ANNUAL REPORT 2017

162nd Financial Year

BANQUE ET CAISSE D'EPARGNE DE L'ETAT
LUXEMBOURG

Financial Highlights (in thousands of euros)

	2016	2017	% change 2017/2016
TOTAL BALANCE SHEET	43.468.625	45.508.956	+4,7%
Deposits at amortised cost - Credit institutions	4.741.710	4.776.024	+0,7%
Deposits at amortised cost - Customers	28.115.936	31.477.133	+12,0%
Issuance of debt securities	4.918.235	3.859.871	-21,5%
Loans and receivables at amortised cost - Credit institutions	4.105.232	3.671.387	-10,6%
Loans and receivables at amortised cost - Customers	19.815.746	20.912.775	+5,5%
Fixed-income securities	10.067.250	9.682.208	-3,8%
CORE EQUITY CAPITAL (CET1) (1)	2.626.997	2.855.348	+8,7%
BANKING INCOME (2)	580.207	585.914	+1,0%
Total general expenses (3)	314.758	331.729	+5,4%
NET INCOME	259.793	256.611	-1,2%
COMMON EQUITY TIER 1 (CET1) RATIO (1)	17,7%	18,3%	
AVERAGE WORKFORCE (in number of contracts)	1.818,0	1.843,0	+1,4%
AVERAGE WORKFORCE (in work units)	1.655,0	1.663,5	+0,5%

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

Main developments in 2017: Solid earnings and stronger own funds

- Net profit of EUR 256,6 million.
- Dynamic growth in the home loan portfolio (+5,6%); nearly 5.000 customers have thus gained access to a home.
- Significant growth in business financing (+7,2%).
- Significant increase in customer deposits (+12,0%).
- Reinforcement of the common equity tier 1 (CET1) ratio: 18,3% as at 31 December 2017 versus 17,7% as at 31 December 2016.
- Major programme to modernise our branch network to provide customers with friendly reception centres while emphasising discretion and advice: Bertrange, Auchan, Cents and Howald branches as well as BEI and JFK buildings at Kirchberg.
- Acquisition of a mobile branch that will offer in 2018 a local service to customers preferring in-branch contact rather than digital channels. The mobile branch will serve areas with low banking density on a fixed weekly route.
- Launch of new products (SelfInvest, ActivInvest, ActivInvest+, ActivMandate) for investors in securities, in accordance with the MiFID II regulation.
- Launch of "SpeedInvest", the first digital and automated investment product of a retail bank in Luxembourg offering an alternative to traditional savings and allowing customers to benefit from the evolution of financial markets according to their risk appetite and investment horizon.
- Marketing of the new "Zebra" and "Zebra Premium" banking packages, offering a wide selection of banking products and services adapted to the needs of private customers as well as a specific offer aimed at expatriates in Luxembourg.
- Development of a new version of the S-net application with a modern design aligned with that of S-net Mobile. At the same time, implementation of the new website www.bcee.lu.
- Organisation of numerous events and conferences for our private, corporate and institutional customers on various topics in the prestigious setting of the new "19 Liberté" Banking Centre.
- Celebration of the 20th anniversary of Etika, a.s.b.l., which, in partnership with BCEE, has set up an alternative savings scheme for the financing of ecological, humanitarian, and social investments.
- Excellent AA+ rating with a stable outlook assigned by Standard and Poor's and Aa2 Long Term Deposit Rating with a stable outlook by Moody's.
- BCEE ranks among the world's 10 safest banks by Global Finance magazine.
- Steady activity on the regulatory front due to the large number of ongoing projects associated with the CRR, MIFIR and GDPR regulations, the CRD IV, PSD2, and MIFID II directives, regulation BCBS 239, the new IFRS 9 accounting standard, as well as the single supervisory and resolution mechanisms.
- 76 new employees hired.

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

BCEE guides and supports its customers throughout the different stages of their lives, maintaining long-term relationships based on trust and respect:

"Spuerkeess - Äert Liewen. Är Bank."

SAFEST BANK AWARD 2017
GLOBAL FINANCE

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

"We are reporting on the activities of the 2017 financial year of Banque et Caisse d'Epargne de l'Etat, Luxembourg – a year characterised by a complex economic and financial backdrop.

On the one hand, since mid-2016, the cyclical recovery of the global economy has continued to strengthen, but with significant differences between geographical areas. It spread timidly during 2017. Both developed and emerging countries contributed to the recovery of activity to varying degrees. The rebound in commodity prices reflects this.

On the other hand, even in this rather encouraging economic environment, interest rates for the major world currencies remained at historically low levels; the central banks concerned continued to support renewed economic development through their "accommodative" monetary policy, believing that the observed economic growth still needed to be more deeply rooted in the underlying economies.

In addition, the complicated, changing geopolitical situation was a major challenge for markets and investors to calibrate their forecasts and investment decisions.

In Luxembourg, both foreign-oriented and domestic-oriented economic activity benefited from this rather buoyant international economic climate. Luxembourg's economy posted gross domestic product growth of around 3,4% in 2017, driven in particular by the finance, logistics, and construction sectors as well as the increase in household consumer spending. Total domestic employment increased by approximately 3,3%, and the country continued to diversify through new activities, contributing to its innovative dynamic. This economic context is therefore positive for the development of banking activities.

In 2017, in its 162nd year, BCEE was committed to fulfilling its purpose and the missions assigned to it by its amended organic law of 24 March 1989 to contribute to the economic and social development of the country in all areas through its activities, particularly its financing activities, and promote savings in all forms.

Customer focus

The fidelity of existing customers and the intake of many new customers in all areas of business reflect the satisfaction and confidence of the Bank's customers in its high-quality products and services.

BCEE's commercial offer is part of a strategy of close relationships with customers, emphasising omnichannel communication, thus combining traditional branches and digital modes of communication.

Its website "bcee.lu", a main gateway for both old and new customers, has been adapted to accommodate new applications while maintaining its tremendous user-friendliness.

In addition, BCEE developed a new version of the S-net application with a modern design aligned with that of S-net Mobile. New "Zebra" and "Zebra Premium" packages were added to the range of standard banking services and include, among other solutions, a specific offer for expatriates and cross-border employees in Luxembourg.

In 2017, the Bank continued its local approach by modernising six branches and by deciding, after considering regional demographic and economic developments, to open a new branch to make up for the closure and merger of seven branches. These decisions are consistent with the Bank's desire to continue to maintain, in the interest of its customers, strong proximity supported by both the densest bank branch network in Luxembourg and an innovative digital offering on the cutting edge of customer expectations.

In this movement promoting proximity, the Bank demonstrated its innovation by launching a mobile bank branch, a first in Luxembourg, and by developing its own mobile automated teller machines ("bboxx") under the Bank's brand. Through this mobility capacity, these two new innovations allow it to respond to various socio-cultural events across the country.

The increase in outstanding real estate loans was dynamic, and nearly 5.000 customers were able to buy a home.

With regard to digital, BCEE launched SpeedInvest, the first digital and automated investment product offered by a retail bank in Luxembourg. SpeedInvest is aimed at all investors who want to diversify their savings, even with modest investments, and thus optimise their returns by participating in the performance of the financial markets through these investments.

Service to commercial, craft, and institutional enterprises is one of the Bank's traditional priorities. The comprehensive, highly competitive range of products and services is tailor-made for the specific needs of this customer base, whether it means supporting customers through financing their investment projects, financial leases, or banking services for cash management.

Over time, the Bank has become one of the first trusted partners not only of private customers but also of players in Luxembourg's economic fabric, which is the driving force behind the success of Luxembourg's economy. BCEE sees this as a confirmation of the efforts made and, at the same time, an important commitment for the future.

Meanwhile, the "19 Liberté" Banking Centre in Luxembourg, an emblematic building deeply linked to the country's history, inaugurated in July 2016 after major renovations, fully deployed its capacities. Numerous events like financial and cultural conferences and meetings allowed the Bank to demonstrate its skills and professionalism by welcoming customers and guests from a wide variety of backgrounds.

In parallel with its commercial activities, the company's corporate social responsibility has always been of paramount importance for the Bank for more than 160 years. For 2017, in addition to its annual report, BCEE published for the first time a non-financial report detailing the Bank's strategy and activities in the area of corporate social responsibility.

Financial results (Consolidated Financial Statements)

Customer service was reflected in the consolidated annual financial statements for the 2017 financial year with EUR 585,9 million in banking income, a 1,0% increase compared with 2016. Expenditures totalled EUR 331,7 million, a 5,4% increase compared with 2016, marked by, among other things, significant investments to upgrade the commercial and digital system and investments to meet the new regulatory requirements. As a consequence of the tradition of the cautious risk profile chosen by the Bank, the new value adjustments on loans and credit also remained very low and were even more than offset by write-backs.

The Bank's investment portfolios, accounted for under the IFRS "fair value" rules, were impacted throughout the year by high volatility on the markets – the related accounting adjustments relating to the values at 31 December 2017 were recognised in the revaluation reserve in own funds.

Net profit after tax was EUR 256,6 million.

The generated net profit will enable the appropriate distribution of earnings to the State while strengthening the Bank's own funds, thus providing it with additional resources to meet future challenges.

In 2017, the rating agents Standard & Poor's and Moody's confirmed the excellent ratings of AA+ and Aa2 (Long-Term Deposit Rating) respectively, a result of the moderate risk profile chosen by the Bank and the AAA quality of its owner, the Luxembourg State. On the basis of these ratings, Global Finance Magazine confirmed BCEE's ranking as one of the world's 10 safest banks.

Governance

During the 2017 financial year, there was a change in the governance of the Bank's bodies.

Mr Camille FOHL was appointed by the Government Council on 1 September 2017 as the new Chairman of the Board of Directors, effective 25 October 2017. He succeeded Mr Victor ROD, who was head of the Bank's Board of Directors for 25 years.

We would like to thank Mr ROD for his unwavering commitment and dedication during this long period of service to the Bank.

We would also like to thank Mr Patrick GILLEN, Vice-Chairman, who resigned from the Board of Directors, effective 1 January 2018, as well as Mr Nico RAMPONI, Personnel Representative, who retired as of 1 January 2018.

Mr Romain WEHLES joined the Bank's Executive Committee in February 2017.

Future challenges

Despite the many positive events of the 2017 financial year, the Bank and its governing bodies are well aware of the challenges currently faced by the banking world, particularly as a result of fundamental changes in customer expectations and behaviours, in technology, at the competitive level, and following the changes in business models indirectly brought about by the new prudential regulations.

In keeping with its social responsibility and continuing on from its mission to support the national economy, the Board of Directors, the Executive Committee, and the Bank's teams will strive to overcome these strategic challenges and best prepare BCEE to continually adapt its activities and services to its customers' expectations and its assigned missions.

We would like to thank the Bank's staff for their exemplary commitment throughout the 2017 financial year and their spirited, innovative contribution to tackling new challenges. The Bank's projects could not prosper and the challenges could not be confronted without the support of our staff, whose competence and dedication are one of the most distinctive assets. It should be noted that 76 new employees joined the Bank in 2017.

We also thank the owner – the Luxembourg State – for its trust in us and its support in fulfilling our organic missions."

For the parent company

Françoise THOMA Chief Executive Officer President of the Executive Committee	Camille FOHL Chairman of the Board of Directors

Mobile automated teller machine

Mobile bank branch

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

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

Retail and Professional

The Bank continued to optimise the structure of its branch network in 2017. Against this backdrop, it merged seven branches with sites in close proximity. Following these adaptations, the Bank has a network with 11 Financial Centres offering customers 64 commercial sites uniformly distributed throughout the country with a denser concentration in major economic or residential centres.

To add to this offering and guarantee maximum proximity in its service, the Bank is innovating in 2018 with a Mobile Branch serving five municipalities located in low-density banking regions according to a fixed weekly route: Beaufort, Rambrouch, Troisvierges, Vianden, and Wormeldange. Customers can perform all their basic banking operations there. The Mobile Branch therefore offers a local service to customers in these areas and is an additional alternative for customers preferring contact in the branch to the comfort offered by the digital banking channels. The Mobile Branch is also occasionally present at major socio-cultural events.

Efforts to develop and improve the existing branches' network were significant throughout the 2017 financial year. Hence, the Bank developed a new branch attached to the IAK building (Kirchberg administrative building), which houses some of the employees of the European Investment Bank. The Bertrange, European Investment Bank, Auchan, Cents, and Howald branches were renovated with a modern layout consisting of the creation of a functional reception area, putting the customer and the advisor at ease by promoting discreet communication.

The full deployment of digital signage in the external windows and the branches as well as the installation of WiFi terminals in all the branches will be finalised in the coming months.

Throughout 2017, a series of new-generation automated teller machines were installed across the country. They are now equipped with a brand new interface with comprehensive features, such as the deposit function and the free choice between five different denominations. Along these lines, the success of the new mobile ATM is always noteworthy. Its installation during sporting and socio-cultural events hardly went unnoticed.

In terms of products, the Bank renewed its main offerings: for retail customers with the ZEBRA and ZEBRA Premium packages and for professional customers with ZEBRA Business and Business Plus. All these solutions have been made more accessible with content and tariffs adapted to match the specific needs of a customer base in search of digitalisation. A growing share of retail and professional customer services is now available via our S-net Desktop and S-net mobile digital channels, presenting a real alternative to the physical bank branch.

The home loan process has been reorganised to further increase the quality of advice to our customers. With the significant growth of real estate prices in Luxembourg, it is all the more important to inform customers properly and adapt the financing proposals to the specific financial situation of each future owner. In this sense, the home financing activity is mainly concentrated on the various financial centres in order to ensure effective communication between everyone involved, to offer specialised training for all advisors, and to further standardise the customer approach while increasing service availability. The specialisation of the home loan business responds to the growing complexity of this business activity. The European directives and the national laws of the various countries have an impact on the particular situations of borrowers, which may diverge significantly depending on their country of residence, the location of the target property, and any collateral.

The conquest of new international and residential customer looking for a stable, effective banking partner and the loyalty of the existing customer base have allowed Private Banking to continue its development in line with its business model.

The conditions of money-market investments have remained at very low levels due to the accommodative monetary policy of the European Central Bank (ECB). However, in terms of asset allocation, BCEE has been able to offer its customers attractive investment solutions from the range of luxlfunds funds or other investment funds and ETFs included in its offering or from discretionary portfolio management offerings.

To allow its customers to benefit from advanced asset management technologies, BCEE launched a new "Robo-Advisor" investment product in 2017 named "SpeedInvest". This first personalised digital investment plan, which allows customers to benefit from the performance of financial markets, has found great acceptance among customers as well as positive feedback from the public, given its innovative concept making it an investment solution as simple as saving.

In view of the new European Markets in Financial Instruments Directive II (MiFID II), BCEE has put in place a range of appropriate solutions to transform this regulatory provision into real added value for customers in terms of protection of their investments and transparency of information available to them. One of the advanced solutions in this area is the development of a new advisor assistance tool for better monitoring and management of portfolio risks and their optimisation in relation to the individual risk profile defined for each customer.

Numerous training sessions on the new directive as well as the use of the new assistance tool have prepared advisors to meet these new challenges in the financial markets.

Corporate and Public Sector

The industrial and construction sector benefited from Luxembourg's steady economic expansion in 2017.

This development seems to have given confidence to luxembourgish business leaders, who proceeded with significant investments during the 2017 financial year. Consequently, the outstanding loans to SMEs and real estate developers showed a high growth rate.

This increase in outstanding loans is not only a result from the favourable economic environment but also a structured, dynamic commercial approach towards professional customers, for which the Bank has increased its proactive solicitation efforts.

During the 2017 financial year, BCEE signed several agreements with players supporting Luxembourg's economy, such as the "Mutualité de Cautionnement" and the "Office du Ducroire". These collaborations allow BCEE to further expand its range of products offered to its professional customers.

In the area of financing for public and similar institutions, BCEE continues to defend its leading position and remains the preferred partner of the public sector.

In 2017, ETIKA, a pioneering alternative savings scheme aimed at financing ecological, humanitarian, and social investments, celebrated its 20th anniversary and saw an increase in the funds raised and the financing allocated.

INCOME FROM "FINANCIAL MARKETS" AND "INVESTMENT FUNDS"

Financial markets

Treasury activity volume was steady in 2017. As customer deposits have risen sharply, the Bank has reduced the volume of its international refinancing programmes in order to limit excess liquid funds.

In reinvestments, a significant share of the funds was directed to government securities and other securities eligible for refinancing with the ECB, especially a low-risk, high-liquidity bond portfolio of EUR 10,3 billion. Loans and receivables to credit institutions decreased by 10,6% to EUR 3,7 billion as at 31 December 2017.

In order to improve the return on cash transactions and reduce their credit risk, BCEE made extensive use of derivatives. At the end of 2017, outstanding foreign exchange swaps and forward transactions amounted to more than EUR 12,6 billion. At the same date, outstanding interest rate swaps (IRS) and cross currency interest rate swaps (CIRS) totalled EUR 11,8 billion. Note that EUR 0,8 billion in loans was guaranteed by eurozone public debt securities as part of repurchase agreements.

The reversal of monetary policies around the world began in 2017. It intensified in the last weeks of 2017 with the long-awaited decision of the US central bank, the Federal Reserve Bank ("Fed"), which raised the range of its key rates by 25 bips to 1,25-1,5%. The Fed raised its rates three times last year (four with the movement at the end of 2016). The tightening was therefore 75 bips over 2017, facilitated by the fairly strong expansion of the US economy.

In 2018, Fed economists expect growth of 2,5%. With an expected price increase of only 1,9% this year, the Fed will be able to continue to normalise its monetary policy in small steps. Market participants also anticipate three new monetary tightenings in 2018. However, the raising of key rates is not the only widely known adjustment of the US central bank monetary policy; it also began to reduce its balance sheet.

Unsurprisingly, the European Central Bank (ECB) left its key interest rates unchanged in 2017. The refinancing rate remained at 0%, and deposit facilities rate stayed at -0,4%. In October, it announced that it would reduce its monthly asset purchases to EUR 30 billion starting in January 2018. This rate of purchases would be maintained at least until September of this year. Some economists expect continued purchases until the end of 2018 with a further reduced amount. ECB President Mario Draghi confirmed this, saying that the institution had never envisaged a sudden stop. This prudence of the monetary institution is fully justified. Europe is lagging behind in its cycle compared with the United States, although the situation is clearly improving. Above all, this shift in monetary normalisation has prevented a sharp appreciation of the euro, which would have a negative effect on growth.

The foreign exchange market was again very volatile in 2017. It was mainly dominated by the evolution of the euro, which made a spectacular comeback by appreciating by 14% against the dollar in 2017. This phenomenon is mainly due to the doubts surrounding US policy but also better than expected macroeconomic data in the eurozone. The depreciation of the dollar gave the yen its best year since 2011. As for the pound sterling, which plunged 16% following the Brexit vote in 2016, it recovered almost 10% thanks to better than expected indicators.

In Europe, the first quarter was marked by heightened political risks reflected in a slight rise in credit spreads.

The defeat of the populists in the Netherlands and France as well as the Conservative Party's underperformance in the UK's early elections contributed to the reduction of political risk in Europe and thus a further decrease in returns on credit risks throughout the financial year.

The strong acceleration of European corporate profits of 22% supported this trend, as did the drop in default rates, not to mention the ECB's bond purchases. Uncertainties following the elections in Germany and attempts to achieve Catalan independence only led to temporary market hesitations, allowing the 2017 financial year to end at a historically low credit risk premium with -43 bips on the generic Itraxx Europe 5-year, a year-on-year decrease of more than one-third.

With the gradual contraction of returns, needless to say that maintaining the performance of an investment portfolio is becoming increasingly difficult. BCEE once again maintained its cautious approach in terms of incurred risks in 2017. Good diversification between high-quality liquid assets and less liquid banking or even corporate issues ultimately helped to ensure adequate profitability.

Institutional clients

The Institutional Clients department (DCI) was created on 1 January 2017. It resulted from the consolidation of four activities related to institutional clients, previously without any organisational interrelationship. As such, in accordance with the Bank's strategic plan, the investment funds, financial institutions, external managers, and institutional clients' activities were grouped together in a single department. The organisation of the department provides for a separation between the commercial activity, the operational and support activity, and the control activity. The goal of the new department is to develop the commercial activity within the target customer base: banks, insurance companies, financial sector professionals, investment funds, family offices, state entities, as well as supranational entities. The DCI department includes the correspondent bank activity, responsible for managing the network of cash correspondents and securities sub-custodians.

As at 31 December 2017, the new department had assets totalling EUR 54,7 billion, including EUR 37,5 billion for safe keeping of securities and EUR 12,1 billion for liquid funds.

Private equity and real estate fund assets under custodian bank supervision amount to approximately EUR 5 billion.

In 2017, the most promising activities in terms of volume were found in state and supranational customers, who continued to deposit their liquid funds with the Bank, and third-party promoters. The exposure of third-party promoters, for which BCEE ensures the administrative management and the function of custodian bank, amounted to EUR 24 billion, a 14,2% increase compared with 2016.

At 31 December 2017, there were six open-end investment funds (SICAV) in the lux l funds in-house range, composed of 28 sub-funds, representing EUR 3,5 billion in total assets, stable compared with 31 December 2016.

RISK MANAGEMENT POLICY

BCEE places a particular emphasis on risk management.

To account for the new regulatory requirements governing risk management and the separation of the sales and control functions, the Executive Committee created a "Risk Management" function (formerly the "Risk Control" unit), which now reports directly to the Executive Committee, just like the "Compliance" function. These two functions provide the second line of defence in BCEE's governance model, while the "Internal Audit" unit represents the third line of defence and, as such, has a dual reporting line to the Executive Committee and the Board of Directors.

The loans and credit facilities activity was reorganised within the new Credit Analysis and Management department. A new "Credit Process Management" unit is now in charge of the procedures of the "Personal Loans" and "Business Loans" units.

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 BCEE's overall risk situation in detail. Risk appetite is defined as the level of risk that BCEE is willing and able to bear to ensure the pursuit of its strategic objectives. The levels of risk to which BCEE 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 BCEE for these indicators.

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

Risk management

The Bank has established a Risk Management Committee, composed of members of the Executive Committee as well as various department heads and vice presidents of the Bank, to address topics related to risk management, particularly credit, liquidity, market, and operational risks. The Risk Management Committee is assisted by a Risk Subcommittee, which meets each month.

Risk management is described in detail in note 6 to the consolidated financial statements as at 31 December 2017. This chapter is subdivided into several major risk categories.

Credit risk

Credit risk refers to the risk of financial loss on the Bank's receivables due to deterioration in the credit quality of debtors, 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 Bank commitment giving rise to a credit risk is subject to prior analysis of the borrower's credit quality by the "Credit Analysis and Management" 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.

Decisions on loans to the domestic economy are made by the various credit committees, organised hierarchically according to the customer's overall credit outstanding. The majority of the outstanding loans are comprised of mortgages. 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 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 in OECD countries, mainly in Europe and North America, classified as investment grade. Like all the Bank's counterparties, these are assigned an internal rating based on rules similar to those applied to banks and financial institutions.

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

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

Market risk

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

The Bank's market risk management policy distinguishes between mismatch risk, which arises from structural mismatches between the maturities of resources and the use 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, the heads of the Credit Analysis and Management and Accounting departments, as well as the Vice President 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 Subcommittee, which meets monthly.

IRRBB

In 2016, the Bank launched a comprehensive project to improve its ability to analyse and manage interest rate risk ("Interest Rate Risk in the Banking Book"). After the tool selection phase in 2016, 2017 was devoted to implementation of the new system. This work will continue in 2018, with the first use of the tool scheduled for the first half of 2018.

Liquidity risk

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

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

In accordance with the Capital Requirements Regulation (CRR) and with the Commission Delegated Regulation of 10 October 2014, BCEE has, since 2015, published its liquidity coverage ratio (LCR), ensuring sufficient 30-day liquidity. At 31 December 2017, the LCR was 128%, well above the minimum threshold of 80% for 2017. BCEE is moreover 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.

Leverage ratio

The leverage ratio measures the proportion of core capital to the Bank's exposures without taking collateral into account but including off-balance-sheet commitments. In exact terms, this is the ratio of "CET 1 capital / Sum of Balance sheet 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. BCEE's leverage ratio stood at 5,8% as at 31 December 2017, well above the regulatory minimum of 3,0%.

Operational risk

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

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

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

Financial risk and hedge accounting

The consolidated financial statements of the BCEE Group have been prepared in accordance with IFRS as adopted by the European Union and comprise the financial statements of the Bank, subsidiaries, and 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.

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.

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

IFRS 9 "Financial Instruments"

In 2017, the Bank prepared for the entry into force of the various phases of IFRS 9, which replaces IAS 39 "Financial Instruments: Recognition and Measurement" effective 1 January 2018.

Phase 1: Classification and measurement. This phase consists in determining the classification of financial instruments in different categories, in accordance with the Bank's various business models, and verifying compliance with the "Solely payment of principal and interest" (SPPI) criterion by all financial instruments classified in the amortised cost category.

Phase 2: Impairment. The introduction of an expected loss-based impairment model that replaces the IAS 39 incurred loss model was the focus of significant statistical and computer work throughout the 2017 financial year to lead to a robust methodology applicable each quarter starting in financial year 2018.

Phase 3: Hedge accounting. Application of this phase, which covers the new principles of hedge accounting of financial instruments, is not compulsory. The Bank has chosen not to apply these new principles and will continue to refer to the IAS 39 hedging mechanism as long as the separate macro-hedging project does not lead to the level of the International Accounting Standards Board (IASB).

More detailed information on the methodology and the quantified impacts of the implementation of IFRS 9 is presented in chapter 2.1 of the annual report.

Compliance with the CRR

BCEE meets market requirements through compliance with Regulation (EU) 575/2013, one of the objectives of which is to disclose to the market the Bank's exposure to the above 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 2017 is available on the Bank's website at https://www.bcee.lu/en/about-us/publications/financial-data/ under "Pillar 3 Annual Reports".

OTHER ACTIVITIES

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

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

The "Risk Management" (RIM) function, formerly the Risk Control unit, includes market risk measurement, the credit risk control unit function (CRCU, as defined by Basel III Pillar I) and the monitoring and reporting of operational incidents within the Bank. In addition to the activities mentioned above, the RIM function is responsible for the initial and recurrent validation of all internal models, but without any involvement in the day-to-day management of credit files, thus ensuring independence from the business units.

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

Regulatory activities

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

The SRM's goal is to minimise the cost to taxpayers and the real economy of resolving banks that are part of the banking union which could face serious challenges. This mechanism has been fully operational since 1 January 2016 and was transposed into Luxembourg law by the law of 18 December 2015. The Bank updates a preventive recovery plan each year with planned measures in the event of a significant deterioration of the financial situation. It also participates in regular working sessions with representatives of the SRM, which is responsible for defining BCEE's critical activities and developing a preferred resolution strategy as part of a specific resolution plan to be developed for the Bank.

The DGS, also introduced in Luxembourg with the law of 18 December 2015, requires that each EU Member State establishes a deposit guarantee scheme that protects customers' bank deposits up to EUR 100.000 per bank. In Luxembourg, this responsibility has been given to the "Fonds de garantie des dépôts luxembourgeois" (FGDL, Luxembourg deposit guarantee fund), which replaced the non-profit organisation "Association pour la garantie des dépôts Luxembourg" (AGDL, Luxembourg deposit guarantee association) starting in financial year 2016.

At the international level, the OECD developed the Common Reporting Standard (CRS) for the automatic exchange of information relating to financial accounts between states that have adopted the standard. The European Union adopted the CRS via a European directive, transposed into Luxembourg law by the law of 18 December 2015 on the common reporting standard (NCD). In accordance with this law, in 2017 BCEE submitted for the first time tax information relating to the financial accounts of its customers who are not residents of Luxembourg for the 2016 tax year.

Throughout 2017, the Bank continued to incorporate the new "MiFID II" rules of conduct, which came into force on 3 January 2018, into its internal investment service processes. Various reports to enhance investor protection and increase customer transparency were also put in place.

In accordance with BCBS 239, which consists of 14 principles recommended by the Basel Committee on Banking Supervision (BCBS) for the management, aggregation, and governance of risk-related data, BCEE has defined a Data Policy and has put in place a Data Governance system, including dedicated functions and tools. The goal of this system is to strengthen the quality, reliability, traceability, and availability of the Bank's data in order to ensure robust management and centralised monitoring. It prioritises data relating to risk management and reporting and will be gradually extended to all data.

Repealing Directive 95/46/EC of 24 October 1995, the General Data Protection Regulation (GDPR), Regulation (EU) 2016/679, will enter into force on 25 May 2018. Its purpose is to protect the fundamental rights and freedoms of natural persons who are residents of the European Economic Area (EEA) and in particular their privacy, with regard to the processing of their personal data. Anyone responsible for processing personal data belonging to a natural person who is a resident of the EEA must comply with it. The GDPR extends the rights of the persons concerned (right to be forgotten, right to restriction of processing, right to portability of data, etc.), while reinforcing the obligations of data controllers (keeping a record of their activities, increased protection measures, mandatory notifications in certain cases, etc.) and the powers of the supervisory authorities.

In 2017, BCEE put in place a GDPR governance model and has developed a coherent, comprehensive Data Protection Policy. A multidisciplinary project team has been set up to deal with compliance in all its aspects: IT (collection of consent of the people concerned for data processing requiring it, etc.), risk (mapping of personal data, etc.), legal (adaptation of contracts with subcontractors, etc.), organisational (updating of procedures), and internal and external communication.

Management changes

On 1 February 2017, Romain Wehles joined the Executive Committee, filling the vacancy following the reorganisation in 2016.

Shareholdings

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

Since 1989, BCEE is a 40% shareholder of the Lalux group. The Lalux group and BCEE, indirectly, are shareholders of PECOMA Actuarial and Risk S.A., which is active in the development and implementation of supplementary pension schemes and which offers actuarial, administrative and accounting management services for pension schemes.

Media and telecommunications are important sectors for Luxembourg's economy. The Bank is a founding shareholder of SES S.A., the world leader in global satellite communications. The Bank holds a 10,9% stake with the associated voting rights.

In the air transport sector, BCEE holds equity interests in Luxair, Société Luxembourgeoise de Navigation Aérienne S.A. (21,8%), which is active in air navigation, tour operation, cargo handling and catering, and in Cargolux Airlines International S.A. (10,9%), which is one of the world's largest all-cargo airlines.

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

Through its 11,0% stake in the capital of Société nationale des habitations à bon marché S.A. (S.N.H.B.M.), which specialises in the design and construction of single-family homes and apartment buildings at affordable prices and under long-term leases, BCEE is fulfilling its social mission of facilitating home ownership for personal needs.

Since 2016, the Bank holds a 12,0% stake in the capital of Encevo S.A., the holding company for Luxembourg's market-leading energy group. The acquisition of this stake is consistent with BCEE's past equity investments in other Luxembourg economic actors.

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

Human resources

In 2017, BCEE was named the "Most Attractive Employer in Luxembourg" in an annual poll conducted by RANDSTAD, a world leader in the recruitment and provision of qualified personnel.

RANDSTAD measures the attractiveness of significant companies in 27 countries. The term used is "EVP - Employer Value Proposition". The key criteria taken into account include quality of the recruitment process and induction of new hires, retention of employees regardless of their age through the company's values and the attractiveness of the job throughout the career, workplace climate and atmosphere, work-life balance, and job security. The value proposition offered by BCEE to its employees for many years has therefore been recognised and rewarded.

An effective orientation programme helps integrate new hires in a changing professional environment while providing extensive integration training geared to the mounting challenges facing the Bank's various businesses. BCEE again participated in various career fairs and the fully reconfigured www.mylittlebigstep.lu website remains the entry point for applications. Candidates can find information there and also apply online.

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

Corporate governance

According to the organic law of 24 March 1989, Banque et Caisse d'Epargne de l'Etat, Luxembourg is an autonomous public institution with legal personality, under the ultimate supervision of the Government Minister with responsibility for the Treasury. This law also defines the various bodies of the Bank constituting its corporate governance, namely the Board of Directors, the Executive Committee, and the Supervisory Commissioner. It also specifies the rules applicable to their appointment, replacement, and powers.

While BCEE has always been committed to a corporate culture based on good governance rules, the principles of governance have become the major pillars governing the organisation and activities of financial institutions and have continued to evolve since Circular CSSF 12/552. For systemically important banks such as BCEE, the European regulator is increasingly stressing the importance of good governance and continues to make it a major theme for 2018.

Corporate social responsibility (CSR)

In 2018, in addition to its traditional annual report, the Bank will publish, for the first time for the 2017 financial year, 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

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

Numerous events and conferences on a variety of topical issues for individuals, businesses, and institutional customers have been organised within the prestigious setting of the "19 Liberté" banking centre.

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

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

The Bank Museum, which traces the history of Luxembourg's financial centre and of BCEE since 1856, was very popular in 2017, particularly among student groups.

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

SOLID EARNINGS AND STRONGER OWN FUNDS

The Bank's net profit as at 31 December 2017 fell by 1,2% compared with the 2016 financial year to EUR 256,6 million.

Banking income increased by 1,0% to EUR 585,9 million as at 31 December 2017.

Net interest margin fell by 0,6% due to the continued low, if not negative, interest-rate environment, which limits investment and maturity switching opportunities despite higher business volumes. Income from variable-income securities rose by 6,3%, as a result of increased dividends from certain strategic holdings.

Fee income was up by 10,0% due to higher fees on payment transactions and account management as well as fees from credit activities.

Income from financial instruments increased from EUR 44,8 million at the end of 2016 to EUR 50,1 million as at 31 December 2017. More volatile in nature, this income item includes income from securities and derivatives trading, the disposal of available-for-sale financial assets, fair value hedging transactions, and foreign exchange transactions. The increase in income in this category is mainly due to the higher profit generated on the sale of securities.

The measurement of fixed-income securities, which are classified as available-for-sale financial assets, is recognised in equity under the heading "revaluation reserve". The same is true for the measurement of variable-income securities classified as available-for-sale financial assets. The decrease in valuations of securities during the year had an influence on the revaluation reserve, which amounted to EUR 455,9 million at the end of 2017, down EUR 205,9 million or 31,1% compared with 31 December 2016.

Other operating income and expenses fell to EUR -16,4 million at year-end 2017 from EUR -3,2 million at the end of 2016.

Despite a rigorous cost control policy, total general expenses, including allowances for impairment of tangible and intangible non-current assets, increased by 5,4%. This stemmed primarily from higher expenses associated with the implementation of new banking regulations and with their supervision and from the increase in allowances for impairment of tangible and intangible non-current assets following the opening of the "19 Liberté" building in July 2016.

Following resolutions of certain loans in default, for which an allowance for impairment was recognised, the Bank recorded large write-backs of net allowances for impairment of individual and collective credit risks totalling EUR 15,8 million in 2017. However, the decrease of EUR 9,9 million in the total amount of provision write-backs compared with the 2016 financial year adversely affects the annual comparison. These two factors, which have a significant influence on the change in net income for the 2016 and 2017 financial years, are non-recurring because of their nature or size and will therefore no longer be represented in future years.

In view of the above, the Bank posted a net profit of EUR 256,6 million for the 2017 financial year, down EUR 3,2 million (1,2%) from a net profit of EUR 259,8 million in the prior year.

ANALYSIS OF MAIN BALANCE SHEET ITEMS

The balance sheet totalled EUR 45.509,9 million as at 31 December 2017, an increase of EUR 2.040,3 million compared with 31 December 2016. This increase came primarily from the increase in non-banking customer deposits.

On the asset side of the balance sheet, "Cash and sight accounts with central banks" rose by EUR 2.840,0 million to EUR 5.527,9 million, mainly because of the increase in assets deposited with Banque Centrale du Luxembourg (BCL).

Outstanding fixed-income securities amounted to EUR 9.682,2 million, down by EUR 0,4 million compared with the end of the 2016 financial year. This change is explained mainly by the lack of opportunities to replace matured positions under attractive terms.

Under this same heading, outstanding variable-income securities stood at EUR 832,1 million, down by EUR 242,1 million compared with end-2016, due primarily to lower share prices of certain holdings.

Outstanding loans to credit institutions decreased by EUR 0,4 million to EUR 3.671,4 million. This item also includes the Bank's deposits with other banks, whether or not they are collateralised with securities.

Outstanding loans to customers increased by EUR 1.097,3 million to EUR 20.912,8 million. The increase was driven by the development of the housing loan and investment loan businesses, illustrating BCEE's continued desire to support the projects of individuals and businesses in the country.

On the liabilities side of the balance sheet, issues of securities decreased by EUR 1.058,4 million to EUR 3.859,9 million. This decrease is explained by the use of other sources of financing favoured by the Bank.

Deposits by credit institutions remained virtually stable at EUR 4.776,0 million. This item also includes the Bank's loans from other banks, whether or not they are collateralised with securities.

Customer deposits increased by EUR 3.361,2 million to EUR 31.477,4 million, driven mainly by strong inflows of deposits from corporates and individuals. Public sector deposits also increased but changes in this item remain more volatile and depend on the State's needs and cash management policy.

In accordance with Article 38-4 of the Law on the Financial Sector, the BCEE group reported its return on assets, which stood at 0,56% versus 0,60% in the prior year.

CHANGE IN OWN FUNDS

The BCEE Group's equity attributable to owners of the parent company amounted to EUR 4.236,8 million as at 31 December 2017 compared with EUR 4.229,1 million at the end of 2016, i.e. an increase of 0,2%.

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

2018 OUTLOOK

Although the main European economic indicators are clearly improving, the European Central Bank's recent comments and statements suggest that short- and medium-term interest rates will continue to be very low throughout 2018.

The Bank therefore expects continued pressure on its interest margin as opportunities to re-use excess liquidity are negatively impacted by the environment of low rates in the short term. However, barring another acute economic or political crisis in Europe, BCEE's cost of credit risk should not see any significant negative changes, apart from the effects of the expected impairment model introduced by IFRS 9 and described in chapter 2.1 of this annual report.

With the entry into force of the accounting standard IFRS 9 on 1 January 2018, and in accordance with the choices made by BCEE in terms of classifying variable-income securities portfolios, most of the proceeds on sales of variable-income securities will be recorded directly in own funds, without passing through the Bank's income statement. The reading of the income statement for the 2018 financial year and subsequent years will have to be adapted to this new accounting reality by referring more to the statement of comprehensive income. Applied to the 2017 financial year, this methodological change would have reduced the income from financial instruments by some EUR 9,8 million.

The "Spuerkeess 2020" strategic business plan will be reviewed to take into account changes in the economic, technological, and regulatory environment, but without calling into question the strategies in the area of the branch network and digital banking.

The branches will be gradually remodelled around the new operational concept. Customers will also benefit from a comprehensive and user-friendly electronic banking offering. The budget provides for substantial investments to ensure implementation of this "omnichannel" approach.

Lastly, considerable efforts will be made to prepare the bank for the challenges and opportunities related to PSD2 in the broad sense.

Against a more favourable economic backdrop in early 2018, the Bank will continue to assume its roles and responsibilities as a responsible bank serving its customers and the country's economy in general, in accordance with its missions under the law of 24 March 1989 on BCEE, and in line with the Bank's history.

EVENTS AFTER THE REPORTING PERIOD

No significant events that could impact the normal course of the BCEE Group's business occurred after the close of the 2017 financial year.

Luxembourg, 21 March 2018

For the Executive Committee

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

3 GOVERNING BODIES OF THE BANK

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

Camille Fohl was nominated by the Governing Board on 1 September 2017 as the new Chairman of the Board of Directors, effective 25 October 2017. He succeeds Victor Rod, who was head of the Bank's Board of Directors for 25 years.

Patrick Gillen, Vice-Chairman of the Board of Directors, resigned from the Board of Directors, effective 1 January 2018. Nico Ramponi, Personnel Representative, exercised his retirement rights, effective 1 January 2018. Betty Sandt resigned from the Board of Directors, effective 1 April 2018.

The Board of Directors is therefore composed as follows as at May 2018:

	Board of Directors
Chairman	Mr Camille FOHL
Members	Mr Nima AHMADZADEH
	Mr Georges DENNEWALD
	Mr Paul ENSCH
	Mrs Elisabeth MANNES-KIEFFER
	Mr Steve MELAN
	Mr Manuel NICOLAS
	Mr Jean-Claude REDING
	Supervisory Commissioner
	Mr Bob KIEFFER

Mr Michel BIREL exerciced his retirement rights, effective 30 April 2018 and Mrs Doris ENGEL was nominated as a new membre of the Executive Committee effective 3 May 2018.

	Executive Committee (composition as at May 2018)	
President	Mrs Françoise THOMA	Chief Executive Officer
Members	Mr Guy ROSSELJONG	Deputy Chief Executive Officer
	Mr Aly KOHLL	Executive Vice President
	Mr Romain WEHLES	Executive Vice President
	Mrs Doris ENGEL	Executive Vice President

Statutory Auditor:
until 31 December 2017 PricewaterhouseCoopers S.C. Luxembourg, as of 01 January 2018 Ernst & Young.

Executive Committee

From left to right:
Mr Romain Wehles, Mr Aly Kohll,
Mrs Françoise Thoma, Mr Guy Rosseljong,
Mrs Doris Engel

4 STATEMENT ON THE COMPLIANCE OF THE FINANCIAL STATEMENTS

Luxembourg, 21 March 2018

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

We hereby declare that, to the best of our knowledge, the consolidated financial statements as at 31 December 2017 of the Banque et Caisse d'Epargne de l'Etat, Luxembourg have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities as well as the financial position and results. We also hereby declare that the management report presents an accurate description of the development, results and situation of the Banque et Caisse d'Epargne de l'Etat, Luxembourg and of the group of companies included in the consolidated financial statements, taken as a whole, as well as the main risks and uncertainties facing the Bank and the BCEE Group.

For the Executive Committee

Michel BIREL
Deputy Chief Executive Officer
Member of the Executive Committee

Françoise THOMA
Chief Executive Officer
President of the Executive Committee

A. Audit report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Banque et Caisse d'Epargne de l'Etat, Luxembourg (the "Parent Company") and its subsidiaries (the "Group") as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flow for the year then; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 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 "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

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

Independence

We are 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 financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Group, in the period from 1 January 2017 to 31 December 2017, are disclosed in the Note 4.25 to the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	OUR AUDIT'S RESPONSE

Valuing financial instruments at fair value through the revaluation reserve

The financial instruments held at fair value through the revaluation reserve include available-for-sale securities – fixed-income securities (EUR 9.1 billion) and available-for-sale securities – variable-income securities (EUR 832 million). As at 31 December 2017, these financial instruments show unrealised gains of EUR 453 million through the revaluation reserve and a decrease of EUR 172 million in the consolidated statement of comprehensive income for the financial year.

The evaluation of the fair value of these financial instruments is inherently complex due to the nature of certain instruments, the availability of prices on an active market, and/or the limited availability of observable data.

The limited availability of this information for some instruments makes their valuation more subjective. Therefore, determining the fair value involves Managements' judgement.

As at 31 December 2017, 96.10% of these positions are fair valued based on quoted prices on an active market (level 1) or through models based on observable data from an active market (level 2).

The remaining 3.90% of these positions, mainly related to unlisted equity instruments (level 3), are valued based on internal estimates validated by Management.

Consequently, the valuation of financial instruments held at fair value through the revaluation reserve is a key audit matter for our audit, both because of their significance in the consolidated statement of financial position and the consolidated statement of comprehensive income for the financial year, and the degree of judgement required to determine the fair value of certain of these assets.

> *Please refer to the notes to the financial statements: 2.4.2.3 – Fair value; 2.4.3.1 – Fair value of financial instruments; 3.2.3 – Available-for-sale assets; 4.4.2 – Available-for-sale assets; 6.3.3 – Analysis of credit risk relating to financial assets; and 6.4.2 – Analysis of the value of financial instruments.*

During our audit, we assessed the design of, and tested the operational effectiveness of, the key controls supporting the identification and monitoring of risk related to the valuation of the financial instruments held at fair value through the revaluation reserve.

In addition to assessing the appropriate segregation of duties within the Group, we examined the processes for determining, verifying and approving the prices.

We paid particular attention to the controls related to the most complex instruments.

For levels 1 and 2 instrument valuations, we undertook independent, sample-based valuation for these positions.

For positions that depend on unobservable data in active markets or require a higher degree of judgement (level 3), we reviewed the assumptions and methodologies adopted by Management in determining their fair value, as well as undertaking independent, sample-based valuation.

KEY AUDIT MATTER	OUR AUDIT'S RESPONSE

Impairment of loans and receivables at amortised cost for "Corporate" customers

The Group's loans are recognized at amortised cost, less any impairment. As at 31 December 2017, they show a net exposure of EUR 5.4 billion on the assets side of the balance sheet, including a stock of impairments on individual risks of EUR 61.3 million and net changes of EUR 7.0 million in relation thereto. This pertains to the Group's parent company only.

Impairment of these instruments is subject to the Executive Committee's judgement, based on the analysis performed by the department responsible for monitoring credit risk undertaking which determines their amount and their recognition period. This involves identifying indicators of deterioration, assessing the need for impairment and evaluating the underlying collateral.

This process is inherently complex because it is based on qualitative and quantitative data, and includes a certain degree of judgment in identifying indicators of credit deterioration as well as determining the level of impairment required.

Therefore, we deemed the impairment of loans and receivables at amortised cost to "Corporate" customers to be a key audit matter. This is due to both the judgement required in their determination, and their significance in the consolidated statement of financial position and the consolidated income statement for the financial year as at 31 December 2017.

> Please refer to the notes to the financial statements: 2.4.2.2 – Amortised cost; 2.4.3.2 – Impairment of financial assets measured at amortised cost; 3.2.7 – Loans and receivables at amortised cost; 4.3 – Loans and receivables at amortised cost – customers; and 6.3.3 – Analysis of credit risk relating to financial assets.

To examine the internal control framework adopted by the Group's parent company in connection with the assessment of the level of impairment of the loans and receivables, we interviewed employees, reviewed the governance and the decision making process, and examined Management's approval of the specific impairment rates for these individual exposures.

Our work included verifying the process for identifying bad debts at the Group's parent company, the periodic review of these exposures, making sure that a specific provisions sheet had been established, and taking into account other quantitative indicators as defined by the Group's parent company – as well as other qualitative aspects – when determining the impairment rates proposed.

We interviewed department's heads and Management to gain an understanding of the factors that led to the loans being impaired and the methodology used to determine the amount of these impairments.

For these impaired loans and receivables, we assessed on a sample basis the reasonableness of the impairment amounts. In particular, our procedures included verifying information pertaining to the files and, where applicable, checking that the existence and valuation of collateral had been taken into account.

In addition, for a sample of loans and receivables with a low internal rating, we also ensured that they should not have been impaired due to specific incidents.

Other information

The Executive Committee is responsible for the other information, which is submitted for approval to the Board of Directors.

The other information comprises the information stated in the consolidated financial statements including the consolidated management report and the Corporate Governance Statement but does not include the consolidated financial statements and our audit report thereon.

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

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

Responsibilities of the Executive Committee and the Board of Directors for the consolidated financial statements

The Executive Committee is responsible for the preparation and fair presentation of the consolidated financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error. Those consolidated financial statements are submitted for the approval of the Board of Directors pursuant the organic Law of 24 March 1989.

In preparing the consolidated financial statements, 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 would propose to the Board of Directors and the Government Council to either liquidate the Group or to cease its 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 financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report 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 No 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 financial statements.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, 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's and the Board of Directors' 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 audit report to the related disclosures in the consolidated financial statements 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 audit report. 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 financial statements, including the disclosures, and whether the consolidated financial statements 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 financial statements. 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

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

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

We have been appointed as "Réviseur d'Entreprises agréé" by the Government of the Grand Duchy of Luxembourg on the 19 February 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 10 years.

Other matter

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

PricewaterhouseCoopers, Luxembourg, 22 March 2018
Société coopérative
Represented by

Julie Batsch Roxane Haas

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

B. Consolidated balance sheet as at 31 December 2017

ASSETS in euros	**Notes**	**31/12/2016**	**31/12/2017**
Cash and sight accounts with central banks	4.1.	2.687.924.387	5.527.885.100
Loans and receivables at amortised cost – Credit institutions	4.2.	4.105.231.598	3.671.386.893
Loans and receivables at amortised cost – Customers	4.3.	19.815.745.830	20.912.775.444
Financial instruments held for trading	4.4. 4.9.	294.544.201	85.338.534
Hedging derivative financial instruments	4.9.	67.895.956	93.957.657
Financial assets designated at fair value through profit or loss	4.10.	262.150.671	548.117.498
Available-for-sale securities – Fixed-income securities	4.4.	9.805.099.257	9.134.090.462
Available-for-sale securities – Variable-income securities	4.4.	1.074.144.424	832.066.938
Held-to-maturity securities	4.5.	4.572.783.470	3.946.383.118
Investments in associates accounted for using the equity method	4.6.	363.912.298	378.120.296
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	4.11.	80.022.997	46.597.287
Tangible assets for own use	4.12.	298.615.576	288.343.606
Investment property	4.13.	14.311.053	13.727.120
Intangible assets	4.14.	16.519.157	18.605.053
Other assets	4.16.	9.724.260	11.561.278
TOTAL ASSETS		**43.468.625.135**	**45.508.956.284**

The notes on pages 33 to 130 are an integral part of these consolidated financial statements.

LIABILITIES in euros	Notes	31/12/2016	31/12/2017
Deposits at amortised cost – Credit institutions	4.17.	4.741.710.246	4.776.023.875
Deposits at amortised cost – Customers	4.18.	28.115.936.115	31.477.133.430
Financial instruments held for trading	4.4. 4.9.	156.434.838	202.116.831
Hedging derivative financial instruments	4.9.	894.844.009	588.498.489
Financial liabilities designated at fair value through profit or loss	4.19.	148.612.880	146.853.974
Issuance of debt securities	4.20.	4.769.621.682	3.713.017.053
Provisions	4.21.	4.883.234	3.594.463
Other liabilities	4.22.	58.188.728	35.423.570
Current taxes	4.15.	58.954.065	62.045.799
Deferred taxes	4.15.	58.327.625	64.812.580
Pension fund	4.23.	229.496.232	199.816.171
SUB-TOTAL OF LIABILITIES (BEFORE EQUITY CAPITAL) TO BE CARRIED FORWARD		**39.237.009.654**	**41.269.336.236**

EQUITY in euros	31/12/2016	31/12/2017
Sub-total of LIABILITIES (before equity capital) carried forward	**39.237.009.654**	**41.269.336.236**
Share capital	173.525.467	173.525.467
Revaluation reserve	661.775.701	455.873.461
Available-for-sale assets	*661.880.411*	*453.444.064*
Consolidated reserves	3.133.980.137	3.350.713.675
Equity method adjustment	*278.196.348*	*287.422.805*
Income for the year	259.792.789	256.610.845
Sub-total of equity attributable to equity holders of the parent company	**4.229.074.094**	**4.236.723.448**
Minority interests	2.541.387	2.896.600
Total equity	**4.231.615.481**	**4.239.620.048**
TOTAL LIABILITIES, including EQUITY	**43.468.625.135**	**45.508.956.284**

The notes on pages 33 to 130 are an integral part of these consolidated financial statements.

C. Consolidated income statement as at 31 December 2017

in euros	Notes	31/12/2016	31/12/2017
Interest income	5.1.	365.671.140	363.611.577
Income from variable-income securities	5.2.	44.574.661	47.388.545
Fee and commission income	5.3.	128.419.457	141.253.115
INCOME FROM INTEREST, DIVIDENDS AND FEES AND COMMISSIONS		**538.665.258**	**552.253.237**
Income from financial instruments not recognised at fair value through profit or loss	5.4.	13.165.618	24.411.845
Income from financial instruments held for trading	5.5.	16.158.995	9.660.650
Income from financial instruments designated at fair value through profit or loss	5.6.	2.369.213	4.840.448
Income from hedging transactions	5.7.	1.520.235	2.619.890
Exchange gains or losses		11.573.568	8.567.482
Other operating income	5.8.	10.259.352	20.383.067
Other operating expenditure	5.8.	-13.505.468	-36.822.128
BANKING INCOME		**580.206.771**	**585.914.491**
Personnel expenses	5.9.	-201.574.064	-209.842.654
Other general and administrative expenses	5.10.	-83.844.376	-88.826.996
Depreciation allowances for tangible and intangible assets	5.11. 5.12. 5.13.	-29.339.458	-33.059.168
INCOME AFTER GENERAL EXPENSES		**265.448.873**	**254.185.673**
Net allowances for impairment of individual and collective credit risks	5.14.	581.530	15.774.364
Provisions	5.15.	11.202.147	1.288.771
Share in the profit of equity-accounted associates		29.240.958	37.512.788
INCOME BEFORE TAXES AND NON-CURRENT ASSETS		**306.473.508**	**308.761.596**
Profit from non-current assets and disposal groups classified as held for sale and not qualifying as discontinued operations		338.072	1.081.909
Tax on income from continuing operations	5.16.	-63.763.700	-63.482.573
Deferred taxes	5.16.	18.748.188	12.487.419
INCOME FOR THE YEAR		**261.796.068**	**258.848.350**
OF WHICH INCOME FOR THE YEAR ATTRIBUTABLE TO			
- MINORITY INTERESTS		*2.003.279*	*2.237.505*
- EQUITY HOLDERS OF THE PARENT		*259.792.789*	*256.610.845*

The notes on pages 33 to 130 are an integral part of these consolidated financial statements.

D. Consolidated statement of comprehensive income as at 31 December 2017

in euros	31/12/2016	31/12/2017
INCOME FOR THE YEAR	**261.796.068**	**258.848.350**
Items not reclassified in net income subsequently	**-49.838.706**	**-17.864.357**
Actuarial gains/(losses) on the defined-benefit pension scheme	-71.218.221	10.676.221
Contribution of equity-accounted associates	7.573.222	-22.261.858
Impact of deferred taxes	13.806.293	-6.278.720
Items to be reclassified in net income subsequently	**-99.078.917**	**-205.902.240**
Available-for-sale assets	-94.013.011	-196.635.592
- Variation in measurement results	*-80.625.697*	*-171.901.420*
- Net reclassification to the income statement of realised net gains	*-13.387.314*	*-24.734.172*
Cash flow hedges	-333.449	3.427.007
Impact of deferred taxes	-4.732.457	-12.693.655
Total items of comprehensive income for the year - net of tax	**-148.917.623**	**-223.766.597**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**112.878.445**	**35.081.753**
share attributable to		
- minority interests:	*2.003.279*	*2.237.505*
- equity holders of the parent company:	*110.875.166*	*32.844.248*

The notes on pages 33 to 130 are an integral part of these consolidated financial statements.

E. Consolidated statement of changes in equity as at 31 December 2017

The Group's parent company has appropriated the sum of EUR 40.000.000 (the same amount as in 2016) from its net income for the 2017 financial year for distribution to the State. Own funds were reinforced by an allocation of EUR 219.792.789 to the reserve.

in euros	Share capital	Consolidated reserves	Revaluation reserve	Net income	Total equity holders of the parent	Minority interests	Total equity
As at 1 January 2017	**173.525.467**	**3.133.980.137**	**661.775.701**	**259.792.789**	**4.229.074.094**	**2.541.387**	**4.231.615.481**
Appropriation of 2016 income	-	259.792.789	-	-259.792.789	-	-	-
2016 net income	-	-	-	256.610.845	256.610.845	2.237.505	258.848.350
Distribution for FY 2016	-	-40.000.000	-	-	-40.000.000	-	-40.000.000
Actuarial gains/(losses) on pension fund	-	4.397.500	-	-	4.397.500	-	4.397.500
Net measurement results of available-for-sale financial instruments	-	-	-208.436.348	-	-208.436.348	-	-208.436.348
Net measurement results of cash flow hedges	-	-	2.534.107	-	2.534.107	-	2.534.107
Other	-	-7.456.749	-	-	-7.456.749	-1.882.292	-9.339.041
as at 31 December 2017	**173.525.467**	**3.350.713.675**	**455.873.461**	**256.610.845**	**4.236.723.448**	**2.896.600**	**4.239.620.048**

in euros	Share capital	Consolidated reserves	Revaluation reserve	Net income of the parent	Total equity holders	Minority interests	Total equity
As at 1 January 2016	**173.525.467**	**2.942.127.352**	**760.854.618**	**273.161.115**	**4.149.668.552**	**2.200.598**	**4.151.869.150**
Appropriation of 2015 income	-	273.161.115	-	-273.161.115	-	-	-
2016 net income	-	-	-	259.792.789	259.792.789	2.003.279	261.796.068
Distribution for FY 2015	-	-40.000.000	-	-	-40.000.000	-	-40.000.000
Actuarial gains/(losses) on pension fund	-	-57.411.928	-	-	-57.411.928	-	-57.411.928
Net measurement results of available-for-sale financial instruments	-	-	-98.839.828	-	-98.839.828	-	-98.839.828
Net measurement results of cash flow hedges	-	-	-239.089	-	-239.089	-	-239.089
Other	-	16.103.599	-	-	16.103.599	-1.662.490	14.441.109
as at 31 December 2016	**173.525.467**	**3.133.980.137**	**661.775.701**	**259.792.789**	**4.229.074.094**	**2.541.387**	**4.231.615.481**

The notes on pages 33 to 130 are an integral part of these consolidated financial statements.

F. Consolidated statement of cash flow as at 31 December 2017

in euros	31/12/2016	31/12/2017
Cash and cash equivalents		
Cash and sight accounts with central banks	2.685.668.850	5.525.500.027
Loans and receivables at amortised cost – Credit institutions	1.217.012.620	1.376.072.568
Loans and receivables at amortised cost – Customers	1.656.102.720	1.831.874.968
Financial instruments held for trading	98.512	-
Total	**5.558.882.703**	**8.733.447.563**

The statement of cash flows represents the inflow and outflow of cash. Cash and cash equivalents include cash on hand, deposits with central banks, and assets with an original maturity of 90 days or less and subject to an insignificant risk of change in fair value.

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

Cash flow from operating activities

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

in euros	31/12/2016	31/12/2017
Interest received	850.865.685	880.344.814
Interest paid	-459.922.533	-523.847.918
Income from variable-income securities	44.574.661	47.388.545
Fees and commissions received	174.398.522	181.725.208
Fees and commissions paid	-45.979.065	-40.472.093
Other operating income	9.859.482	20.382.629
Other operating expenditure	-30.194.148	-35.303.148
Current taxes	-63.763.700	-63.482.573
General and administrative expenses	-272.458.782	-284.699.185
Sub-total	**207.380.122**	**182.036.279**

The notes on pages 33 to 130 are an integral part of these consolidated financial statements.

- Cash flow from changes in operating assets:

Net changes in euros	31/12/2016	31/12/2017
Financial instruments held for trading	977.657	1.462.493
Financial assets designated at fair value through profit or loss	-262.111.460	-286.638.122
Available-for-sale securities – Fixed-income securities	190.322.898	562.513.204
Available-for-sale securities – Variable-income securities	-11.564.817	10.331.647
Loans and receivables at amortised cost – Credit institutions	253.898.787	616.312.334
Loans and receivables at amortised cost – Customers	-861.549.103	-992.193.516
Hedging derivative financial instruments	-360.284	13.957.560
Other assets	-31.651.809	-36.468.832
Sub-total	**-722.038.132**	**-110.723.233**

- Cash flow from changes in operating liabilities:

Net changes in euros	31/12/2016	31/12/2017
Financial instruments held for trading	15.098.900	7.893.983
Financial liabilities designated at fair value through profit or loss	148.056.795	-348.421
Deposits at amortised cost – Credit institutions	280.504.010	-65.626.500
Deposits at amortised cost – Customers	1.191.523.201	3.364.136.388
Hedging derivative financial instruments	76.533.165	11.636.221
Other liabilities	28.789.125	-23.737.769
Issuance of debt securities	-998.507.757	-1.055.884.808
Sub-total	**741.997.439**	**2.238.069.094**
Cash flow from operating activities	**227.339.430**	**2.309.382.141**

Cash flow from investment activities

in euros	31/12/2016	31/12/2017
Acquisition of available-for-sale securities – Variable-income securities	-173.827.950	-1.100.000
Disposals of available-for-sale securities – Variable-income securities	13.203.553	23.844.685
Acquisition of held-to-maturity securities	-980.895.637	-896.517.406
Redemption of held-to-maturity securities	1.053.680.838	1.523.141.920
Acquisitions/disposals of intangible and tangible assets	-36.703.184	-23.427.723
Cash flow from investment activities	**-124.542.380**	**625.941.477**

The notes on pages 33 to 130 are an integral part of these consolidated financial statements.

Cash flow from financing activities

in euros	31/12/2016	31/12/2017
Proceeds from subordinated liabilities	-25.000.000	-
Income distribution	-40.000.000	-40.000.000
Cash flow from financing activities	**-65.000.000**	**-40.000.000**

Reconciliation of cash flows from financing activities

in euros	01/01/2016	Cash flow	Unrelated to cash flow	31/12/2016
Proceeds from subordinated liabilities	127.711.752	-25.000.000	-1.232.068	101.479.685

in euros	01/01/2016	Cash flow	Unrelated to cash flow	31/12/2016
Proceeds from subordinated liabilities	101.479.685	-	-508.644	100.971.040

Net change in cash

in euros	31/12/2016	31/12/2017
Cash flow from operating activities	227.339.430	2.309.382.141
Cash flow from investment activities	-124.542.380	625.941.477
Cash flow from financing activities	-65.000.000	-40.000.000
Net change in cash	**37.797.049**	**2.895.323.617**

Change in cash and cash equivalents

	2016	2017
Position as at 1 January	**5.672.599.757**	**5.558.882.703**
Net change in cash	37.797.049	2.895.323.617
Effect of exchange rates on cash and cash equivalents	-151.514.103	279.241.243
Position as at 31 December	**5.558.882.703**	**8.733.447.563**

The notes on pages 33 to 130 are an integral part of these consolidated financial statements.

G. Notes to the consolidated financial statements

1. GENERAL INFORMATION

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

The Bank 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 BCEE.

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

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

The consolidated financial statements concern the Group, of which Banque et Caisse d'Epargne de l'Etat, Luxembourg is the parent company. The bank had an average headcount in 2017 of 1.843 (1.818 for 2016), including staff on skills-acquisition contracts.

The financial year coincides with the calendar year.

The consolidated financial statements were approved by the Board of Directors meeting on 21 March 2018.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Compliance with general accounting principles

The Group's consolidated financial statements for the 2017 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

a) New or revised standards adopted by the Group

The following standards, whose application is compulsory in financial years beginning on or after 1 January 2017, were adopted by the Group's parent company and have had no material impact on the annual financial statements. The standards are:
- Amendment to IAS 7: Disclosure Initiative;
- Amendment to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses.

b) The following standards, whose application is not compulsory in financial years beginning on or after 1 January 2017, have not yet been adopted by the Group's parent company. The standards are:
- IFRS 9: Financial Instruments;
- IFRS 15: Revenue from Contracts with Customers;
- IFRS 16: Leases.

c) New and revised standards and interpretations, relevant for the Group's parent company, which are not yet compulsory and which have not been adopted by the European Union:
- Amendment to IFRS 2: Classification and Measurement of Share-based Payment Transactions;
- Improvements to IFRS, 2014-2016 cycle, which are a series of amendments to the existing standards;
- Amendment to IAS 40: Transfers of Investment Property;
- Amendment to IFRS 9: Prepayment Features with Negative Compensation;
- Amendment to IAS 28: Long-term interests in Associates and Joint Ventures;
- IFRIC 22: Foreign Currency Transactions and Advance Consideration;

- IFRIC 23: Uncertainty over Income Tax Treatments;
- Amendment to IFRS 15: Clarification of IFRS 15;
- Improvements to IFRS, 2015-2017 cycle, which are a series of amendments to the existing standards.

d) Qualitative and quantitative analysis of IFRS 9

With the adoption of IFRS 9 by the European Parliament on 22 November 2016, the Group's parent company provides details on the implementation, the methodological choices made, and the impact on own funds and the reclassifications from IAS 39 to IFRS 9:

o Business models

The core business model of the Group's parent company intends to hold assets to maturity, regardless of the product:

- Acquired bond positions are principaly held to maturity. IFRS 9 introduces the notion of the business model, which, for the bond portfolio held by the Group's parent company, 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 sales. 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 with measurement at amortised cost: 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 (IFRS 9 4.1.2).
    Sales are permitted in the following cases (IFR B4.1.2C-B4.1.4):
    - the impact is not significant;
    - if the impact is significant, then the sales must be infrequent;
    - they are linked to exceptional cases such as a significant deterioration of the counterparty's credit quality or legal or tax changes.

  - **HTCS** (Hold to collect and sell) portfolio with revaluation at fair value through the revaluation reserve: This involves a long-term holding of securities but with possibilities of selling depending on the opportunities for realising capital gains.
    The SPPI test must also be respected.
    Unlike the HTC portfolio, which is based on management objectives, the HTCS portfolio is based on the observed results of the Group's parent company. 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.
    This business model is currently not considered by the Group's parent company.

  - **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. Current trading portfolio positions' 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.
    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 and loss.

- For equity instruments, the Group's parent company has opted for fair value measurement through the revaluation reserve with the recognition of dividends in the income statement and income on sales in an equity category, without going through the income statement. The creation of allowances for impairment is not provided for under this option.

- Loans originated by the Bank are not intended for a subsequent sale or a securitisation transaction but are retained on the balance sheet' asset side until final repayment. The Group's parent company does not acquire not-orignited loan portfolios.
  The lending activity of the Group's parent company is therefore assigned to the HTC business model and is based on contractual data and on the principle that loans are originated and held in order to collect principal and interest until maturity.

o Monitoring of business model compliance

The thresholds for questioning the business model in place at the Group's parent company disregard sales and capital gains realised on positions with residual maturity of 6 months or less. The threshold for impact has been set at 5% of net banking income (NBI). The NBI considered is that of the previous financial year. If this threshold is exceeded, and if more than 10% of the outstandings of a portfolio are sold per year, then the portfolio no longer meets the conditions of eligibility for the HTC classification with an amortised cost valuation.

If the two cumulative thresholds are exceeded, this will launch a procedure for reclassification of the portfolio in question to the HTCS model. 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 from 2013 to 2016, with the aim of anticipating the achievement of absolute thresholds:
- a number of 50 transactions;
- a cumulative nominal value of 2%;
- an NBI impact of 3%.

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

In terms of originating 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.

o Implementation of the "SPPI" test

In order to pass the SPPI test, financial instruments in the form of fixed-income securities must include only structures:
- considered as non-speculative and/or unleveraged;
- whose interest income respects the time value of money;
- ensuring the payment of interest and repayment of the principal.

The Group's parent company has reviewed all its financial instruments of fixed-income securities category and has implemented a classification in SPPI-compliant securities and non-SPPI-compliant securities through the introduction of a "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. A financial instrument acquired by the Group's parent company in several operations and over a longer period of time may therefore be classified upon acquisition in both SPPI-compliant and non-SPPI-compliant.

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 and prepayment options.
- 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's parent company 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 a SPPI test on the basis of a list of specific pre-marketing criteria.

The contracts on which customised loans are based, are reviewed individually in the same way to determine compliance with the SPPI criterion.

o Implementation of impairment requirements

The implementation of the second phase of IFRS 9 includes all products of the HTC model meeting the SPPI criterion as well as off-balance-sheet commitments. These exposures are classified according to three "stages" determining the calculation of the value adjustments:

- "stage 1" includes all exposures whose credit risk remained unchanged or has not significantly deteriorated since the loan was originated or the security was purchased (at inception);

  Value adjustment = Expected Credit Loss at 1 year

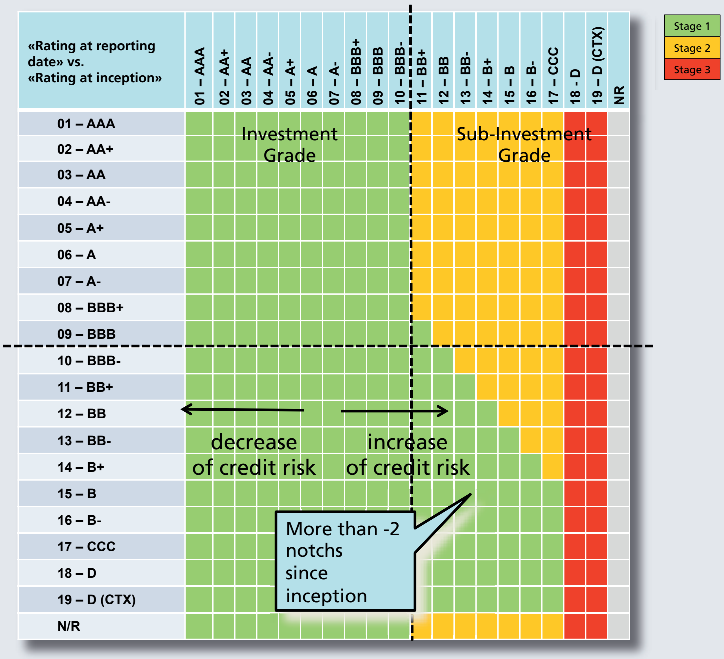
- "stage 2" includes financial instruments whose credit risk has significantly increased since the loan was originated or the security was purchased, i.e., exposures that:
  - are "non-performing" but not in default according to the CRR definition;
  - have been restructured according to the definition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

  Value adjustment = "Lifetime Expected Credit Loss"

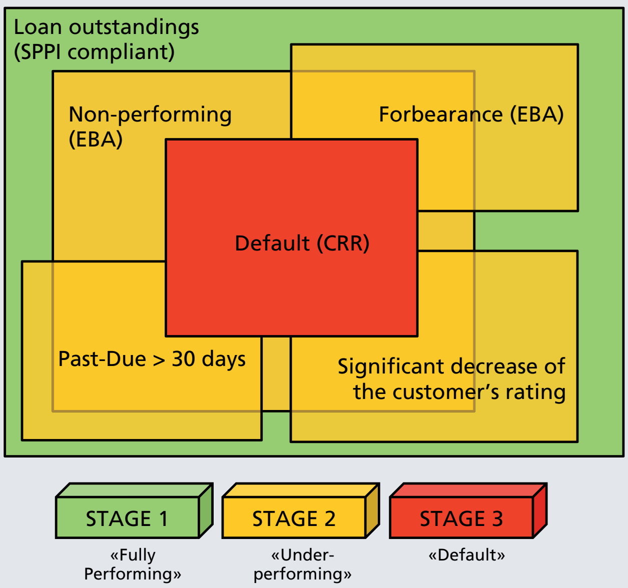
- "stage 3" includes the outstanding amounts in default according to the CRR definition. The impact of the new standard on the value adjustments of outstandings classified in "stage 3" are less significant than those on value adjustments of outstandings classified in "stage 1" or "stage 2". The calculation 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":



Terms	Explanations	IFRS9 stage
1. Default	· No arrears, but "unlikeliness to pay", in the sense of a serious doubt about the future ability to meet the commitments (e.g. bankruptcy) · Delay > 1 monthly instalment for > 90 days, or · Overdraft > EUR 500 for 90 days	STAGE 3
2. Non-Performing	· Delay > ½ quality monthly instalment for > 90 days, or · Overdraft > EUR 100 for 90 days, or · Qualitative criteria (e.g. recent balance sheet missing or publication of disappointing earnings)	STAGE 2
3. Forbearance / renegotiations 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	· Delay in payment > 30 days with certain materiality thresholds (EBA notion)	STAGE 2
5. Internal rating	· Downgrading of internal rating to sub-investment grade (below BBB)	STAGE 2

Contagion and probation period: The Group's parent company applies the contagion for all defaults. All commitments of a customer in default are classified in "stage 3". Contagion is not applied for "stages 1 and 2". The table below gives information about the probationary periods:

Modèle	Events	Conditions	Stage 3 to Stage 2	Stage 2 to Stage 1
Retail	Rating improvement	Absence of new negative factors	6 months	6 months
	« Forbearance »	Regular repayment for 2 years	Immediate	at least 2 years
	Other	No	No	No
Wholesale	Rating improvement	Absence of new negative factors	Analyse individuelle de chaque contrepartie	Analyse individuelle de chaque contrepartie
	« Forbearance »	Regular repayment for 2 years	Immediate	at least 2 years
	Other	No	No	No

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

Stage	Description	Formula	Explanation
1	The expected loss arises from factors that are already estimated today for the calculation of the capital charge.	$ECL = PD_1 \cdot LGD_1 \cdot Exposures(t_0)$	PD1 = Probability of default for the first year, which takes into account the actual residual duration (Daily granularity) LGD1 = 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)	$ECL = \sum_{K=1}^{n} ECL_K = \sum_{K=1}^{n} PD_K \cdot \frac{(Exposition_{k-1} \cdot LGD_K)}{(1+i)^{k-1}}$	PDK 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	$ECL = \sum_{K=1}^{n} ECL_K = \sum_{K=1}^{n} PD_K \cdot \frac{(Exposition_{k-1} \cdot LGD_K)}{(1+i)^{k-1}}$	PDK =100% The 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.

The basic principles applied by the Group's parent company 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's parent company 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 factors, 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 fail into default in year k of n remaining 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's parent company uses a PIT approach.

The Group's parent company uses three scenarios: a baseline scenario, weighted at 60% and calibrated on the basis of IMF forecasts for the national portfolio and OECD forecasts for the international portfolio, 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 phases and crisis phases respectively.

o Quantitative impact

The Group's parent company provides a comparison of its IAS 39 impairment versus IFRS 9 impairment and the impact of the first time adoption on equity:

Headings	IAS 39 impairment	IFRS 9 impairment			
		Level 1	Level 2	Level 3	total
Loans and advances at amortised cost	93.085.687	17.535.466	41.434.090	78.944.715	137.914.271
Fixed-income and variable-income securities	20.694.467	7.207.851	172.044	8.362.241	15.742.136
Guarantees and other liabilities	995.111	10.862.265	3.262.743	1.071.132	15.196.140
Total	**114.775.265**	**35.605.583**	**44.868.877**	**88.378.088**	**168.852.547**

Headings	IAS 39	FTA IFRS 9	IFRS 9
Share capital	173.525.467	-	173.525.467
Revaluation reserve	455.873.461	-86.152.337	369.721.124
Consolidated reserves and income for the year	3.607.354.520	-35.063.592	3.572.290.928
Total equity	**4.236.753.448**	**-121.215.929**	**4.115.537.520**

Thus, the implementation of IFRS 9 increases the impairment value from EUR 114,8 million to EUR 168,9 million. At the same time, equity decreases from EUR 4.236,8 million to EUR 4.115,5 million due to the combined effects of taxes, changes of classification, evaluation of the different portfolios and changes of value adjustments.

e) In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers". This standard establishes the principles of revenue recognition and applies to all contracts except contracts relating to financial instruments, leases and insurance. The basic principle requires revenue to be recognised to the extent that the performance obligations are met. The standard thus indicates that variable revenue is to be recognised only if the reversal of the triggering event is unlikely. This principle could affect the timing of performance-based revenue recognition. After analysing its customer contracts, the Group's parent company did not detect any contracts that have an impact on the application of this standard.

f) The Group's parent company has started to implement IFRS 16 "Leases" applicable from 1 January 2019. The Group's parent company is thus reviewing all the contracts falling under this standard and particularly the building lease contracts.

2.2 CONSOLIDATION

2.2.1 Scope of consolidation

The consolidated financial statements comprise the parent company, subsidiaries and entities over which the Bank has control when it has rights to variable returns, because of its relationships with those entities, and the ability to affect those returns through its power over those entities. Subsidiaries are consolidated from their date of acquisition, when the Bank, as the parent company, has the power to direct their financial policies. They are deconsolidated on the date such control ceases.

Consolidation has not generated any goodwill as the subsidiaries have been majority Group-owned since their creation.

Acquisitions are recognised at cost, i.e. the amount of cash or cash equivalents paid representing the fair value, plus all costs directly attributable to the acquisition. All intra-group transactions and unrealised gains on transactions between Group companies are eliminated. Unrealised losses on intra-group transactions are also eliminated unless the cost can be recovered.

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

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

2.2.1.1 Fully consolidated subsidiaries

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

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

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

	% of voting rights held	
	31/12/2016	31/12/2017
Lux-Fund Advisory S.A.	88,58	88,69
BCEE Asset Management S.A.	90,00	90,00
Bourbon Immobilière S.A.	99,90	99,90
Luxembourg State and Savings Bank Trust Company S.A.	100,00	100,00
Spuerkeess Ré S.A.	100,00	100,00

2.2.1.2 Investments in associates

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

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

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:

	% of capital held	
	31/12/2016	31/12/2017
Direct interests		
Société Nationale de Circulation Automobile S.à r.l.	20,00	20,00
Luxair S.A.	21,81	21,81
Société de la Bourse de Luxembourg S.A.	22,75	22,75
Europay Luxembourg S.C.	25,40	25,40
FS-B S.à r.l	28,70	28,70
FS-T S.à r.l	28,70	28,70
Visalux S.C.	36,26	36,26
Lalux Group S.A.	-	40,00
La Luxembourgeoise S.A.	40,00	-
La Luxembourgeoise-Vie S.A.	40,00	-
BioTechCube (BTC) Luxembourg S.A.	50,00	50,00
Indirect interests		
Pecoma International S.A.	33,33	33,33
EFA Partners S.A.	29,05	29,05

The scope of investments in associates has changed since 31 December 2016. Following the internal restructuring of the La Luxembourgeoise group, the shares held by the group's parent company in La Luxembourgeoise S.A. and La Luxembourgeoise Vie S.A. were contributed in kind to Lalux Group S.A. while maintaining the share of capital held.

2.3 FOREIGN CURRENCY TRANSACTIONS

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

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

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

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

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

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

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

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

Currency	31/12/16	31/12/17
CHF	1,0747	1,1686
GBP	0,8578	0,8874
JPY	123,2500	134,8300
SEK	9,5720	9,8362
USD	1,0547	1,1984

2.4 BANKING TRANSACTIONS

2.4.1 Initial recognition and measurement

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

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

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

Derivative financial instruments are recognised in assets when the fair value is positive, and in liabilities when it is negative. La juste valeur s'entend ici comme le « dirty price » de ces instruments, c'est-à-dire intérêts courus compris.

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

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

2.4.2 Subsequent measurement

Subsequent to initial recognition, financial instruments are measured according to their characteristics and the valuation categories to which they belong. The valuation categories used are: financial instruments held for trading or hedging, financial assets held to maturity, available-for-sale assets, financial instruments designated at fair value through profit or loss, and loans and receivables.

2.4.2.1 Historical cost

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

2.4.2.2 Amortised cost

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

2.4.2.3 Fair value

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

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

- derivative financial instruments held for trading or hedging: the Bank uses the discounted cash flow (DCF) method for plain vanilla contracts and the Black & Scholes model for structured contracts. In addition to these fair value measurements, the Group calculates, after application of ISDA-CSA agreements, an adjustment for counterparty risk, or a "Credit Value Adjustment" (CVA), to account for the credit quality of the counterparty for derivative financial instruments recognised on the assets side of the balance sheet, and a Bank-specific adjustment for credit risk, or a "Debit Value Adjustment" (DVA), for derivative financial instruments recognised on the liabilities side of the balance sheet.

The valuation model is based on exposures derived from regulatory calculations while using the same concepts:

- Exposure at Default (EaD);
- Loss Given Default (LGD);
- Probability of Default (PD).

- financial assets:
  - fixed-income securities:
    - for assets quoted on an active market, the bid price published by an official quotation agent is used;
    - for assets quoted on a market considered inactive, the valuation price is calculated by the Bank's internal valuation model.
  - variable-income securities:
    - for assets quoted on an active market, the bid price published by an official quotation agent is used,
    - for assets quoted on a market considered inactive or for unquoted assets, the Bank determines the value by analysing the last available annual financial statements, as well as recent transaction prices.

- financial liabilities:

  EMTNs issued by the BCEE Group are 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 to the hedge are identical, namely the discounted cash flow and Black & Scholes method.

2.4.3 Accounting judgements and estimates

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

The most significant of these are:

2.4.3.1 Fair value of financial instruments

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

Active and inactive market

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

When a market is considered active, i.e., at least four of the five criteria have been met, the Group uses the prices published by an official quotation agent. For issues for which the Group estimates that the market is inactive based on its criteria (when at least two criteria are not met), it first calculates a price using the

DCF (discounted cash flow method) based on the interest rate curves and spreads, determined according to the issuer's rating. The price thus calculated is then weighted with a price indication provided by a quotation source, even if the price indication originates from a market which the Bank considered inactive based on its active / inactive market analysis.

Fair value hierarchy

The Group uses valuation techniques based on observable and non-observable market data to determine fair value:

- observable data reflect market variations collected from independent sources and reflecting real transactions (e.g. a three-year swap rate);
- non-observable data reflect estimates and internal assumptions adopted by the Group relating to market variations (e.g. an estimation of the payment plan of an MBS).

A fair value hierarchy was established according to the type of observable and non-observable data:

- <u>Level 1 fair value:</u> 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.
- <u>Level 2 fair value:</u> 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.
- <u>Level 3 fair value:</u> Level 3 inputs are mainly unobservable inputs for the asset or liability on a market. This level includes equity instruments or debt securities for which significant parameters used in the valuation models are based on internal estimations and assumptions.

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

Observable market data include:

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

2.4.3.2 Impairment of financial assets measured at amortised cost

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

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

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

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

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

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

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

2.4.3.3 Impairment of Available-for-sale assets

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

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

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

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

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

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

2.4.3.4 Impairment of held-to-maturity assets

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

2.5 CASH FLOW STATEMENT

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

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

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

Operating activities

Operating activities are the main 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

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

Financing activities

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

3. INFORMATION ON ACCOUNTING POLICIES APPLIED TO BALANCE SHEET CATEGORIES

3.1 CASH AND SIGHT ACCOUNTS WITH CENTRAL BANKS

Cash consists essentially of "Cash", the various banks' nostro accounts and cash with central banks.

This item also includes the minimum mandatory reserve funded to satisfy the reserve requirement imposed by the BCL. Hence, these funds are not available to finance the Bank's ordinary operations. The reserve basis is calculated on a monthly basis and is defined according to liability items on the balance sheet, according to Luxembourg accounting principles. The calculation of the basis that determines the reserve requirements is made by the Banque centrale de Luxembourg.

3.2 FINANCIAL INSTRUMENTS

3.2.1 Assets and liabilities held for trading

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

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

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

3.2.2 Fixed-income securities held to maturity

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

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

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

3.2.3 Available-for-sale assets

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

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

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

When available-for-sale assets are sold, the gain or loss is recognised through profit or loss under "Income from financial instruments not recognised at fair value through profit or loss". Si le Groupe détient plusieurs investissements dans le même titre, les sorties du stock s'effectueront suivant la méthode « first in - first out » (FIFO).

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

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

3.2.4 Derivative financial instruments used for hedging purposes

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

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

The Group classifies hedging instruments in the following categories:

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

The Group primarily uses fair value hedges and, secondarily, cash flow hedges.

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

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

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

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

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

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

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

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

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

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

3.2.6.1 Repurchases and reverse repurchases

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

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

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

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

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

3.2.6.2 Lending and borrowing of securities
Securities lent remain on the balance sheet, while securities borrowed are not entered on the balance sheet.

3.2.7 Loans and receivables at amortised cost

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

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

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

The level of impairment depends primarily on collateral and on personal guarantees, valued by applying prudent haircuts, and the relevant customer’s estimated ability to repay loans.

IAS 18 requires loan administration expenses to be recorded as origination fees to be included in the calculation of the effective interest rate. According to the actuarial method, the material expenses and commissions linked to fixed-rate loans are spread over the life of the asset and recognised as an adjustment to the asset’s effective rate of return.

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

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

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

3.2.8 Interbank market

3.2.8.1 Borrowings

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

3.2.8.2 Issuance of debt securities

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

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

3.2.9 Impairment of financial assets

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

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

The recoverable amount for instruments measured at fair value is either the fair value or the estimated future cash flows discounted at the market rate applicable to similar financial instruments.

Allowances for impairment of the available-for-sale portfolio and loans and advances reduce the book value of the asset concerned.

The Bank distinguishes between two classes of impairment:

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

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

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

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

3.2.10 Other financial assets and liabilities

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

3.2.11 Income and expenses relative to financial assets and liabilities

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

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

Financial instruments held for trading are recorded at their fair value. Changes in their fair value are recognised in the income statement under the caption "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".

Dividends are entered under "Income from variable-income securities", while interest is entered under "Interest income".

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

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

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

3.3 TANGIBLE ASSETS

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

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

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

Useful life for the main types of tangible assets:

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

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

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

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

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

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

Gains or losses arising from the removal from active use or disposal of tangible assets are determined by the difference between the proceeds of the disposal and the residual value of the assets and are recognised in profit or loss under "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".

3.4 INTANGIBLE ASSETS

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

3.5 LEASE AGREEMENTS

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

3.5.1 A Group entity is a lessee

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

3.5.2 A Group entity is a lessor

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

3.6 EMPLOYEE BENEFITS

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

3.6.1 Short-term benefits

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

3.6.2 Long-term benefits

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

3.6.3 Post-employment benefits

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

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

However, the pension supplement for an "agent employé" is based on the difference between the amount of the said benefit as provided by the civil service pension scheme and the amount of the benefit under the pension scheme for private sector employees.

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

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

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

The sum total of the following amounts represents the annual pension expenses of the Group's parent:
- the current service cost;
- interest cost resulting from the application of the discount rate;
- 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 "Consolidated reserves" in equity.

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

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

The management objective of the "CLP-BCEE" sub-fund is three-fold: to coordinate the various cash flows, to minimise the portfolio's volatility and the probability of an extraordinary contribution request, and to coincide the actual yield with the induced yield:

- Conventional financial instruments:
  - Securities negotiable on the capital market:
    - Shares in companies or other equivalent securities;
    - Bonds and other debt securities,
  - Money market instruments such as treasury bills, certificates of deposit, commercial paper and treasury notes;
  - Shares and units in undertakings for collective investment, including Exchange Traded Funds.
- Derivative financial instruments: options, futures, swaps, rate agreements and all other derivatives related to securities, money market instruments, undertakings for collective investment, currencies, interest rates, exchange rates, commodities, yields, other derivative financial instruments, financial indices or financial measures.
- Liquidity:
  - All forms of conventional deposits at sight and at term.
- Other instruments: this category includes instruments that do not fall under one of the above-referenced categories, for example, units in specialised investment funds, in venture capital firms, etc., as well as real estate and land.

The "CLP-BCEE" sub-fund invests a minimum of 65% of its gross assets in bonds, debt securities and money market financial instruments. Secondarily, "CLP-BCEE" can invest up to 35% of its assets in shares, equivalent securities and other instruments, but may not exceed the limit of 10% of gross assets for other instruments. For the purpose of diversification, investments made with the same issuer or counterparty may not exceed 25% of gross assets. The use of derivative financial instruments is permitted by the investment policy for the purpose of hedging and/or efficient management of the portfolio.

Eligible bonds and money market financial instruments will have a minimum rating of BBB- (Standard & Poor's) or Baa3 (Moody's); similarly, the issuer must be from a member country of the European Union or the OECD.

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

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

3.7 PROVISIONS

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

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

3.8 "Fonds de garantie des dépôts Luxembourg" (FGDL) and "Fonds de résolution Luxembourg" (FRL)

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

The Law replaces Luxembourg's deposit guarantee and investor compensation scheme, implemented by the "Association pour la Garantie des Dépôts, Luxembourg" (AGDL), with a new contribution-based deposit guarantee and investor compensation scheme. The new scheme covers all eligible deposits by a single depositor up to EUR 100.000 and investments up to EUR 20.000. In addition, the Law requires that deposits arising from specific transactions, fulfilling a social objective, or relating to particular life events be covered above the limit of EUR 100.000 for a 12-month period.

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

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

The contribution to the FGDL and the Fonds de résolution Luxembourg (FRL, Luxembourg resolution fund) is made through the income statement in operating expenses.

3.9 DEFERRED TAXES

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

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

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

4. NOTES TO THE 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 [2]	31/12/2016	31/12/2017
Cash	65.263.697	93.598.278
Deposits with central banks	2.444.190.562	5.120.800.050
Other sight deposits	178.470.127	313.486.772
Total	**2.687.924.387**	**5.527.885.100**

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

4.2 LOANS AND RECEIVABLES AT AMORTISED COST – CREDIT INSTITUTIONS

Headings	31/12/2016			31/12/2017		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Interbank loans	2.639.186.453	100.460.473	2.739.646.926	1.923.231.233	115.718.862	2.038.950.095
Reverse repurchase / Repurchase agreements	887.762.601	-	887.762.601	864.392.237	299.775.275	1.164.167.512
Roll-over loans	52.679.714	-380.959	52.298.755	47.566.796	-	47.566.796
Finance leases	19.189	644.410	663.599	381.595	230.496	612.091
Fixed-income securities:	265.431.436	149.056.108	414.487.544	117.582.446	267.320.419	384.902.864
Other	10.372.173	-	10.372.173	35.187.534	-	35.187.534
Sub-total	**3.855.451.566**	**249.780.033**	**4.105.231.598**	**2.988.341.842**	**683.045.051**	**3.671.386.893**
Undrawn confirmed loans			133.073.006			395.928.677
Impairment of financial assets			-			-

In the case of reverse repurchase transactions, the Group becomes the legal owner of the securities received as collateral and has the right to sell or collateralise these securities. No security received as collateral was sold or collateralised as at 31 December 2017.

The Group does not include in this category of loans and receivables any outstanding loans that are defined as restructured loans according to the EBA or outstanding amounts covered by provisions.

4.3 LOANS AND RECEIVABLES AT AMORTISED COST – CUSTOMERS

Headings	31/12/2016			31/12/2017		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
"Retail" customers	407.250.704	12.462.249.821	12.869.500.525	443.642.031	13.173.313.097	13.616.955.128
"Corporate" customers	1.444.242.773	3.418.295.199	4.862.537.972	1.896.326.719	3.511.866.047	5.408.192.766
Public sector	540.179.213	1.543.528.119	2.083.707.332	1.128.364.468	759.263.082	1.887.627.550
Sub-total	**2.391.672.691**	**17.424.073.139**	**19.815.745.830**	**3.468.333.218**	**17.444.442.226**	**20.912.775.444**
Undrawn confirmed loans			4.443.842.905			5.370.706.244
Impairment of financial assets			-99.947.678			-93.085.687

Of which finance leases:

Headings	31/12/2016			31/12/2017		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Finance leases	9.957.968	96.776.040	106.734.007	7.975.440	111.521.142	119.496.582
Sub-total	**9.957.968**	**96.776.040**	**106.734.007**	**7.975.440**	**111.521.142**	**119.496.582**

Impairment of loans and receivables - Customers

	Retail customers	Corporate	Public sector	Total
Position as at 1 January 2016	**30.588.831**	**64.424.918**	**-**	**95.013.749**
Additions	5.632.288	26.217.404	-	31.849.692
Reversals	-4.376.901	-19.386.723	-	-23.763.624
Write-off of receivables (*)	-227.588	-2.275.323	-	-2.502.911
Exchange gain or loss	-	-649.226	-	-649.226
Position as at 31 December 2016	**31.616.628**	**68.331.050**	**-**	**99.947.679**
Impairment of assets - individual risk	18.013.531	68.331.050	-	86.344.581
Impairment of assets - collective risk	13.603.097	-	-	13.603.097
Total	**31.616.628**	**68.331.050**	**-**	**99.947.678**
Position as at 1 January 2017	**31.616.628**	**68.331.050**	**-**	**99.947.678**
Additions	5.691.596	6.599.103	-	12.290.699
Reversals	-5.078.953	-12.230.726	-	-17.309.678
Write-off of receivables (*)	-439.072	-1.403.940	-	-1.843.012
Exchange gain or loss	-	-	-	-
Position as at 31 December 2017	**31.790.200**	**61.295.487**	**-**	**93.085.687**
Impairment of assets - individual risk	17.771.152	61.295.487	-	79.066.639
Impairment of assets - collective risk	14.019.048	-	-	14.019.048
Total	**31.790.200**	**61.295.487**	**-**	**93.085.687**

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

Outstanding amounts of impaired loans: EUR 307.132.366 as at 31 December 2017, compared with EUR 262.049.637 a year earlier. Value adjustments cover the principal and interest.

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

as at 31/12/2017	Restructured loans	Impaired restructured loans			Total unimpaired
		Loan	Impairment	Total	restructured
"Retail" customers	18.148.801	14.138.720	2.577.087	11.561.633	29.710.433
"Corporate" customers	58.384.157	163.059.037	33.048.511	130.010.526	188.394.682
Total	**76.532.957**	**177.197.756**	**35.625.598**	**141.572.158**	**218.105.116**

as at 31/12/2016	Restructured loans	Impaired restructured loans			Total unimpaired
		Loan	Impairment	Total	restructured
"Retail" customers	33.725.865	13.073.834	1.953.561	11.120.273	44.846.138
"Corporate" customers	102.620.861	95.606.685	36.583.649	59.023.036	161.643.898
Total	**136.346.727**	**108.680.519**	**38.537.210**	**70.143.309**	**206.490.036**

4.4 FINANCIAL INSTRUMENTS

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

4.4.1 Assets and liabilities held for trading

Assets	31/12/2016			31/12/2017		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Non-derivative financial instruments	530.849	218.162	749.011	-	22.713	22.713
Derivative financial instruments (note 4.9.)	245.859.185	47.936.005	293.795.190	46.166.102	39.149.719	85.315.821
Total	**246.390.034**	**48.154.167**	**294.544.201**	**46.166.102**	**39.172.432**	**85.338.534**

Liabilities	31/12/2016			31/12/2017		
Non-derivative financial instruments	378.511	9.571	388.083	-	-	-
Derivative financial instruments (note 4.9.)	82.621.136	73.425.619	156.046.755	138.533.393	63.583.439	202.116.831
Total	**82.999.648**	**73.435.190**	**156.434.838**	**138.533.393**	**63.583.439**	**202.116.831**

Assets - Non-derivative financial instruments	31/12/2016			31/12/2017		
Debt instruments	**530.849**	**218.162**	**749.011**	**-**	**22.713**	**22.713**
Public sector	-	-	-	-	-	-
Credit institutions	*151.389*	*9.217*	*160.607*	-	-	-
"Corporate" customers	*379.460*	*208.944*	*588.405*	-	*22.713*	*22.713*
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
Total	**530.849**	**218.162**	**749.011**	**-**	**22.713**	**22.713**
Unrealised profit/loss at the reporting date	-	7.436	7.436	-	-	-

Liabilities - Non-derivative financial instruments	31/12/2016			31/12/2017		
Short sales						
Bonds	*378.511*	*9.571*	*388.083*	-	-	-
Shares	-	-	-	-	-	-
Total	**378.511**	**9.571**	**388.083**	**-**	**-**	**-**

4.4.2 Actifs financiers disponibles à la vente

Headings	31/12/2016			31/12/2017		
	=<1 an	> 1 an	total	=<1 an	> 1 an	total
Debt instruments	**1.677.692.041**	**8.127.407.216**	**9.805.099.257**	**1.421.973.683**	**7.712.116.779**	**9.134.090.462**
Public sector	*285.691.014*	*1.979.864.215*	*2.265.555.229*	*254.610.624*	*1.992.757.496*	*2.247.368.120*
Credit institutions	*929.691.960*	*4.073.054.292*	*5.002.746.252*	*848.968.934*	*3.613.573.565*	*4.462.542.499*
Corporate customers	*462.309.067*	*2.074.488.709*	*2.536.797.776*	*318.394.125*	*2.105.785.718*	*2.424.179.843*
Equity instruments	**1.074.144.424**	**-**	**1.074.144.424**	**832.066.938**	**-**	**832.066.938**
Credit institutions	*3.487.377*	-	*3.487.377*	*3.505.601*	-	*3.505.601*
Corporate customers	*1.069.758.547*	-	*1.069.758.547*	*827.704.357*	-	*827.704.357*
Other	*898.500*	-	*898.500*	*856.980*	-	*856.980*
Total	**2.751.836.464**	**8.127.407.216**	**10.879.243.681**	**2.254.040.621**	**7.712.116.779**	**9.966.157.400**
Impairment of financial assets	-18.279.111	-25.434.693	-43.713.804	-4.272.917	-16.421.550	-20.694.467
Unrealised profit/loss at the reporting date	627.175.701	341.834.062	969.009.764	392.614.634	260.014.183	652.628.817

Impairment of available-for-sale financial assets:

	"Corporate" customers		Credit institutions	Total
	ABS/MBS	Other		
Position as at 1 January 2016	**33.578.106**	**15.701.922**	**11.200.000**	**60.480.026**
Reclassification	-	-	-	-
Additions	-	9	-	9
Reversals	-5.262.890	-2.012	-3.400.692	-8.665.594
Write-off of receivables (*)	-	-	-7.799.308	-7.799.308
Exchange gain or loss	-509.657	208.328	-	-301.329
Position as at 31 December 2016	**27.805.559**	**15.908.247**	**-**	**43.713.804**
Position as at 1 January 2017	**27.805.559**	**15.908.247**	**-**	**43.713.804**
Additions	-	-	-	-
Reversals	-5.958.992	-4.796.394	-	-10.755.386
Write-off of receivables (*)	-	-9.850.242	-	-9.850.242
Exchange gain or loss	-1.152.100	-1.261.609	-	-2.413.709
Position as at 31 December 2017	**20.694.467**	**-**	**-**	**20.694.467**

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

<u>**Unrealised profit/loss on available-for-sale financial assets:**</u>

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

Debt instruments

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

31/12/2017	Fair value adjustment of debt instruments		Fair value adjustments of the swap leg hedging the asset	
	Changes in unhedged risk ("credit and liquidity spread")	Changes in hedged risk (interest rate and price)	Changes in hedge risk	Retrospective efficiency rate
Fixed-rate bonds and structured bonds	86.895.158	173.473.034	-173.473.034	100,00%
Variable-rate bonds	13.899.661			

31/12/2016	Fair value adjustment of debt instruments		Fair value adjustments of the swap leg hedging the asset	
	Changes in unhedged risk ("credit and liquidity spread")	Changes in hedged risk (interest rate and price)	Changes in hedge risk	Retrospective efficiency rate
Fixed-rate bonds and structured bonds	52.750.909	293.218.390	-293.218.390	100,00%
Variable-rate bonds	6.664.132			

Breakdown of changes in carrying amount:

Debt instruments	2016	2017
Position as at 1 January	**9.998.539.565**	**9.805.099.257**
Acquisitions	2.338.827.314	1.239.842.021
Sales	-40.478.982	-40.123.019
Repayments	-2.510.175.757	-1.644.253.898
Realised profit/(loss)	185.135	827.326
Pro-rata interest	-535.095	-44.862.379
Unrealised valuations	-17.981.972	-78.365.577
Impairment	16.974.548	11.861.091
Exchange gain or loss	19.744.502	-115.934.360
Position as at 31 December	**9.805.099.257**	**9.134.090.462**

Equity instruments

Headings	31/12/2016	31/12/2017
Equity instruments	1.074.144.424	832.066.938
Total	**1.074.144.424**	**832.066.938**
Impairment of financial assets	-11.158.250	-
Unrealised profit/loss at the reporting date	616.376.333	378.360.964

Breakdown of changes in carrying amount:

Equity instruments	2016	2017
Position as at 1 January	**1.005.562.944**	**1.074.144.424**
Acquisitions	231.393.824	28.555.089
Sales	-47.899.129	-37.786.736
Realised profit/(loss)	13.201.972	23.165.172
Unrealised valuations	-129.803.457	-261.180.542
Impairment	-208.328	11.158.250
Exchange gain or loss	1.896.598	-5.988.720
Position as at 31 December	**1.074.144.424**	**832.066.938**

4.5 SECURITIES HELD TO MATURITY

Headings	31/12/2016			31/12/2017		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Debt instruments						
Public sector	*90.204.773*	*687.730.575*	*777.935.349*	*121.492.999*	*578.198.152*	*699.691.151*
Credit institutions	*1.052.383.514*	*1.779.528.827*	*2.831.912.342*	*439.835.989*	*2.081.397.359*	*2.521.233.349*
"Corporate" customers	*334.364.359*	*628.571.421*	*962.935.780*	*231.452.737*	*494.005.881*	*725.458.618*
Total	**1.476.952.647**	**3.095.830.823**	**4.572.783.470**	**792.781.725**	**3.153.601.393**	**3.946.383.118**

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

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

Breakdown of changes in carrying amount:

Held-to-maturity securities	2016	2017
Position as at 1 January	**4.683.501.426**	**4.572.783.470**
Acquisitions	976.290.449	894.978.144
Repayments	-1.053.341.489	-1.522.932.674
Pro-rata interest	-33.666.916	1.707.459
Exchange gain or loss	-	-153.281
Position as at 31 December	**4.572.783.470**	**3.946.383.118**

4.6 INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

	31/12/2016	31/12/2017
Acquisition value on 1 January	**54.227.634**	**54.227.634**
Establishment	-	4
Disposals	-	-2
Total (as acquisition value)	**54.227.634**	**54.227.636**

List of associates:

Associates	Fraction of capital held (%)	Acquisition value	Equity-accounted value 2017
Société Nationale de Circulation Automobile S.à r.l.	20,00	24.789	6.280.680
Luxair S.A.	21,81	14.830.609	97.089.381
Société de la Bourse de Luxembourg S.A.	22,75	128.678	25.160.848
Europay Luxembourg S.C.	25,40	96.279	7.648.911
FS-B S.à r.l.	28,70	3.003.694	3.356.064
FS-T S.à r.l.	28,70	1.104.793	1.032.206
Visalux S.C.	36,25	412.508	8.632.692
Lalux Group S.A.	40,00	28.904.385	227.234.883
BioTechCube (BTC) Luxembourg S.A.	50,00	5.000.000	740.483
Sub-total direct holdings in associates		**53.505.736**	**377.176.150**
EFA Partners S.A.	29,05	551.900	699.185
Pecoma International S.A.	33,33	170.000	244.961
Sub-total indirect holdings in associates		**721.900**	**944.146**
Total		**54.227.636**	**378.120.296**

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

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	2017			
	Net income from continuing operations	Net income after tax from discontinued operations	Other items of comprehensive income	Total comprehensive income
Direct interests	**40.343.899**	**-**	**-22.309.005**	**18.034.894**
Société Nationale de Circulation Automobile S.à r.l.	324.299	-	-1.255.714	-931.415
Luxair S.A.	1.766.873	-	-2.872.821	-1.105.948
Société de la Bourse de Luxembourg S.A.	3.008.253	-	-1.618.982	1.389.271
Europay Luxembourg S.C.	7.317.681	-	973.732	8.291.413
FS-B S.à.r.l.	71.031	-	-401.786	-330.755
FS-T S.à.r.l.	14.922	-	-66.008	-51.086
Visalux S.C.	-296.099	-	222.758	-73.341
Lalux Group S.A.	28.147.432	-	-17.288.955	10.858.477
BioTechCube (BTC) Luxembourg S.A.	-10.493	-	-1.229	-11.722
Indirect interests	**111.153**	**-**	**47.147**	**158.300**
EFA Partners S.A.	91.923	-	9.026	100.949
Pecoma International S.A.	19.230	-	38.121	57.351
Total	**40.455.052**	**-**	**-22.261.858**	**18.193.194**

Associates	2016			
	Net income from continuing operations	Net income after tax from discontinued operations	Other items of comprehensive income	Total comprehensive income
Direct interests	**31.518.842**	**-**	**7.573.221**	**39.092.063**
Société Nationale de Circulation Automobile S.à r.l.	111.502	-	142.566	254.068
Luxair S.A.	433.284	-	8.849.345	9.282.629
Société de la Bourse de Luxembourg S.A.	2.965.194	-	-1.583.258	1.381.936
Europay Luxembourg S.C.	132.738	-	2.817.401	2.950.139
FS-B S.à.r.l.	70.725	-	-	70.725
FS-T S.à.r.l.	18.766	-	-	18.766
Visalux S.C.	8.391.645	-	-140.547	8.251.098
La Luxembourgeoise S.A.	13.214.457	-	-2.529.316	10.685.141
La Luxembourgeoise-Vie S.A.	6.180.531	-	17.030	6.197.561
BioTechCube (BTC) Luxembourg S.A.	-9.264	-	-	-9.264
Indirect interests	**-21.263**	**-**	**-**	**-21.263**
EFA Partners S.A.	-2.371	-	-	-2.371
Pecoma International S.A.	-18.892	-	-	-18.892
Total	**31.497.579**	**-**	**7.573.221**	**39.070.800**

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

4.7 SECURITIES COLLATERALISED

- Securities collateralised in the framework of repurchase agreements

Headings	31/12/2016	31/12/2017
Debt instruments issued by the public sector	382.035.302	1.433.036.026
Debt instruments issued by credit institutions	4.522.630	474.179.952
Debt instruments issued - others	1.897.074	161.961.513
Equity instruments	-	-
Total	**388.455.006**	**2.069.177.491**

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

The decrease observed in debt instruments issued by credit institutions stems from the lower number of collateral security agreements as at 31 December 2017.

- Securities lent and other collateral

Headings	31/12/2016	31/12/2017
Securities lending		
Debt instruments issued by the public sector	275.591.249	493.950.715
Debt instruments issued by credit institutions	153.128.809	8.626.184
Debt instruments issued - others	37.545.163	73.865.360
Other collateral		
Debt instruments issued by the public sector	11.220.393	10.402.862
Total	**477.485.613**	**586.845.121**

4.8 CONVERTIBLE BONDS INCLUDED IN THE DIFFERENT PORTFOLIOS

As in the prior year, the Group held no convertible bonds in its portfolio at 31 December 2017.

4.9 DERIVATIVES

Balances as at 31/12/2017	Assets	Liabilities	Notional
Derivative financial instruments held for trading	**85.315.821**	**202.116.831**	**14.312.900.976**
Operations linked to exchange rates	48.951.931	132.827.947	12.788.986.714
- Foreign exchange swaps and forward exchange contracts	*48.502.107*	*132.826.825*	*12.601.669.868*
- CCIS economic hedge (FVO)	*448.702*	*-*	*3.763.000*
- other	*1.122*	*1.122*	*183.553.846*
Operations linked to interest rates	35.460.400	68.385.395	1.444.663.567
- IRS	34.231.998	43.517.331	639.375.207
- IRS economic hedge (FVO)	-	23.322.914	669.598.500
- other	*1.228.402*	*1.545.149*	*135.689.860*
Operations linked to equity	903.490	903.490	79.250.696
- Equity and index options	*903.490*	*903.490*	*79.250.696*
Fair value hedges (micro)	**48.031.905**	**494.067.233**	**8.482.296.775**
Operations linked to exchange rates	32.811.920	54.449.394	1.169.345.249
- CCIS	*32.811.920*	*54.449.394*	*1.169.345.249*
Operations linked to interest rates	13.683.618	405.006.239	6.344.766.161
- IRS (interest rate)	*13.683.618*	*405.006.239*	*6.344.766.161*
Operations linked to other indices	1.536.366	34.611.600	968.185.365
- IRS (other indices)	*1.536.366*	*34.611.600*	*968.185.365*
Fair value hedges (macro)	**13.984.334**	**92.521.317**	**1.475.796.280**
Operations linked to interest rates	13.984.334	92.521.317	1.475.796.280
- IRS (interest rate)	*13.984.334*	*92.521.317*	*1.475.796.280*
Cash flow hedges	**31.941.418**	**1.909.939**	**486.790.613**
Operations linked to exchange rates	27.678.612	1.909.939	452.390.613
- CCIS	*27.678.612*	*1.909.939*	*452.390.613*
Operations linked to interest rates	4.262.806	-	34.400.000
- IRS	*4.262.806*	*-*	*34.400.000*

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

4.10 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Headings	31/12/2016			31/12/2017		
	=<1 year	> 1 year	total	=<1 year	> 1 year	total
Debt instruments						
Public sector	-	-	-	-	54.473.834	54.473.834
Credit institutions	-	174.490.246	174.490.246	-	296.866.320	296.866.320
"Corporate" customers	-	87.660.425	87.660.425	-	196.777.345	196.777.345
Total	**-**	**262.150.671**	**262.150.671**	**-**	**548.117.498**	**548.117.498**
Unrealised profit/loss at the reporting date	-	*689.762*	*689.762*	-	*2.678.361*	*2.678.361*

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:

Debt instruments	2016	2017
Position as at 1 January	**-**	**262.150.671**
Acquisitions	261.033.391	287.683.515
Sales	-	-
Repayments	-	-
Realised profit/(loss)	-	-
Pro-rata interest	427.518	-3.705.286
Unrealised valuations	689.762	1.988.599
Position as at 31 December	**262.150.671**	**548.117.498**

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

Headings	31/12/2016	31/12/2017
Assets: Change in fair value of a portfolio of financial instruments hedged against interest rate risk	80.022.997	46.597.287
Total	**80.022.997**	**46.597.287**

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

The change in this item between 2016 and 2017 is due primarily to a volume effect and to the change in the interest-rate curves used to determine fair value.

4.12 TANGIBLE ASSETS FOR OWN USE

	Land and construction	Other equipment and furniture	Total
Position as at 1 January 2017	**388.840.864**	**61.843.875**	**450.684.739**
Increase	3.824.128	8.564.026	12.388.154
Decrease	-1.834.410	-3.464.630	-5.299.040
Position as at 31 December 2017	**390.830.582**	**66.943.271**	**457.773.853**
Accumulated depreciation			
Position as at 1 January 2017	**121.171.703**	**30.897.460**	**152.069.163**
Basis adjustment	-1.094.545	-3.459.845	-4.554.390
Additions	12.198.883	9.716.591	21.915.474
Position as at 31 December 2017	**132.276.041**	**37.154.206**	**169.430.247**
Net book value			
Position as at 1 January 2017	**267.669.161**	**30.946.415**	**298.615.576**
Position as at 31 December 2017	**258.554.541**	**29.789.065**	**288.343.606**

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

4.13 INVESTMENT PROPERTY

Position as at 1 January 2017	**30.364.639**
Increase (acquisitions)	-
Increase (investment expenditure)	452.881
Decrease	-163.638
Position as at 31 December 2017	**30.653.882**

Accumulated depreciation

Position as at 1 January 2017	**16.053.586**
Basis adjustment	-153.229
Additions	1.026.407
Position as at 31 December 2017	**16.926.764**

Net book value

Position as at 1 January 2017	**14.311.053**
Position as at 31 December 2017	**13.727.120**

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

Accumulated depreciation

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

Net book value

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

Rental income from rented investment property amounted to EUR 2.915.793 for the 2017 financial year, versus EUR 2.588.894 in the prior year. Maintenance costs related to investment property were EUR 248.602 in 2017, down from EUR 329.877 one year earlier.

The fair value of investment property stood at EUR 70.638.093 at year-end 2017, compared with EUR 61.422.940 at end-2016. This fair value measurement is categorised as Level 2 in the fair value hierarchy.

This fair value is estimated by an appraiser according to the following criteria:
- Geographical location of the buildings,
- General condition of the building,
- Use for residential or commercial purposes,
- Surface area of the object.

4.14 INTANGIBLE ASSETS

Position as at 1 January 2017	**38.506.254**
Increase	12.203.183
Decrease	-9.658.193
Position as at 31 December 2017	**41.051.244**

Accumulated depreciation

Position as at 1 January 2017	**21.987.097**
Basis adjustment	-9.658.193
Additions	10.117.286
Position as at 31 December 2017	**22.446.190**

Net book value

Position as at 1 January 2017	**16.519.156**
Position as at 31 December 2017	**18.605.053**

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

Accumulated depreciation

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

Net book value

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

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

4.15 TAXES: TAX ASSETS AND LIABILITIES

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

The Group posted a current tax liability of EUR 62.045.799 as at 31 December 2017 versus EUR 58.954.065 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 2017, the Group posted a deferred tax asset of EUR 93.552.932, and a deferred tax liability of EUR 158.365.512.

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	01/01/2017	Movements in equity	Movements in income statement	31/12/2017
Deferred tax assets	104.323.210	-10.770.278	-	93.552.932
Deferred tax liabilities	-162.650.834	-8.202.097	12.487.419	-158.365.512
Net deferred tax assets / liabilities	**-58.327.624**	**-18.972.375**	**12.487.419**	**-64.812.580**

Headings	01/01/2016	Movements in equity	Movements in income statement	31/12/2016
Deferred tax assets	91.996.961	12.326.249	-	104.323.210
Deferred tax liabilities	-178.146.610	-3.252.412	18.748.187	-162.650.834
Net deferred tax assets / liabilities	**-86.149.649**	**9.073.837**	**18.748.187**	**-58.327.624**

4.15.1 Tax assets

Headings	31/12/2016	31/12/2017
Deferred taxes	104.323.210	93.552.932
Tax assets	**104.323.210**	**93.552.932**

Breakdown of deferred tax assets according to origin:

Headings	31/12/2016	31/12/2017
Derivative financial instruments - application of fair value	1.614.763	252.722
Debt instruments - application of fair value	6.718.311	1.416.439
Equity instruments - application of fair value	1.971.568	2.383.009
Pension funds - actuarial gain or loss	94.018.568	89.500.762
Deferred tax assets	**104.323.210**	**93.552.932**

4.15.2 Tax liabilities

Headings	31/12/2016	31/12/2017
Current taxes	58.954.065	62.045.799
Income tax	*35.472.913*	*37.807.574*
Municipal business tax	*23.459.752*	*24.216.825*
Wealth tax	*21.400*	*21.400*
Deferred taxes	162.650.834	158.365.512
Tax liabilities	**221.604.899**	**220.411.311**

Breakdown of deferred tax liabilities according to origin:

Headings	31/12/2016	31/12/2017
Derivative financial instruments - application of fair value	1.575.878	1.106.737
Debt instruments - application of fair value	22.807.904	27.633.172
Equity instruments - application of fair value	4.319.620	6.404.677
Regulatory and other provisions	128.554.753	116.067.333
Pension funds - actuarial gain or loss	5.392.679	7.153.593
Deferred tax liabilities	**162.650.834**	**158.365.512**

4.16 Other assets

Headings	31/12/2016	31/12/2017
Operational outstandings	5.743.579	5.540.552
Preferential or secured debtors	3.536.490	4.884.175
Other	444.191	1.136.551
Total	**9.724.260**	**11.561.278**

4.17 DEPOSITS AT AMORTISED COST - CREDIT INSTITUTIONS

Headings	31/12/2016			31/12/2017		
	=<1 year	**> 1 year**	**total**	**=<1 year**	**> 1 year**	**total**
Inter-bank deposits	4.589.192.076	132.277.203	4.721.469.279	3.744.372.687	658.706.046	4.403.078.733
of which central bank deposits	*519.735.365*	*-*	*519.735.365*	*331.136.817*	*498.455.556*	*829.592.373*
Repurchase/Reverse repurchase agreements	20.240.967 -	20.240.967	372.945.142	-	372.945.142	
Total	**4.609.433.043**	**132.277.203**	**4.741.710.246**	**4.117.317.828**	**658.706.046**	**4.776.023.875**

4.18 DEPOSITS AT AMORTISED COST - CUSTOMERS

Headings	31/12/2016			31/12/2017		
	=<1 year	**> 1 year**	**total**	**=<1 year**	**> 1 year**	**total**
Private sector	**22.211.262.928**	**813.125.092**	**23.024.388.020**	**23.566.342.653**	**909.111.534**	**24.475.454.187**
Demand deposit and notice accounts	*7.090.126.964*	*-*	*7.090.126.964*	*7.959.338.041*	*-*	*7.959.338.041*
Time deposit accounts	*3.122.863.671*	*813.125.092*	*3.935.988.764*	*2.683.351.858*	*909.111.534*	*3.592.463.392*
Savings	*11.998.272.293*	*-*	*11.998.272.293*	*12.880.228.127*	*-*	*12.880.228.127*
Repurchase agreements	*-*	*-*	*-*	*43.424.627*	*-*	*43.424.627*
Public sector	**4.199.307.047**	**892.241.048**	**5.091.548.095**	**6.371.497.600**	**630.181.643**	**7.001.679.243**
Total	**26.410.569.975**	**1.705.366.140**	**28.115.936.115**	**29.937.840.253**	**1.539.293.177**	**31.477.133.430**

4.19 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Headings	31/12/2016			31/12/2017		
	=<1 year	**> 1 year**	**total**	**=<1 year**	**> 1 year**	**total**
Issues	-	148.612.880	148.612.880	-	146.853.974	146.853.974
Total	**-**	**148.612.880**	**148.612.880**	**-**	**146.853.974**	**146.853.974**
Unrealised profit/loss at the reporting date	-	1.679.451	1.679.451	-	4.531.301	4.531.301

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	2016	2017
Position as at 1 January	**-**	**148.612.880**
Issues	148.056.795	-
Repayments/redemptions	-	-
Realised profit/(loss)	- -	
Pro-rata interest	2.235.536	1.441.366
Unrealised valuations	-1.679.451	-2.851.850
Exchange gain or loss	-	-348.422
Position as at 31 December	**148.612.880**	**146.853.974**

4.20 ISSUANCE OF DEBT SECURITIES

Headings	31/12/2016			31/12/2017		
	=<1 year	>1 year	total	=<1 year	> 1 year	total
Certificates of deposit	95.955.811	141.724.486	237.680.296	66.852.448	88.475.111	155.327.560
Commercial paper	4.041.253.629	-	4.041.253.629	3.101.120.005	-	3.101.120.005
Medium Term Notes and other securities issued	-	490.687.756	490.687.756	9.053.921	447.515.567	456.569.488
Total	**4.137.209.440**	**632.412.242**	**4.769.621.682**	**3.177.026.374**	**535.990.679**	**3.713.017.053**
of which:						
- Subordinated notes	-	*101.479.685*	*101.479.685*	-	*100.971.040*	*100.971.040*

Certificates of deposit are no longer marketed and are a run-off activity.

Breakdown of changes in carrying amount for medium term notes and other securities issued:

Issues	2016	2017
Position as at 1 January	**1.624.533.332**	**490.687.756**
Issues	276.620.000	-
Repayments/redemptions	-1.412.996.195	-20.765.321
Realised profit/(loss)	-	-
Pro-rata interest	-1.340.547	-330.734
Unrealised valuations	-1.128.227	-4.376.080
Exchange gain or loss	4.999.393	-8.646.133
Position as at 31 December	**490.687.756**	**456.569.488**

Breakdown of subordinated loans as at 31 December 2017

Description	Rate	Issue currency	Nominal amount issued - EUR	Assimilated portion EUR	Non assimilated portion - EUR
Loan 2000-2020	0,041	EUR	8.600.000	4.520.739	4.079.261
Loan 2001-2021	0,078	EUR	11.000.000	6.752.088	4.247.912
Loan 2001-2021	0,078	EUR	30.000.000	18.414.784	11.585.216
Loan 2002-2022	0,125	EUR	50.000.000	48.843.258	1.156.742
Total			**99.600.000**	**78.530.869**	**21.069.131**

The interest expense on subordinated notes stood at EUR 166.589 as at 31 December 2017, compared with EUR 978.026 as at 31 December 2016.

4.21 PROVISIONS

Changes during the financial year:

	2016	2017
Position as at 1 January	**47.215.958**	**4.883.234**
Additions	101.766	25.652
Reversals	-11.303.913	-1.314.423
Application	-31.130.577	-
Position as at 31 December	**4.883.234**	**3.594.463**

The “Provisions” line includes provisions recorded under IAS 37, consisting of provisions for risks related to litigation and to guarantees given or commitments made to customers, and of provisions for personnel costs not covered by other standards. In 2016, the decrease in this provision stems primarily from the use of the provision for the first contribution to the Fonds de garantie des dépôts Luxembourg and from the payment made to the German authorities under the settlement reached in a tax matter for which the provision surplus was written back through profit and loss.

4.22 OTHER LIABILITIES

Headings	31/12/2016	31/12/2017
Operational outstandings	28.982.559	11.058.567
Preferential or secured creditors	26.042.764	20.936.412
Other	3.163.405	3.428.591
Total	**58.188.728**	**35.423.570**

4.23 PENSION FUNDS - DEFINED-BENEFIT PENSION PLAN

Main estimates used to determine pension commitments:

Variables	31/12/2016	31/12/2017
Discount rate for active employees	1,65%	1,80%
Discount rate for beneficiaries	1,20%	1,30%
Salary increases (including indexation)	3,25%	3,25%
Pension increases (including indexation)	2,25%	2,25%
Induced yield	1,40%	1,53%

The induced yield of 1.53% in 2017 corresponds to the weighted average of the discount rates for working people and for annuitants as fixed at the end of the 2017 financial year.

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

Components	31/12/2016	31/12/2017
Current service cost	9.418.011	10.765.721
Interest cost	11.051.611	8.957.040
Induced yield	-7.509.964	-5.752.296
Total	**12.959.658**	**13.970.465**

Pension commitments:

	2016	2017
Commitments as at 1 January	**559.157.615**	**641.426.257**
Current service cost	9.418.011	10.765.721
Interest cost	11.051.611	8.957.040
Benefits paid	-11.871.096	-11.948.051
Actuarial gains or losses	73.670.117	-3.086.860
Commitments as at 31 December	**641.426.257**	**646.114.109**

Civil servants' pension payments are initially made directly by the State to civil servants. The Group's parent company only recognises the payments when the amounts are repaid to the State. Hence, "Benefits paid" amounting to EUR 11.948.051 include the repayments to the Luxembourg State of civil servants' pensions in respect of the 2016 financial year.

Breakdown of actuarial gains and losses:

	2016	2017
Actuarial gains and losses arising from changes in actuarial assumptions	73.397.696	15.738.949
- financial assumptions	*73.397.696*	*15.738.949*
- demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	272.421	-18.825.809
Total actuarial gains and losses:	**73.670.117**	**-3.086.860**

Sensitivity analysis of pension commitments:

Impact of changes in actuarial assumptions on the pension commitment as at 31/12/2017	decrease	increase
Change in average actuarial rate (-/+ 50 bps)	76.523.047	-65.083.302
Change in wage increase rate (-/+ 50 bps)	-67.592.983	84.515.123
Change in pension increase rate (-/+ 25 bps)	-27.364.112	29.142.984
Change in mortality tables (-/+ 1 years)	21.404.084	-21.164.266
Cumulative effect:	**2.970.036**	**27.410.539**

Impact of changes in actuarial assumptions on the pension commitment as at 31/12/2016	decrease	increase
Variation du taux moyen actuariel (-/+ 50 bps)	76.397.984	-64.921.709
Change in wage increase rate (-/+ 50 bps)	-67.252.028	86.153.781
Change in pension increase rate (-/+ 25 bps)	-27.314.254	29.093.752
Change in mortality tables (-/+ 1 years)	26.881.740	-26.475.431
Cumulative effect:	**8.713.442**	**23.850.393**

Maturity analysis of pension commitments:

	31/12/2016	31/12/2017
Average duration of the pension commitment	**22.30 years**	**22.12 years**
Analysis of maturities of commitments to be paid	**641.426.257**	**646.114.109**
pensions outstanding for the year	6.946.714	7.079.965
commitments to be paid within 12 months	12.299.186	13.016.230
commitments to be paid in 1-3 years	25.942.819	27.276.742
commitments to be paid in 3-6 years	42.205.210	43.788.188
commitments to be paid in 6-11 years	75.550.159	78.587.851
commitments to be paid in 11-16 years	80.979.139	83.940.413
commitments to be paid after 16 years	397.503.031	392.424.719

Pension plan assets:

	2016	2017
Assets as at 1 January	**379.967.554**	**411.930.026**
Benefits paid	-11.871.096	-11.948.051
Contribution	33.871.709	32.974.305
Induced yield	7.509.964	5.752.296
Fair value gain / loss	2.451.896	7.589.361
Assets as at 31 December	**411.930.026**	**446.297.938**

In 2017, the Group's parent company made an annual contribution of EUR 8.974.305 and an extraordinary contribution of EUR 24.000.000 compared with a contribution of EUR 9.871.709 and an extraordinary contribution of EUR 24.000.000 in the previous year. The extraordinary contributions for 2016 and 2017 were used to offset the impact of the switch from the IGSS mortality tables to DAV2004R.

Pension plan investments:

2017	Credit institutions	Public sector	Corporate	Total
Fixed-income securities	104.379.281	137.701.521	28.646.518	270.727.320
Variable-income securities	-	-	134.759.394	134.759.394
Other assets (primarily deposits)	40.811.224	-	-	40.811.224
Total	**145.190.505**	**137.701.521**	**163.405.912**	**446.297.938**

2016	Credit institutions	Public sector	Corporate	Total
Fixed-income securities	101.617.521	144.909.333	19.828.256	266.355.110
Variable-income securities	-	-	121.024.297	121.024.297
Other assets (primarily deposits)	24.550.618	-	-	24.550.618
Total	**126.168.139**	**144.909.333**	**140.852.553**	**411.930.025**

Net pension commitments:

	2015	2016	2017
Pension commitments	559.157.614	641.426.257	646.114.109
Plan assets measured at fair value	-379.967.553	-411.930.026	-446.297.938
Unfinanced commitments	**179.190.061**	**229.496.231**	**199.816.171**

Stock of actuarial gains and losses:

Stock as at 1 January 2017	**263.051.042**
2017 net change	-10.676.221
Stock as at 31 December 2017	**252.374.821**

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

The Group's parent company's estimated total contribution to the pension fund for 2018 is EUR 30.333.823. This contribution is divided into an extraordinary contribution of EUR 24,000,000 to offset the impact of the switch from the IGSS mortality tables to DAV2004R and an annual contribution of EUR 6.333.823.

4.24 RELATED-PARTY TRANSACTIONS

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

All transactions with related parties are completed under market conditions.

4.24.1 Government institutions

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

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

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

in euros	31/12/2016	31/12/2017
ASSETS (mainly loans at amortised cost)	**3.304.634.344**	**3.143.574.301**

in euros	31/12/2016	31/12/2017
LIABILITIES (deposits at amortised cost)	**4.129.756.087**	**5.516.820.332**

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

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

	31/12/2016	31/12/2017
Board of Directors (9 members)	357.000	361.500
Management Board (4 members at 31/12/2016 and 5 members at 31/12/2017)	867.143	1.069.551
Total	**1.224.143**	**1.431.051**

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

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

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

	31/12/2016	31/12/2017
Board of Directors (9 members)	2.530.234	3.026.616
Management Board (4 members at 31/12/2016 and 5 members at 31/12/2017)	472.512	630.501
Total	**3.002.745**	**3.657.117**

4.25 STATUTORY AUDITOR'S FEES

	31/12/2016	31/12/2017
Statutory audit of the company and consolidated annual financial statements	535.500	600.375
Other audit services	142.475	188.360
Tax services	3.100	7.800
Other	331.000	105.312
Total	**1.012.075**	**901.847**

The amounts included in the above items are amounts excluding VAT and relate to the parent company and the fully consolidated companies.

4.26 DIRECT FEES AND CONTRIBUTIONS RELATED TO THE EUROPEAN BANKING UNION

Headings	2016	2017
European Central Bank supervision charges	967.270	1.118.786
CSSF supervision charges	133.500	133.500
Single Resolution Board charges	108.299	165.221
Total	**1.209.069**	**1.417.507**
Contribution to the "Fonds de Garantie des Dépôts Luxembourg"	22.437.405	23.703.211
Contribution to the "Fonds de Resolution Luxembourg"	6.403.010	9.201.928
Total	**28.840.415**	**32.905.139**

4.27 OFF-BALANCE SHEET ITEMS

Type of guarantees issued

Headings	31/12/2016	31/12/2017
Completion bonds	367.502.011	397.360.536
Letters of credit	56.906.464	100.149.572
Counter-guarantees	362.821.031	371.897.027
Other	25.762.576	26.905.787
Total	**812.992.082**	**896.312.923**

Commitments

Headings	31/12/2016	31/12/2017
Amounts subscribed and unpaid on securities, equity interests and shares in affiliated companies	6.640.000	7.057.223
Undrawn confirmed loans	4.576.915.911	5.766.634.921
Financing	*1.878.365.528*	*3.012.255.513*
Current accounts	*2.250.906.966*	*1.861.926.429*
Money market contracts	-	*423.756.863*
Other	*447.643.417*	*468.696.115*
Documentary credits	13.344.619	13.315.287
Total	**4.596.900.530**	**5.787.007.431**

Management of third-party assets

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

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

5.1 INTEREST INCOME

Interest received and similar income	2016	2017
Assets repayable on demand	43.754	-
Financial assets held for trading	117.375.057	187.290.954
Financial assets designated at fair value through profit or loss	1.018.236	1.968.464
Available-for-sale financial assets	199.512.401	160.418.151
Receivables at amortised cost	383.135.846	392.228.949
Investments held to maturity at amortised cost	63.439.177	47.633.573
Derivatives - Hedge accounting, interest rate risk	89.097.890	75.846.485
Other assets	6.958.538	17.348.338
Total	**860.580.899**	**882.734.914**

Interest paid and similar expenses	2016	2017
Financial liabilities held for trading	-28.851.333	-40.259.691
Financial liabilities designated at fair value through profit or loss	-3.520.696	-2.311.007
Liabilities at amortised cost - Deposits	-75.328.843	-111.205.632
Liabilities at amortised cost - Debt certificates	-39.224.582	-61.887.289
Liabilities at amortised cost - Subordinated loans	-355.150	-125.911
Derivatives - Hedge accounting, interest rate risk	-331.847.449	-288.640.691
Other liabilities	-15.781.706	-14.693.116
Total	**-494.909.759**	**-519.123.337**

Interest income	365.671.140	363.611.577
Total interest received and similar income not recognised at fair value through the income statement	743.205.842	695.443.960
Total interest paid and similar expenses not recognised at fair value through the income statement	-466.058.426	-478.863.646

5.2 INCOME FROM VARIABLE-INCOME SECURITIES

Headings	2016	2017
Available-for-sale financial assets	44.574.661	47.388.545
Income from variable-income securities	**44.574.661**	**47.388.545**

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

5.3 FEE AND COMMISSION INCOME

Headings	2016	2017
Loan activities	43.611.098	47.179.894
Asset management	37.970.132	36.516.413
Investment fund activities	49.519.189	52.589.430
Demand deposit accounts and related activities	30.186.158	34.550.386
Insurance premiums	4.937.654	4.816.223
Other (*)	8.174.291	6.072.862
Total commissions received	**174.398.522**	**181.725.208**
Loan activities	-2.472.667	-3.208.543
Asset management	-19.684.686	-17.387.491
Investment fund activities	-10.666.936	-11.066.088
Demand deposit accounts and related activities	-8.179.289	-7.135.586
Other (*)	-4.975.487	-1.674.385
Total commissions paid	**-45.979.065**	**-40.472.093**
Total commissions	**128.419.457**	**141.253.115**

(*) mostly fees on derivative financial instruments

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

Headings	2016	2017
Available-for-sale financial instruments	13.387.314	24.734.172
Loans and advances at amortised cost	-221.696	-322.327
Financial liabilities at amortised cost	-	-
Total	**13.165.618**	**24.411.845**

The amount in "Available-for-sale financial instruments" for 2017 relates primarily to the sale of units in SES S.A..

5.5 INCOME FROM FINANCIAL INSTRUMENTS HELD FOR TRADING

Headings	2016	2017
Equity instruments and related derivatives	5.229.942	3.621.175
Foreign exchange instruments and related derivatives	1.193.059	532.928
Interest rate instruments and related derivatives	9.733.691	5.506.547
Credit derivatives	2.303	-
Total	**16.158.995**	**9.660.650**

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

Headings	2016	2017
Financial assets designated at fair value through profit or loss	689.762	1.988.598
Financial liabilities designated at fair value through profit or loss	1.679.451	2.851.850
Total	**2.369.213**	**4.840.448**

5.7 NET INCOME FROM HEDGING TRANSACTIONS

Headings	2016	2017
Fair value hedge		
Debt instruments (assets) hedged by derivative financial instruments	-155.927	-224.794
Debt issues hedged by derivative financial instruments	110.505	19.083
Loans hedged by derivative financial instruments	1.565.657	2.825.600
Total	**1.520.235**	**2.619.890**
Value adjustment on hedged instruments	-33.594.887	-199.832.026
Value adjustment on hedging instruments	35.115.122	202.451.916
Total	**1.520.235**	**2.619.890**

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

5.8 OTHER NET OPERATING INCOME

Headings	2016	2017
Other operating income	10.259.352	20.383.067
Other operating expenditure	-13.505.468	-36.822.128
Other net operating income	**-3.246.116**	**-16.439.061**

"Other operating income and expenditure" mainly include:

- the rent from property rented and miscellaneous advances from tenants,
- VAT repayments of EUR 9,6 million relating to previous financial years,
- income on amortised loans,
- the share of annual contributions to the FRL and FGDL.

5.9 PERSONNEL EXPENSES

Headings	2016	2017
Compensation	162.819.659	171.173.667
Social security charges	9.336.777	6.601.540
Pensions and similar expenses	12.639.697	13.345.027
Pension fund expense	12.959.658	13.970.465
Other personnel expenses	3.818.273	4.751.955
Total	**201.574.064**	**209.842.654**

5.10 OTHER GENERAL EXPENSES

Headings	2016	2017
Expenses related to property and furniture	22.844.983	24.522.491
Rents and maintenance of software	20.191.216	21.957.087
Operating expenditure related to the banking business	27.431.518	30.203.771
Other	13.376.659	12.143.647
Total	**83.844.376**	**88.826.996**

5.11 DEPRECIATION ALLOWANCES FOR TANGIBLE ASSETS

Depreciation

Headings	2016	2017
Depreciation - buildings	10.123.604	12.198.884
Depreciation - equipment and furniture	8.919.766	9.716.590
Depreciation of tangible assets	**19.043.370**	**21.915.474**

Impairment

No impairment of tangible assets according to IAS 36 was recognised by the Group in 2016 or 2017.

5.12 DEPRECIATION ALLOWANCES FOR INTANGIBLE ASSETS

Depreciation

Headings	2016	2017
Depreciation	1.037.095	10.117.286
Depreciation of intangible assets	**1.037.095**	**10.117.286**

Impairment

No impairment of intangible assets according to IAS 36 was recognised by the Group in 2016 or 2017.

5.13 DEPRECIATION ALLOWANCES FOR INVESTMENT PROPERTIES

Depreciation

Headings	2016	2017
Depreciation	9.258.993	1.026.408
Depreciation of tangible assets - investment	**9.258.993**	**1.026.408**

Impairment

No impairment of investment properties according to IAS 36 was recognised by the Group in 2016 or 2017.

5.14 NET ALLOWANCES FOR IMPAIRMENT OF INDIVIDUAL AND COLLECTIVE CREDIT RISKS

			2016			2017
	Additions	Reversals	Total	Additions	Reversals	Total
Available-for-sale securities	-9	8.665.594	8.665.585	-	10.755.386	10.755.386
Loans and advances	-31.849.692	23.765.636	-8.084.056	-12.290.699	17.309.678	5.018.979
of which individual impairment	*-31.454.902*	*23.126.398*	*-8.328.504*	*-10.785.246*	*16.220.176*	*5.434.930*
of which collective impairment	*-394.790*	*639.238*	*244.448*	*-1.505.453*	*1.089.503*	*-415.950*
	-31.849.701	**32.431.230**	**581.529**	**-12.290.699**	**28.065.064**	**15.774.365**

	2016	2017
Interest on impaired available-for-sale financial assets	515.432	200.439
Interest on impaired loans and advances	4.934.297	5.289.538
Total	**5.449.729**	**5.489.977**

5.15 PROVISIONS AND REVERSAL OF PROVISIONS

Headings	2016	2017
Provisions	-614.349	-25.652
Reversal of provisions	11.816.496	1.314.423
Net allowances for provisions	**11.202.147**	**1.288.771**

5.16 TAX EXPENSE

Headings	2016	2017
Tax on income from continuing operations	63.763.700	63.482.573
Deferred taxes	-18.748.188	-12.487.419
Tax on profit/(loss) for the period	**45.015.512**	**50.995.154**

The standard tax rate applicable in Luxembourg was 27,08% as at 31 December 2017 and 29,22% as at 31 December 2016. The Group's effective tax rate was 16,62% in 2017 and 14,67% in 2015, given the differences between the Luxembourg tax base and the accounting principles for consolidated financial statements under IFRS as adopted by the European Union.

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

	2016	2017
Income before tax	306.811.580	306.885.136
Tax rate	29,22%	27,08%
Theoretical tax at the standard rate	89.650.344	83.104.495
Tax impact of non-deductible expenses	141.122	123.689
Tax impact of non-taxable income	-20.763.084	-18.664.929
Share in the income of equity-accounted associates	-8.544.208	-9.357.337
Tax rebates and reductions	-6.010.386	-321.642
Change in deffered tax rate	-9.726.280	-4.517.147
Tax refund/payment from previous financial years	-1.980.041	-1.424.361
Other	2.248.046	2.052.386
Tax on profit/(loss) for the period	**45.015.512**	**50.995.154**

The Group received a significant investment tax allowance in 2016.

5.17 RETURN ON ASSETS

In accordance with Article 38-4 of the Law on the Financial Sector, the Group reported its return on assets, which stood at 0.56% versus 0.60% in the prior year.

6. FINANCIAL RISK MANAGEMENT [1]

6.1 GENERAL RULES FOR MANAGING FINANCIAL RISK

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

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 Bank's major risk categories and enables the Executive Committee and the Board of Directors to regularly monitor BCEE's overall situation in detail. Risk appetite is defined as the level of risk that BCEE is willing and able to bear in the pursuit of its strategic objectives. The levels of risk to which BCEE 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 BCEE for these indicators.

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

6.1.1 Role of the Board of Directors

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

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

6.1.2 Role of the Audit Committee

The purpose of the Audit Committee is to assist the Board of Directors in the actual control of the Bank's activities in the specific areas related to auditing and accounting in accordance with the Applicable laws and guidance. The Audit Committee is also responsible for certain specific compliance points.

It consists of 4 members of the Board of Directors and has the following duties:
- confirmation of multi-year and annual audit plans approved by the Executive Committee;
- understanding the follow-up of the internal audit plan's execution;
- understanding the information of internal control' status and assurance of the internal quality control and risk management systems' effectiveness;
- monitoring of internal audit tasks on financial reporting, without undermining internal audit function's independence;
- examination and verification whether BCEE considered internal and external auditors' conclusions and recommendations;
- quality assurance of the work performed by BCEE's independent auditor, the auditor's independence and objectivity, and the auditor's compliance with ethical rules in auditing.

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 Bank's statutory auditor is invited to those meetings held to prepare and approve the annual financial statements and other reports it issues.

6.1.3 Role of the Risk Committee

The purpose of the Risk Management Committee is to assist the Board of Directors in the actual control of the Bank's activities in the specific areas related to the management of incurred risks in accordance with the applicable laws and guidance.

It consists of 4 members of the Board of Directors and has, among others, the following duties:
- assessment, if the risk control function has sufficient human and material resources and the appropriate organisation to perform its tasks;
- regular deliberations on the state of risk management and compliance with the prudential rules set on this subject, notably on the basis of the ICAAP and Internal Liquidity Adequacy Assessment Process (ILAAP) reports or even ad-hoc reports of the risk management function with regard to credit or liquidity, for example;

[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.

- assessment of the quality of work performed by the risk control function and compliance with the rules as set out in CSSF Circular 12/552 as amended;
- analysis of the risk situation, its future evolution, and its suitability with BCEE's risk strategy, in particular through the quarterly analysis of the indicators defined in BCEE's Risk Appetite Framework.

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

6.1.4 Role of the Executive Committee

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

6.1.5 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 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 each month.

6.1.6 Responsibilities of the Risk Management function

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

Since 1 July 2016, the Bank has established a set of risk monitoring committees made up of the heads of different units at the operational level of the Bank.

6.1.7 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.

Compliance risk is the responsibility of the Compliance unit, which ensures in particular:
- compliance with anti-money laundering requirements through the use of a tool designed to detect suspicious transactions;
- monitoring of customer complaints.

The Compliance unit is part of the second line of defence and reports directly to the Executive Committee.

The Group's parent company has a Compliance Committee tasked with analysing and deciding on all Compliance topics outside the scope of the Compliance unit itself. There is also an Acceptance Committee, which analyses and decides on topics in the context of "Know Your Customer" (KYC) and "Know Your Transaction" (KYT).

6.1.8 Responsibilities of the Internal Audit function

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

The objectives are the following:
- preserve the assets of BCEE;
- 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 BCEE;
- 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.

The Chief Internal Auditor (CIA) guarantees application of the international standards of the French institute of internal auditors and compliance with the regulatory requirements by the Internal Audit unit.

6.1.9 Responsibilities of the Credit Analysis and Management department

From an organisational point of view, credit risk is managed by the Credit Analysis and Management 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), created during the 2017 financial year, is responsible for the internal rating models. The head of the "Credit Analysis" unit is in charge of the Credit Analysis and Management department.

6.1.10 Systems for measuring and tracking limits

6.1.10.1 Credit risk

The Credit Analysis and Management 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 Group's parent company has set up a new "Credit Process Management" (CPM) department within the DAG department to deal with operational topics cutting across 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 Credit Analysis and Management 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 with regard to the Bank's portfolios and submits the results to Senior Management.

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

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

6.1.10.2 Market risk

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

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

The Group's parent company thus implements a set of methods to assess and monitor interest rate risk:

- permanent calculation of the Basis Point Value (BPV) indicators for trading room and Asset Liability Management (ALM) positions exposed to interest rate risk. BPV is a simple and effective method of quantifying the market risk generated by small interest rate fluctuations for the positions held. Traders and ALM analysts are required to always operate within the BPVs set by Senior Management. Compliance with these limits is monitored by the "Risk Management" function.
- value-at-risk (VaR) for trading floor and ALM positions, to determine the amounts at risk with respect to the positions held by the Bank. Risk amounts are subject to limits set by Senior Management and supervised by the "Risk 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 Bank's equity;
  - quantifies the probability of the occurrence of the loss.

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

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

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 Credit Analysis and Management, Risk Management, and Accounting 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.

6.1.10.3 Counterparty risk stemming from derivative financial instrument transactions

The Group's parent company has negotiated International Swaps and Derivatives Association Inc. (ISDA) framework agreements including Credit Support Annexes (CSA) designed to limit counterparty risk on derivative financial instrument trades with a positive mark-to-market valuation. At end-2017, 69,4% of derivative financial instrument transaction outstandings were covered by such agreements.

Alongside the ISDA-CSA framework agreements, the Group's parent company is making increasing use of central counterparties (CCPs) to limit counterparty risk. At end-2017, 18,3% of derivative financial instrument transaction outstandings were liquidated through these CCPs.

6.1.10.4 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's parent company is generally in a position of excess liquidity.

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

The parent company conducted the stress tests required by circular CSSF 09/403 in 2017 on at least a monthly basis to show that it would have sufficient liquid assets to cope with unexpected large-scale withdrawals over an extended period.

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

In the event of an urgent need for large amounts of liquidity, the parent company has an intraday and overnight credit line with the Luxembourg Central Bank (BCL) secured by pledges of public sector bonds or other fixed-income securities. To this end, the parent company aims to continually have a portfolio of a minimum of EUR 3 billion in fixed-income securities that can serve as a guarantee to the BCL. As at 31 December 2017, this portfolio amounted to EUR 4 billion. At year-end 2017, 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 parent company has not participated in such an operation as either an initiator or a sponsor and it is not likely to do so in the future.

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

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

6.2 OPERATIONAL RISK

The Bank defines operational risk as "the risk of losses resulting from an inadequacy or a failure of processes, personnel, internal systems, or external events, including 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 Bank 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 come from the Bank's general management ("Tone from the Top").

The Bank therefore:
- ensures that employees respect the values and rules of professional ethics. BCEE 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 Bank's employees do not have incentives to behave in a manner not in line with the Bank's risk culture.

In addition, the Bank 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 such as to ensure that their execution by the same person avoids potential conflicts of interest.
- Four-eyes 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 BCEE constitute an integrated set of activities and methods that help BCEE 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 Bank 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 Bank 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 of the Group's parent company commitment giving rise to a credit risk is subject to prior analysis by the Credit Analysis and Management department.

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

The parent company did not change its risk management policy in the 2017 financial year.

For interbank markets and international loans, contracts are recognised in the balance sheet under "Loans and receivables at amortised cost - Credit institutions", "Loans and receivables at amortised cost - Customers", "Available-for-sale financial assets - Fixed-income securities", "Held-to-maturity securities" and "Assets designated at fair value through profit or loss"; a large majority of counterparties consist of banking and financial institutions. Internal ratings are applied to banking counterparties using a combination of quantitative and qualitative analyses. The quantitative component is based on ratios that best describe the counterparty's profitability, level of capital, liquidity and the quality of its assets, while the qualitative component is based on the analyst's own assessment of non-financial factors such as market share, quality of management and external ratings. The parent company pursued its prudent investment policy in 2017, 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 receivables at amortised cost - Customers", "Available-for-sale financial assets - Fixed-income securities", "Held-to-maturity securities" and "Assets designated at fair value through profit or loss", priority is given to commitments in OECD countries rated as at least Investment Grade. Like all the parent company's other counterparties, these are assigned an internal rating based on rules similar to those applied to banks and financial institutions.

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

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

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

6.3.2 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 parent company has implemented a set of procedures to efficiently manage the limits set. Concentration risk can be measured either from the commitment point of view or from the point of view of the parent company's resources. In the latter case, the risk is correlated with liquidity risk.

The parent company reviews at least annually the different types of limits affecting the components of concentration risk.
It has therefore invested in appropriate risk management tools in line with the range of risk profiles and different financing techniques.

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

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

Maximum exposure to credit risk	31/12/2016	31/12/2017
Cash and sight accounts with central banks	2.687.924.387	5.527.885.100
Loans and receivables at amortised cost – Credit institutions	4.105.231.598	3.671.386.893
Loans and receivables at amortised cost – Customers	19.815.745.830	20.912.775.444
Financial instruments held for trading	294.544.201	85.338.534
Hedging derivative financial instruments	67.895.956	93.957.657
Financial assets designated at fair value through profit or loss	262.150.671	548.117.498
Available-for-sale securities – Fixed-income securities	9.805.099.257	9.134.090.462
Held-to-maturity securities	4.572.783.470	3.946.383.118
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	80.022.997	46.597.287
Exposure of balance sheet commitments	**41.691.398.367**	**43.966.531.993**
Completion bonds	367.502.011	397.360.536
Letters of credit	56.906.464	100.149.572
Counter-guarantees	362.821.031	371.897.027
Other	25.762.576	26.905.787
Undrawn confirmed loans	4.576.915.911	5.766.634.921
Documentary credits	13.344.619	13.315.287
Exposure of off-balance sheet commitments	**5.403.252.612**	**6.676.263.130**
Total exposure	**47.094.650.979**	**50.642.795.124**

Variable-income securities, including “Investments in associates accounted for using the equity method”, are not included in the above table.

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

- collateral:

Breakdown by type of collateral	31/12/2016	31/12/2017
Mortgages	13.216.386.919	14.024.465.831
Reverse repurchase agreements	1.643.048.260	3.545.425.085
Pledge through cash or securities deposits	106.585.815	121.353.676

- personal guarantees: these stood at EUR 57.518.559 at year-end 2017, compared with EUR 54.955.960 one year earlier;
- ISDA – CSA contracts;
- Global Master Repurchase Agreements (GMRA).

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

	Financial assets that are the subject of netting			Potential netting not recognised on the balance sheet		
31/12/2017	**Financial assets before balance sheet netting**	**Balance sheet netting with financial liabilities**	**Financial assets recorded on the balance sheet**	**Financial liabilities**	**Collateral received**	**Financial assets after taking potential netting into account**
Reverse repurchase / Repurchase agreements	3.072.608.756	1.128.770.758	1.943.837.998	223.130.390	1.737.483.518	-
Derivatives	58.522.012	-	58.522.012	40.276.706	18.144.539	100.768
Total assets	**3.131.130.768**	**1.128.770.758**	**2.002.360.010**	**263.407.095**	**1.755.628.057**	**100.768**

	Financial assets that are the subject of netting			Potential netting not recognised on the balance sheet		
31/12/2016	**Financial assets before balance sheet netting**	**Balance sheet netting with financial liabilities**	**Financial assets recorded on the balance sheet**	**Financial liabilities**	**Collateral received**	**Financial assets after taking potential netting into account**
Reverse repurchase / Repurchase agreements	1.643.108.329	375.304.222	1.267.804.107	-	1.272.466.104	-
Derivatives	181.890.223	-	181.890.223	43.975.716	133.638.589	4.275.918
Total assets	**1.824.998.553**	**375.304.222**	**1.449.694.331**	**43.975.716**	**1.406.104.694**	**4.275.918**

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

	Financial liabilities that are the subject of netting			Potential netting not recognised on the balance sheet		
31/12/2017	**Financial liabilities before balance sheet netting**	**Balance sheet netting with financial assets**	**Financial liabilities recorded on the balance sheet**	**Financial assets**	**Collateral given**	**Financial liabilities after taking potential netting into account**
Repurchase / Reverse repurchase agreements	735.219.408	542.198.113	193.021.295	-	183.473.644	9.547.650
Derivatives	715.286.115	-	715.286.115	105.845.366	486.372.786	123.067.964
Total liabilities	**1.450.505.523**	**542.198.113**	**908.307.410**	**105.845.366**	**669.846.430**	**132.615.614**

	Financial liabilities that are the subject of netting			Potential netting not recognised on the balance sheet		
31/12/2016	**Financial liabilities before balance sheet netting**	**Balance sheet netting with financial assets**	**Financial liabilities recorded on the balance sheet**	**Financial assets**	**Collateral given**	**Financial liabilities after taking potential netting into account**
Repurchase / Reverse repurchase agreements	20.240.967	-	20.240.967	-	20.058.237	182.730
Derivatives	987.451.854	-	987.451.854	143.117.201	772.685.121	71.649.532
Total liabilities	**1.007.692.822**	**-**	**1.007.692.822**	**143.117.201**	**792.743.358**	**71.832.263**

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 31/12/2017 (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	5.462.660	12.557	31.598	10.630	1	10.439	5.527.885
Loans and receivables at amortised cost	24.401.361	18.280	11.423	61.718	5.912	85.469	24.584.162
Financial instruments held for trading and hedging derivative financial instruments	171.893	30	4.885	2.445	-	43	179.296
Available-for-sale securities	7.195.903	177.364	1.629.815	632.154	548.308	160.733	10.344.278
Held-to-maturity securities	2.803.559	180.256	653.182	203.932	105.454	-	3.946.383
Other	656.160	10.948	184.394	-	2.942	72.507	926.952
Total	**40.691.536**	**399.435**	**2.515.297**	**910.880**	**662.617**	**329.192**	**45.508.956**

Geographical area as at 31/12/2016 (in thousands of euros)	European Union and Switzerland	Other European countries	North America	Asia and Australasia	Supra-national	Other	Total
Cash and sight accounts with central banks	2.642.281	1.197	27.463	4.666	55	12.263	2.687.924
Loans and receivables at amortised cost	23.327.400	20.873	314.994	96.872	4.340	156.499	23.920.977
Financial instruments held for trading and hedging derivative financial instruments	341.266	176	17.987	2.978	-	33	362.440
Available-for-sale securities	8.068.564	203.701	1.632.324	652.363	568.825	117.379	11.243.156
Held-to-maturity securities	3.566.243	172.328	631.356	68.657	134.200	-	4.572.783
Other	561.004	11.349	84.907	-	1.915	22.170	681.344
Total	**38.506.757**	**409.624**	**2.709.031**	**825.535**	**709.335**	**308.343**	**43.468.625**

In the following table, to meet the requirements of IFRS 7 "Financial instruments: Disclosures", exposure to credit risk as at 31 December 2016 and 2017 is presented according to internal ratings.

Exposure by counterparty category and risk class:

	2016			2017		
	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	2.538.955.467	2.538.955.467	-	5.262.262.779	5.262.262.779	-
Standard grade	146.355.860	146.355.860	-	265.622.317	265.622.317	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	2.613.060	2.613.060	-	3	3	-
Total of categories	**2.687.924.387**	**2.687.924.387**		**5.527.885.100**	**5.527.885.100**	
Loans and advances at amortised cost						
Banks						
High grade	1.342.519.969	1.342.519.969	11,95%	1.200.017.209	1.200.017.209	24,97%
Standard grade	2.750.969.196	2.750.969.196	37,21%	2.448.548.430	2.448.548.430	92,08%
Sub-standard grade	7.908.788	7.908.788	0,00%	20.885.964	20.885.964	-
Past due but not impaired	2.895.600	2.895.600	100,00%	1.930.400	1.930.400	100,00%
Impaired	-	-	-	-	-	-
Not rated	938.046	938.046	-	4.890	4.890	-
Corporates						
High grade	2.170.513.630	2.170.513.630	34,41%	2.149.772.219	2.149.772.219	33,71%
Standard grade	1.437.939.621	1.437.939.621	45,70%	2.156.015.104	2.156.015.104	63,78%
Sub-standard grade	923.298.741	923.298.741	47,82%	825.630.203	825.630.203	54,30%
Past due but not impaired	49.201.367	49.201.367	90,95%	30.849.364	30.849.364	79,32%
Impaired	247.104.127	178.773.077	34,49%	213.565.575	152.270.088	26,87%
Not rated	102.811.536	102.811.536	20,60%	93.655.789	93.655.789	27,68%
Sovereigns						
High grade	2.060.711.501	2.060.711.501	-	1.867.102.229	1.867.102.229	-
Standard grade	8.245	8.245	-	6.832	6.832	-
Sub-standard grade	3	3	-	31.053	31.053	-
Past due but not impaired	22.985.325	22.985.325	-	20.487.435	20.487.435	-
Impaired	-	-	-	-	-	-
Not rated	2.258	2.258	-	-	-	-
Retail						
High grade	9.296.027.275	9.296.027.275	92,13%	10.168.141.791	10.168.141.791	91,98%
Standard grade	1.940.260.139	1.940.260.139	92,52%	1.816.693.765	1.816.693.765	92,78%
Sub-standard grade	1.393.401.453	1.393.401.453	88,62%	1.419.321.936	1.419.321.936	89,55%
Past due but not impaired	149.777.876	149.777.876	92,32%	137.027.672	137.027.672	91,79%
Impaired	108.047.817	90.034.286	81,13%	93.566.791	75.795.639	79,90%
Not rated	-505	-505	-	-25.674	-25.674	0,00%
Total of categories	**24.007.322.009**	**23.920.977.428**		**24.663.228.976**	**24.584.162.337**	

	2016			2017		
	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	170.500.449	170.500.449	77,80%	51.173.755	51.173.755	12,65%
Standard grade	137.518.285	137.518.285	49,70%	92.502.412	92.502.412	15,16%
Sub-standard grade	223.112	223.112	98,61%	87.983	87.983	100,00%
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	10.689.768	10.689.768	-	77.572	77.572	-
Standard grade	19.500.890	19.500.890	-	31.138.107	31.138.107	91,95%
Sub-standard grade	3.160.379	3.160.379	-	1.755.260	1.755.260	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	20.172.004	20.172.004	-	2.310.069	2.310.069	27,59%
Sovereigns						
High grade	-	-	-	-	-	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Retail						
High grade	504.278	504.278	-	182.536	182.536	-
Standard grade	4.547	4.547	-	8.971	8.971	-
Sub-standard grade	24.564	24.564	-	27.145	27.145	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	141.880	141.880	-	32.381	32.381	-
Total of categories	**362.440.156**	**362.440.156**		**179.296.191**	**179.296.191**	

	2016			2017		
	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio
Available-for-sale securities and investments in associates accounted for using the equity method						
Banks						
High grade	3.531.593.231	3.531.593.231	-	3.061.488.802	3.061.488.802	-
Standard grade	1.475.538.898	1.475.538.898	-	1.405.416.278	1.405.416.278	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	1.336.685.336	1.336.685.336	-	1.081.305.192	1.081.305.192	-
Standard grade	2.339.475.765	2.339.475.765	-	2.283.177.647	2.283.177.647	-
Sub-standard grade	75.133.315	75.133.315	-	62.318.213	62.318.213	-
Past due but not impaired	-	-	-	-	-	-
Impaired	28.611.536	11.164.593	-	2.337.552	822.053	-
Not rated	108.620.898	108.620.898	-	108.662.411	108.662.411	-
Sovereigns						
High grade	1.580.378.447	1.580.378.447	-	1.512.558.832	1.512.558.832	-
Standard grade	657.025.344	657.025.344	-	734.809.288	734.809.288	-
Sub-standard grade	28.151.438	28.151.438	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Securitisation						
High grade	64.235.993	64.235.993	-	65.007.534	65.007.534	-
Standard grade	12.169.620	12.169.620	-	4.829.851	4.829.851	-
Sub-standard grade	2.566.357	2.566.357	-	1.795.917	1.795.917	-
Past due but not impaired	-	-	-	-	-	-
Impaired	46.683.607	20.416.742	-	41.264.642	22.085.675	-
Not rated	-	-	-	-	-	-
Other						
High grade	-	-	-	-	-	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories	**11.286.869.786**	**11.243.155.978**		**10.364.972.160**	**10.344.277.692**	

	2016			2017		
	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio
Held-to-maturity securities						
Banks						
High grade	1.889.005.877	1.889.005.877	-	1.479.595.613	1.479.595.613	-
Standard grade	932.652.716	932.652.716	-	1.041.637.736	1.041.637.736	-
Sub-standard grade	10.253.749	10.253.749	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	320.379.720	320.379.720	-	218.501.610	218.501.610	-
Standard grade	642.556.060	642.556.060	-	506.957.009	506.957.009	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Sovereigns						
High grade	706.202.684	706.202.684	-	619.940.426	619.940.426	-
Standard grade	71.732.664	71.732.664	-	79.750.725	79.750.725	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories	**4.572.783.470**	**4.572.783.470**		**3.946.383.118**	**3.946.383.118**	
Other (*)	681.343.714	681.343.714	-	926.951.844	926.951.844	-
Total of categories	**681.343.714**	**681.343.714**		**926.951.844**	**926.951.844**	
Total	**43.598.683.523**	**43.468.625.135**		**45.608.717.388**	**45.508.956.284**	

(*) "Other" comprises "Assets designated at fair value through profit or loss", "Change in fair value of a portfolio of financial instruments hedged against interest rate risk", "Tangible assets for own use", "Investment property", "Intangible assets" and "Other assets".

"Shares in associates and subsidiaries" have been included in "Available-for-sale securities".

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

The average collateralisation ratio gives the average hedging ratio of outstanding amounts by collateral held.

An indication of the level of impairment is provided in the columns "Outstanding amount excluding impairment" and "Outstanding amount including impairment".

Banks, Corporates and Sovereigns:

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

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

Securitisation:

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

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

6.4 MARKET RISK

6.4.1 Objectives and management of risk

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

Mismatch and long-term liquidity risks are handled by the ALM (Asset Liability Management) Committee. The Committee ensures that the Bank's equity capital and invested funds are appropriately managed, and that its national and international loan portfolios and proprietary bond and equity portfolios are refinanced in such a way as to minimise the negative impact of yield curve movements on the parent company's performance. The ALM committee consists of the members of the Executive Committee 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 managed within the limits set by the parent company's Executive Committee. The Risk Management function, which operates independently of the trading room, is responsible for regular reporting on compliance with the limits and the levels of risk incurred to the Executive Committee.

The parent company did not change its market risk management policy in the 2017 financial year.

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

Scope	Average daily VaR in 2017	Maximum daily VaR in 2017	VaR limit for the scope in question in 2017
ALM	5,92	7,80	12,50
Treasury	0,19	0,38	2,50
Trading	0,06	0,17	no limit

Scope	Average daily VaR in 2016	Maximum daily VaR in 2016	VaR limit for the scope in question in 2016
ALM	8,98	10,45	12,50
Treasury	0,27	0,67	2,50
Trading	0,04	0,23	no limit

In addition to VaR, which is used for the aggregate management of the different types of market risk, the Group's parent company uses other risk management tools depending on the characteristics of the financial instruments concerned. Accordingly, interest rate risk is managed by simulating the financial impact of a parallel one basis point (0,01%) change in the interest rate 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 interest rate curves, also known as basis point value (BPV), which must stay within pre-set limits.

6.4.2 Analysis of the value of financial instruments

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

Categories as at 31/12/2017	Carrying amount	Fair value	Unrealised valuation
Financial assets			
Cash and sight accounts with central banks	5.527.885.100	5.527.885.100	-
Loans and receivables at amortised cost – Credit institutions	3.671.386.893	3.670.664.897	-721.996
Loans and receivables at amortised cost – Customers	20.912.775.444	23.310.964.761	2.398.189.317
of which measured at fair value for hedging purposes	*1.670.318.572*	*1.670.318.572*	-
Financial instruments held for trading	85.338.534	85.338.534	-
Hedging derivative financial instruments	93.957.657	93.957.657	-
Financial assets designated at fair value through profit or loss	548.117.498	548.117.498	-
Available-for-sale securities – Fixed-income securities	9.134.090.462	9.134.090.462	-
Available-for-sale securities – Variable-income securities	832.066.938	832.066.938	-
Held-to-maturity securities	3.946.383.118	4.049.138.249	102.755.131
Investments in associates accounted for using the equity method	378.120.296	378.120.296	-
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	46.597.287	46.597.287	-
TOTAL	**45.176.719.227**	**47.676.941.678**	**2.500.222.451**
Financial liabilities			
Deposits at amortised cost – Credit institutions	4.776.023.875	4.776.023.875	-
Deposits at amortised cost – Customers	31.477.133.430	31.848.994.748	371.861.318
Financial instruments held for trading	202.116.831	202.116.831	-
Hedging derivative financial instruments	588.498.489	588.498.489	-
Financial liabilities designated at fair value through profit or loss	146.853.974	146.853.974	-
Debt securities in issue	3.713.017.053	3.713.219.767	202.714
of which measured at fair value for hedging purposes	*355.598.448*	*355.598.448*	-
TOTAL	**40.903.643.653**	**41.275.707.685**	**372.064.032**

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

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

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

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

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

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

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

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

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

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

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

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

b. a reference yield curve.

Hierarchy of assets and liabilities at fair value

Assets and liabilities at fair value:

Categories as at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
- Dept instruments	22.713	-	-	22.713
- Equity instruments	-	-	-	-
- Derivative financial instruments	-	85.315.821	-	85.315.821
Available-for-sale financial assets				
- Dept instruments	5.878.227.888	3.162.062.028	93.800.546	9.134.090.463
- Equity instruments	148.959.036	388.250.263	294.857.637	832.066.938
Financial assets designated at fair value through profit or loss	-	548.117.498	-	548.117.498
Hedging derivative financial instruments	-	93.957.657	-	93.957.657
TOTAL	**6.027.209.637**	**4.277.703.267**	**388.658.183**	**10.693.571.090**
Financial liabilities				
Financial instruments held for trading		-	-	-
Derivative financial instruments held for trading	-	202.116.831	-	202.116.831
Financial liabilities designated at fair value through profit or loss	-	146.853.974	-	146.853.974
Hedging derivative financial instruments	-	588.498.489	-	588.498.489
TOTAL	**-**	**937.469.294**	**-**	**937.469.294**

Categories as at 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
- Dept instruments	749.011	-	-	749.011
- Equity instruments	-	-	-	-
- Derivative financial instruments	-	293.795.190	-	293.795.190
Available-for-sale financial assets				
- Dept instruments	6.628.511.963	3.066.786.194	109.801.099	9.805.099.257
- Equity instruments	206.208.769	703.197.263	164.738.391	1.074.144.424
Financial assets designated at fair value through profit or loss	-	262.150.671	-	262.150.671
Hedging derivative financial instruments	-	67.895.956	-	67.895.956
TOTAL	**6.835.469.744**	**4.393.825.273**	**274.539.491**	**11.503.834.508**
Financial liabilities				
Financial instruments held for trading	388.083	-	-	388.083
Derivative financial instruments held for trading	-	156.046.755	-	156.046.755
Financial liabilities designated at fair value through profit or loss	-	148.612.880	-	148.612.880
Hedging derivative financial instruments	-	894.844.009	-	894.844.009
TOTAL	**388.083**	**1.199.503.644**	**-**	**1.199.891.727**

Changes in outstanding financial assets in the table above from one year to the next are primarily the result of the decrease in the share prices of equity instruments at end-2017 and a non-replacement of debt instruments that have matured, partially offset by an increase in the valuation of investments in shares of related companies and subsidiaries as well as an increase in derivative financial instruments.
A comparison of the breakdown of financial assets by level at end-2017 and end-2016 shows that 56,4% of financial assets are classified as Level 1 (59,4% in 2016), 40,0% as Level 2 (38,2% in 2016) and 3,6% as Level 3 (2,4% in 2016).

The 3,0% decrease in Level 1 between financial years 2016 and 2017 is primarily explained by its debt instruments. New acquisitions in 2017 generally used Level 2 instruments.

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

The decrease in the amount of debt instruments recognised as Level 3 can be attributed to repayments of asset-backed security (ABS) and mortgage-backed security (MBS) debt.

Level 3 breakdown:

	Available-for-sale financial assets		Hedging derivative financial asset instruments	Total financial assets
	Debt instruments	Equity instruments		
Total as at 1 January 2017	**109.801.100**	**164.738.391**	**-**	**274.539.491**
Total gains / losses	11.954.927	10.674.091	-	22.629.018
- Income statement	*11.776.452*	-	-	*11.776.452*
- Revaluation reserve	*178.475*	*10.674.091*	-	*10.852.566*
Purchases	6.526.759	-3.264.184	-	3.262.575
Reimbursements/sales	-34.482.239	-	-	-34.482.239
Transfers from Level 1 to Level 3	-	-	-	-
Transfers from Level 2 to Level 3	-	122.709.341	-	122.709.341
Transfers from Level 3	-	-	-	-
Total as at 31 December 2017	**93.800.547**	**294.857.639**	**-**	**388.658.186**
Total gains/losses for the period included in the income statement for financial assets and liabilities held as at 31 December 2017	11.776.452	-	-	11.776.452

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

The total volume of Level 3 financial assets corresponds to 3,6% of total financial assets measured at fair value for the 2017 financial year, compared with 2,4% in 2016. The Group did not include Level 3 financial liabilities measured at fair value in financial years 2017 and 2016.

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 Market). Some positions include an impairment that does not result solely from a determination based on the cash flow method but also takes an appraiser assessment into account.
- Equity instruments	Application of the fair value estimate method based on net assets. Net assets are based on recent financial statements and a discount, determined from an appraiser assessment, is applied. If the fair value is less than the acquisition price, the Bank applies an impairment to the position in question.

Sensitivity analysis for Level 3:

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

Category	Fair value as at 31/12/2017	Sensitivity to a one-basis-point increase in credit risk
Debt instruments	93.800.546	-23.279

Category	Fair value as at 31/12/2015	Sensitivity to a one-basis-point increase in credit risk
Debt instruments	109.801.099	-28.306

6.4.3 Analysis of foreign exchange risk: Net currency positions

As at 31/12/2017	Net balance sheet position
USD	35.357.306
Other	2.951.720
Total	**38.309.026**

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

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:

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

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2017
Issuance of securities*	2.001.083.978	1.191.891.415	**3.192.975.393**	253.727.456	550.580.456	**804.307.912**	**3.997.283.306**
Deposits at amortised cost -							
Credit institutions	3.235.523.769	775.503.337	**4.011.027.106**	786.016.773	2.346.648	**788.363.421**	**4.799.390.527**
Customers	29.562.851.470	1.161.225.438	**30.724.076.908**	700.451.022	101.578.954	**802.029.976**	**31.526.106.884**
Total	**34.799.459.217**	**3.128.620.191**	**37.928.079.408**	**1.740.195.251**	**654.506.058**	**2.394.701.309**	**40.322.780.717**

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2016
Issuance of securities*	2.274.946.650	1.880.737.783	**4.155.684.433**	258.987.983	643.747.554	**902.735.537**	**5.058.419.970**
Deposits at amortised cost -							
Credit institutions	3.948.986.995	667.413.906	**4.616.400.901**	89.050.319	56.626.264	**145.676.583**	**4.762.077.484**
Customers	24.464.820.316	2.110.702.024	**26.575.522.340**	1.586.006.618	11.154.925	**1.597.161.542**	**28.172.683.882**
Total	**30.688.753.960**	**4.658.853.713**	**35.347.607.673**	**1.934.044.920**	**711.528.743**	**2.645.573.663**	**37.993.181.336**

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

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

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2017
Deposits at amortised cost - Customers	11.577.008.299	4.312.915.558	**15.889.923.857**	9.086.504.360	6.643.450.245	**15.729.954.605**	**31.619.878.461**

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2016
Deposits at amortised cost - Customers	8.294.468.700	4.764.476.014	**13.058.944.714**	9.134.179.361	6.030.858.437	**15.165.037.799**	**28.223.982.513**

6.5.2 Schedule of derivative financial instruments

Table 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 2017 and 31 December 2016.

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2017
Derivative instruments held for trading					
Foreign exchange swaps and forward exchange contracts					
Inflows	10.114.906.910	2.300.885.875	121.170.477	4.817.177	**12.541.780.439**
Outflows	-10.194.721.372	-2.291.648.622	-116.132.265	-3.542.489	**-12.606.044.748**
Derivative financial instruments used for hedging purposes					
CCIS					
Inflows	147.754.952	371.664.141	1.022.409.958	119.640.681	**1.661.469.731**
Outflows	-148.447.865	-401.881.696	-1.088.091.181	-139.227.574	**-1.777.648.316**
Total inflows	**10.262.661.862**	**2.672.550.015**	**1.143.580.435**	**124.457.858**	**14.203.250.171**
Total outflows	**-10.343.169.237**	**-2.693.530.318**	**-1.204.223.446**	**-142.770.063**	**-14.383.693.064**

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2016
Derivative instruments held for trading					
Foreign exchange swaps and forward exchange contracts					
Inflows	10.362.470.537	2.986.663.342	131.381.192	5.363.083	**13.485.878.154**
Outflows	-10.217.819.124	-2.948.401.898	-129.768.759	-4.610.296	**-13.300.600.077**
Derivative financial instruments used for hedging purposes					
CCIS					
Inflows	208.426.502	400.857.765	1.122.299.490	146.239.732	**1.877.823.489**
Outflows	-219.810.002	-446.335.298	-1.304.206.989	-163.123.223	**-2.133.475.511**
Total inflows	**10.570.897.039**	**3.387.521.106**	**1.253.680.682**	**151.602.815**	**15.363.701.642**
Total outflows	**-10.437.629.126**	**-3.394.737.196**	**-1.433.975.748**	**-167.733.518**	**-15.434.075.588**

Table showing derivative financial instruments settled in net cash flows:

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

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2017
Derivative financial instruments held for trading					
IRS	-343.320	7.722.726	13.607.853	-32.252.306	**-11.265.048**
Derivative financial instruments used for hedging purposes					
IRS	48.166.328	120.996.127	370.170.020	305.446.530	**844.779.005**
Total outflows	**47.823.008**	**128.718.853**	**383.777.872**	**273.194.224**	**833.513.958**

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

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

6.6.1 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 taking into account 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 and its parent company have adopted the following methodology to implement their internal capital adequacy policy:

- Development of an internal risk assessment model (Basel III Pillar 1 risks plus non-Pillar 1 risks);
- Determination of a substantial safety margin between available capital and risk hedging, reflected in a high target capitalisation ratio;
- Distribution of capital according to the internal organisation of the Group's business lines and its projected results;
- Risk exposure forecasts by business;
- Calculation of the projected capital requirements to cover the Bank's risks;
- Allocation of surplus capital according to the Bank's strategic guidelines.

In terms of internal governance, the ICAAP report and the 2017 ILAAP report were submitted to the Group's Board of Directors, 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)	**31/12/2016**	**31/12/2017**
Total equity	**4.231.615.481**	**4.239.620.048**
Prudential provision adjustments	345.388.174	331.420.728
Adjustments related to changes in the corporate income statement / IFRS	-13.967.445	-19.062.128
Consolidation adjustments	-489.457.750	-428.763.209
Total adjusted equity	**4.073.578.460**	**4.123.215.439**
IFRS income for the year not included in Common Equity Tier 1 (CET1)	-226.516.491	-221.722.417
CET1 before regulatory adjustments	**3.847.061.969**	**3.901.493.022**
Regulatory adjustments to CET1	**-1.220.064.779**	**-1.046.145.034**
Fair value reserves related to gains or losses on cash flow hedges	104.709	-2.429.397
Intangible assets	-16.519.158	-18.605.053
Negative amounts resulting from the calculation of expected loss amounts	-93.203.294	-85.420.892
Direct, indirect and synthetic holdings of CET1 instruments of financial sector entities in which the institution has a significant investment	-12.785.008	-
Regulatory adjustments related to unrealised gains and losses pursuant to Articles 467 and 468 and Article 8 of circular CSSF 14-01 on the implementation of certain discretions of Regulation (EU) 575/2013	-917.245.709	-778.228.665
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	-180.416.319	-161.461.027
Tier 1 Regulatory Own Funds (CET 1)	**2.626.997.190**	**2.855.347.988**
Tier 2 Regulatory Own Funds	**89.600.821**	**78.530.869**
Tier 2 Regulatory Own Funds	89.600.821	78.530.869
Total regulatory Own Funds	**2.716.598.011**	**2.933.878.857**
Total capital requirement	**1.186.721.040**	**1.246.113.045**
Solvency ratios		
Tier 1 solvency ratio	17,71%	18,33%
Total solvency ratio	18,31%	18,84%

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

In 2017, 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 Retail and Private Banking and Corporate Banking departments.
- Financial Markets and Investment Funds: activities relating to Treasury, Trading, Asset and Liability Management, Customer Desk, mutual fund administration and management. From an organisational point of view, these activities fall within the remit of the Financial Markets and Investment Customers 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 2017, the margin difference was below the Group's materiality limit.

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

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

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

7.2 GEOGRAPHICAL SEGMENTS

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

7.3 INFORMATION ON PRODUCTS AND SERVICES

The Group's net banking income (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.

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

7.4 INFORMATION ON MAJOR CUSTOMERS

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

31/12/2017 Thousands of euros	**Retail, Professional, Corporate and Public Sector Banking**	**Financial Markets and Investment Funds**	**Other**	**Reconciliation**	**Total**
Net interest margin	251.804	74.818	33.321	3.669	363.612
Income from variable-income securities	-	9.069	38.319	-	47.389
Fee and commission income	51.061	32.606	57.585	-	141.253
External commissions	*77.981*	*56.661*	*6.611*	-	*141.253*
Internal commissions	*-26.920*	*-24.055*	*50.974*	-	-
Income from financial instruments and foreign exchange	3.548	46.551	2	-	50.100
Net Banking Income	**306.413**	**163.045**	**129.227**	**3.669**	**602.354**
Other operating income and expenses	-	-108	-16.331	-	-16.439
Banking income	**306.413**	**162.937**	**112.896**	**3.669**	**585.914**
General administrative expenses plus valuation allowances in respect of intangible and tangible assets	-178.969	-37.560	-115.200	-	-331.729
Net allowances for valuation and impairment	7.089	7.341	2.632	-	17.063
Other	-	-	1.082	-	1.082
Income before tax	**134.533**	**132.718**	**1.411**	**3.669**	**272.331**
Tax on income for the period and deferred taxes	-	-	-50.995	-	-50.995
Minority interests / income from associates	-	-2.126	37.402	-	35.275
Income/(loss)	**134.533**	**130.592**	**-12.183**	**3.669**	**256.611**
Assets	**24.578.784**	**19.689.153**	**1.241.019**	**-**	**45.508.956**
Liabilities	**28.052.588**	**12.850.560**	**4.602.139**	**3.669**	**45.508.956**

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

Net banking income in thousands of euros	**31/12/2016**	**31/12/2017**
Deposits from private customers, business customers, corporates and the public sector	41.200	38.334
Loans and advances to private customers, business customers, corporates and the public sector	210.590	218.698
Other products for private customers, business customers, corporates and the public sector	41.992	49.381
Other products	289.671	295.941

EXECUTIVE COMMITTEE

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

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

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Corporate Banking **Norbert BRAUSCH**	Corporate Banking Norbert BRAUSCH			
Financial Markets **Claude ORIGER**	Financial Markets Claude ORIGER			
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