model, two different cases can occur:

  a. Positions in the trading book are part of this portfolio. IFRS 9 defines trading as the intention to buy and sell securities for the purpose of realising a profit in the short term. These are securities generally held for less than 6 months. These instruments are included in the balance sheet category "financial instruments held for trading" without undergoing the SPPI test as explained in section 3.2.1;

  b. This portfolio also includes positions in financial instruments held for the long term that do not undergo the SPPI test and must therefore be measured through profit or loss. Bond positions in the FVTPL portfolio that are not held for trading and do not pass the SPPI test are classified under the balance sheet item "Financial assets mandatorily recognised at fair value through profit or loss".

- Loans granted by the Group are not intended for a subsequent sale or a securitisation transaction but are retained on the asset side of the balance sheet until final repayment. The Group's parent company does not acquire loan portfolios already active.

The "lending" activity of the Group is therefore assigned to the HTC business model and is based on contractual data and on the principle that loans are granted and held for the purpose of collecting principal and interest until maturity.

Loans granted by the Group and passing the SPPI test are classified in the portfolio of financial assets measured at amortised cost and presented separately in the financial statements of the Group's parent company under "Loans and advances at amortised cost".

However, loans granted by the Group that do not pass the SPPI test are classified in the portfolio of financial assets mandatorily recognised at fair value through profit or loss and presented globally in the balance sheet under the heading "financial assets mandatorily recognised at fair value through profit or loss".

3.2.4.2 Monitoring of business model compliance

The thresholds for questioning the business model put in place by the Group's parent company disregard sales and capital gains realised on positions with a residual maturity of 6 months or less.

The threshold for impact has been set at 5% of the banking income. The considered banking icome is that of the previous financial year. If this threshold is exceeded, and if more than 10% of the

outstanding amounts of a portfolio are sold per year, then the portfolio no longer meets the conditions of eligibility for the HTC classification with a measurement at amortised cost.

If the two cumulative thresholds are exceeded, this will launch a procedure to notify the Risk Subcommittee. These thresholds will be monitored on a monthly basis.

Beyond these thresholds, the Group's parent company has defined alert thresholds taking into account historical observations with the aim of anticipating the achievement of absolute thresholds:

- a number of 50 transactions;
- a cumulative nominal value of 2%;
- an impact on banking income of 3%.

If any one of these thresholds is exceeded, the Risk Subcommittee will be notified, followed by a documented deliberation.

In terms of granting or managing loans, any modification of the existing business model as well as any definition of an additional business model must go through the various levels of governance, which are the ALM/Risks subcommittees, the ALM and Risk Management Committees, the Executive Committee, the Audit and Risk Committees at the Board of Directors level, and the Board of Directors itself.

3.2.4.3 SPPI test

In order to undergo the SPPI test, financial instruments in the form of fixed-income securities must include only structures:

- considered non-speculative and/or unleveraged;
- whose return in the form of interest respects the time value of money;
- guaranteeing the payment of interest and repayment of the principal.

The classification of a security as SPPI-compliant or non-SPPI-compliant is reflected in its deal type. This qualitative information is included in the information systems of the Group's parent company and is subject to specific control procedures. When a bond can be assigned more than one deal type, a quantitative analysis is performed to measure the degree of leverage of the instrument compared with a fixed-rate instrument over the same period to determine the final deal type to be applied.

For loans, the SPPI test is based on the following two principles:

- the repayment of principal and interest must be contractually ensured. In principle, this criterion is always met as long as the loans do not contain any embedded derivatives that significantly alter cash flows other than caps/floors or significant early redemption penalties.
- the repayment must be based on the time value of money plus a margin that offsets the credit risk. This criterion implies that there is no leverage.

For SPPI tests on loans, the Group distinguishes two major categories, namely standard loans contracted on the basis of a model contract and "customised" loans involving special conditions and other obligations to be respected by the borrower.

The contracts on which all standard loans are based are subject to a prior compatibility review of their conditions with the SPPI criterion. A contract-by-contract review is not carried out for this type of contract. The contract data for each new loan type belonging to this loan category are subjected to an SPPI test on the basis of a list of specific pre-marketing criteria.

The contracts on which customised loans are based are reviewed individually to determine compliance with the SPPI criterion in accordance with the internal procedures including the criteria of the standard.

3.2.5 Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss include instruments with structures that are not closely related but are hedged economically with derivatives. With this designation for the financial liability, the Group 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 Group'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".

3.2.6 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 creditors and liabilities arising from leases.

3.2.7 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".

Similarly, financial instruments designated at fair value through profit or loss are recorded at fair value, and changes in fair value are recognised in profit or loss under "Income from financial instruments designated at fair value through profit or loss". Interest is recognised at the effective interest rate in "Interest income".

Dividends are recorded under "Income from securities", while interest is recorded under "Interest income".

The Group recognises fees that are not included in the calculation of the effective interest rate in accordance with IFRS 15, i.e. when the performance obligation is realised depending on whether it is realised at a given time or gradually. This mainly concerns the following fees:

- fees related to performance obligations fulfilled gradually, which are therefore spread over the corresponding period;
- fees related to service obligations fulfilled at a given time and therefore recognised in the income statement when the service is performed.

Note that the entry into force of IFRS 15 on 1 January 2018 did not have any impact on how this type of income is recognised for the Group's parent company.

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.

3.2.8 Netting financial assets and financial liabilities

For the netting of certain positions relating to repurchase and reverse repurchase agreements, the existence of a Global Master Repurchase Agreement (GMRA) is not a sufficient condition. The balance sheet netting of these agreements takes place only if the counterparties have agreed in advance and if the transactions meet the same maturity date and liquidation and payment system criteria.

3.3 <u>Banking transactions</u>

3.3.1 Initial valuation

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 recorded at fair value on initial recognition, plus any directly attributable costs when the financial instruments are not recognised at fair value through profit or loss. This initial fair value generally corresponds to the transaction price.

Transactions in financial instruments on the assets and liabilities side in the form of securities are recognised on the transaction date in off-balance sheet items and on the value date on the balance sheet.

Financial derivatives are recognised on the balance sheet at their 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. Fair value here means the "dirty price" of the instruments, i.e., including the accrued interest.

Derivative financial instruments embedded in 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 classified as held for trading or has not been designated as measured at fair value through profit or loss. 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 through profit or loss.

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

3.3.2 Subsequent measurement

The valuation methods are as follows: historical cost, amortised cost or fair value.

3.3.2.1 Historical cost

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

3.3.2.2 Amortised cost

The amortised cost corresponds to the amount initially recognised, net of 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 through value adjustments.

3.3.2.3 Fair value

The fair value of the consideration 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 valuation 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 Spuerkeess-specific adjustment for credit risk, or a "Debit Value Adjustment" (DVA), for derivative financial instruments recognised on the liabilities side of the balance sheet.
- 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 unquoted securities or securities listed on an inactive market, Spuerkeess determines a measurement value according to a procedure detailed below in Section 3.3.3 "Valuation techniques for determining fair value and fair value hierarchy".
- financial liabilities:
  - EMTNs issued by the Group's parent company are classified at amortised cost. These transactions are 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 the measurement of its hedge are identical, namely the discounted cash flow and Black & Scholes method;

- EMTNs issued by the Group's parent company designated at fair value through profit or loss: the fair value measurement method applied to the issue and the measurement of its hedge are identical, namely the discounted cash flow and Black & Scholes method.

3.3.3 Valuation techniques for determining fair value and fair value hierarchy

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.

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 Spuerkeess 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: This level includes equity instruments or debt securities for which significant parameters used in the valuation models are based on internal estimations and assumptions. The shareholdings of the Group's parent company in non-material unlisted companies are

valued on the basis of net assets after taking into account the dividend for the current year, and material holdings are measured as follows:

- in the event of a transaction (capital increase or sale transaction) during the last six months or if the parties to a future transaction agree on the price of the transaction, this transaction price constitutes the basis for the measurement value of the position, taking into consideration a discount, provided that the shareholding is deemed strategic for the Group's parent company and that no paragovernmental shareholders, such as Spuerkeess, participate in the transaction;
- for the six months following a transaction, the price of the last transaction remains an important reference but does not exclusively determine the valuation price;
- the price of the historical transaction is adjusted in relation to a number of stock market ratios established on the basis of a peer group consisting of a sample of listed companies with a commercial and/or industrial activity comparable with the unlisted company, valued by the Group's parent company;
- when the last transaction is more than two years old, a valuation based on the market ratios of this peer group is preferred. It allows the value of the position held by the Group's parent company to be determined. A discount to the valuation of unlisted assets may be applied;
- the following ratios are documented for the unlisted company, owned by the Group's parent company and for all listed companies of the peer group:
  - Enterprise Value to EBITDA (except insurance companies);
  - Price-to-Book, Price-to-Sales and Price-to-Earnings;
  - ratios supplemented by information on business growth prospects, operating margins, return on equity (ROE), debt and credit quality;
  - the data used are derived from the company accounts. The peer group's multiples derived from the stock market ratios and the accounting data of the companies making up each peer group are taken from Bloomberg with reference to the closing prices on the valuation day, i.e. 30 June or 31 December of the respective year;
  - to supplement this market-multiples valuation, the Group's parent company may use multiples based on recent transactions in companies with the same characteristics as the unlisted company, held by the parent company.

A change in level may occur in the event that market characteristics change.

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

- credit spread curves based on CDS prices;
- interbank interest rates or swap rates;
- foreign exchange rates;
- stock indices;
- counterparty credit spreads.

3.3.4 Impairment of financial assets

In accordance with the second phase of IFRS 9, the Group considers all HTC model products meeting the SPPI criterion as well as guarantees and certain commitments recognised off the balance sheet in the calculation of impairment of financial assets.

These exposures are classified according to three "stages" determining the calculation of the value adjustments:

- "stage 1" includes exposures whose credit risk has remained unchanged or has not deteriorated significantly since the loan was granted or the security was purchased ("at inception").
  ⇨ Value adjustment = Expected Credit Loss at 1 year

- "stage 2" includes financial instruments whose credit risk has increased significantly since the loan was granted or the security was purchased, i.e., exposures that:
  - have had their internal rating downgraded by ≥ 3 notches "since initial recognition" and have a "sub-investment grade" rating as at the reporting date;
  - are "Past Due" for 30 consecutive days on a contractual loan repayment due date or a sight account overdraft;
  - are "non-performing" but not in default according to the CRR definition;
  - have been restructured according to the definition established by the European Banking Authority (EBA).

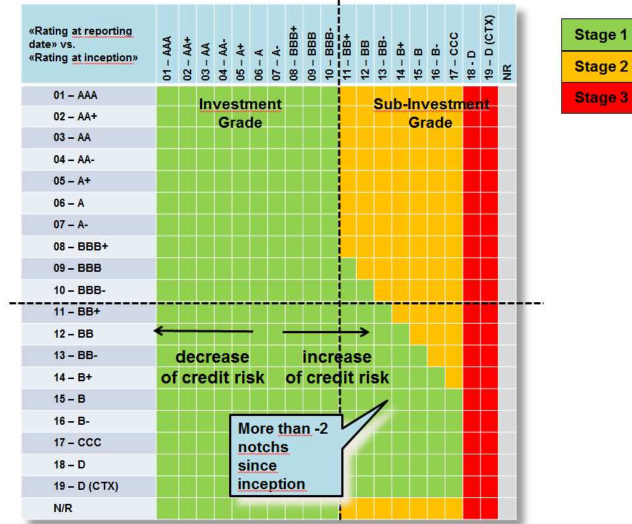
  ⇨ Value adjustment = "Lifetime Expected Credit Loss"

- "stage 3" includes the outstanding amounts in default according to the CRR definition. The impacts of the new standard on the value adjustments of outstandings classified in "stage 3" are not as great as those on value adjustments of outstandings classified in "stage 1" or "stage 2". The calculation of value adjustments applied in accordance with IAS 39 already takes into

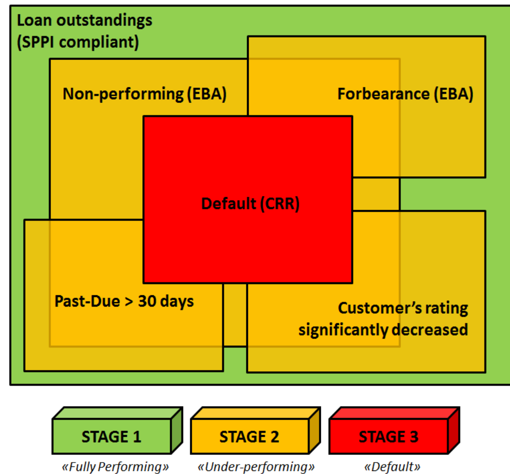
account losses resulting from future flows re-estimated following the entry into default of an exposure.

⇨ Value adjustment = "Lifetime Expected Credit Loss" (with probability of default = 1)

Assignment matrix for initial "stages" and migration in case of a significant increase in credit risk:



The chart and the table below detail the consideration of the notions of the EBA in the various "stages":



Contagion and probationary period: the Group applies contagion for all defaults. All the commitments of a customer in default are therefore found in "stage 3". Contagion is not applied for "stages 1 and 2".

The table below gives information about the probationary periods:

Notions	Explanations	IFRS9 stage
1. "Default"	. No payment arrears, but "unlikeliness to pay", in the sense of a serious doubt about the future ability to meet the commitments (e.g. bankruptcy) . Late > 1 monthly instalment for > 90 days, or . Overdraft > 500,- EUR for 90 days	STAGE 3
2. "Non-Performing"	. Late > 1/2 monthly instalment for > 90 days, or . Overdraft > 100,- EUR for 90 days, or . Qualitative criteria (e.g. recent balance sheet missing or publication of disappointing earnings)	STAGE 2
3. "Forbearance /renegotiated due to significant increase in the credit risk" (IFRS 9 B.5.5.27)	. Restructuring measures granted to the customer during the term of the contract (deferment, extension of due date, rate reduction) and customer in financial difficulty (proxy: internal rating)	STAGE 2
4. "Past-Due"	. Late payment > 30 days with certain materiality thresholds (EBA notion)	STAGE 2
5. Internal rating	. Downgrading of internal rating >=3 notches since initial recognition and rating at sub-investment grade on reporting date	STAGE 2

Probationary periods:

Migration	Migration trigger	Probationary period	Conditions
Stage 2 to Stage 1	Forbearance	2 years	- significant amount repaid during the probationary period - investment grade rating - performing
	Non-performing and forbearance	2-year min.	- 1-year probationary period for non-performing status, i.e. the customer exits non-performing if the forbearance start date ≥ 1 year - 2-year probationary period for forbearance status: when non-performing status ends, the probationary period for forbearance status begins (see forbearance exit conditions listed above)
	Wholesale rating	1 year	the variables considered for the Wholesale rating are based on the financial statements published annually: potential impact on the rating for 12 months
	Retail internal rating	6 months	the variables considered for the Retail rating are based on historical behaviour in the last 6 months: potential impact on the rating for 6 months
Stage 3 to Stage 2	Automatic closure of the default (repayment of outstanding debts), but other ongoing stage 2 event	No	The automatic closure of the default implies a direct transfer from stage 3 to stage 2 (in the event of SICR)
	Manual closure of an unlikeliness to pay default, but other ongoing stage 2 event	Yes	When a default is closed manually, a probationary period is applied depending on the different scenarios.
Stage 3 to Stage 1	Automatic closure of the default (repayment of outstanding debts)	No	The automatic closure of the default implies a direct transfer from stage 3 to stage 1 (no SICR).
	Manual closure of an unlikeliness to pay default	Yes	When a default is closed manually, a probationary period is applied depending on the different scenarios (no SICR).

Determination of "Expected Credit Loss": for each "stage", the calculation method used is different:

Stage	Description	Formula	Explanation
1	Expected loss is calculated over a period of up to one year	$ECL=PD_{M,1}\ .\ LGD\ 1.\ Exposures\ (t_0)$	- $PD_{M,1}$ = 1-(1-PD_1)^M and M the residual maturity in number of days/365,25 of the next year, - PD_1 = Probability of default for the first year, which takes into account the actual residual duration (Daily granularity), - LGD_1 = Loss given default during the next year, - Exposure (t0) = Exposure at the beginning of the period
2	The expected loss is to be estimated over the entire remaining life of the contract (lifetime expected loss)	$ECL = \sum_{k=1}^{n} ECL_k = \sum_{k=1}^{n} PD_{M,k} \cdot \frac{(Exposition_{k-1} \cdot LGD_k)}{(1+i)^{k-1}}$	$PD_{M,k}$ takes into account the actual residual duration (Daily granularity). ECL is the sum of expected losses per year, discounted at the respective contractual rate i. The variable n represents the remaining duration of the exposure expressed in years.
3	The probability of default is 100% for these exposures; the expected loss is therefore a function of the current exposure and the loss rate (LGD), which takes into account the re-estimated future flows	$ECL=100\%\ .\ LGD\ 1\ .\ Exposures\ (t_0)$	- LGD1 = Loss given default during the next year, - Exposure(t0) = Exposure at the beginning of the period

The basic principles applied by the Group are given in the previous table, and the PD and LGD risk parameters are derived from the "through the cycle" (TTC) parameters used for the calculation of capital requirements. To take into account the point-in-time (PIT) and forward-looking aspects, the Group has applied a PIT index allowing the TTC parameters to be transformed into PIT parameters and the parameters to be projected by considering three economic scenarios: baseline, adverse, and optimistic.

The probabilities of default (PD) are determined using a projection of the PIT Index on the basis of a function by exposure class or a table based on an appraiser assessment. The projection of the PIT Index therefore depends on the projection of macroeconomic variables, which are based on a simulated macroeconomic scenario.

To assess the lifetime value adjustment of a product, a conditional PD is determined, representing the probability that an exposure will fall into default in year k of the remaining n years.

The parameter of the "Loss Given Default" (LGD) is determined from a decision tree based on the characteristics of the different products. The Group uses a PIT approach.

The Group uses three scenarios: a baseline scenario, weighted at 60% and calibrated on the basis of IMF forecasts for the national and international portfolios, and an optimistic scenario and an adverse scenario weighted at 20% each. The optimistic and adverse scenarios were derived on the basis of historical scenarios reflecting growth and crisis phases, respectively, over a five-year horizon.

The results are reviewed and validated by the appropriate bodies.

The changes in GDP and inflation taken into consideration under the three scenarios are based on the following table:

	Estimation of GDP scenarios			Estimation of inflation scenarios		
Year	Baseline	Adverse	Optimistic	Baseline	Adverse	Optimistic
2020	1,70%	0,14%	2,03%	1,80%	0,21%	1,80%
2021	1,60%	-2,18%	2,95%	1,80%	0,75%	1,95%
2022	1,60%	1,60%	2,61%	1,90%	1,17%	1,97%
2023	1,50%	0,90%	2,87%	2,00%	0,91%	2,00%
2024	1,60%	0,50%	2,50%	2,00%	0,66%	2,73%

The amounts of allocations to and reversals of value adjustments are determined in accordance with the methodology described above.

3.3.4.1 Write-off of receivables measured at amortised cost

Only value adjustments recorded for stage 3 assets can be the subject of a write-off of receivables.

The decision to write off a receivable is made by the parent company's Executive Committee based on its assessment that the probability of recovering such a debt is near zero.

If appropriate, the entirety of the targeted asset is written off.

3.4 Repurchase and reverse repurchase agreements – Lending and borrowing of securities

3.4.1 Repurchases and reverse repurchases

Securities subject to a sale agreement with a repurchase commitment (sale/buyback transactions) for the same or substantially identical asset remain on the balance sheet. The amount owed 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 a substantially identical asset are not recorded in the balance sheet. The consideration for securities purchased under reverse repo agreements is entered under "Loans and advances at amortised cost". This type of instrument is part of an HTC business model and respects the characteristics of the SPPI test.

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.

3.4.2 Lending and borrowing of securities

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

3.5 Interbank market

3.5.1 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.

3.5.2 Issuance of debt securities

Debt issued by the Group is classified 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 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 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 or loss. Own credit risk is recorded in other items of comprehensive income; this risk is deemed immaterial for the Group's parent company.

3.6 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. They also include right-of-use assets whose underlyings are tangible assets.

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:

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

Finishing component 1 includes, among other things, lightweight partitions, screeds, tiles and joinery, whereas finishing component 2 includes resilient floor coverings and paint. "Other" consists of, among others, 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 expenses".

Recognition under this heading of right-of-use assets under a lease is explained in section 3.8.1.1.

3.7 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.

3.8 Lease agreements

Where a lessor assigns to a lessee the right to use an asset for a specified period under an agreement in exchange for payment(s), that agreement is considered a lease.

3.8.1 A Group entity is a lessee

IFRS 16 "Leases" replaced IAS 17 of the same name on 1 January 2019. Spuerkeess's 2019 annual financial statements were prepared in accordance with the new IFRS 16, and the 2018 financial statements were prepared in accordance with IAS 17 which remained in force until 31 December 2018.

3.8.1.1 Leases under IFRS 16

The Group has entered into leases mainly for buildings, car parks and S-BANK automated teller machines.

These leases led to the:

- recognition of a “right-of-use asset” on the assets side. The cost of the asset includes the initial amount of the lease liability as well as, where applicable, rent payments already made, initial direct costs and dismantling costs. This right of use is recognised under the asset item where the corresponding underlying assets would have been presented, i.e., the "tangible assets" item;

- recognition of a "lease liability" on the liabilities side: the lease liability represents the present value of the lease payments that have not yet been made. This lease liability is recognised on the liabilities side under "other liabilities". The Group has opted to recognise the undiscounted value of the lease payments given that the impact of this discounting would be immaterial. As a result, no interest expense is recognised on liabilities arising from leases;
- recognition in the income statement of "lease payments" and any "penalties" to be paid for early termination of a lease; penalties are recognised as expenses for the year in which the lease is terminated.

3.8.1.2 Leases under IAS 17

Spuerkeess Group entities have primarily 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.

3.8.2 A Group entity is a lessor

When a Group entity is the lessor, a distinction must be made between finance leases and operating leases.

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

When a Group entity leases an asset within the framework of a finance lease, the net present value of the lease payments is recognised as a receivable under "Loans and advances at amortised cost" for customers or credit institutions 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.

When a Group entity leases an asset under an operating lease, the underlying asset is recognised on the balance sheet according to its nature. The Group's operating leases are for buildings and are recognised as investment property.

3.9 Employee benefits

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

3.9.1 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.

3.9.2 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.

Long-term benefits include in particular the "Time Savings Account", set up by the Group's parent company on 1 October 2018. The time savings account allows the beneficiary to:

- accumulate a maximum of 8 hours per week and a total maximum of 1.800 hours,
- accumulate unused holidays beyond 25 days per year up to a maximum of 1.800 hours,
- use the accumulated hours as leave or, only upon definitive termination of the employment relationship, as compensation.

3.9.3 Post-employment benefits

The Group's parent company's staff members, whether civil servants or not, are entitled to the pension scheme for civil servants as applicable to them in accordance with the legal provisions based on their respective status and entry into service, pursuant to the Organic Law of 24 March 1989.

The amount of the benefit covered by the parent company for an agent who is not a civil servant 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.

Pension supplements payable in this regard 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 classified as civil servants are also paid for by the Bank.

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

Members of the Executive Committee are civil servants and are consequently eligible for the same pension scheme for civil servants as Spuerkeess's other staff members.

Because of their mandate as a director of Spuerkeess, members of the parent company's Board of Directors are not eligible for the pension scheme for civil servants or a pension supplement pursuant to the aforementioned Organic Law of 24 March 1989.

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 parent company's annual pension expenses:
- the current service cost;
- interest cost resulting from the application of the discount rate;
- the change in actuarial gains and losses;

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

Actuarial gains and losses are systematically recognised under "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.

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

The management objective of the "CLP-BCEE" sub-fund is threefold: to coordinate the various cash flows, to minimise the portfolio's volatility and thus the probability of an extraordinary contribution request, and to match 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 sight and term deposits.
- other instruments: this category includes instruments that do not fall under one of the above-referenced categories, for example, but not limited to, units in investment or professional specialised investment funds, alternative investment funds, venture capital firms and unlisted Luxembourg public limited companies (SOPARFIs (financial holding companies) or others), as well as land and real estate.

The "CLP-BCEE" sub-fund invests a minimum of 50% of its gross assets in bonds, debt securities and money market financial instruments. "CLP-BCEE" may invest up to 50% of its assets in equities, equivalent securities and other instruments, but may not exceed the limit of 15% of gross assets for other instruments and units and shares of UCIs that do not have daily liquidity, that use leverage strategies or whose underlying assets are bonds or high-yield debt. There is an additional special restriction on high-yield bond debt UCIs, whose weight is limited to 7,5% of the sub-fund's gross assets.

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 instruments have a minimum rating of BBB- (Standard & Poor's) or Baa3 (Moody's). This rule is not binding so long as the official rating of a bond or money market instrument is downgraded from investment grade to high yield in the six months prior to its maturity. Any position in high-yield debt with a residual maturity of less than six months is also added to the high-yield bond debt UCI positions. Similarly, issuers of any bond or any money market instrument must be from an EU or OECD member country.

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

3.10 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.

3.11 *Fonds de garantie des dépôts Luxembourg* (FGDL, Luxembourg deposit guarantee fund) and *Fonds de résolution Luxembourg* (FRL, Luxembourg resolution fund)

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 replaced Luxembourg's deposit guarantee and investor compensation scheme, implemented by the AGDL, with a contribution-based deposit guarantee and investor compensation scheme. This scheme covers all eligible deposits by a single depositor up to EUR 100.000 and investments up 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 first target level of funding of the "Fonds de Garantie des Dépôts Luxembourg" (FGDL) was set at 0,8% of the covered deposits (as defined in Article 163(8) of the Law) of member institutions. In principle, this target was reached at the end of 2018 thanks to the annual contributions made in 2016 to 2018.

Between 2019 and 2026, Luxembourg credit institutions will continue to contribute annually to provide an additional cushion of 0,8% of covered deposits as defined in Article 163(8) of the Law.

By the end of 2024, the amount of financial resources of the *Fonds de résolution Luxembourg* (FRL, Luxembourg resolution fund) should reach at least 1% of the guaranteed deposits, as defined in article 1, number 36 of the Law, of all authorised credit institutions in all participating member States. This amount is being collected from credit institutions through annual contributions during financial years 2015 to 2024.

Contributions to the FGDL and the FRL are made through the income statement in operating expenses.

3.12 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 or when there are adjustments related to the accounting framework of the subsidiaries. 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 relating to unrealised gains or losses on variable-income securities recognised at fair value through the revaluation reserve and to 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 the Group's pension plan commitments are recognised in equity under "Consolidated reserves".

4 NOTES TO THE BALANCE SHEET[1]

(in euros)

4.1 Cash and sight accounts with central banks

Cash consists of cash, cash balances with central banks and other deposits at sight with banks. The minimum reserve requirement with the Banque centrale du Luxembourg is entered under "Deposits with central banks".

Headings*	31/12/2018	31/12/2019
Cash	70 836 202	87 960 417
Deposits with central banks	3 935 963 844	3 972 367 383
Other sight deposits	230 436 545	1 272 790 391
Total	**4 237 236 592**	**5 333 118 190**
of which: Impairment of financial assets	*-257 151*	*-1 632 315*

* term of less than one year

4.2 Loans and advances at amortised cost – Credit institutions

Headings	31/12/2018			31/12/2019		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Interbank loans	1 644 592 706	180 205 661	1 824 798 367	1 589 757 307	157 890 761	1 747 648 068
Reverse repurchase/Repurchase agreements	452 442 877	200 004 212	652 447 089	1 068 574 379	127 199 991	1 195 774 370
Roll-over loans	53 869 044	-	53 869 044	44 708 355	-	44 708 355
Finance leases	50	258 566	258 616	15 614	136 746	152 360
Other	49 209 827	-	49 209 827	11 804 484	-	11 804 484
Sub-total	**2 200 114 504**	**380 468 439**	**2 580 582 943**	**2 714 860 141**	**285 227 497**	**3 000 087 638**
Undrawn confirmed credits			308 924 579			493 403 919
Impairment of financial assets	-991 532	-137 363	-1 128 895	-820 372	-177 551	-997 922

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. As was the case in 2018, no securities received as collateral were sold or collateralised in 2019.

[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.

Changes in impairment from 1 January 2018 to 31 December 2019:

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2018	**1 165 083**	**26**	**-**	**1 165 109**
Stage transfers	**4**	**-4**	**-**	**-**
Transfer from Stage 1	-2	2	-	-
Transfer from Stage 2	7	-7	-	-
Transfer from Stage 3	-	-	-	-
Position as at 31 December 2018 before changes	**1 165 087**	**22**	**-**	**1 165 109**
Changes	**-36 282**	**69**	**-**	**-36 213**
Increase due to acquisition and origination	893 923	-	-	893 923
Decrease due to repayment	-17 936	-	-	-17 936
Change related to credit risk	-914 732	69	-	-914 663
Other changes	-	-	-	-
Depreciation	-	-	-	-
Exchange gain or loss	2 463	-	-	2 463
Position as at 31 December 2018	**1 128 805**	**90**	**-**	**1 128 895**

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Transfer from Stage 1	311	-311	-	-
Transfer from Stage 2	-409	409	-	-
Transfer from Stage 3	-	-	-	-

Outstanding amounts covered by provisions at 31/12/2018	Stage 1	Stage 2	Stage 3	Total
Outstanding amounts	2 546 560 816	8 480	-	2 546 569 296

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2019	**1 128 805**	**90**	**-**	**1 128 895**
Changes	**-130 893**	**-79**	**-**	**-130 973**
Increase due to acquisition and origination	1 177 704	-	-	1 177 704
Decrease due to repayment	-23 940	-11	-	-23 952
Change related to credit risk	-734 155	-68	-	-734 223
Other changes	-553 368	-	-	-553 368
Depreciation	-	-	-	-
Exchange gain or loss	2 867	-	-	2 867
Position as at 31 December 2019	**997 912**	**10**	**-**	**997 922**

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-

Outstanding amounts covered by provisions at 31/12/2019	Stage 1	Stage 2	Stage 3	Total
Outstanding amounts	3 001 084 934	628	-	3 001 085 562

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

4.3 Loans and advances at amortised cost – Customers

Headings	31/12/2018			31/12/2019		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Retail customers	484.606.186	14.161.359.105	14.645.965.291	485.437.646	15.020.894.087	15.506.331.733
Corporate customers	1.519.382.869	3.936.078.944	5.455.461.813	1.468.264.365	4.242.637.485	5.710.901.850
Public sector	957.027.743	737.730.084	1.694.757.828	468.593.057	1.171.241.695	1.639.834.752
Sub-total	**2.961.016.798**	**18.835.168.134**	**21.796.184.932**	**2.422.295.068**	**20.434.773.266**	**22.857.068.335**
Undrawn confirmed credits			5.042.602.610			5.283.175.863
Impairment of financial assets	-52.258.250	-67.121.735	-119.379.985	-51.864.787	-60.627.035	-112.491.821

Of which finance leases:

Headings	31/12/2018			31/12/2019		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Finance leases	10 450 532	110 403 663	120 854 195	12 778 760	140 364 982	153 143 742
Sub-total	**10 450 532**	**110 403 663**	**120 854 195**	**12 778 760**	**140 364 982**	**153 143 742**

Impairment of loans and advances – Customers

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2018	**16 068 034**	**41 434 063**	**78 946 715**	**136 448 812**
of which				
Retail customers	*2 422 355*	*17 754 327*	*17 493 774*	*37 670 456*
Corporate customers	*13 587 287*	*23 679 737*	*61 452 941*	*98 719 965*
Public sector	*58 391*	-	-	*58 391*
Stage transfers	**12 800 502**	**-8 205 551**	**-4 596 951**	**-1 999**
Retail customers	6 761 954	-3 901 570	-2 684 465	175 919
Transfer from Stage 1	*-180 054*	*152 004*	*28 050*	-
Transfer from Stage 2	*6 717 559*	*-6 717 559*	-	-
Transfer from Stage 3	*216 652*	*2 493 863*	*-2 710 515*	-
Other	*7 798*	*170 122*	*-2 000*	*175 919*
Corporate customers	6 038 548	-4 303 981	-1 912 485	-177 919
Transfer from Stage 1	*-289 757*	*268 935*	*20 822*	-
Transfer from Stage 2	*6 031 480*	*-6 544 891*	*513 411*	-
Transfer from Stage 3	*304 621*	*2 142 097*	*-2 446 719*	-
Other	*-7 797*	*-170 122*	-	*-177 919*
Public sector	-	-	-	-
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Other	-	-	-	-
Position as at 31 December 2018 before changes	**28 868 536**	**33 228 513**	**74 349 765**	**136 446 813**
of which				
Retail customers	*9 184 310*	*13 852 757*	*14 809 309*	*37 846 375*
Corporate customers	*19 625 834*	*19 375 756*	*59 540 456*	*98 542 047*
Public sector	*58 391*	-	-	*58 391*

	Stage 1	Stage 2	Stage 3	Total
Changes	**-11 228 032**	**-1 909 448**	**-3 929 347**	**-17 066 827**
Increase due to acquisition and origination	7 410 994	1 513 543	10 004	8 934 540
Decrease due to repayment	-627 878	-610 953	-1 682 805	-2 921 636
Change related to credit risk	-18 016 948	-2 813 673	-1 769 621	-22 600 241
Depreciation	-	1 634	26	1 660
Other changes	-31	-	-575 703	-575 734
Exchange gain or loss	5 830	1	88 752	94 583
Position as at 31 December 2018	**17 640 503**	**31 319 065**	**70 420 417**	**119 379 985**
of which				
Retail customers	*2 468 640*	*17 609 502*	*12 834 552*	*32 912 695*
Corporate customers	*15 134 631*	*13 709 563*	*57 585 865*	*86 430 059*
Public sector	*37 231*	-	-	*37 231*

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Retail customers	**38 217 020**	**-35 440 961**	**-2 776 060**	**-**
Transfer from Stage 1	*-591 377 468*	*586 128 198*	*5 249 270*	-
Transfer from Stage 2	*624 050 221*	*-636 688 433*	*12 638 212*	-
Transfer from Stage 3	*5 544 267*	*15 119 275*	*-20 663 542*	-
Corporate customers	**44 241 806**	**-40 489 663**	**-3 752 143**	**-**
Transfer from Stage 1	*-71 101 106*	*69 889 212*	*1 211 894*	-
Transfer from Stage 2	*114 128 610*	*-116 286 968*	*2 158 358*	-
Transfer from Stage 3	*1 214 303*	*5 908 092*	*-7 122 395*	-
Public sector	**-**	**-**	**-**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-

Outstanding amounts covered by provisions at 31/12/2018	Stage 1	Stage 2	Stage 3	Total
Retail customers	13 294 042 675	1 318 681 330	66 153 991	14 678 877 996
Corporate customers	4 940 533 768	404 066 363	197 291 731	5 541 891 862
Public sector	1 694 795 059	-	-	1 694 795 059

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2019	**17 640 503**	**31 319 065**	**70 420 417**	**119 379 985**
of which				
Retail customers	*2 468 640*	*17 609 502*	*12 834 552*	*32 912 695*
Corporate customers	*15 134 631*	*13 709 563*	*57 585 865*	*86 430 059*
Public sector	*37 231*	*-*	*-*	*37 231*
Changes	**833 743**	**-5 378 228**	**-2 343 679**	**-6 888 164**
Increase due to acquisition and origination	8 004 114	6 725 336	21 339 084	36 068 534
Decrease due to repayment	-656 257	-260 346	-20 998 633	-21 915 236
Change related to credit risk	-6 515 978	-11 868 737	-1 697 970	-20 082 686
Other changes	-	25 516	2 352	27 868
Depreciation	-	-	-1 009 808	-1 009 808
Exchange gain or loss	1 865	3	21 297	23 165
Position as at 31 December 2019	**18 474 246**	**25 940 836**	**68 076 739**	**112 491 821**
of which				
Retail customers	*2 844 350*	*16 194 097*	*12 167 808*	*31 206 255*
Corporate customers	*15 574 586*	*9 746 685*	*55 908 931*	*81 230 201*
Public sector	*55 310*	*54*	*-*	*55 365*

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Retail customers	**-46 417 238**	**25 108 497**	**21 308 740**	**-**
Transfer from Stage 1	*-686 265 499*	*672 567 480*	*13 698 019*	-
Transfer from Stage 2	*637 174 165*	*-653 605 749*	*16 431 583*	-
Transfer from Stage 3	*2 674 096*	*6 146 766*	*-8 820 862*	-
Corporate customers	**32 881 941**	**-37 148 085**	**4 266 144**	**-**
Transfer from Stage 1	*-82 871 359*	*80 818 224*	*2 053 135*	-
Transfer from Stage 2	*114 625 909*	*-118 468 659*	*3 842 750*	-
Transfer from Stage 3	*1 127 391*	*502 351*	*-1 629 741*	-
Public sector	**-468 358**	**468 358**	**-**	**-**
Transfer from Stage 1	*-468 358*	*468 358*	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-

Outstanding amounts covered by provisions at 31/12/2019	Stage 1	Stage 2	Stage 3	Total
Retail customers	14 104 452 109	1 361 071 700	72 014 179	15 537 537 989
Corporate customers	5 288 491 681	335 878 223	167 760 978	5 792 130 882
Public sector	1 639 421 758	468 358	-	1 639 890 116

In addition to information on impairments of loans and advances at amortised cost – 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 31/12/2018	Performing restructured loans		Non-performing restructured loans		Total restructured loans	
	Loan	Impairment	Loan	Impairment	Loan	Impairment
Retail customers	29 559 727	736 036	11 650 585	1 850 590	41 210 311	2 586 625
Corporate customers	19 539 702	125 858	169 320 520	32 142 491	188 860 222	32 268 348
Total	**49 099 428**	**861 893**	**180 971 105**	**33 993 080**	**230 070 534**	**34 854 973**

as at 31/12/2019	Performing restructured loans		Non-performing restructured loans		Total restructured loans	
	Loan	Impairment	Loan	Impairment	Loan	Impairment
Retail customers	27 625 850	366 159	9 495 009	553 222	37 120 859	919 381
Corporate customers	27 167 596	5 018 384	172 979 279	31 499 551	200 146 875	36 517 935
Total	**54 793 446**	**5 384 543**	**182 474 288**	**32 052 773**	**237 267 734**	**37 437 316**

4.4 Assets and liabilities held for trading

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

Assets		31/12/2018			31/12/2019	
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Non-derivative financial instruments	-	-	-	-	-	-
Derivative financial instruments (note 4.12)	185 367 400	34 849 147	220 216 547	78 735 115	64 319 490	143 054 604
Total	**185 367 400**	**34 849 147**	**220 216 547**	**78 735 115**	**64 319 490**	**143 054 604**

Liabilities		31/12/2018			31/12/2019	
Non-derivative financial instruments	-	-	-	-	-	-
Derivative financial instruments (note 4.12)	60 944 652	72 386 736	133 331 388	89 981 433	67 079 157	157 060 590
Total	**60 944 652**	**72 386 736**	**133 331 388**	**89 981 433**	**67 079 157**	**157 060 590**

4.5 Financial assets mandatorily recognised at fair value through profit or loss

Headings		31/12/2018			31/12/2019	
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Debt instruments	**156 778 121**	**1 075 257 042**	**1 232 035 164**	**616 522 753**	**604 583 454**	**1 221 106 207**
Public sector	-	*65 002 389*	*65 002 389*	*10 181 767*	*79 300 085*	*89 481 852*
Credit institutions	*36 289 963*	*594 862 671*	*631 152 634*	*356 901 946*	*404 414 914*	*761 316 860*
Corporate customers	*120 488 159*	*415 391 982*	*535 880 141*	*249 439 041*	*120 868 455*	*370 307 495*
Loans and advances	**-**	**2 805 188**	**2 805 188**	**-**	**13 283 675**	**13 283 675**
Public sector	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-
Corporate customers	-	*2 805 188*	*2 805 188*	-	*13 283 675*	*13 283 675*
Total	**156 778 121**	**1 078 062 230**	**1 234 840 351**	**616 522 753**	**617 867 129**	**1 234 389 882**
of which: Unrealised profit/loss at the reporting date	*4 240 266*	*-4 420 966*	*-180 700*	*13 048 942*	*-8 094 264*	*4 954 677*

This item includes financial instruments that, according to IFRS 9, do not pass the SPPI test and are therefore to be measured at fair value through profit or loss.

Breakdown of changes in carrying amount of debt instruments:

Debt instruments	2018	2019
Position as at 1 January	**1 217 592 537**	**1 232 035 164**
Acquisitions	117 021 867	121 330 680
Sales	-20 542 230	-36 275 162
Repayments	-61 282 969	-99 389 800
Realised profit/(loss)	3 775 088	2 779 956
Pro-rata interest	-7 157 274	-2 088 995
Unrealised valuations	-17 534 405	2 401 405
Exchange gain or loss	162 549	312 959
Position as at 31 December	**1 232 035 164**	**1 221 106 207**

4.6 Fixed-income securities recognised at amortised cost

Headings	31/12/2018			31/12/2019		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Debt instruments	**4 114 695 730**	**10 111 963 294**	**14 226 659 023**	**3 617 490 185**	**9 865 449 745**	**13 482 939 931**
Public sector	*445 730 675*	*2 288 315 564*	*2 734 046 239*	*489 932 251*	*2 389 592 203*	*2 879 524 454*
Credit institutions	*2 510 601 196*	*5 354 332 562*	*7 864 933 758*	*2 589 768 581*	*4 604 823 270*	*7 194 591 850*
Corporate customers	*1 158 363 858*	*2 469 315 168*	*3 627 679 026*	*537 789 354*	*2 871 034 272*	*3 408 823 626*
Total	**4 114 695 730**	**10 111 963 294**	**14 226 659 023**	**3 617 490 185**	**9 865 449 745**	**13 482 939 931**
of which: Impairment of financial assets	*-1 749 635*	*-10 057 190*	*-11 806 825*	*-1 587 644*	*-7 687 914*	*-9 275 558*

Breakdown of changes in carrying amount:

Debt instruments	2018	2019
Position as at 1 January	**12 914 000 168**	**14 226 659 023**
Acquisitions	3 768 571 198	3 405 003 443
Sales	-	-19 393 855
Repayments	-2 410 470 008	-4 183 370 464
Realised profit/(loss)	-65 495	205 442
Pro-rata interest	-34 894 208	-22 318 992
Unrealised valuations of hedges	-20 535 186	35 484 563
Impairment	3 935 311	2 531 261
Exchange gain or loss	6 117 243	38 139 510
Position as at 31 December	**14 226 659 023**	**13 482 939 931**

Table detailing the provisioning:

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2018	**7 207 851**	**172 044**	**8 362 241**	**15 742 136**
of which:				
Public sector	*732 031*	*-*	*-*	*732 031*
Credit institutions	*4 199 104*	*-*	*-*	*4 199 104*
Corporate customers	*2 276 716*	*172 044*	*8 362 241*	*10 811 001*
Stage transfers	**2 866 394**	**831 908**	**-3 698 302**	**-**
Public sector				
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Credit institutions				
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Corporate customers				
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	*119 981*	*-119 981*	-	-
Transfer from Stage 3	*2 746 413*	*951 889*	*-3 698 302*	-
Position as at 31 December 2018 before changes	**10 074 246**	**1 003 952**	**4 663 938**	**15 742 136**
Changes	**-2 343 312**	**-978 756**	**-613 243**	**-3 935 311**
Increase due to acquisition and origination	2 172 413	-	-	2 172 413
Decrease due to repayment	-	-	-	-
Change related to credit risk	-4 518 444	-978 756	-613 682	-6 110 882
Other changes	-	-	-	-
Depreciation	-	-	-	-
Exchange gain or loss	2 719	-	438	3 158
Position as at 31 December 2018	**7 730 934**	**25 196**	**4 050 695**	**11 806 825**
of which:				
Public sector	*546 290*	*-*	*-*	*546 290*
Credit institutions	*4 067 444*	*-*	*-*	*4 067 444*
Corporate customers	*3 117 199*	*25 196*	*4 050 695*	*7 193 090*

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Public sector	**-**	**-**	**-**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Credit institutions	**-**	**-**	**-**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Corporate customers	**20 204 777**	**-823 728**	**-19 381 049**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	*3 231 168*	*-3 231 168*	-	-
Transfer from Stage 3	*16 973 610*	*2 407 439*	*-19 381 049*	-

Exposure by stage at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Public sector	2 734 592 530	-	-	2 734 592 530
Credit institutions	7 869 001 203	-	-	7 869 001 203
Corporate customers	3 620 168 091	7 497 262	7 206 764	3 634 872 116

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2019	**7 730 934**	**25 196**	**4 050 695**	**11 806 825**
of which:				
Public sector	*546 290*	-	-	*546 290*
Credit institutions	*4 067 444*	-	-	*4 067 444*
Corporate customers	*3 117 199*	*25 196*	*4 050 695*	*7 193 090*
Changes	**857 367**	**458 748**	**-3 847 181**	**-2 531 067**
Increase due to acquisition and origination	2 509 935	-	-	2 509 935
Decrease due to repayment	-471 785	-	-	-471 785
Change related to credit risk	-1 197 489	458 748	-3 824 912	-4 563 653
Other changes	-	-	-	-
Depreciation	-	-	-22 407	-22 407
Exchange gain or loss	16 705	-	137	16 842
Position as at 31 December 2019	**8 588 300**	**483 944**	**203 513**	**9 275 758**
of which:				
Public sector	*454 164*	-	-	*454 164*
Credit institutions	*4 892 129*	-	-	*4 892 129*
Corporate customers	*3 242 008*	*483 944*	*203 513*	*3 929 465*

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Public sector	**-**	**-**	**-**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-		-	-
Credit institutions	**-**	**-**	**-**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Corporate customers	**4 815 315**	**1 299 421**	**-6 114 737**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	*2 130 440*	*-2 130 440*	-	-
Transfer from Stage 3	*2 684 875*	*3 429 862*	*-6 114 737*	-

Exposure by stage at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Public sector	2 879 978 425	-	-	2 879 978 425
Credit institutions	7 199 483 980	-	-	7 199 483 980
Corporate customers	3 409 119 716	3 429 862	203 513	3 412 753 091

4.7 Fixed-income securities recognised at fair value through the revaluation reserve

Headings		31/12/2019	
	=<1 year	>1 year	Total
Debt instruments	**11 000 000**	**5 069 764**	**16 069 764**
Public sector	-	*5 069 764*	*5 069 764*
Credit institutions	*11 000 000*	-	*11 000 000*
Corporate customers	-		-
Total	**11 000 000**	**5 069 764**	**16 069 764**
of which: Unrealised profit/loss at the reporting date	*-32 077*	*-16 021*	*-48 098*

Breakdown of changes in carrying amount:

Debt instruments	2019
Position as at 1 January	**-**
Acquisitions	16 119 377
Sales	-
Repayments	-
Realised profit/(loss)	-
Pro-rata interest	-1 515
Unrealised valuations	-48 098
Exchange gain or loss	-
Position as at 31 December	**16 069 764**

4.8 Variable-income securities recognised at fair value through the revaluation reserve

Headings	31/12/2018	31/12/2019
Equity instruments	**863 396 081**	**820 716 989**
Credit institutions	*3 666 600*	*3 958 116*
Corporate	*859 729 481*	*816 758 873*
Total	**863 396 081**	**820 716 989**
of which: Unrealised profit/loss through the revaluation reserve	*529 021 573*	*486 895 434*
Dividends received during the period	31 108 012	31 018 707
of which dividends from positions sold during the period	-	-
Gains/losses on sales in equity	808 399	2 709

Breakdown of changes in carrying amount:

Equity instruments	2018	2019
Position as at 1 January	**699 476 204**	**863 396 081**
Acquisitions	1 770 222	-
Sales	-514 215	-1 473 467
Profit/(loss) realised through own funds	808 399	2 709
Unrealised valuations	159 805 528	-42 187 349
Exchange gain or loss	2 049 944	979 014
Position as at 31 December	**863 396 081**	**820 716 989**

4.9 Investments in associates accounted for using the equity method

	31/12/2018	31/12/2019
Acquisition value on 1 January	**54 227 636**	**51 463 781**
Establishment	1 391 835	5 691 671
Disposals	-4 155 690	-721 900
Total (as acquisition value)	**51 463 781**	**56 433 552**

List of associates:

Associates	Fraction of capital held (%)	Acquisition value	Equity-accounted value 2019
Société Nationale de Circulation Automobile S.à r.l.	20,00	24 789	7 622 140
Luxair S.A.	21,81	14 830 609	97 306 317
Société de la Bourse de Luxembourg S.A.	22,75	128 678	26 922 443
Europay Luxembourg S.C.	30,10	188 114	929 776
European Fund Administration S.A.	31,67	5 691 671	5 817 022
LuxHub S.A.	32,50	1 300 000	293 830
Visalux S.C.	34,66	365 305	7 165 276
Lalux Group S.A.	40,00	28 904 385	240 868 546
BioTechCube (BTC) Luxembourg S.A.	50,00	5 000 000	714 399
Sub-total direct holdings in associates		**56 433 552**	**387 639 750**
Total		**56 433 552**	**387 639 750**

Associates	Fraction of capital held (%)	Acquisition value	Equity-accounted value 2018
Société Nationale de Circulation Automobile S.à r.l.	20,00	24 789	6 758 684
Luxair S.A.	21,81	14 830 609	98 352 343
Société de la Bourse de Luxembourg S.A.	22,75	128 678	24 029 499
Europay Luxembourg S.C.	30,10	188 114	775 563
LuxHub S.A.	32,50	1 300 000	665 311
Visalux S.C.	34,66	365 306	7 782 260
Lalux Group S.A.	40,00	28 904 385	215 530 085
BioTechCube (BTC) Luxembourg S.A.	50,00	5 000 000	720 073
Sub-total direct holdings in associates		**50 741 882**	**354 613 819**
EFA Partners S.A.	29,05	551 900	719 160
Pecoma International S.A.	33,33	170 000	219 542
Sub-total indirect holdings in associates		**721 900**	**938 702**
Total		**51 463 781**	**355 552 521**

On 24 June 2019, the Group's parent company increased is stake in EFA S.A. to 31,67%.

With one exception, the financial statements of associates have been restated to comply with IFRS 9. That one exception is the Lalux Group S.A. entity, which refers to Regulation (EU) 2017/1988 published in the official journal on 9 November 2017 and concerning amendments to IFRS 4 Insurance Contracts. This regulation introduces certain exemptions for entities that operate in the insurance sector and are consolidated in the financial statements of financial conglomerates under IFRS 9 until financial year 2022.

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	2019			
	Net income from continuing operations	Net income after tax from discontinued operations	Other items of comprehensive income	Total comprehensive income
Direct interests	**13 821 166**	**-**	**26 635 404**	**40 456 570**
Société Nationale de Circulation Automobile S.à r.l.	829 801	-	515 548	1 345 349
Luxair S.A.	-1 552 131	-	-1 906 854	-3 458 985
Société de la Bourse de Luxembourg S.A.	4 174 760	-	602 402	4 777 162
Europay Luxembourg S.C.	22 622	-	-97 864	-75 242
European Fund Administration S.A.	-1 324 868	-	1 448 241	123 373
LuxHub S.A.	-371 481		-634 689	-1 006 170
Visalux S.C.	-100 439	-	-652 634	-753 073
Lalux Group S.A.	12 153 675	-	27 371 816	39 525 491
BioTechCube (BTC) Luxembourg S.A.	-10 773	-	-10 562	-21 335
Indirect interests	**-**	**-**	**-108 040**	**-108 040**
EFA Partners S.A.	-	-	-55 404	-55 404
Pecoma International S.A.	-	-	-52 636	-52 636
Total	**13 821 166**	**-**	**26 527 364**	**40 348 530**

Associates	2018			
	Net income from continuing operations	Net income after tax from discontinued operations	Other items of comprehensive income	Total comprehensive income
Direct interests	**12 281 427**	**-**	**1 505 106**	**13 786 533**
Société Nationale de Circulation Automobile S.à r.l.	482 100	-	325 941	808 041
Luxair S.A.	-2 428 329	-	3 975 488	1 547 159
Société de la Bourse de Luxembourg S.A.	1 882 735	-	215 135	2 097 870
Europay Luxembourg S.C.	-231 604	-	-3 403 159	-3 634 763
FS-B S.à.r.l.	-	-	-281 339	-281 339
FS-T S.à.r.l.	-	-	87 509	87 509
LuxHub S.A.	-634 689	-	-	-634 689
Visalux S.C.	-1 010 894	-	-1 166 298	-2 177 192
Lalux Group S.A.	14 238 120	-	1 767 281	16 005 401
BioTechCube (BTC) Luxembourg S.A.	-16 012	-	-15 452	-31 464
Indirect interests	**108 762**	**-**	**-3 053**	**105 709**
EFA Partners S.A.	111 856	-	42	111 898
Pecoma International S.A.	-3 094	-	-3 095	-6 189
Total	**12 390 189**	**-**	**1 502 053**	**13 892 242**

4.10 Securities collateralised

- **Securities collateralised in the framework of repurchase agreements**

Headings	31/12/2018	31/12/2019
Debt instruments issued by the public sector	335 451 247	297 705 022
Debt instruments issued by credit institutions	306 666 187	199 588 376
Debt instruments issued - other	289 050 940	92 233 713
Total	**931 168 374**	**589 527 111**

The debt instruments issued are primarily "fixed-income securities recognised at amortised cost".

The decrease observed in debt instruments stems from the smaller number of collateral security agreements as at 31 December 2019.

- **Securities lent and other collateral**

-

Headings	31/12/2018	31/12/2019
Securities lending		
Debt instruments issued by the public sector	642 071 306	340 533 182
Debt instruments issued by credit institutions	157 676 149	130 602 601
Debt instruments issued - other	95 000 741	114 551 016
Total	**894 748 197**	**585 686 799**

4.11 Convertible bonds included in the different portfolios

The Group did not hold any convertible bonds as at 31 December 2019 or 31 December 2018.

4.12 Derivative instruments

With regard to financial derivatives, the Group distinguishes between financial instruments held for trading and hedging derivatives. Financial derivatives held for trading are held exclusively against transactions (economic hedging) and not for speculative purposes. Hedging derivatives should be separated into:

- Fair value hedges: the Group's fair value hedging consists in hedging against changes in the fair value of the interest rate component of debt instruments. Hedged items consist of loans, securities and issues of EMTN at fixed rates. Loans can be micro- or macro-hedged. The revaluation of fair value for interest rate risk of these hedged instruments impacts the income statement. This hedging is achieved through the use of IRS.

- Cash flow hedges: cash flow hedging applies to two types of risks. On the one hand, the Group applies this type of hedge to freeze the cash flows of variable-rate loans. On the other hand, it applies to fixed-rate bonds in foreign currencies for which the Group deems it necessary to hedge foreign exchange risk. This hedging is achieved through the use of IRS and CIRS. Revaluation of the fair value of these derivatives impacts comprehensive income through the cash flow hedging reserve.

The measurement of the effectiveness of fair value and cash flow hedging is described in paragraph 3.2.2.

Categories at 31/12/2019	Assets	Liabilities	Notional
Derivative financial instruments held for trading	**143 054 604**	**157 060 590**	**17 009 759 617**
Operations linked to exchange rates	78 464 119	84 619 258	15 094 906 053
- Foreign exchange swaps and forward exchange contracts	*77 614 217*	*84 619 258*	*15 085 794 506*
- CCIS	*849 902*	-	*9 111 547*
- other	-	-	-
Operations linked to interest rates	63 492 833	71 343 679	1 896 910 196
- IRS	*62 811 115*	*70 330 949*	*1 779 756 037*
- other	*681 718*	*1 012 730*	*117 154 159*
Operations linked to equity	1 097 653	1 097 653	17 943 368
- Equity and index options	*1 097 653*	*1 097 653*	*17 943 368*
Fair value hedging derivatives	**50 973 791**	**854 199 992**	**11 429 929 630**
Operations linked to exchange rates	19 718 872	172 880 015	1 754 039 010
- CCIS	*19 718 872*	*172 880 015*	*1 754 039 010*
Operations linked to interest rates	31 254 919	681 319 977	9 675 890 620
- IRS	*31 254 919*	*681 319 977*	*9 675 890 620*
Cash flow hedging derivatives	**8 308 799**	**19 108 008**	**428 443 568**
Operations linked to exchange rates	5 731 589	19 108 008	404 043 568
- CCIS	*5 731 589*	*19 108 008*	*404 043 568*
Operations linked to interest rates	2 577 210	-	24 400 000
- IRS	*2 577 210*	-	*24 400 000*

Categories at 31/12/2018	Assets	Liabilities	Notional
Derivative financial instruments held for trading*	**220 216 547**	**133 331 388**	**15 425 751 774**
Operations linked to exchange rates	178 107 701	52 951 413	12 408 458 186
- Foreign exchange swaps and forward exchange contracts	*177 431 491*	*52 951 413*	*12 215 995 186*
- CCIS	*676 210*	-	*3 763 000*
- other	-	-	*188 700 000*
Operations linked to interest rates	34 223 923	72 495 052	2 969 261 072
- IRS	*33 305 605*	*71 246 060*	*2 842 736 069*
- other	*918 318*	*1 248 991*	*126 525 003*
Operations linked to equity	7 884 923	7 884 923	48 032 516
- Equity and index options	*7 884 923*	*7 884 923*	*48 032 516*
Fair value hedging derivatives	**43 494 414**	**595 544 439**	**9 623 595 485**
Operations linked to exchange rates	25 900 841	131 188 033	1 334 033 138
- CCIS	*25 900 841*	*131 188 033*	*1 334 033 138*
Operations linked to interest rates	17 593 574	464 356 406	8 289 562 347
- IRS	*17 593 574*	*464 356 406*	*8 289 562 347*
Cash flow hedging derivatives	**21 976 145**	**11 281 850**	**494 156 237**
Operations linked to exchange rates	18 657 253	11 281 850	464 756 237
- CCIS	*18 657 253*	*11 281 850*	*464 756 237*
Operations linked to interest rates	3 318 892	-	29 400 000
- IRS	*3 318 892*	-	*29 400 000*

** the breakdown of derivative financial instruments held for trading has been revised to align with the FINREP tables*

Fair value hedges at 31/12/2019	Balance sheet categories	Fair value of hedged instruments	Change in fair value of hedging instruments	Change in fair value of hedged instruments	Ineffectiveness	Effectiveness rate
Interest rate risk						
Fixed-rate asset instruments	Fixed-income securities recognised at amortised cost, Loans and advances at amortised cost – Customers, Change in fair value of a portfolio of financial instruments hedged against interest rate risk	-483.505.525	195.624.830	-196.321.076	-696.246	100,36%
Fixed-rate liability instruments	Issuance of debt securities	13.605.345	-14.548.130	14.540.250	-7.880	99,95%
Currency risk						
Fixed-rate asset instruments	Fixed-income securities recognised at amortised cost, Loans and advances at amortised cost – Customers	-46.347.377	16.604.837	-16.586.959	17.878	99,89%
Fixed-rate liability instruments	Issuance of debt securities	-1.405	-2.781.740	2.780.981	-759	99,97%

Cash flow hedges at 31/12/2019	Balance sheet categories	Change in fair value of hedging instruments	Change in fair value of hedged instruments	Cash flow hedging reserve	
				continuity of hedging	termination of hedging
Interest rate risk					
Fixed-rate asset instruments	Loans and advances at amortised cost - Customers	741.474	-	-2.574.253	-
Currency risk					
Fixed-rate asset instruments	Fixed-income securities recognised at amortised cost	880.589	-	1.365.513	-

Fair value hedges at 31/12/2018	Balance sheet categories	Fair value of hedged instruments	Change in fair value of hedging instruments	Change in fair value of hedged instruments	Ineffectiveness	Effectiveness rate
Interest rate risk						
Fixed-rate asset instruments	Fixed-income securities recognised at amortised cost, Loans and advances at amortised cost – Customers, Change in fair value of a portfolio of financial instruments hedged against interest rate risk	-140.488.686	-23.753.718	21.165.245	-2.588.474	89,10%
Fixed-rate liability instruments	Issuance of debt securities	-934.905	-4.174.609	4.162.321	-12.288	99,71%
Currency risk						
Fixed-rate asset instruments	Fixed-income securities recognised at amortised cost, Loans and advances at amortised cost – Customers	-29.760.419	6.509.730	-6.497.946	11.785	99,82%
Fixed-rate liability instruments	Issuance of debt securities	-2.782.386	3.517.066	-3.515.426	1.640	99,95%

Cash flow hedges at 31/12/2018	Balance sheet categories	Change in fair value of hedging instruments	Change in fair value of hedged instruments	Cash flow hedging reserve	
				continuity of hedging	termination of hedging
Interest rate risk					
Fixed-rate asset instruments	Loans and advances at amortised cost - Customers	939.319	-	3.315.726	-
Currency risk					
Fixed-rate asset instruments	Fixed-income securities recognised at amortised cost	-486.709	-	-484.924	-

Income on hedging activities recognised in net income and other comprehensive income at 31/12/2019	Net income or other comprehensive income
Fair value hedges (micro + macro hedges)	**687 007**
gains (losses) on hedging instruments	-194 778 594
gains (losses) on hedged instruments related to the hedged risk	195 586 803
ineffective part	-121 203
Cash flow hedges	**1 622 063**
ineffective part	-
effective part	1 622 063
reclassified in profit or loss over the period	-

Reconciliation of the equity component at 31/12/2019	Cash flow hedges recognised in revaluation reserve
Balance at 1 January 2019	**2 830 802**
Change in fair value related to hedging of:	-1 622 063
interest rate risk	*-741 474*
foreign exchange risk	*-880 589*
Amount reclassified to profit or loss related to hedging of:	-
interest rate risk	-
foreign exchange risk	-
Balance at 31 December 2019	**1 208 739**

Income on hedging activities recognised in net income and other comprehensive income at 31/12/2018	Net income or other comprehensive income
Fair value hedges (micro + macro hedges)	**2 587 336**
gains (losses) on hedging instruments	18 092 399
gains (losses) on hedged instruments related to the hedged risk	-15 314 194
ineffective part	-190 868
Cash flow hedges	**452 610**
ineffective part	-
effective part	452 610
reclassified in profit or loss over the period	-

Reconciliation of the equity component at 31/12/2018	Cash flow hedges recognised in revaluation reserve
Balance at 1 January 2018	**3 283 412**
Change in fair value related to hedging of:	-452 610
interest rate risk	*-939 319*
foreign exchange risk	*486 709*
Amount reclassified to profit or loss related to hedging of:	-
interest rate risk	-
foreign exchange risk	-
Balance at 31 December 2018	**2 830 802**

4.13 Change in fair value of a portfolio of financial instruments hedged against interest rate risk

Headings	31/12/2018	31/12/2019
Assets: Change in fair value of a portfolio of financial instruments hedged against interest rate risk	69 027 154	215 762 686
Total	**69 027 154**	**215 762 686**

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

The change in this item between 2018 and 2019 is due primarily to a volume effect and to the change in the interest-rate curves used to determine fair value.

4.14 Tangible assets for own use

	Land and buildings		Other equipment and furniture	Total
	Property for own use	Right-of-use assets arising from leases		
Position as at 1 January 2019	**392 791 279**	**14 446 730**	**64 691 580**	**471 929 589**
Increase	3 474 845	2 489 575	8 869 534	14 833 954
Exceptional transfers	-64 182	-	-	-64 182
Decrease	-3 054 156	-	-7 673 552	-10 727 708
Position as at 31 December 2019	**393 147 786**	**16 936 305**	**65 887 561**	**475 971 653**
Accumulated depreciation				
Position as at 1 January 2019	**142 324 183**	**-**	**37 197 422**	**179 521 606**
Depreciation	-2 831 537	-	-7 636 227	-10 467 764
Exceptional transfers	258 012	-	-	258 012
Additions	11 898 883	3 289 044	8 757 949	23 945 876
Position as at 31 December 2019	**151 649 541**	**3 289 044**	**38 319 145**	**193 257 730**
Net book value				
Position as at 1 January 2019	**250 467 096**	**14 446 730**	**27 494 158**	**292 407 983**
Position as at 31 December 2019	**241 498 245**	**13 647 262**	**27 568 417**	**282 713 923**

	Land and construction	Other equipment and furniture	Total
Position as at 1 January 2018	**390 830 582**	**66 943 271**	**457 773 853**
Increase	4 365 499	7 941 313	12 306 813
Decrease	-2 404 802	-10 193 004	-12 597 807
Position as at 31 December 2018	**392 791 279**	**64 691 580**	**457 482 859**
Accumulated depreciation			
Position as at 1 January 2018	**132 276 041**	**37 154 206**	**169 430 247**
Depreciation	-2 243 743	-10 140 482	-12 384 224
Additions	12 291 885	10 183 698	22 475 583
Position as at 31 December 2018	**142 324 183**	**37 197 422**	**179 521 606**
Net book value			
Position as at 1 January 2018	**258 554 541**	**29 789 065**	**288 343 606**
Position as at 31 December 2018	**250 467 096**	**27 494 158**	**277 961 253**

4.15 Investment property

Position as at 1 January 2019	**30 019 258**
Increase (acquisitions)	-
Increase (investment expenditure)	20 796
Exceptional transfers	64 183
Decrease	-750 192
Position as at 31 December 2019	**29 354 045**
Accumulated depreciation	
Position as at 1 January 2019	**17 256 530**
Depreciation	-608 997
Exceptional transfers	-258 012
Additions	933 950
Position as at 31 December 2019	**17 323 471**
Net book value	
Position as at 1 January 2019	**12 762 729**
Position as at 31 December 2019	**12 030 574**

Position as at 1 January 2018	**30 653 882**
Increase (acquisitions)	-
Increase (investment expenditure)	16 583
Decrease	-651 207
Position as at 31 December 2018	**30 019 258**
Accumulated depreciation	
Position as at 1 January 2018	**16 926 764**
Depreciation	-651 207
Additions	980 974
Position as at 31 December 2018	**17 256 530**
Net book value	
Position as at 1 January 2018	**13 727 120**
Position as at 31 December 2018	**12 762 729**

Rental income from rented investment property amounted to EUR 3.053.324 for the 2019 financial year, versus EUR 3.051.964 in the prior year. Maintenance costs related to investment property were EUR 174.321 in 2019, compared with EUR 157.737 one year earlier.

The fair value of investment property stood at EUR 73.074.580 at year-end 2019, compared with EUR 72.462.312 at end-2018. 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.

Investment properties are exclusively located on the national territory.

4.16 Intangible assets

Position as at 1 January 2019	**52 712 569**
Increase	16 921 829
Decrease	-9 489 781
Position as at 31 December 2019	**60 144 617**
Accumulated depreciation	
Position as at 1 January 2019	**25 237 519**
Depreciation	-9 489 781
Additions	14 997 817
Position as at 31 December 2019	**30 745 555**
Net book value	
Position as at 1 January 2019	**27 475 050**
Position as at 31 December 2019	**29 399 062**

Position as at 1 January 2018	**41 051 244**
Increase	20 258 832
Decrease	-8 597 507
Position as at 31 December 2018	**52 712 569**
Accumulated depreciation	
Position as at 1 January 2018	**22 446 190**
Depreciation	-8 597 507
Additions	11 388 835
Position as at 31 December 2018	**25 237 519**
Net book value	
Position as at 1 January 2018	**18 605 053**
Position as at 31 December 2018	**27 475 050**

The depreciation expense related to intangible assets is recognised under "Allowances for impairment of tangible and intangible assets" in the income statement.

4.17 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 9.820.434 as at 31 December 2019 versus EUR 46.813.738 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 2019, the Group posted a deferred tax asset of EUR 149.322.883, and a deferred tax liability of EUR 128.499.977.

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	01/01/2018	Movements in equity	Movements in income statement	31/12/2018
Deferred tax assets	93 552 932	50 872 957	-	144 425 889
Deferred tax liabilities	-158 365 512	5 670 905	10 541 836	-142 152 770
Net deferred tax assets / liabilities	**-64 812 580**	**56 543 862**	**10 541 836**	**2 273 119**

Headings	01/01/2019	Movements in equity	Movements in income statement	31/12/2019
Deferred tax assets	144 425 889	27 263 253	-22 366 258	149 322 883
Deferred tax liabilities	-142 152 770	-4 146 397	17 799 190	-128 499 977
Net deferred tax assets / liabilities	**2 273 119**	**23 116 855**	**-4 567 067**	**20 822 906**

4.17.1 Tax assets

Headings	31/12/2018	31/12/2019
Deferred taxes	144 425 889	149 322 883
Tax assets	**144 425 889**	**149 322 883**

Breakdown of deferred tax assets according to origin:

Headings	31/12/2018	31/12/2019
Derivative financial instruments - application of fair value	126 129	340 559
Debt instruments - application of fair value	-	11 948
Equity instruments - application of fair value	3 998 803	5 102 975
Pension funds - actuarial gain or loss	96 764 277	123 669 482
Deferred tax assets due to FTA	43 536 679	20 197 919
Deferred tax assets	**144 425 889**	**149 322 883**

4.17.2 Tax liabilities

Headings	31/12/2018	31/12/2019
Current taxes	46 813 738	9 820 434
Income tax	*34 105 501*	*27 835 263*
Municipal business tax	*12 686 837*	*-18 036 229*
Wealth tax	*21 400*	*21 400*
Deferred taxes	142 152 770	128 499 977
Tax liabilities	**188 966 508**	**138 320 411**

Breakdown of deferred tax liabilities according to origin:

Headings	31/12/2018	31/12/2019
Derivative financial instruments - application of fair value	862 420	642 019
Equity instruments - application of fair value	791 698	1 486 536
Regulatory and other provisions	106 029 218	104 049 452
Pension funds - actuarial gain or loss	2 890 058	7 410 039
Deferred tax liabilities due to FTA	31 579 375	14 911 932
Deferred tax liabilities	**142 152 770**	**128 499 977**

4.18 Other assets

Headings	31/12/2018	31/12/2019
Operational outstandings	12 280 871	7 383 000
Preferential or secured borrowers	1 672 453	1 219 946
Other	10 161	110 396
Total	**13 963 485**	**8 713 342**

4.19 Deposits at amortised cost – Credit institutions

Headings	31/12/2018			31/12/2019		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Inter-bank deposits	4 130 586 398	588 474 794	4 719 061 192	4 410 456 252	62 781 759	4 473 238 011
of which central bank deposits	*425 440 769*	*496 427 778*	*921 868 547*	*419 365 396*	-	*419 365 396*
Repurchase/Reverse repurchase agreements	97 978 071	-	97 978 071	119 596 784	-	119 596 784
Other financial liabilities	23 805 802	-	23 805 802	99 164 486	-	99 164 486
Total	**4 252 370 271**	**588 474 794**	**4 840 845 065**	**4 629 217 523**	**62 781 759**	**4 691 999 282**

4.20 Deposits at amortised cost – Customers

Headings	31/12/2018			31/12/2019		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Private sector	**25 015 575 225**	**980 140 803**	**25 995 716 028**	**26 112 601 316**	**567 879 085**	**26 680 480 401**
- Demand deposit and notice accounts	*9 169 669 399*	-	*9 169 669 399*	*10 361 379 381*	-	*10 361 379 381*
- Time deposit accounts	*2 086 726 085*	*980 140 803*	*3 066 866 888*	*1 627 168 715*	*567 879 085*	*2 195 047 801*
- Savings	*13 759 179 740*	-	*13 759 179 740*	*14 124 053 219*	-	*14 124 053 219*
- Repurchase/Reverse repurchase agreements	-	-	-	-	-	-
Public sector	**4 829 161 993**	**1 052 271 028**	**5 881 433 022**	**5 709 865 375**	**989 336 972**	**6 699 202 347**
Total	**29 844 737 218**	**2 032 411 831**	**31 877 149 050**	**31 822 466 690**	**1 557 216 057**	**33 379 682 748**

4.21 Financial liabilities designated at fair value through profit or loss

Headings	31/12/2018			31/12/2019		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Issues	-	151 566 706	151 566 706	-	166 144 407	166 144 407
Total	**-**	**151 566 706**	**151 566 706**	**-**	**166 144 407**	**166 144 407**
of which: Unrealised profit/loss at the reporting date	-	*-1 918 958*	*-1 918 958*	-	*10 678 974*	*10 678 974*

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.

Breakdown of changes in carrying amount:

Issues	2018	2019
Position as at 1 January	**146 853 974**	**151 566 705**
Pro-rata interest	1 840 508	1 840 911
Unrealised valuations	2 612 343	12 597 932
Exchange gain or loss	259 880	138 860
Position as at 31 December	**151 566 705**	**166 144 407**

4.22 Issuance of debt securities

Headings		31/12/2018			31/12/2019	
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Certificates of deposit	41 625 872	59 022 613	100 648 485	43 742 608	28 984 867	72 727 475
Commercial paper	3 098 167 240	-	3 098 167 240	3 318 395 896	-	3 318 395 896
Medium Term Notes and other securities issued	-	447 778 704	447 778 704	8 817 659	415 139 530	423 957 190
Total	**3 139 793 112**	**506 801 317**	**3 646 594 429**	**3 370 956 163**	**444 124 397**	**3 815 080 561**
of which: Subordinated notes	*-*	*100 483 038*	*100 483 038*	*8 817 659*	*91 207 770*	*100 025 429*

"Medium Term Notes" issues are exclusively listed on the Luxembourg Stock Exchange.

Since 2015, certificates of deposit are no longer marketed and are managed in run-off mode.

Breakdown of changes in carrying amount of medium-term notes:

Issues	2018	2019
Position as at 1 January	**456 569 488**	**447 778 704**
Issues	-	-
Repayments/redemptions	-9 016 500	-42 380 952
Realised profit/(loss)	43 247	-
Pro-rata interest	133 661	-609 140
Unrealised valuations	3 636 622	17 321 231
Exchange gain or loss	-3 587 814	1 847 348
Position as at 31 December	**447 778 704**	**423 957 190**

Breakdown of subordinated loans as at 31 December 2019

Description	Rate	Issue currency	Nominal amount issued - EUR	Assimilated portion - EUR	Non-assimilated portion - EUR
Loan 2000-2020	-	EUR	8 600 000	1 083 094	7 516 906
Loan 2001-2021	-	EUR	11 000 000	2 355 099	8 644 901
Loan 2001-2021	-	EUR	30 000 000	6 422 998	23 577 002
Loan 2002-2022	0,163	EUR	50 000 000	28 856 947	21 143 053
Total			**99 600 000**	**38 718 138**	**60 881 862**

The interest expense on subordinated notes stood at EUR 177.821 as at 31 December 2019, compared with EUR 166.589 as at 31 December 2018.

4.23 Provisions

This item comprises two main types of provisions: provisions to be established under IAS 37 and provisions on Group commitments according to IFRS 9.

Changes during the financial year:

2018	Provisions			
	Risks and charges	Time savings account	IFRS 9	Total
Position as at 1 January	**2 599 352**	**-**	**15 196 140**	**17 795 492**
Additions	200 000	-	8 077 352	8 277 352
Reversals	-82 823	-	-10 156 420	-10 239 243
Application	-421 654	-	1 291	-420 363
Expense included in personnel expenses	-	6 411 941	-	6 411 941
Position as at 31 December	**2 294 875**	**6 411 941**	**13 118 363**	**21 825 179**
2019				
Position as at 1 January	**2 294 875**	**6 411 941**	**13 118 363**	**21 825 178**
Additions	-	-	7 997 091	7 997 091
Reversals	-211 782	-	-9 375 351	-9 587 133
Application	-	-	104	104
Expense included in personnel expenses	-	3 861 092	-	3 861 092
Position as at 31 December	**2 083 093**	**10 273 033**	**11 740 207**	**24 096 333**

The provisions established under IAS 37 are provisions for risks and charges and include provisions for risks related to disputes and provisions for charges on personnel costs not covered by other standards.

Details of IFRS 9 provisioning for 2019:

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2018	**10 862 265**	**3 262 743**	**1 071 132**	**15 196 140**
Stage transfers	**613 519**	**-547 038**	**-66 482**	**-**
Transfer from Stage 1	*-97 443*	*96 457*	*986*	*-*
Transfer from Stage 2	*681 525*	*-703 348*	*21 823*	*-*
Transfer from Stage 3	*29 438*	*59 853*	*-89 291*	*-*
Position as at 31 December 2018 before changes	**11 475 784**	**2 715 705**	**1 004 650**	**15 196 140**
Changes	**-1 229 572**	**-646 915**	**-201 290**	**-2 077 777**
Increase due to acquisition and origination	7 486 993	949 570	959 315	9 395 879
Decrease due to repayment	-2 496 271	-1 329 210	-193 394	-4 018 874
Change related to credit risk	-6 221 587	-252 465	-967 211	-7 441 262
Other changes	-	-14 810	-	-14 810
Exchange gain or loss	1 292	-1	-	1 290
Position as at 31 December 2018	**10 246 212**	**2 068 790**	**803 361**	**13 118 363**
Position as at 1 January 2019	**10 246 212**	**2 068 790**	**803 361**	**13 118 363**
Changes	**-1 616 244**	**-84 146**	**322 238**	**-1 378 152**
Increase due to acquisition and origination	6 470 917	139 853	547 314	7 158 084
Decrease due to repayment	-3 592 244	-349 533	-563 226	-4 505 003
Change related to credit risk	-4 495 024	125 534	338 150	-4 031 340
Other changes	-	-	-	-
Exchange gain or loss	106	-	-	106
Position as at 31 December 2019	**8 629 968**	**1 984 643**	**1 125 599**	**11 740 209**

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Transfer from Stage 1	-37 681 407	37 439 240	242 167	-
Transfer from Stage 2	33 405 182	-33 536 018	130 836	-
Transfer from Stage 3	138 470	168 519	-306 989	-

Outstanding amounts covered by provisions	Stage 1	Stage 2	Stage 3	Total
Outstanding amounts as at 31 December 2018	6 080 329 241	175 939 243	7 541 887	6 263 810 371
Outstanding amounts as at 31 December 2019	6 618 178 791	155 057 581	3 604 776	6 776 841 148

4.24 Other liabilities

Headings	31/12/2018	31/12/2019
Operational outstandings	57 279 105	3 193 964
Preferential or guaranteed creditors	23 069 643	21 644 231
Liabilities arising from leases	-	13 647 262
Other	3 410 652	3 113 659
Total	**83 759 400**	**41 599 116**

4.25 Pension funds - Defined-benefit pension plan

Main estimates used to determine pension commitments:

Variables	31/12/2018	31/12/2019
Discount rate for active employees	1,80%	1,10%
Discount rate for beneficiaries	1,45%	0,80%
Salary increases (including indexation)	3,25%	3,25%
Pension increases (including indexation)	2,25%	2,25%
Induced yield	1,61%	0,94%

The induced yield of 0,94% in 2019 corresponds to the weighted average of the discount rates for active employees and for beneficiaries as fixed at the end of the 2019 financial year.

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

Components	31/12/2018	31/12/2019
Current service cost	11 092 320	11 792 479
Interest cost	9 902 453	11 006 642
Induced yield	-6 840 037	-7 373 197
Total	**14 154 736**	**15 425 924**

Pension commitments:

	2018	2019
Commitments as at 1 January	**646 114 109**	**682 449 398**
Current service cost	11 092 320	11 792 479
Interest cost	9 902 453	11 006 642
Benefits paid	-12 585 339	-12 851 647
Actuarial gains or losses	27 925 854	123 840 805
Commitments as at 31 December	**682 449 398**	**816 237 677**

Civil servants' pension payments are initially made directly by the State to civil servants. The Group only recognises the payments when the amounts are repaid to the State. Hence, "Benefits paid" amounting to EUR 12.851.647 include the repayments to the Luxembourg State of civil servants' pensions in respect of the 2018 financial year.

Breakdown of actuarial gains and losses:

	2018	2019
Actuarial gains and losses arising from changes in actuarial assumptions	-8 798 320	114 490 280
- financial assumptions	*-8 798 320*	*114 490 280*
- demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	36 724 174	9 350 525
Total actuarial gains and losses:	**27 925 854**	**123 840 805**

Sensitivity analysis of pension commitments:

Impact of changes in actuarial assumptions on the pension commitment as at 31/12/2019	Decrease	Increase
Change in average actuarial rate (-/+ 50 bps)	102 515 125	-86 645 735
Change in wage increase rate (-/+ 50 bps)	-81 954 215	99 088 386
Change in pension increase rate (-/+ 25 bps)	-36 775 353	39 277 610
Change in mortality tables (-/+ 1 year)	29 303 047	-28 786 696
Cumulative effect:	**13 088 603**	**22 933 564**

Impact of changes in actuarial assumptions on the pension commitment as at 31/12/2018	Decrease	Increase
Change in average actuarial rate (-/+ 50 bps)	80 452 505	-68 451 363
Change in wage increase rate (-/+ 50 bps)	-67 624 350	82 473 437
Change in pension increase rate (-/+ 25 bps)	-28 927 498	30 814 629
Change in mortality tables (-/+ 1 year)	22 317 515	-22 048 586
Cumulative effect:	**6 218 172**	**22 788 117**

Maturity analysis of pension commitments:

	31/12/2018	31/12/2019
Average duration of the pension commitment	**22,11 years**	**23,2 years**
Analysis of maturities of commitments to be paid	**682 449 398**	**816 237 678**
pensions outstanding for the year	7 252 938	7 448 265
commitments to be paid within 12 months	13 605 769	14 057 804
commitments to be paid in 1-3 years	28 681 729	29 590 295
commitments to be paid in 3-6 years	45 919 427	47 916 875
commitments to be paid in 6-11 years	84 031 158	91 351 093
commitments to be paid in 11-16 years	89 416 347	100 570 613
commitments to be paid after 16 years	413 542 030	525 302 731

Pension plan assets:

	2018	2019
Assets as at 1 January	**446 297 938**	**457 163 411**
Benefits paid	-12 585 339	-12 851 647
Contribution	33 002 681	17 865 225
Induced yield	6 840 037	7 373 197
Fair value gain / loss	-16 391 907	18 600 128
Assets as at 31 December	**457 163 411**	**488 150 315**

In 2019, the Group's parent company made an annual contribution of EUR 12.565.225 and an extraordinary contribution of EUR 5.300.000 compared with an annual contribution of EUR 9.002.681 and an extraordinary contribution of EUR 24.000.000 in the previous year. The extraordinary contribution for 2019 was used to offset the impact of the signature of the wage agreement, while the extraordinary contribution for 2018 was used to offset the impact of the switch from the IGSS mortality tables to DAV2004R.

Pension plan investments:

2019	Credit institutions	Public sector	Corporate	Total
Fixed-income securities	103 894 645	156 577 026	35 943 053	296 414 724
Variable-income securities	-	-	129 618 856	129 618 856
Real estate investment	-	-	11 269 063	11 269 063
Other assets (primarily deposits)	50 847 671	-	-	50 847 671
Total	**154 742 315**	**156 577 026**	**176 830 973**	**488 150 315**

2018	Credit institutions	Public sector	Corporate	Total
Fixed-income securities	133 085 476	153 757 048	28 370 984	315 213 508
Variable-income securities	-	-	47 006 214	47 006 214
Real estate investment	-	-	10 802 640	10 802 640
Other assets (primarily deposits)	84 141 048	-	-	84 141 048
Total	**217 226 524**	**153 757 048**	**86 179 839**	**457 163 411**

Net pension commitments:

	2017	2018	2019
Pension commitments	646 114 109	682 449 398	816 237 677
Plan assets measured at fair value	-446 297 938	-457 163 411	-488 150 315
Unfinanced commitments	**199 816 171**	**225 285 987**	**328 087 363**

Stock of actuarial gains and losses:

Stock as at 1 January 2018*	**316.598.106**
2018 net change	44.317.761
Stock as at 31 December 2018	**360.915.867**
Stock as at 1 January 2019	**360.915.867**
2019 net change	105.240.677
Stock as at 31 December 2019	**466.156.545**

** The amount has been adjusted for the stock of actuarial gains and losses recognised since 1 January 2008.*

The Group's parent company's estimated total contribution to the pension fund for 2020 is EUR 11.996.000.

4.26 Related-party transactions

The related parties of the Group's parent company are equity-accounted associates, governmental institutions and the Group's key management personnel.

All transactions with related parties are completed under market conditions.

4.26.1 Relationships between the group's parent company and equity-accounted associates

	31/12/2018	31/12/2019
Deposits from associates	241 880 312	153 900 247
Total	**241 880 312**	**153 900 247**

	31/12/2018	31/12/2019
Loans from associates	60 003 409	22 783 083
Total	**60 003 409**	**22 783 083**

4.26.2 Government institutions

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

Therefore, the Luxembourg Government controls the Group which, 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 while applying the provisions of paragraph 25 of IAS 24:

ASSETS	31/12/2018	31/12/2019
Loans and advances at amortised cost	2 310 327 576	2 117 944 510
Fixed-income securities recognised at amortised cost	565 350 469	691 969 593
Other	4 237 210	3 258 915
TOTAL ASSETS	**2 879 915 255**	**2 813 173 018**

LIABILITIES	31/12/2018	31/12/2019
Deposits at amortised cost	4 911 514 610	5 970 303 667
TOTAL LIABILITIES	**4 911 514 610**	**5 970 303 667**

4.26.3 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:

	31/12/2018	31/12/2019
Board of Directors (nine members)	318 750	339 477
Executive Board (five members)	1 081 756	1 064 533
Total	**1 400 506**	**1 404 010**

4.26.4 Loans and advances granted to members of the Group's management and administrative bodies

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

	31/12/2018	31/12/2019
Board of Directors (nine members)	2 268 788	3 689 815
Executive Board (five members)	219 750	37 452
Total	**2 488 538**	**3 727 267**

4.27 Statutory Auditor's fees

	2018	2019
Statutory audit of the company and consolidated annual financial statements	557 126	609 781
Other audit services	146 560	262 805
Tax services	-	-
Other	-	-
Total	**703 686**	**872 586**

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

4.28 Direct fees and contributions related to the European Banking Union

Headings	2018	2019
European Central Bank supervision charges	1 306 993	1 681 051
CSSF supervision charges	517 000	517 000
Single Resolution Board charges	355 068	252 653
Total	**2 179 061**	**2 450 704**
FGDL contribution	28 750 366	13 545 273
FRL contribution	11 930 654	14 367 325
Total	**40 681 020**	**27 912 598**

4.29 Off-balance sheet items

Type of guarantees issued

Headings	31/12/2018	31/12/2019
Completion bonds	423 220 707	482 263 027
Letters of credit	82 986 242	84 685 327
Counter-guarantees	379 500 912	400 732 006
Other	5 136 715	17 521 204
Total	**890 844 576**	**985 201 565**

Commitments

Headings	31/12/2018	31/12/2019
Amounts subscribed and unpaid on securities, equity interests and shares in affiliated companies	6 950 482	6 856 145
Undrawn confirmed credits	5 351 527 190	5 776 579 783
Financing	*2 782 178 307*	*3 109 423 835*
Current accounts	*1 870 832 084*	*1 832 226 611*
Money market contracts	*218 340 611*	*277 524 514*
Other	*480 176 187*	*557 404 822*
Documentary credits	13 412 664	10 100 000
Total	**5 371 890 335**	**5 793 535 928**

An amount of EUR 11.740.209 related to the calculation of expected credit losses was recorded under "Provisions".

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 [2]

(in euros)

5.1 Interest income

Interest received and similar income	2018	2019
Assets repayable on demand	-	-
Financial assets held for trading	244 227 468	298 599 563
Financial assets mandatorily measured at fair value through profit or loss	7 006 682	2 587 531
Fixed-income securities recognised at amortised cost	171 919 599	157 268 902
Receivables at amortised cost	396 175 388	399 575 933
Derivatives - Hedge accounting, interest rate risk	73 413 967	82 807 127
Other assets	18 581 021	13 967 759
Total	**911 324 125**	**954 806 815**

Interest paid and similar expenses	2018	2019
Financial liabilities held for trading	-56 851 066	-83 207 630
Financial liabilities designated at fair value through profit or loss	-2 704 980	-2 706 073
Liabilities at amortised cost - Deposits	-133 464 137	-106 582 732
Liabilities at amortised cost - Debt certificates	-84 438 873	-105 100 781
Liabilities at amortised cost - Subordinated loans	-103 115	-153 966
Derivatives - Hedge accounting, interest rate risk	-263 575 311	-254 573 135
Other liabilities	-13 479 505	-24 850 866
Total	**-554 616 987**	**-577 175 183**

Interest income	356 707 138	377 631 632
Total interest received and similar income not recognised at fair value through profit or loss	586 676 008	570 812 594
Total interest paid and similar expenses not recognised at fair value through profit or loss	-231 485 630	-236 688 345
Interest received on liability instruments	*16 649 051*	*12 479 742*
Interest paid on asset instruments	*-31 168 852*	*-26 033 956*

[2] Minor differences between the figures in the notes to the annual financial statements and the figures in the different annual statements are rounding differences only

5.2 Income from securities

Headings	2018	2019
Variable-income securities recognised at fair value through the revaluation reserve	31 356 636	31 464 134
Income from securities	**31 356 636**	**31 464 134**

5.3 Fee and commission income

Headings	2018	2019
Loan activities	49 002 267	55 339 329
Asset management	39 484 972	44 842 743
Investment fund activities	51 657 209	50 296 337
Demand deposit accounts and related activities	35 997 923	38 461 349
Insurance premiums	3 040 679	2 576 172
Other (*)	8 084 745	9 093 321
Total commissions received	**187 267 795**	**200 609 251**
Loan activities	-3 834 660	-3 864 085
Asset management	-17 305 377	-19 128 153
Investment fund activities	-10 542 731	-10 562 994
Demand deposit accounts and related activities	-7 343 949	-8 682 807
Other (*)	-2 435 576	-3 291 951
Total commissions paid	**-41 462 293**	**-45 529 990**
Total commissions	**145 805 502**	**155 079 261**

(*) mostly fees on derivative financial instruments.

5.4 Income from financial instruments not recognised at fair value through profit or loss

Headings	2018	2019
Fixed-income securities recognised at amortised cost	-60 624	205 443
Variable-income securities recognised at fair value through the revaluation reserve	246 943	-
Loans and advances at amortised cost	145 510	13 371
Financial liabilities at amortised cost	6 077	-
Total	**337 906**	**218 814**

5.5 Income from financial instruments held for trading

Headings	2018	2019
Equity instruments and related derivatives	4 393 382	5 124 315
Foreign exchange instruments and related derivatives	-2 374 974	5 786 187
Interest rate instruments and related derivatives	3 771 321	18 838 790
Total	**5 789 730**	**29 749 292**

5.6 Income from financial instruments designated at fair value through profit or loss

Headings	2018	2019
Financial liabilities designated at fair value through profit or loss	-2 612 343	-12 597 932
Total	**-2 612 343**	**-12 597 932**

5.7 Income from financial instruments mandatorily measured at fair value through profit or loss

Headings	2018	2019
Fixed-income securities	-4 756 615	-2 575 963
UCI units	-8 723 674	10 537 093
Loans and advances	114 118	171 935
Total	**-13 366 171**	**8 133 065**

5.8 Income from hedging transactions

Headings	2018	2019
Fair value hedge		
Debt instruments (assets) hedged by derivative financial instruments	-165 703	-43 430
Debt issues hedged by derivative financial instruments	10 647	8 639
Loans hedged by derivative financial instruments	2 742 392	721 799
Total	**2 587 336**	**687 008**
Value adjustment on hedged instruments	-15 314 194	195 586 804
Value adjustment on hedging instruments	17 901 531	-194 899 796
Total	**2 587 336**	**687 008**

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

Information on the effectiveness rate is included in Note 4.12.

5.9 Other net operating income

Headings	2018	2019
Other operating income	14 141 187	12 750 617
Other operating expenditure	-42 727 204	-31 060 294
Other net operating income	**-28 586 017**	**-18 309 677**

"Other operating income and expenditure" mainly includes:

- 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.

Income on amortised loans stood at EUR 1.551.658 for 2019 and at EUR 2.719.114 for 2018.

5.10 Personnel expenses

Headings	2018	2019
Compensation	184 246 569	189 508 750
Social security charges	7 306 842	7 007 293
Pensions and similar expenses	13 802 204	14 490 284
Pension fund expense	14 154 736	15 425 924
Other personnel expenses	4 986 582	6 191 285
Total	**224 496 933**	**232 623 536**

5.11 Other general and administrative expenses

Headings	2018	2019
Expenses related to property and furniture	22 588 880	20 973 038
Rents and maintenance of software	21 971 612	25 568 866
Operating expenditure related to the banking business	31 063 918	31 852 889
Other	11 104 935	10 470 458
Total	**86 729 345**	**88 865 251**

5.12 Depreciation allowances for tangible assets

- **Depreciation**

Headings	2018	2019
Depreciation - land and buildings for own use	12 291 884	11 898 883
Depreciation - land and buildings in relation to leases	-	2 965 971
Depreciation - equipment and furniture	10 183 698	8 757 949
Depreciation of tangible assets	**22 475 582**	**23 622 803**

Implementation of IFRS 16 on 1 January 2019 led to the recognition of lease-related costs under this heading.

- **Impairment**

No impairment of tangible assets according to IAS 36 was recognised by the Group in 2018 or 2019.

5.13 Allowances for impairment of investment properties

- **Depreciation**

Headings	2018	2019
Depreciation	980 974	933 950
Depreciation of tangible assets - investment	**980 974**	**933 950**

- **Impairment**

No impairment of investment properties according to IAS 36 was recognised by the Group in 2018 or 2019.

5.14 Allowances for impairment of intangible assets

- Amortisation

Headings	2018	2019
Amortisation	11 388 835	14 997 817
Amortisation of intangible assets	**11 388 835**	**14 997 817**

- Impairment

No impairment of intangible assets according to IAS 36 was recognised by the Group in 2018 or 2019.

5.15 Net allowances for impairment of credit risks

	2018			2019		
	Additions	Reversals	Total	Additions	Reversals	Total
Fixed-income securities recognised at amortised cost	-3 185 937	7 121 228	3 935 291	-4 175 486	6 701 182	2 525 696
Fixed-income securities recognised at fair value through the revaluation reserve	-	-	-	-193	-	-193
Loans and advances	-27 782 361	44 082 725	16 300 364	-55 414 894	60 101 081	4 686 187
	-30 968 298	**51 203 953**	**20 235 654**	**-59 590 573**	**66 802 263**	**7 211 690**

	2018	2019
Interest on impaired fixed-income securities recognised at amortised cost	3 577	3 362
Interest on impaired loans and advances	1 959 960	2 767 544
Total	**1 963 536**	**2 770 907**

5.16 Provisions and reversal of provisions

Headings	2018	2019
Provisions	-8 789 938	-7 997 092
Reversal of provisions	10 751 826	9 587 134
Net allowances for provisions	**1 961 888**	**1 590 042**

5.17 Tax expense

Headings	2018	2019
Tax on income from continuing operations	49 096 004	-38 394 720
Deferred taxes	-10 541 836	-4 567 067
of which impact due to the change in the tax rate	-	*3 171 666*
Tax on profit/(loss) for the period	**38 554 168**	**-42 961 787**

The nominal tax rate applicable in Luxembourg was 24,94% as at 31 December 2019 and 26,01% as at 31 December 2018. The Group's effective tax rate was 17,10% and 19,32% in 2019 and 2018 respectively, given the differences between the Luxembourg tax base and the accounting principles for annual consolidated financial statements in force in Luxembourg.

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

	2018	2019
Income before tax	199.532.544	251.269.745
Tax rate	26,01%	24,94%
Theoretical tax at the standard rate	51.898.415	62.666.674
Tax impact of non-deductible expenses	104.154	95.540
Tax impact of non-taxable income	-13.671.896	-14.247.568
Share in the income of equity-accounted associates	-3.235.700	-3.446.999
Tax rebates and reductions	1.414.497	10.548.218
Change in deferred tax rate	-	-4.079.142
Tax refund/payment from previous financial years	827.312	860.001
IFRS 9 FTA impact	-	-5.739.556
Other	1.217.386	-3.695.380
Tax on profit/(loss) for the period	**38.554.168**	**42.961.788**

The tax impact of non-taxable income largely stems from the collection of dividends from the Group's strategic shareholdings in resident companies, fully subject to tax, which enable it to apply the principle of parent companies and subsidiaries in accordance with Article 166 LIR (Income Tax Act) in order to avoid double economic taxation of such income. Excluding this non-taxable income for the Group, the Group's effective tax rate would be 24,7% in 2019.

5.18 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 0,43% for financial year 2019 versus 0,35% in the prior year.

6 RISK MANAGEMENT[3]

6.1 General rules for managing risk

Traditionally, the Group's parent company has pursued a prudent and conservative risk management policy.
The Group's parent company has thus opted for a "defensive" risk profile, defined in the Risk Appetite Framework ("RAF"). The RAF includes indicators of the Group's major risk categories and enables the Executive Committee and the Board of Directors to regularly monitor the Group's parent company's overall situation in detail. Risk appetite is defined as the level of risk that the Group's parent company is willing and able to bear in the pursuit of its strategic objectives. The levels of risk to which the Group's parent company is exposed are measured through a set of strategic indicators, operational metrics, and macroeconomic indicators. Risk appetite is expressed through the surveillance levels set by the Group's parent company for these indicators.

Risk appetite is transposed into a set of limits intended to manage and control the Group's various risks. These limits are indicated in the Group's Limit Handbook.

6.1.1 Role of the Board of Directors

The Board of Directors defines the general policy of the Group's parent company in accordance with the Organic Law of 1989 and the applicable national and European legal texts and accordingly approves the overall economic strategy of the Group's parent company and its main policies, proposed by the Committee, within the applicable legal and regulatory framework, while also taking into account the Group's solvency and long-term financial interests.

In this context, the Board of Directors defines the overall strategy of the Group's parent company, on the basis of proposals from the Executive Committee, and oversees the consistent implementation of the Group's strategic objectives, related administrative and functional structure and risk strategy.

The Group has established the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) to make a comprehensive assessment of all

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

risks to which it could be exposed. For each risk identified, the Group estimates the materiality and probability of occurrence, and assesses its resources for the management of the risk identified.

This risk assessment process results in an annual statement by the management body in which it communicates its assessment of the institution's capital adequacy.

6.1.2 Role of the Audit Committee

The Audit Committee's mission is to advise the Board of Directors in its supervisory function and thus prepare the decisions to be adopted by the Board. In particular, it assists the Board in the areas of financial reporting, internal control including internal audit, and control exercised by the statutory auditor.

The Audit Committee thus facilitates the implementation of a sound internal governance framework.

The Audit Committee consists of four members of the Board of Directors.

The Chief Executive Officer, Deputy Chief Executive Officer, Chief Risk Officer and Chief Internal Auditor are invited to all meetings of the Audit Committee. The audit firm responsible for the statutory audit of the Group's parent company's financial statements may be invited to Audit Committee meetings at the request of the Audit Committee.

6.1.3 Role of the Risk Committee

The Risk Committee's mission is to advise the Board of Directors in its supervisory function and thus prepare the decisions to be adopted by the Board of Directors. It provides support in the specific areas relating to the multiple aspects of risks incurred by the Group's parent company, inherent in executing its business model, inherent in the strategic objectives of the Group's parent company, and inherent in legal, regulatory, technological changes and changes in the social, commercial and competitive environment in which the Group operates.

It thus facilitates the implementation of a sound internal governance framework.

It consists of five members of the Board of Directors, including a majority of independent members of the Board of Directors within the meaning of the applicable laws and regulations.

The Chief Executive Officer, Deputy Chief Executive Officer, Chief Risk Officer and Chief Internal Auditor are invited to all meetings of the Risk Committee.

6.1.4 Role of the Appointment and Compensation Committee

The Appointment and Compensation Committee’s mission is to advise the Board of Directors in its supervisory function and thus prepare the decisions to be adopted by the Board of Directors. It provides support in specific areas relating in particular to certain aspects of the compensation and appointment of members of Spuerkeess’s management bodies, the Board of Directors and the Executive Committee and those responsible for internal control functions.

It thus facilitates the implementation of a sound internal governance framework.

6.1.5 Role of the Executive Committee

Pursuant to the Organic Law of 1989 and in accordance with the general policy of the Group’s parent company and the Group’s overall economic strategy defined by the Board of Directors on a proposal from the Committee, all administrative acts and measures necessary or relevant to Spuerkeess’s purpose fall within the responsibility of the Executive Committee.

The Executive Committee is responsible for the effective, sound and prudent management of activities and the risks inherent to them. This management is done in keeping with the strategies and guiding principles established by the Board of Directors and applicable European and national laws and regulations. The Executive Committee thus makes concrete proposals to the Board of Directors enabling it to define the overall risk strategy, including the Group’s risk appetite and risk management framework.

6.1.6 Role of the Risk Management Committee

The Risk Management Committee consists of members of the Executive Committee as well as certain department heads and vice presidents of the Group’s parent company and deals with topics related to the identification, measurement, management and reporting of risks, whether with regard to pillar 1 risks, such as credit, market, and operational risks, or pillar 2 risks, such as liquidity, compliance and reputational risks. The proposals of the Risk Management Committee are subject to validation by the Executive Committee. The Risk Management Committee is assisted by a Risk Subcommittee, which meets on a monthly basis.

6.1.7 Responsibilities of the Risk Management function

From an organisational point of view, the risk control function is delegated to the Risk Management unit. This function reports directly to the Executive Committee and operates independently from all commercial activities within Spuerkeess. The Risk Management unit is therefore part of the second line of defence.
The Group's parent company has a set of risk monitoring committees made up of the heads of various units at the operational level of the Group's parent company.

6.1.8 Responsibilities of the Compliance function

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 and regulations.

The Compliance function is part of the second line of defence with Internal Audit and Risk Management. It reports directly to the Executive Committee. The areas and responsibilities of the Compliance function are mainly:

- the fight against money laundering and terrorist financing;
- the prevention of market abuse and the integrity of financial instrument markets;
- the protection of the customers and investors interests;
- the application of regulations on the protection of personal data;
- the prevention and management of conflicts of interests;
- the identification and monitoring of the standards to which Spuerkeess is subject in the course of its activities.

In addition to the Compliance unit, the Compliance function also consists of the Compliance Committee and the Acceptance Committee. The Compliance Committee is responsible for cross-business compliance issues affecting several units/activities. The Acceptance Committee is responsible for starting new business relationships and ending others for various reasons.

6.1.9 Responsibilities of the Internal Audit function

The "Internal Audit" function is responsible for periodically assessing the proper functioning and adequacy of the Group's parent company's internal control system.

The objectives are the following:

- preserve the assets of Banque et Caisse d’Epargne de l’Etat, Luxembourg;
- promote the efficiency and effectiveness of the implemented resources in order to ensure the quality of services;
- ensure the protection, integrity, reliability, and rapid dissemination of operational and financial information;
- ensure the correct application of internal procedures, instructions, Luxembourg’s laws and regulations, as well as the regulator’s prudential requirements;
- ensure compliance with the objectives set by the decision-making bodies of Banque et Caisse d’Epargne de l’Etat, Luxembourg;
- ensure the adequacy of the segregation of duties and the execution of operations;
- ensure compliance with the procedures governing the adequacy of capital and internal liquidity reserves;
- guarantee the adequacy of risk management;
- ensure the operation and effectiveness of the compliance and risk control functions.

Audit missions are carried out on the basis of a multi-year audit plan drawn up by the Internal Audit unit and approved by the Audit Committee.

The Chief Internal Auditor (CIA) guarantees application of the international standards of the Institute of Internal Auditors and compliance with the regulatory requirements by the Internal Audit unit.

6.1.10 Responsibilities of the Loans and Credit department

From an organisational point of view, credit risk is managed by the Loans and Credit department (DAG), a unit that 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. The new Credit Process Management unit (CPM) is responsible for the internal rating models.

6.1.11 Systems for measuring and tracking limits

6.1.11.1 Credit risk

The Loans and Credit department continuously monitors the quality of all borrowers.

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

The "Credit Process Management" (CPM) unit within the DAG department deals with cross-business operational topics relating to personal and business loans/credit facilities. The activity also encompasses regulatory aspects, optimisation of the credit process, as well as development and maintenance of internal ratings and grant scoring models.

The Loans and Credit Department reports to Senior Management on a continuous basis on changes in the quality of borrowers. The Risk Management function conducts a detailed quarterly analysis of the changes in credit quality for all 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.

6.1.11.2 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 takes an integrated approach to managing interest rate risk for its entire banking book.

The Group 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. Compliance with these limits is monitored by the "Risk Management" function.

- interest rate risk stress tests based on several market rate scenarios, which consist in assessing the impact of these scenarios on the economic value of Spuerkeess's rate-risk-sensitive banking book positions (Economic Value of Equity).

- Value-at-Risk (VaR) for trading floor and ALM positions, to determine the amounts at risk with respect to the positions held. Risk amounts are subject to limits set by Senior Management and supervised by the "Risk Management" function. 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 Group's equity;
  - quantifies the probability of the loss occurrence.

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

The Group 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.

Transformation risk is handled by the ALM Committee, composed of members of the Executive Committee, several commercial department heads, and the heads of the Loans and Credit, Risk Management, and Accounting and Securities departments. The ALM Committee is responsible for proposing the broad guidelines for interest rate risk management beyond two years and for setting the target ALM profitability. The proposals of the ALM Committee are subject to validation by the Executive Committee. The ALM Committee is assisted by an ALM Subcommittee, which meets monthly.

6.1.11.3 Counterparty risk stemming from derivative financial instrument transactions

The Group 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-2019, 73,62% of the transactions outstanding amounts on derivatives were covered by such agreements.

Alongside the ISDA-CSA framework agreements, the Group is making increasing use of central counterparties (CCPs) to limit counterparty risk. At end-2019, 20,55% of transactions outstanding amounts on derivatives were liquidated through these CCPs.

6.1.11.4 Liquidity risk

Liquidity risk results from a problem in recognition of 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 is generally in a position of excess liquidity.

The Group 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 Group conducted the stress tests required by circular CSSF 09/403 in 2018 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 Group 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 Group 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 Group's 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 Group 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 2019, this portfolio amounted to **EUR 3,5 billion**. At year-end 2019, the amount of the portfolio of assets eligible for refinancing with the BCL or usable on the interbank market exceeded EUR 10 billion.

Amended CSSF Circular 07/301, § II.1. "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 Group's parent company did not participate as originator or sponsor in such a transaction during the 2018 financial year.

The Group's 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 settlement risk arising from foreign-exchange transactions through the "Payment-versus-Payment" principle and reduces the Group's liquidity risk by netting transactions, which considerably reduces settlement volumes.

6.2 Operational risk

The Group defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events and includes legal risk", in accordance with article 4/point 52 of EU Regulation no. 575/2013 ("Capital Requirements Regulation", CRR).

6.2.1 Governance of operational risk management

To ensure effective management of operational risk at all levels, the Group has implemented governance based on the concept of the three lines of defence.
The roles and responsibilities of the control functions as well as the first line of defence are clearly highlighted in the Operational Risk Management Policy.
Operational risk management is supervised by various committees, including the Risk Management Committee at the Executive Committee level and the Risk Committee at the Board of Directors level. The guidelines as well as the ultimate supervision and definition of operational risk appetite come directly from the Board of Directors, and implementation is ensured by the Executive Committee.

6.2.2 Operational risk management culture

Proper management of operational risk requires the promotion of a strong risk culture. The establishment of such a culture comes from the Group’s parent company’s general management ("Tone from the Top").

The Group’s parent company thus:

- ensures that employees respect the values and rules of professional ethics. The Group’s parent company defines these standards in the staff code of conduct;
- ensures that employees have the necessary information and knowledge at the end of the training courses organised at regular intervals;
- ensures that the Group’s parent company’s employees do not have incentives to behave in a manner not in line with the Group’s parent company’s risk culture.

In addition, the Group’s parent company applies several key principles:

- The principle of segregation of duties within the meaning of Article 71 of CSSF Circular 12/552: tasks and responsibilities are assigned to ensure that their performance by the same person is not incompatible in order to avoid potential conflicts of interest.
- Four eyes validation principle: actions requiring a decision, validation, or approval are taken according to the "four eyes" principle in order to avoid errors and irregularities.

6.2.3 Operational risk management approach

The operational risk management approach includes an assessment of risk levels to determine whether they are acceptable or tolerable and to assist in the decision-making and operational risk management process.

Operational risk monitoring is based on risk monitoring resources and tools as well as the reporting system.

The identification, analysis, assessment, and monitoring of operational risks within the Group’s parent company constitute an integrated set of activities and methods that help the Group’s parent company to measure and manage operational risk. The activities are implemented in a structured, diligent, dynamic, and iterative manner. The choice whether to implement them results from a consistent approach and is based on exposure to the various risks incurred ("risk-based"). The various methods and practices of operational risk management can implement a dual dynamic: ex-ante (e.g. through Key Risk Indicators) or ex-post (e.g. through the collection of incident data).

The various information is used in the determination of the economic capital allocation performed as part of the Internal Capital Adequacy Assessment Process (ICAAP). Regarding the calculation of regulatory capital requirements, the Group adopts the standard approach.

Process and control improvements are actions taken to strengthen the control environment and therefore implement measures to reduce the operational risks inherent in the processes. A treatment measure may be initiated by the first line of defence as part of its responsibility for day-to-day management of inherent risks. A treatment measure may also be initiated following a decision of Senior Management on the treatment of the risk (accept, reduce, avoid, transfer).
The Group's parent company ensures that it has solid continuity plans, in particular the Business Continuity Plan (BCP), which aims to ensure the continuity of critical activities in the event of a major operational incident (involving property, computers, etc.), and the Disaster Recovery Plan (DRP), which aims to ensure the continued operation of critical information systems, supporting the critical processes of the BCP or their timely recovery in the event of a major IT incident.

6.3 Exposure to credit and counterparty risk

6.3.1 Objectives and management of credit and counterparty risk

Each Group commitment giving rise to a credit risk is subject to prior analysis by the Loans and Credit department.

For loans granted to the domestic economy recognised in the balance sheet under "Loans and advances at amortised cost - Customers", the decision-making structure is hierarchically organised into a number of credit committees, depending on the customer's overall outstanding amount. From a specified threshold, cases must be decided on by the Group's parent company's Executive Committee. The portfolio structures consist of 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 collateral. The Group's parent company follows rigorous procedures for analysing loan applications and obtaining the related collateral for corporate loans and advances. The methodology put in place under the Basel regulation allows the Group to continuously monitor credit risk trends across all portfolios.

The Group's parent company did not change its credit risk management policy in the 2019 financial year.

For interbank markets and international loans, contracts are recognised in the balance sheet under "Loans and advances at amortised cost - Credit institutions", "Loans and advances at amortised cost - Customers", "Fixed-income securities recognised at amortised cost" and "Financial assets mandatorily recognised 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 Group pursued its prudent investment policy in 2018, resulting in:

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

With regard to international loans to non-financial entities recognised in the balance sheet under "Loans and advances at amortised cost - Customers", "Fixed-income securities recognised at amortised cost" and "Financial assets mandatorily recognised at fair value through profit or loss", priority is given to commitments in OECD countries rated as at least Investment Grade. Like all the Group'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 Group also applies a country limit system for all countries in which it has commitments. These limits are reviewed 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 Group 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 agreements involves a counterparty risk for the Group.

6.3.2 Credit and concentration risk

Concentration risk is the risk resulting from an excessive exposure with regard to one single borrower, a group of borrowers, an economic sector or a country. To avoid this risk, the Group's 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 resources of the Group's parent company. In the latter case, the risk is correlated with liquidity risk.

The Group's 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 Group's parent company has set up a system of limits by country and by sector to contain concentration risk.

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

Maximum exposure to credit risk	31/12/2018	31/12/2019
Cash and sight accounts with central banks	4 237 236 592	5 333 118 189
Loans and advances at amortised cost – Credit institutions	2 580 582 943	3 000 087 638
Loans and advances at amortised cost – Customers	21 796 184 932	22 857 068 335
Financial instruments held for trading	220 216 547	143 054 603
Hedging derivative financial instruments	65 470 560	59 282 590
Financial assets mandatorily recognised at fair value through profit or loss	1 234 840 351	1 234 389 882
Fixed-income securities recognised at amortised cost	14 226 659 024	13 482 939 931
Fixed-income securities recognised at fair value through the revaluation reserve	-	16 069 764
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	69 027 154	215 762 686
Exposure of balance sheet commitments	**44 430 218 102**	**46 341 773 618**
Completion bonds	423 220 707	482 263 027
Letters of credit	82 986 242	84 685 327
Counter-guarantees	379 500 912	400 732 006
Other	5 136 715	17 521 204
Undrawn confirmed credits	5 351 527 190	5 776 579 783
Documentary credits	13 412 664	10 100 000
Exposure of off-balance sheet commitments	**6 255 784 429**	**6 771 881 347**
Total exposure	**50 686 002 531**	**53 113 654 965**

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

- collaterals:

Breakdown by type of collateral	31/12/2018	31/12/2019
Mortgages	15 186 236 992	15 972 667 752
Reverse repurchase agreements	932 334 078	1 464 090 017
Pledge through cash or securities deposits	130 295 213	124 633 595

- personal guarantees: these stood at EUR 61.662.060 at year-end 2019, compared with EUR 56.399.872 one year earlier,
- ISDA – CSA contracts,
- Global Master Repurchase Agreements (GMRA).

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

31/12/2019	Financial assets that are the subject of netting			Potential netting not recognised on the balance sheet		Financial assets after taking potential netting into account
	Financial assets before balance sheet netting	Balance sheet netting with financial liabilities	Financial assets recorded on the balance sheet	Financial liabilities	Collateral received	
Reverse repurchase/Repurchase agreements	1 949 219 200	485 116 970	1 464 102 230	4 507 378	1 421 905 988	37 688 864
Derivatives	57 704 407	-	57 704 407	25 475 859	31 123 266	1 105 282
Total assets	**2 006 923 607**	**485 116 970**	**1 521 806 637**	**29 983 237**	**1 453 029 254**	**38 794 146**

31/12/2018	Financial assets that are the subject of netting			Potential netting not recognised on the balance sheet		Financial assets after taking potential netting into account
	Financial assets before balance sheet netting	Balance sheet netting with financial liabilities	Financial assets recorded on the balance sheet	Financial liabilities	Collateral received	
Reverse repurchase/Repurchase agreements	1 718 124 869	820 863 976	897 260 894	23 102 293	- 305 925 276	1 180 083 877
Derivatives	127 410 744	-	127 410 744	30 295 213	96 349 496	766 035
Total assets	**1 845 535 614**	**820 863 976**	**1 024 671 638**	**53 397 506**	**- 209 575 780**	**1 180 849 912**

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

31/12/2019	Financial liabilities that are the subject of netting			Potential netting not recognised on the balance sheet		Financial liabilities after taking potential netting into account
	Financial liabilities before balance sheet netting	Balance sheet netting with financial assets	Financial liabilities recorded on the balance sheet	Financial assets	Collateral given	
Repurchase/Reverse repurchase agreements	115 089 407	-	115 089 407	-	113 534 537	1 554 870
Derivatives	973 098 752	-	973 098 752	118 510 100	846 179 559	8 409 093
Total liabilities	**1 088 188 159**	**-**	**1 088 188 159**	**118 510 100**	**959 714 096**	**9 963 963**

31/12/2018	Financial liabilities that are the subject of netting			Potential netting not recognised on the balance sheet		Financial liabilities after taking potential netting into account
	Financial liabilities before balance sheet netting	Balance sheet netting with financial assets	Financial liabilities recorded on the balance sheet	Financial assets	Collateral given	
Repurchase/Reverse repurchase agreements	157 211 542	82 435 776	74 775 766	-	46 780 311	27 995 455
Derivatives	685 989 648	-	685 989 648	144 673 529	271 178 292	270 137 827
Total liabilities	**843 201 191**	**82 435 776**	**760 765 415**	**144 673 529**	**317 958 604**	**298 133 282**

6.3.3 Analysis of credit risk relating to financial assets

Pursuant to IFRS, the Group assesses 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. Collateralisation is a technique for reducing the risk of the underlying asset.

Credit risk is shown according to exposures:

- by geographical area,
- by counterparty category,
- by risk class (internal ratings).

Exposure by geographical area:

Geographical area as at 31/12/2019 (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	5 188 882	181	105 485	27 614	-	10 956	5 333 118
Loans and advances at amortised cost	25 323 928	20 304	43 195	413 912	21	55 796	25 857 156
Financial instruments held for trading and hedging derivative instruments	192 652	-	8 265	1 402	-	18	202 337
Financial assets mandatorily recognised at fair value through profit or loss	812 982	-	194 625	27 646	149 006	50 131	1 234 390
Fixed-income securities recognised at amortised cost	8 838 792	518 825	2 205 650	1 116 268	673 740	129 665	13 482 940
Financial instruments recognised at fair value through the revaluation reserve	836 787	-	-	-	-	-	836 787
Investments in associates accounted for using the equity method	387 640	-	-	-	-	-	387 640
Other	569 442	-	-	-	-	-	569 442
Total	**42 151 105**	**539 310**	**2 557 219**	**1 586 842**	**822 767**	**246 567**	**47 903 810**

Geographical area as at 31/12/2018 (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	4 203 801	376	18 097	4 123	-	10 839	4 237 237
Loans and advances at amortised cost	23 715 791	14 741	92 565	481 197	21	72 452	24 376 768
Financial instruments held for trading and hedging derivative instruments	221 428	-	60 330	3 929	-	-	285 687
Financial assets mandatorily recognised at fair value through profit or loss	730 546	10 496	221 953	28 105	172 435	71 305	1 234 840
Fixed-income securities recognised at amortised cost	9 258 606	471 851	2 580 139	1 039 972	701 083	175 008	14 226 659
Variable-income securities recognised at fair value through the revaluation reserve	863 396	-	-	-	-	-	863 396
Investments in associates accounted for using the equity method	355 553	-	-	-	-	-	355 553
Other	403 463	-	-	-	-	-	403 463
Total	**39 752 584**	**497 465**	**2 973 083**	**1 557 326**	**873 539**	**329 605**	**45 983 602**

In the following table, to meet the requirements of IFRS 7 "Financial Instruments: Disclosures", exposure to credit risk as at 31 December 2018 and 2019 is presented according to internal ratings.

The average collateralisation ratio recorded is defined as the ratio of collateral received to outstanding amounts.

Exposure by counterparty category and risk class:

	2018			2019		
	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	4.051.862.915	4.051.837.652	-	4.440.966.137	4.440.647.983	-
Standard grade	185.564.476	185.332.952	-	893.781.478	892.467.325	-
Sub-standard grade	66.351	65.988	-	2.890	2.882	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories	**4.237.493.743**	**4.237.236.592**		**5.334.750.505**	**5.333.118.190**	
Loans and advances at amortised cost						
Banks						
High grade	689.572.252	689.324.201	5,10%	1.620.618.434	1.620.076.811	30,00%
Standard grade	1.829.679.346	1.828.824.454	33,75%	1.371.627.468	1.371.171.184	51,77%
Sub-standard grade	20.021.391	19.995.433	-	921	904	-
Past due not in default	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	42.477.986	42.477.986	-	8.838.739	8.838.739	-
Corporates						
High grade	2.214.510.587	2.208.515.333	36,11%	2.221.557.141	2.216.044.022	34,76%
Standard grade	2.096.436.150	2.092.578.842	39,06%	2.316.710.019	2.311.609.100	35,70%
Sub-standard grade	965.816.496	947.202.216	46,10%	1.011.505.731	997.467.894	47,17%
Past due not in default	5.340.063	5.294.435	92,14%	7.006.953	6.531.031	50,25%
Default	197.210.270	139.624.403	26,37%	167.651.496	111.742.565	9,96%
Not rated	62.578.297	62.246.584	87,51%	67.700.712	67.507.238	90,54%
Sovereigns						
High grade	1.694.768.537	1.694.731.794	-	1.639.590.191	1.639.535.234	-
Standard grade	3.512	3.501	-	9.938	9.906	-
Sub-standard grade	23.010	22.533	-	14.968	14.626	-
Past due not in default	-	-	-	275.020	274.986	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Retail						
High grade	11.179.426.258	11.178.506.731	92,29%	12.108.828.034	12.107.706.369	92,28%
Standard grade	1.866.153.745	1.865.290.097	91,50%	1.781.101.205	1.780.129.122	90,00%
Sub-standard grade	1.537.640.061	1.519.757.406	89,40%	1.548.363.336	1.531.838.936	89,74%
Past due not in default	29.568.588	29.156.276	87,28%	27.322.230	26.901.954	88,90%
Default	66.050.076	53.215.513	78,42%	71.920.991	59.753.183	83,91%
Not rated	136	136	100,00%	2.194	2.171	17,56%
Total of categories	**24.497.276.760**	**24.376.767.874**		**25.970.645.718**	**25.857.155.973**	

	2018			2019		
	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	176.042.896	176.042.896	-	67.853.939	67.853.939	18,70%
Standard grade	78.039.722	78.039.722	0,00%	111.616.504	111.616.504	18,59%
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	4.059.237	4.059.237	-	-	-	-
Corporates						
High grade	935.100	935.100	-	1.113.059	1.113.059	26,95%
Standard grade	20.256.308	20.256.308	0,00%	18.155.977	18.155.977	-
Sub-standard grade	2.526.863	2.526.863	0,04%	3.023.561	3.023.561	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Sovereigns						
High grade	-	-	-	-	-	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Retail						
High grade	2.464.846	2.464.846	-	456.739	456.739	-
Standard grade	976.193	976.193	-	9.377	9.377	-
Sub-standard grade	-	-	-	14.656	14.656	-
Default	-	-	-	-	-	-
Not rated	385.942	385.942	-	93.382	93.382	-
Total of categories	**285.687.107**	**285.687.107**		**202.337.194**	**202.337.194**	
Financial assets mandatorily recognised at fair value through profit or loss						
Banks						
High grade	464.613.895	464.613.895	-	523.194.357	523.194.357	-
Standard grade	166.652.857	166.652.857	-	238.122.503	238.122.503	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	286.053	286.053	-
Corporates						
High grade	339.125.607	339.125.607	-	169.770.765	169.770.765	-
Standard grade	158.077.613	158.077.613	-	133.846.594	133.846.594	-
Sub-standard grade	41.341.246	41.341.246	-	79.668.276	79.668.276	-
Default	1.921	1.921	-	1.764	1.764	-
Not rated	-	-	-	-	-	-
Sovereigns						
High grade	65.002.389	65.002.389	-	89.481.852	89.481.852	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Securitisation						
High grade	-	-	-	-	-	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Default	24.823	24.823	-	17.719	17.719	-
Not rated	-	-	-	-	-	-
Total of categories	**1.234.840.351**	**1.234.840.351**		**1.234.389.882**	**1.234.389.882**	

	2018			2019		
	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio
Fixed-income securities recognised at amortised cost						
Banks						
High grade	5.848.791.745	5.846.338.621	-	5.391.544.438	5.388.858.134	-
Standard grade	2.020.209.458	2.018.595.137	-	1.807.939.542	1.805.733.717	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	1.852.890.208	1.851.731.120	-	1.215.357.162	1.214.821.984	-
Standard grade	1.670.520.744	1.669.170.634	-	2.108.915.572	2.106.885.345	-
Sub-standard grade	5.089.822	5.064.626	-	2.950.651	2.925.909	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Sovereigns						
High grade	2.107.297.421	2.107.036.941	-	2.484.607.462	2.484.347.999	-
Standard grade	627.295.108	627.009.298	-	395.370.963	395.176.455	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Securitisation						
High grade	74.794.511	74.236.722	-	65.314.546	64.794.668	-
Standard grade	24.370.067	24.319.855	-	16.581.786	16.449.801	-
Sub-standard grade	-	-	-	3.429.862	2.945.918	-
Default	7.206.764	3.156.069	-	203.513	-	-
Not rated	-	-	-	-	-	-
Total of categories	**14.238.465.848**	**14.226.659.024**		**13.492.215.495**	**13.482.939.931**	

	2018			2019		
	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio
Financial instruments recognised at fair value through the revaluation reserve and investments in associates accounted for using the equity method						
Banks						
High grade	3.666.600	3.666.600	-	3.958.116	3.958.116	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	49.148.579	49.148.579	-	64.376.578	64.376.578	-
Standard grade	1.158.836.485	1.158.836.485	-	1.145.160.798	1.145.160.798	-
Sub-standard grade	1.720.686	1.720.686	-	1.669.765	1.669.765	-
Default	720.073	720.073	-	714.399	714.399	-
Not rated	4.856.179	4.856.179	-	3.477.083	3.477.083	-
Sovereigns						
High grade	-	-	-	5.069.764	5.069.764	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories	**1.218.948.603**	**1.218.948.603**		**1.224.426.502**	**1.224.426.502**	
Other (*)	403.462.790	403.462.790	-	569.442.491	569.442.491	-
Total of categories	**403.462.790**	**403.462.790**		**569.442.491**	**569.442.491**	
Total	**46.116.175.203**	**45.983.602.339**		**48.028.207.788**	**47.903.810.164**	

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

The Group enters outstanding amounts where the contractual payment due date has passed by at least one day on the line "Past due not in default" under "Loans and advances at amortised cost". In "Fixed-income securities recognised at amortised cost", the Group does not record any items in the "Past due not in default" line and uses objective evidence of impairment 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, Sovereigns and Retail:

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

6.4 Market risk

6.4.1 Objectives and risk management

"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 Group'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 Group's performance. The ALM committee consists of the members of the Executive Committee of the Group's parent company and certain department heads and unit heads. The ALM Committee is assisted by an ALM Subcommittee, which meets monthly.

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 kept within the limits set by the Group's parent company's Executive Committee. The Risk Management unit is responsible for regular reporting on compliance with the limits and the levels of risk incurred to the Executive Committee.

The Group did not change its market risk management policy in the 2019 financial year. However, the major project launched in 2017 to develop the capacity needed to quantify financial risks and for which the interest rate element is the key element, has been in production since the first half of 2019.

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 2019	Maximum daily VaR in 2019	VaR limit for the scope in question in 2019
ALM	6,02	8,19	12,50
Treasury	0,38	0,81	2,50
Trading	0,10	0,27	no limit

Scope	Average daily VaR in 2018	Maximum daily VaR in 2018	VaR limit for the scope in question in 2018
ALM	6,74	8,92	12,50
Treasury	0,37	0,90	2,50
Trading	0,13	0,47	no limit

In addition to VaR, which is used for the aggregate management of the different types of market risk, the Group uses other risk management tools depending on the characteristics of the financial instruments concerned. Accordingly, interest rate risk is managed by simulating the financial impact of a parallel one basis point (0,01%) change in the yield curve on the net present value (NPV) of each position. Daily reports show the total financial impact arising from a parallel one basis point shift in all yield curves, also known as basis point value (BPV), which must stay within pre-set limits.

6.4.2 Fair value analysis 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 at 31/12/2019	Carrying amount	Fair value	Unrealised valuation	Level 1	Level 2
Financial assets					
Cash and sight accounts with central banks	5.333.118.189	5.333.118.189	-	-	-
Loans and advances at amortised cost	25.857.155.973	26.438.723.324	581.567.351	0,0%	100,0%
of which measured at fair value for hedging purposes	*1.311.095.443*	*1.311.095.443*	-	-	-
Financial instruments held for trading	143.054.603	143.054.603	-	-	-
Hedging derivative financial instruments	59.282.590	59.282.590	-	-	-
Financial assets mandatorily recognised at fair value through profit or loss	1.234.389.882	1.234.389.882	-	-	-
Fixed-income securities recognised at amortised cost	13.482.939.931	13.528.596.538	45.656.607	76,6%	23,4%
Fixed-income securities recognised at fair value through the revaluation reserve	16.069.764	16.069.764	-	-	-
Variable-income securities recognised at fair value through the revaluation reserve	820.716.989	820.716.989	-	-	-
Investments in associates accounted for using the equity method	387.639.750	387.639.750	-	-	-
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	215.762.686	215.762.686	-	-	-
TOTAL	**47.550.130.357**	**48.177.354.315**	**627.223.958**		
Financial liabilities					
Deposits at amortised cost	38.071.682.030	38.417.394.575	345.712.545	0,0%	100,0%
Financial instruments held for trading	157.060.590	157.060.590	-	-	-
Hedging derivative financial instruments	873.308.000	873.308.000	-	-	-
Financial liabilities designated at fair value through profit or loss	166.144.407	166.144.407	-	-	-
Debt securities in issue	3.815.080.561	3.817.223.592	2.143.031	0,0%	100,0%
of which measured at fair value for hedging purposes	*323.931.761*	*323.931.761*	-	-	-
TOTAL	**43.083.275.588**	**43.431.131.164**	**347.855.576**		

Categories at 31/12/2018	Carrying amount	Fair value	Unrealised valuation	Level 1	Level 2
Financial assets					
Cash and sight accounts with central banks	4.237.236.592	4.237.236.592	-	-	-
Loans and advances at amortised cost	24.376.767.875	24.710.289.820	333.521.945	-	100,00%
of which measured at fair value for hedging purposes	*1.670.318.572*	*1.670.318.572*	-	-	-
Financial instruments held for trading	220.216.547	220.216.547	-	-	-
Hedging derivative financial instruments	65.470.560	65.470.560	-	-	-
Financial assets mandatorily recognised at fair value through profit or loss	1.234.840.351	1.234.840.351	-	-	-
Fixed-income securities recognised at amortised cost	14.226.659.024	14.206.965.915	-19.693.109	80,95%	19,05%
Variable-income securities recognised at fair value through the revaluation reserve	863.396.081	863.396.081	-	-	-
Investments in associates accounted for using the equity method	355.552.522	355.552.522	-	-	-
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	69.027.154	69.027.154	-	-	-
TOTAL	**45.649.166.705**	**45.962.995.542**	**313.828.836**		
Financial liabilities					
Deposits at amortised cost	36.717.994.115	36.880.812.103	162.817.988	-	100,00%
Financial instruments held for trading	133.331.389	133.331.389	-	-	-
Hedging derivative financial instruments	606.826.289	606.826.289	-	-	-
Financial liabilities designated at fair value through profit or loss	151.566.706	151.566.706	-	-	-
Debt securities in issue	3.646.594.429	3.647.030.117	435.688	-	100,00%
of which measured at fair value for hedging purposes	*355.598.448*	*355.598.448*	-	-	-
TOTAL	**41.256.312.927**	**41.419.566.604**	**163.253.676**		

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

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

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

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

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

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

Financial assets and liabilities, as well as fixed-income securities, are recognised at amortised cost in the balance sheet.

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

Fixed-income securities included in the portfolio of fixed-income securities recognised at amortised cost are bonds quoted on a market.

The Group calculates the fair value of financial assets and liabilities 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 financial assets and liabilities at fair value

Financial assets and liabilities at fair value:

Categories at 31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
- Debt instruments	-	-	-	-
- Equity instruments	-	-	-	-
- Derivative financial instruments	-	143.054.603	-	143.054.603
- IRS	-	*62.811.115*	-	*62.811.115*
- CIRS/outright	-	*78.464.119*	-	*78.464.119*
- other	-	*1.779.371*	-	*1.779.371*
Hedging derivative financial instruments	-	59.282.590	-	59.282.590
- IRS	-	*33.832.129*	-	*33.832.129*
- CIRS	-	*25.450.461*	-	*25.450.461*
Financial assets mandatorily recognised at fair value through profit or loss				
- Debt instruments	26.715.246	1.194.212.814	19.483	1.221.106.207
- Public sector	-	*89.481.852*	-	*89.481.852*
- Credit institutions	-	*761.316.860*	-	*761.316.860*
- Corporate customers	*26.715.246*	*343.572.766*	*19.483*	*370.307.495*
- Other financial instruments	-	13.283.675	-	13.283.675
- Corporate customers	-	*13.283.675*	-	*13.283.675*
Variable-income securities recognised at fair value through the revaluation reserve	87.326.531	312.864.465	420.525.993	820.716.989
- Public sector	-	-	-	-
- Credit institutions	-	-	*3.958.116*	*3.958.116*
- Corporate customers	*87.326.531*	*312.864.465*	*416.567.878*	*816.758.873*
Fixed-income securities recognised at fair value through the revaluation reserve	16.069.764	-	-	16.069.764
- Credit institutions	*11.000.000*	-	-	*11.000.000*
- Public sector	*5.069.764*	-	-	*5.069.764*
TOTAL	**130.111.540**	**1.722.698.148**	**420.545.476**	**2.273.513.829**
Financial liabilities				
Financial instruments held for trading	-	-	-	-
Derivative financial instruments held for trading	-	157.060.590	-	157.060.590
- IRS	-	*70.330.949*	-	*70.330.949*
- CIRS/outright	-	*84.619.258*	-	*84.619.258*
- other	-	*2.110.383*	-	*2.110.383*
Hedging derivative financial instruments	-	873.308.000	-	873.308.000
- IRS	-	*681.319.977*	-	*681.319.977*
- CIRS	-	*191.988.023*	-	*191.988.023*
Financial liabilities designated at fair value through profit or loss	-	166.144.407	-	166.144.407
TOTAL	**-**	**1.196.512.997**	**-**	**1.196.512.997**

Categories at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
- Debt instruments	-	-	-	-
- Equity instruments	-	-	-	-
- Derivative financial instruments	-	220.216.547	-	220.216.547
- IRS	-	*33.305.605*	-	*33.305.605*
- CIRS/outright	-	*178.107.701*	-	*178.107.701*
- other	-	*8.803.241*	-	*8.803.241*
Hedging derivative financial instruments	-	65.470.560	-	65.470.560
- IRS	-	*20.912.466*	-	*20.912.466*
- CIRS	-	*44.558.094*	-	*44.558.094*
Financial assets mandatorily recognised at fair value through profit or loss				
- Debt instruments	4.464.372	1.227.544.046	26.746	1.232.035.164
- Public sector	-	*65.002.389*	-	*65.002.389*
- Credit institutions	-	*631.152.634*	-	*631.152.634*
- Corporate customers	*4.464.372*	*531.389.023*	*26.746*	*535.880.141*
- Other financial instruments	-	2.805.188	-	2.805.188
- Corporate customers	-	*2.805.188*	-	*2.805.188*
Variable-income securities recognised at fair value through the revaluation reserve	109.155.840	418.237.217	336.003.025	863.396.081
- Public sector	-	-	-	-
- Credit institutions	-	-	*3.666.600*	*3.666.600*
- Corporate customers	*109.155.840*	*418.237.217*	*332.336.425*	*859.729.481*
TOTAL	**113.620.212**	**1.934.273.557**	**336.029.771**	**2.383.923.540**
Financial liabilities				
Financial instruments held for trading	-	-	-	-
Derivative financial instruments held for trading	-	133.331.388	-	133.331.388
- IRS	-	*71.246.060*	-	*71.246.060*
- CIRS/outright	-	*52.951.413*	-	*52.951.413*
- other	-	*9.133.915*	-	*9.133.915*
Hedging derivative financial instruments	-	606.826.289	-	606.826.289
- IRS	-	*464.356.406*	-	*464.356.406*
- CIRS	-	*142.469.884*	-	*142.469.884*
Financial liabilities designated at fair value through profit or loss	-	151.566.706	-	151.566.706
TOTAL	**-**	**891.724.384**	**-**	**891.724.384**

Changes in outstanding of financial assets from one year to the next stem primarily from the change in the valuation prices of variable-income securities recognised at fair value through the revaluation reserve in the form of a decrease for Level 1 and Level 2 valuation prices versus an increase in valuation prices for Level 3 and the non-replacement of debt instruments that have matured.

A comparison of the breakdown of financial assets by level at end-2019 shows that 5,2% (4,8% in 2018) of financial assets are classified as Level 1, 76,2% (81,1% in 2018) as Level 2 and 18,6% (14,1% in 2018) as Level 3.

The Group's parent company 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 fair value of Level 3 positions.

All the financial instruments in the liability categories continue to be at level 2.

Level 3 breakdown:

	Financial assets mandatorily recognised at fair value through profit or loss		Variable-income securities recognised at fair value through the revaluation reserve	Hedging derivative financial asset instruments	Total financial assets
	Debt instruments	Equity instruments			
Total as at 1 January 2019	**26.746**	**-**	**336.003.024**	**-**	**336.029.771**
Total gains / losses	197.640	-	85.017.421	-	**85.215.061**
- Income statement	*197.640*	-	-	-	***197.640***
- Revaluation reserve	-	-	*85.017.421*	-	***85.017.421***
Purchases	236.618	-	-	-	**236.618**
Reimbursements/sales	-441.521	-	-7.967	-	**-449.488**
Other changes	-		979.014	-	**979.014**
Transfers from Level 1 to Level 3	-	-	-	-	**-**
Transfers from Level 2 to Level 3	-	-	-	-	**-**
Transfers from Level 3	-	-	-1.465.500	-	**-1.465.500**
Total as at 31 December 2019	**19.481**	**-**	**420.525.993**	**-**	**420.545.476**
Total gains/losses for the period included in the income statement for financial assets and liabilities held as at 31 December 2019	353.663	-	5.411.173	-	**5.764.836**

	Financial assets mandatorily recognised at fair value through profit or loss		Variable-income securities recognised at fair value through the revaluation reserve	Hedging derivative financial asset instruments	Total financial assets
	Debt instruments	Equity instruments			
Total as at 1 January 2018	**34.495.802**	**-**	**260.467.592**	**-**	**294.963.394**
Total gains / losses	2.296.313	-	72.149.279	-	**74.445.591**
- Income statement	*2.296.313*	-	-	-	***2.296.313***
- Revaluation reserve	-	-	*72.149.279*	-	***72.149.279***
Purchases	-6.475	-	3.820.165	-	**3.813.690**
Reimbursements/sales	-2.368.848	-	-434.011	-	**-2.802.859**
Transfers from Level 1 to Level 3	-	-	-	-	**-**
Transfers from Level 2 to Level 3	-	-	-	-	**-**
Transfers from Level 3	-34.390.045	-	-	-	**-34.390.045**
Total as at 31 December 2018	**26.746**	**-**	**336.003.024**	**-**	**336.029.771**
Total gains/losses for the period included in the income statement for financial assets and liabilities held as at 31 December 2018*	2.466.459	-	4.918.580	-	**7.385.039**

* For the purposes of comparability at 31/12/2019, the figures at 31/12/2018 have been adjusted.

For financial year 2019, the transfer out of Level 3 involved one position in the variable-income securities recognised at fair value through the revaluation reserve category, which was the subject of a transaction in first-half 2019 and which was therefore allocated to Level 2 of the fair value hierarchy. This position was also equity accounted for the first time in first-half 2019.

Methods used for the Level 3 valuation:

Category	Method
- Debt instruments	For securitisations, the fair value measurement is based on an estimate of future flows and on a dedicated basis spread (J.P. Morgan Int ABS & CB Research or SIFMA Markit). Some positions include an impairment that does not result solely from a determination based on the cash flow method but also takes an appraiser assessment into account.
- Equity instruments	The valuation methods applied are detailed in Section 3.3.3 Valuation techniques for determining fair value and the fair value hierarchy

Sensitivity analysis for Level 3:

Given the small amount recognised for debt instruments, the Group's parent company does not provide a sensitivity analysis for Level 3 for financial years 2019 and 2018.

For equity instruments, the Group's parent company has performed a sensitivity analysis using the following methods:

- 10% decrease or increase in EBITDA, with a simulation of the impact on net income and on liquid funds on the assets side of companies' balance sheets;
- Decrease or increase in profit of 10% of the carrying amount;
- 10% decrease or increase in real estate prices in Luxembourg.

The fair value sensitivity for Level 3 instruments is therefore quantified as follows:

Headings	Level 3 fair value	Impact on fair value	
		10% decrease depending on the methodology used	10% increase depending on the methodology used
Variable-income securities recognised at fair value through the revaluation reserve	420 525 993	-27 448 326	27 449 046

The sensitivity analysis was performed on the two largest shareholdings.

6.4.3 Foreign exchange risk analysis: Net currency positions

As at 31/12/2019	Net balance sheet position
CHF	3.552.413
GBP	3.440.126
USD	52.935.590
Other	2.346.334
Total	**62.274.464**

As at 31/12/2018	Net balance sheet position
USD	70.556.685
Other	3.171.156
Total	**73.727.841**

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

6.5 Liquidity risk

6.5.1 Schedule of liabilities

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

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2019
Issuance of securities*	1 572 156 515	1 820 757 118	**3 392 913 633**	190 631 135	279 280 143	**469 911 278**	**3 862 824 911**
Deposits at amortised cost -							
Credit institutions	3 605 350 874	1 007 063 127	**4 612 414 001**	51 655 270	63 564 671	**115 219 941**	**4 727 633 942**
Customers	29 243 315 501	1 302 579 187	**30 545 894 688**	2 439 512 561	420 819 614	**2 860 332 175**	**33 406 226 863**
Liabilities arising from leases	838 500	2 515 501	**3 354 001**	7 305 798	2 987 463	**10 293 261**	**13 647 262**
Total	**34 421 661 391**	**4 132 914 933**	**38 554 576 323**	**2 689 104 764**	**766 651 891**	**3 455 756 655**	**42 010 332 978**

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2018
Issuance of securities*	2 252 735 727	908 924 843	**3 161 660 570**	224 084 292	539 970 641	**764 054 932**	**3 925 715 502**
Deposits at amortised cost -							
Credit institutions	3 375 223 913	775 695 923	**4 150 919 836**	783 922 772	156 439	**784 079 212**	**4 934 999 048**
Customers	31 149 644 947	1 263 950 423	**32 413 595 370**	534 279 648	85 377 235	**619 656 884**	**33 033 252 253**
Total	**36 777 604 587**	**2 948 571 189**	**39 726 175 775**	**1 542 286 712**	**625 504 315**	**2 167 791 027**	**41 893 966 803**

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

Table showing balance sheet liabilities 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 2019
Issuance of debt securities	1 838 109 420	1 600 920 035	**3 439 029 455**	189 999 754	281 943 991	**471 943 745**	**3 910 973 200**
Deposits at amortised cost -							
Credit institutions	4 403 519 169	139 835 355	**4 543 354 524**	39 601 243	18 690 964	**58 292 207**	**4 601 646 731**
Customers	12 251 313 382	5 714 633 573	**17 965 946 954**	9 462 189 996	6 042 145 078	**15 504 335 074**	**33 470 282 029**
Total	**18 492 941 970**	**7 455 388 963**	**25 948 330 933**	**9 691 790 993**	**6 342 780 033**	**16 034 571 026**	**41 982 901 960**

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2018
Deposits at amortised cost -							
Customers	12 578 160 871	4 405 168 545	**16 983 329 416**	9 472 623 526	5 525 923 695	**14 998 547 222**	**31 981 876 638**

6.5.2 Schedule of derivative financial instruments

Tables showing derivative financial 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 2019 and 31 December 2018.

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2019
Derivative financial instruments held for trading					
Foreign exchange swaps and outrights					
Inflows	11.842.478.183	3.060.169.660	209.411.538	5.146.213	15.117.205.594
Outflows	-11.828.909.888	-3.051.905.055	-210.250.821	-3.545.074	-15.094.610.838
Derivative financial instruments used for hedging purposes					
CCIS					
Inflows	94.629.251	392.571.182	1.002.830.204	632.769.743	2.122.800.380
Outflows	-108.907.399	-455.625.529	-1.175.294.293	-705.577.586	-2.445.404.806
Total inflows	**11.937.107.434**	**3.452.740.842**	**1.212.241.743**	**637.915.956**	**17.240.005.974**
Total outflows	**-11.937.817.287**	**-3.507.530.584**	**-1.385.545.114**	**-709.122.660**	**-17.540.015.644**

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2018
Derivative financial instruments held for trading					
Foreign exchange swaps and outrights					
Inflows	10.325.664.780	1.878.198.961	164.284.208	5.063.492	12.373.211.442
Outflows	-10.211.759.083	-1.837.932.344	-166.241.732	-3.564.204	-12.219.497.363
Derivative financial instruments used for hedging purposes					
CCIS					
Inflows	87.302.726	301.463.278	1.032.003.752	391.097.179	1.811.866.935
Outflows	-99.114.912	-343.238.326	-1.158.831.596	-465.157.946	-2.066.342.780
Total inflows	**10.412.967.506**	**2.179.662.239**	**1.196.287.960**	**396.160.671**	**14.185.078.377**
Total outflows	**-10.310.873.995**	**-2.181.170.670**	**-1.325.073.328**	**-468.722.151**	**-14.285.840.143**

Tables 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 2019
Derivative financial instruments held for trading					
IRS	-211.487	4.906.299	-265.109	-33.371.710	-28.942.007
Derivative financial instruments used for hedging purposes					
IRS	42.313.933	95.138.756	392.142.617	386.494.424	916.089.730
Total outflows	**42.102.446**	**100.045.055**	**391.877.507**	**353.122.715**	**887.147.723**

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2018
Derivative financial instruments held for trading					
IRS	1.909.643	8.518.181	9.765.165	-33.113.365	-12.920.376
Derivative financial instruments used for hedging purposes					
IRS	42.816.600	90.340.895	357.627.890	336.501.737	827.287.122
Total outflows	**44.726.243**	**98.859.076**	**367.393.055**	**303.388.372**	**814.366.746**

6.6 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 is exposed, either under Basel III Pillar 1, such as credit, market, and operational risks, or Basel III Pillar 2, such as liquidity, compliance, or reputation risks.

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 missions defined in the parent company's organic law, including the mission to "contribute to Luxembourg's economic development through its activities, particularly its financing activities". 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.

6.6.1 Capital management policy

6.6.1.1 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. 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.

6.6.1.2 Implementation of internal capital adequacy policy

The Group has adopted the following methodology to implement its 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;
- 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 Group's risks;
- allocation of surplus capital according to the Group's strategic guidelines.

In terms of internal governance, the 2019 ICAAP and ILAAP reports were presented to the Board of Directors of the Group's parent company, which approved the proposed guidelines. In accordance with the ICAAP circular, the Board of Directors will be consulted at least annually or more frequently as needed or in the case of a major change in methodology.

Equity, Regulatory own funds and Solvency Ratio (in euros)	**31/12/2018**	**31/12/2019**
Total equity	**4.349.605.107**	**4.416.931.333**
Prudential provision adjustments	312.358.601	282.070.784
Adjustments related to changes in income of financial statement / IFRS	-30.287.817	5.436.788
Consolidation adjustments	-342.509.909	-328.044.067
Total adjusted equity	**4.289.165.982**	**4.376.394.839**
IFRS income for the year not included in Common Equity Tier 1 (CET1)	-145.077.752	-193.202.722
CET1 before regulatory adjustments	**4.144.088.230**	**4.183.192.116**
Regulatory adjustments to CET1	**-215.395.451**	**-191.538.191**
Additional value adjustments	-3.721.923	-4.127.921
Fair value reserves related to gains or losses on cash flow hedges	-2.094.511	-907.280
Intangible assets	-27.475.050	-29.399.062
Negative amounts resulting from the calculation of expected loss amounts	-42.198.992	-47.486.771
Direct, indirect and synthetic holdings of CET1 instruments of financial sector entities in which the institution has a significant investment	-	-
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	-	-
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	-139.904.975	-109.617.157
Tier 1 Regulatory Own Funds (CET 1)	**3.928.692.779**	**3.991.653.925**
Tier 2 Regulatory Own Funds	**58.624.504**	**38.718.138**
Tier 2 Regulatory Own Funds	58.624.504	38.718.138
Total regulatory Own Funds	**3.987.317.283**	**4.030.372.063**
Total capital requirement	**1.456.065.830**	**1.524.703.071**
Solvency ratios		
Tier 1 solvency ratio	21,59%	20,94%
Total solvency ratio	21,91%	21,15%

The figures for 2018 have been recompiled in light of a correction made after publication of the figures at 31 December 2018.

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

As in 2018, regulatory own funds were determined in accordance with the Basel III regulation on the basis of IFRS balance sheet equity, including the flat-rate provision.

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 Private Banking and the Corporate and Public Sector 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 Institutional Clients departments.

- Other: includes all back-office and support activities, income 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 valued at an internal standard price.

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.

  In 2019, the interest 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.

Gross receivables and debts of the 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 assets not spread out over businesses (suspense accounts, tax assets and liabilities and internal accounts).

7.2 Geographical segments

All 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 (NBI) breaks down between these 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.

The NBI 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.

31/12/2019 (in thousands of euros)	Retail, Professional, Corporate and Public Sector Banking	Financial Markets and Institutional Clients	Other	Reconciliation	Total
Net interest margin	287.420	57.239	30.614	2.358	377.632
Income from securities	-	-	31.464	-	31.464
Fee and commission income	82.081	25.393	47.605	-	155.079
External commissions	*87.605*	*35.503*	*31.971*	-	*155.079*
Internal commissions	*-5.524*	*-10.110*	*15.634*	-	-
Income from financial instruments and foreign exchange	3.640	35.816	3.207	-	42.664
Net Banking Income	**373.141**	**118.449**	**112.890**	**2.358**	**606.839**
Other operating income and expenses	-	-	-18.310	-	-18.310
Banking Income	**373.141**	**118.449**	**94.580**	**2.358**	**588.529**
General expenses plus valuation allowances in respect of intangible and tangible assets	-210.894	-35.386	-114.763	-	-361.043
Net allowances for valuation and impairment	7.911	892	-2	-	8.802
Other	-	-	1.161	-	1.161
Income before tax	**170.158**	**83.955**	**-19.023**	**2.358**	**237.449**
Tax on income for the period and deferred taxes	-	-	-42.962	-	-42.962
Minority interests / income from associates	-	-	11.854	-	11.854
Income/(loss)	**170.158**	**83.955**	**-50.131**	**2.358**	**206.341**
Assets	**21.878.561**	**23.997.540**	**2.027.708**	**-**	**47.903.810**
Liabilities	**24.699.743**	**21.787.395**	**1.414.313**	**2.358**	**47.903.810**

31/12/2018 (in thousands of euros)	**Retail, Professional, Corporate and Public Sector Banking**	**Financial Markets and Institutional Clients**	**Other**	**Reconciliation**	**Total**
Net interest margin	244.107	75.994	36.359	247	356.707
Income from securities	-	6.415	24.942	-	31.357
Fee and commission income	71.957	34.540	39.308	-	145.806
External commissions	*82.500*	*58.974*	*4.331*	-	*145.806*
Internal commissions	*-10.543*	*-24.434*	*34.977*	-	-
Income from financial instruments and foreign exchange	3.989	2.800	-1.364	-	5.425
Net Banking Income	**320.053**	**119.749**	**99.245**	**247**	**539.294**
Other operating income and expenses	-	-544	-28.042	-	-28.586
Banking Income	**320.053**	**119.205**	**71.203**	**247**	**510.708**
General expenses plus valuation allowances in respect of intangible and tangible assets	-202.097	-39.572	-104.403	-	-346.072
Net allowances for valuation and impairment	18.487	3.485	225	-	22.198
Other	-	-	259	-	259
Income before tax	**136.443**	**83.118**	**-32.716**	**247**	**187.092**
Tax on income for the period and deferred taxes	-	-	-38.554	-	-38.554
Minority interests / income from associates	-	-1.931	12.331	-	10.401
Income/(loss)	**136.443**	**81.187**	**-58.939**	**247**	**158.939**
Assets	**20.982.920**	**23.236.315**	**1.764.367**	**-**	**45.983.602**
Liabilities	**23.723.729**	**20.935.614**	**1.324.012**	**247**	**45.983.602**

NBI in thousands of euros	**31/12/2018**	**31/12/2019**
Deposits from private customers, business customers, corporates and the public sector	26.473	61.396
Loans and advances to private customers, business customers, corporates and the public sector	242.035	254.403
Other products for private customers, business customers, corporates and the public sector	51.545	57.342
Other products	219.241	233.697

The growth in net banking income on the deposits from private customers, business customers, corporates and the public sector is the result of several effects, including primarily a methodological change for internal transfer prices generating higher margins on Spuerkeess's liability products.

SPUERKEESS'S GOVERNING BODIES

The organisation of 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 Spuerkeess's purpose fall within the responsibility of the Executive Committee, subject to such approvals as are required by virtue of this law".

BOARD OF DIRECTORS

CHAIRMAN	Camille FOHL
VICE-CHAIRMAN	Elisabeth MANNES-KIEFFER
BOARD MEMBERS	Nima AHMADZADEH
	Simone DELCOURT (as of 06/09/2019)
	Marie-Paule GILLEN-SNYERS (as of 01/05/2019)
	Manuel NICOLAS
	Jean-Pierre ZIGRAND
STAFF REPRESENTATIVE	Georges DENNEWALD
	Carmen JAFFKE (as of 01/05/2019)

SUPERVISORY COMMISSIONER

Bob KIEFFER

EXECUTIVE COMMITTEE

CHAIRMAN	Françoise THOMA	Chief Executive Officer
MEMBERS	Guy ROSSELJONG	Deputy Chief Executive Officer
	Doris ENGEL	Director
	Aly KOHLL	Director
	Romain WEHLES	Director

STATUTORY AUDITOR

Ernst & Young, Public Limited Company, Luxembourg

Approved by the Board of Directors during its meeting of 25 March 2020.

Luxembourg, 25 March 2020

For the Board of Directors

Camille FOHL
Chairman

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