CONSOLIDATED FINANCIAL STATEMENTS **as at 31 December 2020**

SPUERKEESS

SPUERKEESS.LU

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

Head Office:
1, Place de Metz, Luxembourg

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

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

2020 Audited Consolidated Financial Statements

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STATEMENT ON THE COMPLIANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

Luxembourg, 31 March 2021

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

We hereby declare that, to the best of our knowledge, the consolidated financial statements of Banque et Caisse d'Epargne de l'Etat, Luxembourg as at 31 December 2020 have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities as well as the financial position and results. We also hereby declare that the management report presents an accurate description of the development, results and situation of Banque et Caisse d'Epargne de l'Etat, Luxembourg and of the group of companies included in the consolidated financial statements, taken as a whole, as well as the main risks and uncertainties facing the Bank and the BCEE Group.

For the Executive Committee

Doris Engel
Executive Vice President
Member of the Executive Committee

Françoise Thoma
Chief Executive Officer
President of the Executive Committee

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

CONSOLIDATED MANAGEMENT REPORT
31 December 2020

SPUERKEESS GROUP CONSOLIDATED MANAGEMENT REPORT

WILLIAM TELKES

CHIEF ECONOMIST

The Covid-19 pandemic has had a tremendous impact on the global economy. The lockdowns led to the complete shutdown of certain sectors, such as tourism and hospitality, and unemployment rates rose accordingly. Governments and the major central banks implemented a number of emergency measures to support economic activity.

To address the consequences of the coronavirus and ensure price stability, the European Central Bank launched a EUR 750 billion emergency programme. However, eurozone countries were affected by the different phases of the lockdowns to different degrees. For full-year 2020, the European Commission estimates that the fall in GDP will be just under 7% for the eurozone as a whole.

Luxembourg GDP (in volume terms) contracted by about 1,3% in 2020, according to Statec's most recent flash estimates. Luxembourg was less affected than other eurozone countries thanks to its flexible workforce that was able to work remotely. This was particularly true for the financial services sector, which remains one of the key pillars of our economy. The Luxembourg government's swift response to the crisis, including measures such as short-time working, helped support employment and prevent a steep decline. Despite the challenging environment, the number of bankruptcies did not increase compared with previous years. By offering companies moratoria and new financing upon request, Spuerkeess likely played a role in stabilising the local economy.

In this climate, the financial markets experienced an alarming degree of volatility at the beginning of the year, but they stabilised remarkably fast — it was the fastest correction in 20 years. After falling by nearly 35% in February/March, the MSCI World ended 2020 with a gain of about 6% (in euro terms).

Vaccine hopes, the outcome of the US presidential elections and growth segments, such as technology, continue to drive the markets higher. The economic outlook is also more reassuring. According to the IMF's estimates, global economic growth is expected to be just over 5% in 2021, which means many nations could return to their pre-Covid-19 activity levels.

While a number of sectors and countries are starting to recover, the road will long and arduous. Although we expect to exit the economic crisis in 2021, we note that Europe is lagging other economic powers, such as China. In addition, the risks of virus mutations and reduced vaccine effectiveness continue to persist. New lockdown phases can therefore not be ruled out and would imply a further economic slowdown.

"SPUERKEESS'S CUSTOMERS AND EMPLOYEES EXPECT A FLAWLESS USER EXPERIENCE. THE LOCKDOWN HAS ACCELERATED THE CHANGE IN DIGITAL CONSUMPTION HABITS AND SPUERKEESS HAS ADJUSTED ITS DIGITAL TRANSFORMATION STRATEGY."

Roger KRÄMER
Vice President & Head of Business Innovation Office

OUR OBJECTIVES

- Inspire innovation
- Improve the customer experience
- Simplify the work process

OUR RESULTS

- 17 nouvelles versions App
- 1.200 employés sur Teams
- 235.000 utilisateurs S-Net

OUR CHALLENGES

- Working from home
- Data security
- Mindset changes

OUR SOLUTIONS

- Process optimisation
- Better change management
- FinTech collaboration

The Business Innovation Office is leading Spuerkeess's digital transformation. Innovation is one of our priorities and our efforts are focused on improving customer service. Engaging all the teams in the transformation while remaining at the cutting edge of new technologies is a real challenge.

Change management is critical to a successful digital transformation. We worked closely with the Human Resources and People Management unit to provide training on the new leadership skills needed to manage teams remotely and smooth the adoption of new technologies and ways of working. A programme has also been developed to support employees who were reassigned to new jobs due to process optimisation, with an emphasis on internal mobility and upskilling.

The Covid-19 crisis has accelerated innovation. Together with our IT units, we equipped our entire staff for the work-from-home transition in order to keep our banking activities going. Our employees used the secure collaborative platform Microsoft Teams to attend meetings remotely and safely share their data.

We shifted from in-person events and meetings to videoconferencing and webinars as soon as the first lockdown was implemented.

The persistent decline in branch visits in recent years has been accompanied by a steady increase in the number of services and products offered on our online banking site S-Net and on our website Spuerkeess.lu. These innovations are sometimes inspired by top digital banks or fintechs and sometimes developed in direct collaboration with the latter.

The year 2020 was a catalyst for Spuerkeess's digital transformation. While we had previously launched two to three new versions of S-Net per year, we had 17 in 2020. The year's top achievements included account aggregation, the online sale of products and digital onboarding of new customers. In addition, credit cards and personal loan applications can now be managed in real time and our customers are saving time with electronic signatures. Our efforts are paying off: we are currently seeing more than 100.000 daily log-ins to S-Net and have 235.000 unique users with access to our online facilities.

"A SUCCESSFUL DIGITAL TRANSFORMATION WILL DEPEND LARGELY ON CHANGE MANAGEMENT FOR OUR STAFF AND ON OUR BANK-WIDE CULTURE".

Jorge GOMES
Vice President & Head of HR & People Management

OUR OBJECTIVES

- Employer of choice
- Change in management culture

OUR RESULTS

- 83% of employees proud to work for Spuerkeess

OUR CHALLENGES

- People management during the health crisis
- Employee profile matching
- Interdepartmental silos

OUR SOLUTIONS

- Leadership development
- Work-from-home organisation
- Launch of the competency framework

The Human Resources department faced many challenges in 2020. During the first lockdown in March 2020, one of the steps that we took was to establish an internal hotline to support our employees and help them manage the Covid-19 crisis. We provided useful tips when we had to quickly set up a transitional work-from-home arrangement and we helped line managers manage their teams remotely.

With the launch of the "Spuerkeess 2025" strategic plan in early 2021, the Staff Management unit was given the new task of advising the Bank's line managers and challenging them to implement their human resources projects so as to play an active role in executing this strategic plan. Flagship projects include change management, the development of the leadership programme and the creation of a new competency framework.

As effective team management is one of the keys to increasing employee engagement, our long-term objective is to continuously invest in executive training to focus more on collaborative work methods. To be able to provide our customers with a multidisciplinary service, our unit aims to unite employees from the Bank's different units around Spuerkeess's shared values.

The search for talent and skills will be critically important to the Staff Management unit's new task. Whether talent is identified in-house or we look outside the Bank to find the right profiles, the ultimate objective is always a successful integration, particularly since some of our indicators show that our efforts are paying off.

According to an internal survey conducted in 2020, 81% of employees would recommend Spuerkeess as an excellent place to work, 83% are proud to work for Spuerkeess and 87% expect to stay at Spuerkeess for the next two years.

We continue to encourage all types of initiatives that promote generational, cultural and gender diversity. As a member of the IMS (Inspiring More Sustainability Luxembourg) and recipient of the ESR (Responsible Company) label from the *Institut National pour le Développement durable et la Responsabilité sociale des entreprises* (National Institute for Sustainable Development and Corporate Social Responsibility, INDR), the Bank has also confirmed its commitment by including non-discrimination in its code of conduct. Specific actions are planned under the Spuerkeess 2025 programme, such as a diversified leadership programme.

Lastly, the creation of performance indicators will help us evaluate our efforts and set specific goals.

"FIRST WE FACED A GLOBAL CRISIS THAT PARALYSED THE ENTIRE WORLD.

THEN WE NEEDED TO MAINTAIN OUR STRONG CUSTOMER RELATIONSHIPS

TO CONTINUE TO OFFER HIGH-QUALITY SERVICE".

Claude HIRTZIG
Senior Vice President & Head of Department Retail & Private Banking

OUR OBJECTIVES

- High-quality service
- Customer satisfaction in the branch network and Private Banking

OUR RESULTS

- 15% increase in home loans granted
- 17% increase in Private Banking packages

OUR CHALLENGES

- Customer concerns
- Customer contact during the lockdown
- Volatile economic landscape

OUR SOLUTIONS

- Engaged team Spuerkeess Direct
- Profitable and sustainable investment strategies

Although the Covid-19 pandemic is first and foremost a health crisis, it has had direct economic and organisational impacts. Our branch network customers were anxious during the first lockdown, and our teams redoubled their efforts to provide reassurance.

By the time the health crisis had gained the upper hand, we had fortunately already laid the foundations for Spuerkeess Direct. This new communication channel allowed us to work remotely to assist our customers. Spuerkeess Direct was in test mode at the time, but we were able to train additional employees in record time. We went from 20 employees to 80 in just one week. We were therefore able to conduct basic banking transactions while maintaining contact with our customers, even during the lockdown. We set up the Cash@Home delivery service for vulnerable customers who did not have the option of going out.

The real estate loan business was only temporarily affected during the crisis, because even during the first lockdown our customers could still realise their real estate projects and sign their mortgage loan contracts. Our advisors then redoubled their efforts throughout the year to ensure high-quality advice in the branches and remotely, whether over the phone or through videoconferencing. The volume of home loans granted thus increased by 15%.

In the Private Banking unit, our main objective is to provide our customers with a comprehensive wealth management service. In addition to financial and tax aspects, our advisors are also key points of contact for real estate investments and estate planning. Our customers seek out customised support and investment strategies that are tailored to their needs, and we are grateful for their trust. This trust has traditionally relied on in-person contact, but the pandemic has moved our interactions online and forced us to make better use of remote communication technologies to build relationships in a different way. Compared with end-2019, we saw a 17% increase in uptake of Private Banking packages.

At the same time, the health crisis was accompanied by a sharp increase in demand for sustainable investment products and services.

"THE PANDEMIC-RELATED DISRUPTIONS HAVE BEEN UNPRECEDENTED, AT BOTH THE FINANCIAL MARKET AND WORK ORGANIZATION LEVELS.

I WOULD LIKE TO CONGRATULATE SPUERKEESS'S TRADING FLOOR TEAMS ON THEIR ABILITY TO ADAPT AND RESPOND QUICKLY TO THIS NEW ENVIRONMENT".

Claude ORIGER
Senior Vice President & Head of Department Global Markets

OUR OBJECTIVES

- Sound financing
- Support the national economy

OUR RESULTS

- Resilience in stressful situations

OUR CHALLENGES

- Financial market turbulence

OUR SOLUTIONS

- Agile teams
- Investments in market tools
- Prudent balance sheet management

The Global Markets department's execution activity is carried out by the Financial Markets business unit and gives Spuerkeess's institutional clients access to the international capital markets. The trading floor offers execution for a wide range of financial instruments, such as equities, bonds, investment funds, currencies, listed derivatives and structured products.

Amid the financial market turbulence that occurred at the beginning of the Covid-19 crisis, our customers carried out exceptionally large numbers and volumes of transactions in financial instruments in the first quarter of 2020. The number of equity transactions carried out by our institutional clients in first-quarter 2020 more than doubled from first-quarter 2019.

Projects involving major investments in market tools were also launched in 2020. Initial implementation of these projects is expected in 2021 and they should allow the trading floor to continue to provide its customers with services on the cutting edge of technology.

Through prudent management of the Bank’s different balance sheet aggregates by the Financial Markets and Asset and Liability Management business units, which are responsible for Spuerkeess’s proprietary trading activity, we were able to ensure the soundness of our financing at all times.

A new Support, Reporting & Financial Valuations business unit was created in fourth-quarter 2020 within the Global Markets department. It is tasked with acting as the Middle Office for the Financial Markets unit.

It was a strange year for the financial markets, which saw both a sharp collapse and a spectacular rebound. In these challenging economic times, Spuerkeess has once again demonstrated its strong resilience in stressful situations and its agility in adapting to current developments.

"DURING THE FIRST LOCKDOWN, SPUERKEESS WAS THE FIRST BANK IN LUXEMBOURG TO ALLOW LOCAL COMPANIES TO DEFER THEIR LOAN PAYMENTS IN RESPONSE TO THE CRISIS. WE DID SO WELL BEFORE IT BECAME CLEAR THAT THE REGULATOR WOULD GRANT THESE MORATORIA FAVOURABLE TREATMENT".

Norbert BRAUSCH
Senior Vice President & Head of Department Corporate Banking & Public Sector

OUR OBJECTIVES

- Meet our customers' needs
- Better picture of our efforts

OUR RESULTS

- Long-term partnerships
- Role in stabilising Luxembourg's economy

OUR CHALLENGES

- Maintain high-quality customer service while working from home

OUR SOLUTIONS

- Work process simplification
- Agile teams
- Customer-focused

Our department manages the business relationships with corporate customers and public sector actors. We meet their banking and financial needs and help them realise their projects with customised financing solutions. What really matters to us is being able to forge long-term partnerships with our customers.

The arrival of the pandemic completely upended our 2020 priorities. It was clear that we were going to have to do everything in our power to support our customers. Since a company's cash position is key in times of crisis, our top priority was to help our business customers maintain enough liquidity to be able to respond quickly to any challenges they might face.

Our rough estimate is that we granted our business customers more than 2.000 moratoria in 2020. To do this, we had to review and adjust our internal operating processes. At the same time, our employees had to be trained on new IT tools to be able to work from home.

This was all done in record time so that Spuerkeess was the first bank in Luxembourg to defer local companies' loan payments at their request. We did so well before it became clear that the regulator would grant these moratoria favourable treatment.

Our customers appreciated our availability and responsiveness in these times of crisis, and we were able to further strengthen these bonds of partnership to ensure long-term relationships of trust.

"COVID-19 AFFECTED HOW WE COMMUNICATE WITH OUR CUSTOMERS BUT DID NOT IMPEDE OUR CASE MANAGEMENT CAPACITY. HOWEVER, REGULATORY REQUIREMENTS AND NEGATIVE INTEREST RATES POSE CERTAIN DIFFICULTIES. THE DIGITALISATION OF OUR WORK PROCESSES AND OUR STRATEGIC PARTNERSHIPS ARE HELPING US MEET THIS CHALLENGE".

Alain UHRES
Vice President & Head of Institutional Relationship Management

OUR OBJECTIVES

- Customer satisfaction
- Customised service

OUR RESULTS

- EUR 74,5 billion in assets under custody
- +6,8% growth in assets under custody
- Depositary bank for EUR 11,6 billion private asset funds

OUR CHALLENGES

- Regulatory requirements
- Negative interest rates

OUR SOLUTIONS

- Strategic partnerships
- Work process digitalisation
- Bridge financing
- Cooperation with Spuerkeess Asset Management

Our Institutional Relationship Management unit works with institutional clients, which include investment funds, banks, insurance companies, management companies and governmental institutions. The main objective in 2020 was to provide personalised, high-quality customer service and increase our turnover despite the unique circumstances caused by the health crisis.

Regulatory requirements continue to proliferate, leading to a significant administrative burden. On the financial front, we tried to increase turnover despite the negative interest rates set by the European Central Bank (ECB). Given that negative interest rates have an adverse impact on our Bank's profitability, we were forced to revise the conditions offered on our customers' current accounts.

In an effort to further expand our range of services for investment funds and meet these customers' needs, we developed and implemented equity bridge financing solutions. Our unit has also launched projects to digitalise and optimise our work processes, including those used to establish new customer relationships and monitor customers.

Thanks to our strategic partnerships with companies specialising in private asset funds, we saw strong growth in terms of assets. We ended the year with EUR 11,6 billion in private asset fund assets with custodian banks.

At 31 December 2020, institutional clients held total assets of EUR 74,5 billion, including EUR 50,4 billion in assets in the form of securities under custody and EUR 12,5 billion in cash. Institutional client assets rose by EUR 4,8 billion, which is equivalent to 6,8% growth.

"LUXEMBOURG CONSUMERS SEEM TO APPRECIATE OUR MISSION OF FOCUSING ON THE HUMAN FACTOR. WE UNDERSTAND THAT OUR ACTIONS SPEAK LOUDER THAN OUR WORDS. IT IS THEREFORE OUR VALUES THAT GUIDE OUR BUSINESS ACTIVITY".

Rudi BELLI
Senior Vice President & Head of Department General Secretariat

OUR OBJECTIVES

- Customer satisfaction
- Employee satisfaction
- CSR - Transition catalyst

OUR RESULTS

- Top Brand Luxembourg 2020
- More than 400.000 loyal customers

OUR CHALLENGES

- Changes in consumer behaviour
- Complex work processes
- Leadership transition

OUR SOLUTIONS

- Focused on the human factor
- Work process simplification
- Interdepartmental collaboration

The shared objective of the Marketing, Buildings and Logistics Support, Staff Management and General Secretary units is to meet customers' needs while making our staff more self-sufficient. There is a direct link between employee satisfaction and customer satisfaction, which means we need to focus on our human capital. To improve well-being in the workplace, we have begun the transition to a new era of leadership. The aim is to allow our employees more freedom by instilling a management culture that is firmly focused on our teams' needs.

We faced many challenges this year. We launched our new brand image campaign at the beginning of 2020. Unfortunately, the pandemic thwarted our advertising efforts. Our hard work nevertheless yielded us some 400.000 loyal customers and we were awarded the *Top Brand Luxembourg 2020* prize in the "Best Bank" category.

Spuerkeess is a transition catalyst and has put environmental impact at the centre of its corporate strategy. We define sustainable development as a way to combine profitability and long-term growth. We are working with experts to establish a framework that will help local companies make a sustainable transition. The goal is to develop digitalisation while remaining socially and environmentally responsible. We are currently taking steps to ensure that our values are practiced at every level of the company, because each individual employee is an ambassador for the Spuerkeess brand.

"2020, A CHALLENGE AND A HEALTHY BALANCE SHEET! BRAND IMAGE CAMPAIGN, UPDATED VISUAL IDENTITY AND 110 CUSTOMER CAMPAIGNS SENT VIA THE NEW S-NET NEWS CENTER THANKS TO A HIGHLY SKILLED AND RESPONSIBLE TEAM".

Lisa WELLS
Vice President & Head of Marketing

OUR OBJECTIVES

- New campaign and visual identity
- Effective campaign management tool

OUR RESULTS

- High Spuerkeess visibility
- Repositioned brand
- 5,5 million customer information messages sent

OUR CHALLENGES

- Unforeseen events
- Crisis communications
- Suspension of the campaign
- Vital customer information

OUR SOLUTIONS

- Maintaining balance and focus
- Positive thinking
- Sticking to our goals

The Marketing unit had a number of goals for 2020. These included repositioning the Spuerkeess brand, updating our visual identity and revising our sponsoring charter, all culminating in the new brand image campaign.

We also pursued our omnichannel strategy and are proud to have introduced a campaign management platform, which helped improve our customer communications by sending the right message to the right customer at the right time via our S-Net News Center channel.

The pandemic took us by surprise and forced us to challenge ourselves and adjust our approach and way of working, but it did not stop our momentum towards achieving our goals. The main challenge was to be responsive to the development of the pandemic. A few examples include:

Crisis communications, both internally and externally, were a constant worry throughout this period.

The iconic song we had chosen for our advertisements, James Brown's "I Feel Good", became unsuitable overnight and we had to suspend this large-scale, cross-media campaign.

A brand-new team had just been formed to take over a complex campaign management tool right when it became vital to communicate with customers via our S-Net News Center channel.

We took a solutions-oriented approach, while maintaining our focus, and concentrated on what really mattered, while adjusting to changing circumstances. At no time did we lose sight of our goals. The team fulfilled its roles and responsibilities, and I would like to congratulate them.

2020 was a productive year. A number of strategic projects resulted in high visibility for Spuerkeess in the media, more than 1.000 different materials were updated with our new visual identity and the new campaign management platform generated 110 campaigns for a total of 5,5 million customer messages sent.

OUR RISK MANAGEMENT POLICY

To ensure effective risk management at all levels, we have implemented governance based on the concept of the three lines of defence. Spuerkeess has an independent Risk Management function, which reports directly to the Executive Committee, as does the Compliance function. These two functions provide the second line of defence in the Bank's governance model, while the Internal Audit function represents the third line of defence.

The Bank has opted for a "defensive" risk profile defined in the Risk Appetite Framework (RAF). The RAF includes indicators of the Bank's major risk categories and enables the Executive Committee and the Board of Directors to regularly monitor Spuerkeess's overall risk situation in detail. The levels of risk to which the Bank is exposed are measured using a set of strategic indicators, operational metrics, and macroeconomic indicators. Risk appetite is defined through surveillance levels set for the different indicators and transposed into a set of limits intended to manage and control Spuerkeess's various risks.

The ICAAP and ILAAP processes are used to ensure that the Bank has adequate capitalisation and liquidity to pursue and grow its business activities.

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

Risk management is described in detail in note 6 to the financial statements as at 31 December 2020. Several categories of risk need to be considered:

Credit risk

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

Each material Bank commitment giving rise to a credit risk is subject to prior analysis of the borrower's credit quality by the Loans and Credit department. The borrower's credit quality is assigned an internal rating which is a direct component of the credit risk management system. It is one of the key parameters used to set limits or grant new financing.

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

Decisions on loans to the national economy are made by the various credit committees according to the customer's overall credit outstanding. Residential mortgage loans account for more than half of the portfolio. Credit risk is assessed based on overall solvency, repayment ability and the existence of real guarantees.

For international commitments, an initial investment is made only with counterparties classified as investment grade, excluding BBB-. For non-financial entities, priority is given to counterparties from Organisation for Economic Co-operation and Development (OECD) countries, mainly in Europe and North America.

Outstanding amounts are subject to systematic counterparty and sector risk monitoring and to regular checks based on updated financial analyses and proposed adjustments to limits per counterparty. We also apply a country limit system for all non-Luxembourg countries in which the Bank is active. These limits are reviewed annually.

The European Market Infrastructure Regulation (EMIR) aims to reduce bilateral counterparty risk by requiring the use of Central Counterparty Clearing (CCP) for derivative financial instrument transactions. To comply with this obligation, we have opted to work through direct members, known as clearing brokers.

Analysing the potential impacts of this crisis on the quality of the Bank's assets was one of the major challenges of 2020 and will remain so in 2021. During this crisis, we provided support to our customers affected by the crisis by granting moratoria and new financing while adhering to our credit risk policy. The system used to identify and monitor customers experiencing financial difficulties was strengthened to give us the visibility we needed on their business development in a changing economic environment.

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.

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

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB refers to the current or prospective risk to which the Bank's capital is exposed (banking book) due to adverse movements in interest rates. We spent the last few years developing internal models to assess the interest rate risk associated with the Bank's activities. These models have now been implemented in a tool used to manage interest rate risk based on specific metrics and in accordance with a predefined limit framework. Compliance with these limits is monitored by the first and second lines of defence.

Very low interest rates and the impacts of this situation on interest rate risk management and profitability remain a major challenge for the Bank.

Liquidity risk

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

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

In accordance with the Capital Requirements Regulation (CRR) and with the Commission Delegated Regulation of 10 October 2014, Spuerkeess has, since 2015, published its liquidity coverage ratio (LCR), intended to ensure sufficient 30-day liquidity. At 31 December 2020, the LCR was 175,70%, well above the minimum threshold of 100%. Moreover, Spuerkeess is aiming to maintain an LCR level far above the regulatory minimum. The Net Stable Funding Ratio (NSFR), intended to ensure sufficient one-year liquidity, is also one of the indicators tracked by the Risk Appetite Framework. The NSFR at 31 December 2020 was 122,20%. The regulatory minimum threshold of 100% will be mandatory as from 28 June 2021.

Leverage ratio

The leverage ratio measures the proportion of core capital to the Bank's exposures without taking collateral into account and adding off-balance-sheet commitments. In exact terms, this is the ratio of "CET 1 capital / Balance sheet sum and weighted off-balance-sheet commitments". This ratio is not based on the risk represented by the various exposures but is an additional tool intended to limit the use of excessive leverage in the banking sector. The Spuerkeess leverage ratio stood at 8,1% as at 31 December 2020, well above the regulatory minimum of 3,0%.

Operational risk

Operational risk is defined as the risk of losses resulting from an inadequacy or a failure of processes, personnel, internal systems, or external events, including legal risk.

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

We aim to reduce operational risk by continuously improving our operating systems and organisational structures. We had to adjust these operational structures during the health crisis, mainly to allow employees to work from home. Managing these organisational changes was one of the major operational risk challenges of 2020.

Information technology (IT) risk and cyber risk

An independent entity within the Risk Management function supervises IT and cyber risk management. An Information Security Officer is responsible for overseeing IT security, reports to the head of the Risk Management function and has a direct reporting line to the Chief Risk Officer. This IT and cyber risk management structure allows the Bank to operate within the limits set in the Risk Appetite Framework (RAF). The main challenges in 2020 were supporting digitalisation, expanding work-from-home capabilities during the health crisis and transposing CSSF Circular 20/750 on requirements regarding information and communication technology (ICT) and security risk management. In the work-from-home context, Spuerkeess implemented a system for managing privileged access and expanded its monitoring of the business line activities to include remote work. The Bank is paying close attention to all developments in this area.

AML/FT risk

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

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

New types of fraud have emerged during the health crisis which may be described as primary money laundering offences. We have been able to address these developments by quickly adjusting our control systems, which have also integrated the new requirements of the fast-changing regulatory environment.

Compliance risk reporting and management

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

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

Internal fraud risk management

Managing internal fraud risk requires prevention and supervision. Thus, our staff are actively educated on the importance of complying with the current Code of Conduct, conflict of interest policy and whistleblowing procedure.

The Compliance unit, in conjunction with the department heads, maintains a conflict of interest register to ensure conflict of interest management. Employee transactions are also monitored.

Data Protection

The Data Protection Office (DPO) monitors data protection regulations and thus plays an active role in developing new products and all kinds of projects by analysing their data protection aspects and making suggestions. Data protection risks, and any necessary preventive or corrective measures, are also monitored on an ongoing basis.

Financial risk and hedge accounting

The consolidated financial statements of the Spuerkeess Group have been prepared in accordance with IFRS as adopted by the European Union and comprise the financial statements of the Bank, subsidiaries, and special purpose entities over which the Group has control when it has rights to variable returns, because of its relationships with those entities, and the ability to affect those returns through its power over those entities.

Subsidiaries are consolidated from their date of acquisition, when the Bank, as the parent company, has the power to direct their financial policies. They are deconsolidated on the date such control ceases.
The Bank uses derivative financial instruments to hedge against interest-rate, foreign-exchange, and fixed-price risks (stock market indices and share prices). The derivative financial instruments commonly used are IRS and CIRS in standard plain vanilla hedging transactions. In addition to these standardised contracts, the Bank uses swaps with structured components to specifically hedge structured issues and acquisitions of bonds containing embedded derivatives, provided they are closely related.

Derivative financial instruments are considered as being held for trading except where they are designated as hedging instruments. When entering into a contract, the Bank may designate certain financial instruments as hedging instruments, if the transactions meet the criteria set out in IAS 39. The Bank primarily uses fair value hedges and, secondarily, cash flow hedges. Beyond these contract-by-contract hedges, the Bank applies fair value macro-hedging on fixed-rate loans in accordance with the principles of IAS 39 in its "carve-out" version for the European Union. This hedging is done exclusively using IRS financial instruments. In accordance with IFRS 9, the Bank continues to apply hedging principles according to the old IAS 39.

Management and monitoring of risks inherent in compiling financial reporting

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

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

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

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

Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments to IFRS 9, IAS 39 and IFRS 7 in connection with Phase 1 of the interest rate benchmark reform have applied since 1 January 2020. These amendments aim to provide relief to apply hedge accounting during the pre-implementation phase of the benchmark reform.

Compliance with the CRR

Spuerkeess meets market requirements through compliance with Regulation (EU) 575/2013, one of the objectives of which is to disclose to the market the Bank's exposure to the above risk categories. Some work was also done during 2020 to prepare for the entry into force of Regulation (EU) No. 2019/876 (CRR II) on 28 June 2021.

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

The Pillar 3 report for financial year 2020, which details how the Bank is organised to ensure that all the risks to which the institution is or could be exposed are anticipated, detected, measured, controlled and reported, is available online on the Bank's website.

OTHER ACTIVITIES

Other activities include back office and support activities, which play an essential role in supporting the Bank's strategic and development goals. Back office activities make it possible to process the growing volumes of payment, credit and securities transactions from the commercial units, and ensure control and security in processing these transactions in accordance with the laws in force. We continue our efforts to improve our systems and processes in order to adapt to market developments and increase our efficiency.

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

Regulatory activities

The primary regulatory issues that the regulatory watch team actively supported in 2020 were as follows:

- Credit Risk**:** This regulatory topic covers the "EBA guidelines on loan origination and monitoring" which aim to improve (i) credit institutions' governance and practices in relation to managing and monitoring loans throughout their life cycle and (ii) the quality of the loans that they grant.
- Benchmarks**:** The benchmark regulation established by the EU imposes new requirements on companies that are administrators of, contributors to or users of a broad range of interest rate, currency, security and/or commodity indices and/or benchmarks.
- AML V**:** We have begun the corresponding analytical and implementation work for the three regulations that this topic covers, namely: (i) transposition into national law of the AML V

directive, (ii) CSSF Regulation No. 20-05 of 14 August 2020 amending CSSF Regulation No 12-02 of 14 December 2012 on the fight against money laundering and terrorist financing and (iii) Grand-ducal Regulation of 14 August 2020 amending Grand-ducal Regulation of 1 February 2010 providing details on certain provisions of the Law of 12 November 2004 on the fight against money laundering and terrorist financing, as amended.

- DAC 6**:** The new European Directive 2018/822/EU proposes amending Directive 2011/16/EU with the aim of requiring intermediaries to automatically report to their tax authorities any cross-border transactions that present indications of potentially aggressive tax planning practices.
- Governance**:** This topic covers the latest revised version of Circular 12/552 published by the CSSF in December 2020 with an application date of 1 January 2021.
- Disclosure [Green finance]**:** Regulation (EU) 2019/2088, applicable as from 10 March 2021, targets greater transparency by financial market participants on ESG risk, increased consideration of the occurrence of this type of risk and disclosures about these risks.

Regulatory watch

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

Shareholdings

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

Since 1989, Spuerkeess has been a 40% shareholder of the Lalux S.A. group. The Bank holds 22,75% of the capital of Société de la Bourse de Luxembourg S.A., of which it is also a founding member and the largest shareholder.

In collaboration with three other players in the Luxembourg financial centre, Spuerkeess participated in the 2018 creation of LuxHub S.A., in which it holds 32,50% of the capital.

Media and telecommunications are important sectors for Luxembourg's economy. The Bank is a founding shareholder of SES S.A., the world leader in global satellite communications. The Bank holds a 10,90% interest in the share capital of SES S.A. in the form of Class B shares. These Class B shares grant a voting right corresponding to this stake, in accordance with the "one share, one vote" principle. Spuerkeess also holds Class A shares representing 0,82% of the share capital of SES S.A. The Class A shares also grant a voting right corresponding to this stake, in accordance with the "one share, one vote" principle. In terms of the economic right, SES S.A.'s by-laws specify that a Class B share gives the holder the right to a dividend that is 40% of the dividend paid for a Class A SES S.A. share.

In the air transport sector, Spuerkeess holds a 21,80% equity interest in the capital of Luxair, Société Luxembourgeoise de Navigation Aérienne S.A., which is active in air navigation, tour operation, cargo handling and catering, and a 10,90% equity interest in the capital of Cargolux Airlines International S.A., which is one of the world's largest all-cargo airlines.

The Bank also holds a 12% stake in the capital of Encevo S.A., the holding company for Luxembourg's market-leading energy group, and a 10,98% stake in Paul Wurth S.A. Negotiations to restructure the Luxembourg industrial group are underway with German group SMS, the majority shareholder of Paul Wurth S.A., and Luxembourg’s public-sector shareholders, including Spuerkeess.

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

In addition to these major shareholdings, Spuerkeess contributes to the economic development not only of the country but also of the Greater Region by acquiring smaller stakes in Luxembourg and cross-border companies that provide support to SMEs across the entire region. Examples include CD-PME S.A. for Luxembourg companies, in which Spuerkeess has a 10% stake, and EUREFI S.A. for companies in the border region, with the Bank making an 8,76% investment.

At the European level, Spuerkeess is the only financial institution in Luxembourg to hold a stake in the European Investment Fund (EIF), which is part of the European Investment Bank (EIB) group and supports SMEs across Europe by issuing bank guarantees. The EIF, or the EIB Group more specifically, has published ambitious targets regarding its role in the fight against climate change, which is also one of the two major pillars of Spuerkeess’s sustainable development strategy. Shares in associates and subsidiaries are described in Chapter 4.9 of the 2020 annual report.

Sustainable development strategy

Since 2017, Spuerkeess has published a non-financial report in accordance with the standards of the Global Reporting Initiative (GRI) detailing Spuerkeess’s strategy and activities in the area of sustainable development.

SPUERKEESS GROUP

FINANCIAL RESULTS AT 31 DECEMBER 2020

The Spuerkeess Group comprises Spuerkeess, Luxembourg as the parent company and its fully consolidated subsidiaries and associates consolidated using the equity method.
At EUR 607,7 million as of 31 December 2020, the Group’s bank margin was down EUR 8,8 million (-1,4%) compared with the 2019 financial year.

The Bank’s net interest margin rose by 3,2% in a year marked by the health crisis and the monetary policy countermeasures implemented to soften the impacts of the accompanying economic crisis. The higher business volumes and the adjustment of certain rates to better reflect market conditions as well as the scope of the monitoring and control work specific to certain products had a positive impact on the Bank’s net interest margin. The Bank was thus able to increase new loan origination, as the health crisis had only a temporary adverse impact during the second quarter of 2020. This was also the case for customer deposits, mainly deposits from private customers, which saw a disproportionate increase relative to previous years. This trend was seen across all eurozone countries where household consumption was significantly dampened by constraints and restrictions related to the health crisis. In terms of its capital markets activities, the still low, if not negative, interest rate environment had an adverse impact on the Bank’s opportunities for investment and maturity swapping in 2020.

Fee income was up 10,6% due mainly to the increase in fees from loans and asset management, as well as in fees for administration and custody of securities. In contrast, fees from payments were down due to lower activity in 2020.

Income from the Bank's shareholdings was EUR 15,9 million at end-2020, down EUR 15,6 million (-49,5%) from the previous year, as the dividends received from some of the Bank's strategic holdings were lower than in the past.

Income from financial instruments decreased from EUR 42,7 million at the end of 2019 to EUR 17,9 million as at 31 December 2020. The decline in this category can be attributed mainly to the sale of a portfolio of ETF and UCI securities measured at fair value through profit or loss, due to financial market turbulence at the start of the health crisis.

Other operating income and expenses rose to EUR 12,6 million at year-end 2020 from EUR 9,6 million at the end of 2019. The nature of its composition makes this item volatile and the change is mainly due to specific non-recurring factors.

Spuerkeess made its contribution to the national compartment of the *Fonds de Résolution Luxembourg* (Luxembourg resolution fund, or FRL), which has gradually merged over an eight-year period with the single resolution fund established by the Single Resolution Mechanism. It also made its contribution to the FGDL over the course of 2020. For financial year 2020, the contribution to the FRL, just like the contribution to the FGDL, was included in the income statement in "Cash contributions to resolution funds and deposit guarantee systems" in the amount of EUR 30,1 million.

Growth in total general expenses remained under control at 3,1% and stemmed from the structural increase in personnel expenses and higher allowances for impairment of tangible and intangible assets due to large-scale IT investments. Digitalisation and process optimisation efforts improved productivity and reduced the increase in general expenses.

Given the deterioration in the economic environment due to the health crisis, the Bank protected itself from credit risk by recording value adjustments and provisions for a total net amount of EUR 47,2 million versus EUR 8,8 million in 2019.

Cost of risk had a significant impact on the change in the Spuerkeess Group's results in 2020.

The Group therefore posted a net profit of EUR 172,0 million for the 2020 financial year, down EUR 34,4 million (-16,6%) from a net profit of EUR 206,3 million in the prior year.

ANALYSIS

OF MAIN BALANCE SHEET ITEMS

The balance sheet totalled EUR 50.231,4 million at 31 December 2020, an increase of EUR 2.327,6 million compared with 31 December 2019, mainly due to the increase in deposits from non-bank customers as well as in cash and sight accounts with central banks.

On the asset side of the balance sheet, "Cash and sight accounts with central banks" rose by EUR 1.795,0 million to EUR 7.128,1 million, mainly because of the increase in deposits with central banks.

Outstanding fixed-income securities recognised at amortised cost amounted to EUR 14.033,5 million, up EUR 550,6 million compared with 31 December 2019 due mainly to growth in corporate customer outstandings.

The outstanding amount of financial assets mandatorily recognised at fair value through profit or loss totalled EUR 809,0 million, a decrease of EUR 425,4 million compared with 31 December 2019. This item includes financial instruments that do not meet the necessary conditions for measurement at amortised cost and which are measured at fair value through profit or loss. The decrease in outstandings was largely due to the sale of an ETF and UCI portfolio at the beginning of the year.

The outstanding amount of variable-income securities recognised at fair value through the revaluation reserve was EUR 858,8 million, an increase of EUR 38,0 million compared with 31 December 2019, due to the change in the stock prices of certain shareholdings.

Compared with 31 December 2019, the outstanding amount of loans to credit institutions decreased by EUR 1.166,9 million to EUR 1.833,2 million at 31 December 2020. This item also includes the Bank's deposits with other banks, whether or not they are collateralised with securities.

Outstanding customer loans totalled EUR 24.098,9 million at 31 December 2020, an increase of EUR 1.241,9 million since 31 December 2019. The increase was driven by the development of the housing loan and corporate loan businesses, illustrating the continued desire of Spuerkeess to support the projects of individuals and businesses in the country. Commercial momentum remained strong despite the health crisis environment.

On the liabilities side of the balance sheet, issues of securities decreased by EUR 849,8 million to EUR 3.131,4 million. This decrease was due to lower market demand for the Euro Commercial Paper (ECP) and US Commercial Paper (USCP) refinancing programmes issued by the Bank.

Credit institution deposits increased by EUR 1.284,8 million and totalled EUR 5.976,8 million. This item also includes other banks' deposits collateralised with securities.

Customer deposits totalled EUR 34.583,1 million, an increase of EUR 1.203,4 million. This growth was driven by strong inflows of deposits from corporates and individuals. Public sector deposits decreased significantly, as changes in this item are more volatile and depend on the State's needs and cash management policy.

In accordance with Article 38-4 of the Amended Law of 5 April 1993 on the Financial Sector, the Bank reported its return on assets, which stood at 0,34% versus 0,43% in the prior year.

CHANGE

IN OWN FUNDS

The Spuerkeess Group's total equity attributable to the parent company amounted to EUR 4.605,0 million as at 31 December 2020 compared with EUR 4.414,2 million at the end of 2019, i.e. an increase of 4,3%.

This EUR 190,8 million increase in equity consisted mainly of:

- a EUR 193,8 million gross increase in consolidated reserves;
- a EUR -22,5 million change in actuarial gains or losses on the pension fund due to the change in actuarial rates;
- a EUR 68,5 million increase in the revaluation reserve due mainly to the integration of the valuation prices of strategic holdings;
- a EUR 12,7 million decrease in other items due to losses on sales of variable-income securities recognised at fair value through the revaluation reserve;
- a EUR 34,3 million decline in 2020 income.

2021

OUTLOOK

The year 2020 was dominated by the effects of the Covid-19 pandemic. Although Luxembourg's economy proved more resilient to the health crisis than other eurozone countries, GDP fell some 1,3% and government debt rose to EUR 16 billion, representing 26,5% of GDP. After a year in which many sectors endured heavy economic losses, we expect the economic outlook to improve in 2021.

The year 2021 began with coronavirus vaccination hopes and the return to a new normal. However, the surge in cases and virus mutations have raised the spectre of another fall in global GDP. Economic growth is closely tied to the development of the pandemic. We expect interest rates to remain low and Statec projects that the inflation rate will increase by 1,9% per year by 2023 and that the unemployment rate in Luxembourg will fluctuate between 6,4% and 7,0% from 2021 to 2024.[1]

The Executive Committee confirms that, in 2021, the parent company of the Spuerkeess Group will continue to assume its mission of supporting the national economy and will use its expertise to help companies overcome the financial difficulties they experienced because of the health crisis through concrete, immediate actions.

As a responsible financial actor, the parent company of the Spuerkeess Group intends to play a role in the sustainable development of the Luxembourg economy and contribute to the ecological transition in accordance with the Paris Climate Agreement. The ESG principles are therefore critical to the implementation of the 2025 strategic plan that the Bank finalised in 2020.

[1] Source: Statec 01/03/2021, baseline scenario.

EVENTS

AFTER THE REPORTING PERIOD

No significant events that could impact the normal course of the Group's parent company's business occurred after the close of the 2020 financial year. We will take care to maintain our balance sheet equilibrium and monitor our liquidity and capital ratios, taking a conservative approach that accounts for an economic climate in which we believe demand for credit will increase significantly in the medium term.

Luxembourg, 31 March 2021

For the Executive Committee

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

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

STATUTORY AUDITOR'S REPORT
31 December 2020

Report of the ’’Réviseur d’entreprises agréé’’

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

Report on the audit of the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Banque et Caisse d’Epargne de l’Etat, Luxembourg and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated annual accounts, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated annual accounts give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current year. These matters were addressed in the

context of the audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Fixed income financial instruments and derivatives held by the Group are presented in the annual accounts as financial instruments held for trading, hedging derivative financial instruments, financial assets mandatorily at fair value through the statement of profit and loss, fixed income financial instruments at fair value through the other comprehensive income and fixed income securities at amortized cost. As of 31 December 2020, these instruments represent a net book value of EUR 15,1 billion, representing 30,0% of the balance sheet of the Group.

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

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

As of 31 December 2020, 93,2% of the financial instruments have been measured at amortized cost and 6,8% of the other fixed income financial instruments and derivatives are measured at fair value. We consider the classification and measurement of such fixed income financial instruments and the measurement of derivative financial instruments to be a key audit matter because of their importance to the presentation and the valuation of the financial situation and the necessary degree of judgment required to determine the fair value for certain of these assets.

How the matter was addressed in our audit

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

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

Financial instruments presented as assets in the balance sheet, including derivative instruments, were subject to verifications to ensure that the book values recorded by the Group have been correctly determined and recorded. For that purpose, the approach applied in determining the amortized cost has been analyzed. Financial instruments measured at fair value, as well as financial

derivative instruments were subject to an independent valuation or validation of the valuation method based on a randomly selected sample.

2. Depreciation of loans and advances at amortized cost for "Corporate" customers

Loans and advances to "Corporate" customers represent a key activity of the Group and are recorded in the annual accounts under the section Loans and advances at amortized cost– Customers. These loans and advances are accounted at amortized cost, less value adjustment for expected credit losses. They represent on the asset side of the balance sheet a net exposure of EUR 5,8 billion, including a balance of expected credit losses for individual risks of EUR 96,8 million.

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

The process to determine expected credit losses is based on numerous factors and is inherently complex, and includes a certain degree of judgment in identifying quantitative and qualitative factors of a significant increase in credit risk and to determine the required levels of depreciations needed. For the year ended 31 December 2020, this process has been particularly impacted by the uncertainties and risks arising from the Covid-19 pandemic.

We have considered the depreciations of loans and advances to "Corporate" customers as a key audit matter because of the level of judgment required for their determination, the complexity of the modalities to compute value adjustments for expected credit losses as defined by the IFRS 9 standard, the consequences of the COVID-19 pandemic and the related economic uncertainties which impact the assumptions affecting expected credit losses, as well as because of their importance for the presentation of the financial position and the statement of comprehensive income for the year ended 31 December 2020.

How the matter was addressed in our audit

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

We reviewed the internal documentation and made interviews with the heads of departments in order to validate the approach applied by the Group to categorize loans and advances to "Corporate" customers (staging) and to estimate the qualitative and quantitative data used as a basis for the computation of credit impairments.

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

To respond to the impact of the COVID-19 pandemic as well as its economic uncertainties, we have reviewed the Group's approach to identify high-risk industries and the impact on internal ratings. Our procedures included mainly a critical examination of the industries identified as high-risk as well as the specific reviews carried out by the Group of loans and advances granted to companies in these industries. We have also followed-up the evolution of the moratoriums granted, the forborne loans and of the volume of loans in default to ensure that the latter are reflected in the calculated expected credit losses. Finally, we assessed the assumptions and macroeconomic factors included in the scenarios used for the computation of expected credit losses.

For loans and advances, subject to a specific impairment, we assessed, on a sample basis and considering the impact of the COVID-19 pandemic on high-risk industries, the reasonableness of the amount of impairment. Our procedures have, among others, included the verification of information related to the files and, where applicable, a verification that the existence and valuation of collateral was duly considered.

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

Other information

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

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

Other subject

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

Ernst & Young
Société anonyme
Cabinet de révision agréé

Christoph Haas

Luxembourg, 31 March 2021

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

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

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
31 December 2020

Consolidated balance sheet as at 31 December 2020

ASSETS in euros	Notes	31/12/2019	31/12/2020
Cash and sight accounts with central banks	4.1	5.333.118.189	7.128.135.655
Loans and advances at amortised cost – Credit institutions	4.2	3.000.087.638	1.833.195.892
Loans and advances at amortised cost - Customers	4.3	22.857.068.335	24.098.937.564
Financial instruments held for trading	4.4 4.12	143.054.603	138.717.034
Hedging derivative financial instruments	4.12	59.282.590	72.838.495
Financial assets mandatorily recognised at fair value through profit or loss	4.5	1.234.389.882	809.036.881
Fixed-income securities recognised at amortised cost	4.6	13.482.939.931	14.033.530.474
Fixed-income securities recognised at fair value through the revaluation reserve	4.7	16.069.764	18.042.494
Variable-income securities recognised at fair value through the revaluation reserve	4.8	820.716.989	858.764.091
Investments in associates accounted for using the equity method	4.9	387.639.750	449.059.026
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	4.13	215.762.686	373.811.797
Tangible assets for own use	4.14	282.713.923	273.210.953
Investment property	4.15	12.030.574	11.238.250
Intangible assets	4.16	29.399.062	32.276.745
Current taxes	4.17	-	64.730.961
Deferred taxes	4.17	20.822.906	25.333.516
Other assets	4.18	8.713.342	10.500.452
TOTAL ASSETS		**47.903.810.164**	**50.231.360.280**

LIABILITIES in euros	Notes	31/12/2019	31/12/2020
Deposits at amortised cost – Credit institutions	4.19	4.691.999.282	5.976.848.197
Deposits at amortised cost – Customers	4.20	33.379.682.748	34.583.084.637
Financial instruments held for trading	4.4 4.12	157.060.590	366.643.744
Hedging derivative financial instruments	4.12	873.308.000	1.112.075.207
Financial liabilities designated at fair value through profit or loss	4.21	166.144.407	172.175.873
Issuance of debt securities	4.22	3.815.080.561	2.959.242.843
Provisions	4.23	24.096.330	51.205.454
Other liabilities	4.24	41.599.116	39.157.732
Current taxes	4.17	9.820.434	-
Pension fund	4.25	328.087.363	363.233.280
Sub-total of LIABILITIES (before equity capital) to be carried forward		**43.486.878.831**	**45.623.666.966**

The notes on pages 51 to 176 are an integral part of these consolidated financial statements.

Consolidated balance sheet as at 31 December 2020 (continued)

EQUITY in euros	**31/12/2019**	**31/12/2020**
Sub-total of LIABILITIES (before equity capital) carried forward	**43.486.878.831**	**45.623.666.966**
Share capital	173.525.467	173.525.467
Consolidated reserves	3.572.183.229	3.766.051.922
Other items of comprehensive income	*462.101.584*	493.388.362
° *Variable-income securities recognised at fair value through the revaluation reserve*	*495.789.153*	*564.286.341*
° *Actuarial gains and losses on the pension fund*	*-349.897.106*	*-372.393.914*
° *Equity method adjustment*	*315.244.302*	*314.285.500*
° *Gains or losses on disposals of variable-income securities measured at fair value*	*93.912*	*-12.699.508*
Income for the year	206.340.539	172.000.556
Sub-total of equity attributable to equity holders of the parent company	**4.414.150.819**	**4.604.966.307**
Minority interests	2.780.514	2.727.007
Total equity	**4.416.931.333**	**4.607.693.314**
TOTAL LIABILITIES, including EQUITY	**47.903.810.164**	**50.231.360.280**

The notes on pages 51 to 176 are an integral part of these consolidated financial statements.

Consolidated income statement as at 31 December 2020

in euros	Notes	31/12/2019	31/12/2020
Interest income	5.1	377.631.632	389.744.197
Income from securities	5.2	31.464.134	15.881.134
Fee and commission income	5.3	155.079.261	171.507.671
INCOME FROM INTEREST, DIVIDENDS AND FEES AND COMMISSIONS		**564.175.027**	**577.133.002**
Income from financial instruments not recognised at fair value through profit or loss	5.4	218.814	-73.681
Income from financial instruments held for trading	5.5	29.749.292	3.922.827
Income from financial instruments designated at fair value through profit or loss	5.6	-12.597.932	-4.347.384
Income from financial instruments mandatorily measured at fair value through profit or loss	5.7	8.133.065	-9.740.389
Income from hedging transactions	5.8	687.008	7.067.433
Exchange gains or losses		16.473.420	20.992.944
Income from derecognition of non-financial assets		-	97.731
Other operating income	5.9	12.750.617	15.385.398
Other operating expenditure	5.9	-3.147.696	-2.760.159
BANK MARGIN		**616.441.615**	**607.677.722**
Personnel expenses	5.10	-232.623.536	-240.391.756
Other general and administrative expenses	5.11	-88.865.251	-88.012.973
Cash contributions to resolution funds and deposit guarantee systems(*)	5.12	-27.912.598	-30.084.030
Allowances for impairment of tangible and intangible assets	5.13 5.14 5.15	-39.554.570	-42.530.886
INCOME AFTER GENERAL EXPENSES		**227.485.660**	**206.658.077**
Net allowances for impairment of individual and collective credit risks	5.16	7.211.690	-27.457.405
Provisions	5.17	1.590.042	-19.768.834
Share in the profit of equity-accounted associates		13.821.166	45.813.491
INCOME BEFORE TAXES AND NON-CURRENT ASSETS		**250.108.558**	**205.245.329**
Profit from non-current assets and disposal groups classified as held for sale and not qualifying as discontinued operations		1.161.187	-
Tax on income from continuing operations	5.18	-38.394.720	-30.971.361
Deferred taxes	5.18	-4.567.067	-362.396
INCOME FOR THE YEAR		**208.307.958**	**173.911.572**
of which income for the year attributable to			
- minority interests		*1.967.419*	*1.911.016*
- equity holders of the parent company		*206.340.539*	*172.000.556*

(*) The 2019 contributions to the resolution funds and deposit guarantee systems have been retroactively restated to align them with the FINREP financial reporting templates.

The notes on pages 51 to 176 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income as at 31 December 2020

in euros	31/12/2019	31/12/2020
INCOME FOR THE YEAR	**208.307.958**	**173.911.572**
Items not reclassified in net income subsequently	**-98.075.462**	**32.342.070**
Actuarial gains/(losses) on the defined-benefit pension scheme	-105.240.677	-29.971.766
Contribution of equity-accounted associates	26.527.365	-958.803
Variable-income securities recognised at fair value through the revaluation reserve	-42.032.227	53.889.212
° *Variation in measurement results*	*-42.126.139*	*71.240.406*
° *Income from sales*	*93.912*	*-17.351.194*
Impact of deferred and current taxes	22.670.077	9.383.427
Items to be reclassified in net income subsequently	**-1.187.231**	**-1.529.818**
Fixed-income securities recognised at fair value through the revaluation reserve	-	568.438
Cash flow hedges	-1.622.062	-1.849.253
Impact of deferred taxes	434.831	319.435
Total items of comprehensive income for the year - net of tax	**-99.262.693**	**30.812.252**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**109.045.265**	**204.723.824**
share attributable to		
- minority interests	*1.967.419*	*1.911.016*
- equity holders of the parent company	*107.077.846*	*202.812.808*

The notes on pages 51 to 176 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity as at 31 December 2020

During the 2020 financial year, Spuerkeess had decided to distribute EUR 40 million (same as in 2019) from its 2019 net income to the Luxembourg State. However, in light of the European Central Bank's recommendation of 27 July 2020 on dividend distributions during the Covid-19 pandemic (ECB/2020/35), this payment was put on hold but not reallocated to equity.

For financial year 2021, Spuerkeess plans to distribute EUR 40 million from 2020 net income to the Luxembourg State during 2021, in accordance with European Central Bank recommendation ECB/2020/62 of 15 December 2020.

The dividend for financial year 2019, allocated in 2020, could be paid after the European Central Bank lifts its restrictions, which it is expected to do in the fourth quarter of 2021.

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

in euros	Share capital	Consolidated reserves	Revaluation reserve	Other items of comprehensive income	Net income	Total equity owners	Minority interests	Total equity
At 1 January 2020	**173.525.467**	**3.572.183.228**	**-**	**462.101.585**	**206.340.539**	**4.414.150.819**	**2.780.514**	**4.416.931.333**
Appropriation of 2019 income	-	206.340.539	-	-	-206.340.539	-	-	-
2020 net income	-	-	-	-	172.000.556	172.000.556	1.911.016	173.911.572
Distribution for FY 2019	-	-40.000.000	-	-	-	-40.000.000	-	-40.000.000
Actuarial gains/(losses) on pension fund	-	-	-	-22.496.808	-	-22.496.808	-	-22.496.808
Value adjustment on financial instruments measured at fair value through the revaluation reserve net of deferred taxes	-	-	-	68.923.857	-	68.923.857	-	68.923.857
Net measurement results of cash flow hedges	-	-	-	-1.388.049	-	-1.388.049	-	-1.388.049
Equity method adjustment	-	-3.617.467	-	-958.803	-	-4.576.270	-	-4.576.270
Adjustments related to equity-accounted values	-	31.209.544	-	-	-	31.209.544	-	31.209.544
2020 income from sales of variable-income securities	-	-	-	-12.699.508	-	-12.699.508	-	-12.699.508
Other	-	-63.922	-	-93.912	-	-157.834	-1.964.524	-2.122.358
At 31 December 2020	**173.525.467**	**3.766.051.922**	**-**	**493.388.363**	**172.000.556**	**4.604.966.308**	**2.727.007**	**4.607.693.314**

The notes on pages 51 to 176 are an integral part of these consolidated financial statements.

Consolidated statement of cash flow as at 31 December 2020

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

in euros	31/12/2019	31/12/2020
Cash and cash equivalents		
Cash and sight accounts with central banks	5.334.980.265	7.132.995.694
Loans and advances at amortised cost – Credit institutions	1.180.767.296	536.338.614
Loans and advances at amortised cost – Customers	1.769.426.300	1.758.797.703
Total	**8.285.173.862**	**9.428.132.011**

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

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

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

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

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

in euros	31/12/2019	31/12/2020
CASH POSITION AT 1 JANUARY	**6.419.562.587**	**8.285.173.862**
Interest received	943.947.135	808.025.016
Interest paid	-571.005.307	-421.338.249
Income from securities	31.464.134	15.881.134
Fees and commissions received/paid	155.079.261	171.507.671
Other operating expenditure/income	7.898.725	13.379.179
Cash contributions to resolution funds and deposit guarantee systems	-27.912.598	-30.084.030
Current taxes	-38.394.720	-30.971.361
Personnel expenses and other general and administrative expenses	-305.878.867	-311.234.234
Financial instruments recognised at fair value	86.598.938	552.789.305
Loans and advances at amortised cost	-674.518.880	-726.551.361
Deposits at amortised cost	1.923.624.234	2.505.925.054
Issuance of debt securities	72.991.452	-830.957.073
Other assets and liabilities	8.420.974	-17.952.310
Total cash flow from operating activities	**1.612.314.481**	**1.698.418.741**
Acquisition/disposal of variable-income securities	1.474.437	28.962.663
Acquisition/disposal of investments in associates accounted for using the equity method	-4.969.771	2.595.000
Acquisition of fixed-income securities	-3.443.381.362	-4.354.217.125
Disposal/redemption of fixed-income securities	4.207.077.352	3.826.448.252
Acquisitions/disposals of intangible and tangible assets	-27.821.132	-16.550.125
Total cash flow from investment activities	**732.379.524**	**-512.761.336**
Proceeds from subordinated liabilities	-	-11.320.285
Expenses related to leases	-3.289.044	-3.213.795
Income distribution	-40.000.000	-
Total cash flow from financing activities	**-43.289.044**	**-14.534.080**
NET CHANGE IN CASH	**2.301.404.962**	**1.171.123.325**
Effect of exchange rates on cash and cash equivalents	-435.793.687	-28.165.175
CASH POSITION AT 31 DECEMBER	**8.285.173.862**	**9.428.132.011**

(*) The 2019 contributions to the resolution funds and deposit guarantee systems have been retroactively restated to align them with the FINREP financial reporting templates.

Reconciliation of cash flows from financing activities

in euros	01/01/2019	Cash flow	Unrelated to cash flow	31/12/2019
Proceeds from subordinated liabilities	100.483.038	-	-457.609	100.025.429

in euros	01/01/2020	Cash flow	Unrelated to cash flow	31/12/2020
Proceeds from subordinated liabilities	100.025.429	-11.320.285	2.314.004	91.019.148

Movements unrelated to cash flow correspond to movements in accrued interest and accrued premiums/discounts.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

1 GENERAL INFORMATION

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

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

Spuerkeess's registered office is located at 1, Place de Metz, L-2954 Luxembourg.

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

The consolidated financial statements concern the Group, of which Banque et Caisse d'Epargne de l'Etat, Luxembourg is the parent company. The Group had an average headcount in 2020 of 1.874 people (1.882 in 2019), including staff on skills-acquisition contracts.

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

The financial year coincides with the calendar year.

The consolidated financial statements were approved by the Board of Directors meeting on 31 March 2021.

2 BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Compliance with general accounting principles

The Group's consolidated financial statements for the 2020 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements are stated in euros, the functional currency of the parent company and its subsidiaries. They have been prepared on the basis of historical cost or amortised cost, adjusted to fair value for the recognition of financial assets mandatorily recognised at fair value through profit or loss, financial assets held for trading and derivatives. Variable-income securities, debt instruments included in the hold to collect and sell business model (HTC&S, see section 3.2.4.1) and pension fund assets are recognised at fair value through the revaluation reserve.

2.1.1 New or revised standards adopted by the European Union, applicable since 1 January 2020

The amendments to the following standards and interpretations have an impact on Spuerkeess:

- The amendments to IFRS 9, IAS 39 and IFRS 7 in connection with interest rate benchmark reform – Phase 1 (applicable since 1 January 2020). See section 2.2 for the impact of IBOR reform – Phase 1.

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

- "Amendments to the Conceptual Framework for Financial Reporting" (applicable since 1 January 2020);
- Amendments to IAS 1 and IAS 8 "Definition of Material" (applicable since 1 January 2020);
- IFRS 3 (amendments) "Business Combinations" (applicable since 1 January 2020);
- The amendments to IFRS 16 "Leases" as a result of the Covid-19 crisis (applicable since 1 June 2020).

2.1.2 New or revised standards adopted by the European Union and not yet applicable as of 1 January 2020

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

- The amendments to IFRS 4 "Insurance contracts" in connection with IFRS 9 "Financial Instruments" (applicable from 1 January 2021),

- The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in connection with interest rate benchmark reform – Phase 2 (applicable from 1 January 2021).

2.1.3 New or revised standards not yet adopted by the European Union and not yet applicable as of 1 January 2020

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

- The amendments to IFRS 3 "Business Combinations", IAS 16 "Property, Plant and Equipment" and IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as well as the annual improvements to IFRS standards 2018–2020 (applicable from 1 January 2022),
- The amendments to IAS 1 "Presentation of Financial Statements" regarding the classification of liabilities as current or non-current (applicable from 1 January 2023).

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

- IFRS 17 (standard) "Insurance Contracts" (application postponed until 1 January 2023 by the IASB).

2.2 IBOR reform

A benchmark is any index by reference to which the amount payable under a financial instrument, or the value of a financial instrument, is determined, or an index that is used to measure a portfolio's performance.

The introduction of European Regulation (EU) No. 2016/1011 of 8 June 2016 (the "Benchmark Regulation" or the "Regulation") changes the landscape for market participants, including credit institutions, which must develop a plan to transition from the benchmarks they use in their contracts to new indices. Applicable since 1 January 2018, the Benchmark Regulation provides for a transitional period through end-2021 during which the indices used in 2016 can still be published. Beyond that date, all benchmarks must comply with all the requirements of the Regulation and must be published by an administrator included in the register maintained by the European Securities and Markets Authority (ESMA).

Spuerkeess is affected by the provisions of the Benchmark Regulation due to its use of benchmarks, within the meaning of the Regulation, in financial instruments, loan agreements and accounts.

2.2.1 IBOR – Phase 1

The amendments to IFRS 9 and IAS 39 published by the IASB in September 2019 and adopted by the European Commission in January 2020 aim to provide relief to apply hedge accounting during the pre-implementation phase of the benchmark reform. Their application date is 1 January 2020.

Under these amendments:

- transactions designated as hedged items in cash flow hedges are considered "highly probable", as the cash flows hedged are not viewed as having changed as a result of the reform;
- fair value and cash flow hedges, subject to retrospective effectiveness testing, do not have to be dedesignated due to the reform. Hedge accounting can therefore be maintained, if the retrospective effectiveness tests are outside the 80% to 125% range during the transitional period. The impact of ineffectiveness must, however, be felt at the income statement level;
- the hedged risk component in the form of a benchmark is considered separately identifiable.

These amendments continue to apply either until the uncertainties associated with the reform are no longer present or until the hedging relationship has been discontinued.

The Group's parent company considers that all of its hedging contracts with EURIBOR, EONIA or LIBOR components are affected by the reform and that they are therefore eligible for these amendments.

The Group's parent company is primarily affected by IBOR reform through the following contracts:

- IRS and CIRS that make reference mainly to EURIBORs;
- EMTN issuances with mainly EURIBORs as their benchmarks;
- borrowings and loans with EURIBORs as their benchmarks;
- fixed-income financial instruments on the assets side with primarily EURIBOR benchmarks.

The Group's parent company has established a working group made up of representatives from the various departments concerned to address the issue. The different contracts affected by IBOR reform have been inventoried and contracts without a fallback clause (contracts with no alternative benchmark to the EURIBOR, EONIA or LIBOR rates) have been identified.

The Group's parent company presents information about the nominal amounts associated with its hedging contracts below:

hedging instrument types	31/12/2020			
	=< 1year	1 - 2 years	> 2years	total
IRS	816.629.049	741.000.075	9.618.111.491	11.175.740.615
EURIBOR	811.308.676	741.000.075	9.618.111.491	11.170.420.242
1 M			*83.059.046*	*83.059.046*
3 M	*344.053.507*	*206.118.075*	*1.277.406.099*	*1.827.577.681*
6 M	*467.255.169*	*534.882.000*	*8.257.646.345*	*9.259.783.515*
LIBOR-USD	*5.320.373*	-	-	*5.320.373*
3 M	*5.320.373*	-	-	*5.320.373*
CIRS	295.682.293	214.964.523	1.453.009.903	1.963.656.719
EURIBOR	*285.432.640*	*210.895.181*	*1.453.009.903*	*1.949.337.724*
3 M	*128.702.281*	-	-	*128.702.281*
6 M	*156.730.358*	*210.895.181*	*1.453.009.903*	*1.820.635.443*
LIBOR-USD	*10.249.653*	*4.069.342*	-	*14.318.995*
3 M	*10.249.653*	*4.069.342*	-	*14.318.995*
Total	**1.112.311.342**	**955.964.598**	**11.071.121.394**	**13.139.397.334**

2.2.2 IBOR – Phase 2

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, published by the IASB in August 2020 and adopted by the European Commission in January 2021, make changes to financial assets and liabilities whether or not they are related to the entry into force of existing contractual terms, hedge accounting, and disclosures. Their application date is January 1, 2021 but they may be adopted early.

The key provisions in the amendments are as follows:

- a practical expedient to account for changes related solely to implementation of the benchmark reform and provided the new basis for determining contractual cash flows is economically equivalent to the previous basis. The changes will therefore be reflected in a new effective rate of return, in accordance with the applicable provisions of IFRS 9;

- measures that allow the hedging relationship to be maintained if the benchmark rate of the hedged item or its hedge is changed;

- the option to designate as a hedged risk a risk that is not separately identifiable on the date of the change, but which the Group's parent company believes will meet this requirement within 24 months;

- additional disclosures in the notes to the financial statements in order to identify:
    - the nature of the risks arising from benchmark rate reform to which the Group's parent company is exposed;
    - the progress in completing the transition to alternative benchmark rates and how it is managing that transition.

The Group's parent company has not early adopted Phase 2 of the IBOR reform.

For the Phase 2 transposition, the working group, together with the various departments concerned at the Group's parent company, is:

- drafting a common fallback clause, in accordance with the requirements of Regulation 2016/1010 of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts;
- adhering to the ISDA IBOR Protocol, which is an update of the ISDA IBOR Supplement;
- adapting contracts that do not have a fallback clause;
- adapting the contractual documentation to meet the requirements of the regulatory framework;
- preparing to communicate with the customers concerned;
- preparing to carry out IT work on the various systems affected;
- addressing any customer feedback.

2.3 CONSOLIDATION

2.3.1 Scope of consolidation

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

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

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

If a Group subsidiary or associate accounted for under the equity method applies accounting standards different from those applied to the preparation of consolidated financial statements, appropriate restatements are made to ensure consistency with the Group's accounting policies.
If the reporting date for a company within the consolidated group is different from the Group's reporting date, adjustments are made to take into account transactions made and any other significant events that occurred between this closing date and that of the parent company.

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

2.3.1.1 Fully consolidated subsidiaries

The consolidated financial statements record the assets, liabilities, income and expenditure of the parent company and its subsidiaries. A subsidiary is an entity over which the parent company exercises control. The parent company controls an entity if it is exposed or has the right to variable income from its interest in the entity and if it has the power to influence the amount of this variable income.
Subsidiaries are fully consolidated as of the date on which the Group took control. They are deconsolidated on the date such control ceases.

Subsidiaries	Business	% of voting rights held	
		31/12/2019	31/12/2020
Lux-Fund Advisory S.A.	Investment advice	89,48	89,67
BCEE Asset Management S.A.	UCI management company	90,00	90,00
Bourbon Immobilière S.A.	Real estate	100,00	100,00
Luxembourg State and Savings Bank Trust Company S.A.	Acquisition of shareholdings	100,00	100,00
Spuerkeess Ré S.A.	Reinsurance	100,00	100,00

2.3.1.2 Investments in associates

Associates are companies over which the Group exercises significant influence and are accounted for using the equity method. Significant influence means the Group has the power to direct a company's financial and operating policies in order to obtain a substantial share of the economic benefits.

Significant influence is presumed when the Group holds, directly or indirectly through its subsidiaries, 20% or more of the voting rights.

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

Equity-method consolidation ceases when the Group no longer has significant influence over the shareholding, unless the Group has incurred legal or constructive obligations to assume or guarantee commitments on behalf of the associate.

The Group's investments in associates:

Associates	Business	% of capital held	
		31/12/2019	31/12/2020
Société Nationale de Circulation Automobile S.à r.l.	Automotive services	20,00	20,00
Luxair S.A.	Air transport	21,81	21,81
Société de la Bourse de Luxembourg S.A.	Financial services	22,75	22,75
Europay Luxembourg S.C.	Financial services	30,10	30,10
European Fund Administration S.A.	Financial services	31,67	31,67
LuxHub S.A.	Financial services	32,50	32,50
Visalux S.C.	Financial services	34,66	34,66
Lalux Group S.A.	Insurance	40,00	40,00
BioTechCube (BTC) Luxembourg S.A.	Investments in biotechnology	50,00	-

The scope of investments in associates has changed since 31 December 2020. BiotechCube Luxembourg S.A. was removed from the scope of equity-method consolidation after its liquidation.

2.4 Foreign currency transactions

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

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

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

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

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

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

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

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

Currency	31/12/2019	31/12/2020
CHF	1,0844	1,0815
GBP	0,8508	0,8998
JPY	121,7400	123,6300
SEK	10,4350	10,0212
USD	1,1218	1,2287

2.5 Accounting judgements and estimates

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

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

3 INFORMATION ON THE GROUP'S MAIN ACCOUNTING POLICIES

3.1 Cash and sight accounts with central banks

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

This item also includes the minimum mandatory reserve funded to satisfy the reserve requirement imposed by the BCL. These funds are therefore not available to finance the Group's ordinary operations. The reserve basis is calculated on a monthly basis and is defined according to liability items on the balance sheet, 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 Classification of financial instruments

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

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

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

3.2.1 Assets and liabilities held for trading

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

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

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

3.2.2 Derivative financial instruments used for hedging purposes

The Group decided to continue to apply the hedging principles according to IAS 39 and therefore does not apply IFRS 9 in this regard. It thus uses derivative financial instruments to hedge interest rate, foreign exchange, credit and price risk such as stock market indices or share prices. The derivatives commonly used are interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS) in standard plain vanilla hedging transactions. In addition to these standardised contracts, the Group uses swaps with structured components to specifically hedge structured Euro Medium Term Notes (EMTN) issues and acquisitions of structured bonds included in the portfolio of fixed-income securities recognised at amortised cost and containing embedded derivatives. Only structures that are closely related are hedged in this way.

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

The Group classifies hedging instruments in the following categories:

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

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

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

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

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

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

The ineffectiveness of the hedge is mainly due to:

- the difference in the timing of cash flows,
- the difference on the yield curve.

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

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

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

3.2.3 Variable-income securities

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

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

3.2.4 Fixed-income financial instruments

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

3.2.4.1 Business models

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

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

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

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

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

  Unlike the HTC portfolio, which is limited to securities held to maturity, the HTC&S portfolio is based on management objectives. This portfolio consists of securities that meet the SPPI criteria but do not meet all the criteria defined for the HTC portfolio, provided that they are not considered as trading positions.

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

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

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

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

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

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

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

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

3.2.4.2 Monitoring of business model compliance

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

The threshold for impact has been set at 5% of net bank margin (NBM). The NBM considered is that of the previous financial year. If this threshold is exceeded, and if more than 10% of the outstanding amounts of a portfolio are sold per year, then the portfolio no longer meets the conditions of eligibility for the HTC classification with a measurement at amortised cost.

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

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

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

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

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

3.2.4.3 SPPI test

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

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

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

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

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

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

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

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

3.2.5 Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss include instruments with structures that are not closely related but are hedged economically with derivatives. With this designation for the financial liability, the Group offsets the impact of the accounting mismatch with the derivative financial instrument. Derivative financial instruments used for that purpose are exclusively IRS or CIRS instruments. The fair values are simply offset at the Group's profit or loss level under "Income from financial instruments held for trading" and "Income from financial instruments designated at fair value through profit or loss".

3.2.6 Non-current assets and disposal groups classified as held for sale

In accordance with IFRS 5, the Bank classifies its financial and non-financial assets as assets held for sale in the following cases:

- The asset must be available for immediate sale in its present condition;
- The sale must be highly probable;
- The carrying amount is recovered principally through a sale transaction rather than through continuing use.

Bank management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must be initiated. The sale generally takes place within 12 months of its initiation.

Assets in this category are measured at the lower of amortised cost or fair value less the cost of the sale.

Non-financial assets classified in this category are not subject to depreciation or amortisation. Financial assets continue to be measured in accordance with IFRS 9.

3.2.7 Other financial assets and liabilities

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

3.2.8 Income and expenses relative to financial assets and liabilities

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

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

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

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

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

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

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

3.2.9 Netting financial assets and financial liabilities

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

3.3 Banking transactions

3.3.1 Initial valuation

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

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

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

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

Derivative financial instruments are recognised in assets when the fair value is positive, and in liabilities when it is negative. Fair value here means the "dirty price" of the instruments, i.e., including the accrued interest.

Derivative financial instruments embedded in financial instruments are separated from the host contract and accounted for at fair value if the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract, and the entire instrument is not classified as held for trading or has not been designated as measured at fair value through profit or loss. Embedded derivative financial instruments that have been separated from their host contract are recognised at fair value in the trading portfolio and changes in fair value are recognised through profit or loss.

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

3.3.2 Subsequent measurement

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

3.3.2.1 Historical cost

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

3.3.2.2 Amortised cost

The amortised cost corresponds to the amount initially recognised, net of repayments of capital where applicable, adjusted for premiums and discounts, calculated as the difference between the initial amount and the repayment amount on maturity, over the life of the asset, less impairment recognised through value adjustments.

3.3.2.3 Fair value

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

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

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

- financial assets:
  - fixed-income securities:
    - for assets quoted on an active market, the bid price published by an official quotation agent is used;
    - for assets quoted on a market considered inactive, the valuation price is calculated by the Bank's internal valuation model.

  - variable-income securities:
    - for assets quoted on an active market, the bid price published by an official quotation agent is used;
    - for unquoted securities or securities listed on an inactive market, Spuerkeess determines a measurement value according to a procedure detailed below in Section 3.3.3 "Valuation techniques for determining fair value and fair value hierarchy".

- financial liabilities:
  - EMTNs issued by the Group's parent company are classified at amortised cost. These transactions are designated as fair value hedges to avoid an accounting impact on the income statement due to hedging these issues with derivative financial instruments. Thus, the fair value measurement method applied to the issue and the measurement of its hedge are identical, namely the discounted cash flow and Black & Scholes method;
  - EMTNs issued by the Group's parent company designated at fair value through profit or loss: the fair value measurement method applied to the issue and the measurement of its hedge are identical, namely the discounted cash flow and Black & Scholes method.

3.3.3 Valuation techniques for determining fair value and fair value hierarchy

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

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

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

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

- Level 1 fair value: Level 1 inputs are essentially quoted prices in active markets for identical financial instruments. This level includes equity securities and debt instruments listed on stock exchanges, as well as derivative financial instruments traded on a regulated market. Financial instruments not listed on a market but that were recently involved in a transaction are also included in Level 1.
- Level 2 fair value: Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the financial instruments, either directly or indirectly, i.e. derived from observable prices, such as implied volatilities of a share derived from observable prices of option contracts on this share. This level includes the majority of over-the-counter derivative financial instruments and structured debt securities issued. These inputs, such as "EURIBOR" yield curves or credit spreads, are provided by specialised financial data providers.
- Level 3 fair value: This level includes equity instruments or debt securities for which significant parameters used in the valuation models are based on internal estimations and assumptions. The shareholdings of the Group's parent company in non-material unlisted companies are valued on the basis of net assets after taking into account the dividend for the current year, and material holdings are measured as follows:
    - in the event of a transaction (capital increase or sale transaction) during the last six months or if the parties to a future transaction agree on the price of the transaction, this transaction price constitutes the basis for the measurement value of the position, taking into consideration a discount, provided that the shareholding is deemed strategic for the Group's parent company and that no paragovernmental shareholders, such as Spuerkeess, participate in the transaction;
    - for the six months following a transaction, the price of the last transaction remains an important reference but does not exclusively determine the valuation price;
    - the price of the historical transaction is adjusted in relation to a number of stock market ratios established on the basis of a peer group consisting of a sample of listed companies with a commercial and/or industrial activity comparable with the unlisted company, valued by the Group's parent company;
    - when the last transaction is more than two years old, a valuation based on the market ratios of this peer group is preferred. It allows the value of the position held by the Group's parent company to be determined. A discount to the valuation of unlisted assets may be applied;
    - The following ratios are documented for the unlisted company, owned by the Group's parent company, and for all listed companies of the peer group:

- Enterprise Value to EBITDA (except insurance companies);
- Price-to-Book, Price-to-Sales and Price-to-Earnings;
- ratios supplemented by information on business growth prospects, operating margins, return on equity (ROE), debt and credit quality;
- the data used are derived from the company accounts. The peer group's multiples derived from the stock market ratios and the accounting data of the companies making up each peer group are taken from Bloomberg with reference to the closing prices on the valuation day, i.e. 30 June or 31 December of the respective year;
- to supplement this market-multiples valuation, the Group's parent company may use multiples based on recent transactions in companies with the same characteristics as the unlisted company, held by the parent company.

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

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

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

3.3.4 Impairment of financial assets

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

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

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

⇨ Value adjustment is equal to a 1-year expected credit loss.

- "stage 2" includes financial instruments whose credit risk has increased significantly since the loan was granted or the security was purchased, i.e., exposures that:
  - have had their internal rating downgraded by ≥ 3 notches "since initial recognition" and have a "sub-investment grade" rating as at the reporting date;
  - are "Past Due" for 30 consecutive days on a contractual loan repayment due date or a sight account overdraft;
  - are "non-performing" but not in default under Article 178 of the CRR;
  - have been restructured according to the definition introduced by the European Banking Authority (EBA) and adopted by the European Union in Regulation (EU) 2015/227;

  ⇨ Value adjustment is equal to a lifetime expected credit loss.

- "stage 3" includes exposures in default according to Article 178 of the CRR. The internal definition of default was changed in 2020 to account for European Commission Delegated Regulation 2018/171.

  ⇨ Value adjustment is equal to a lifetime expected credit loss (with probability of default = 1).

In summary, the changes to the internal definition of default take into account:

- *Material past due amounts:*

A materiality threshold is used to indicate the level of past due amount that triggers a customer default. The materiality threshold is sub-divided into two components:

- The absolute component is expressed as the sum of all of the customer's past due credit obligations:

$$\sum \text{customer's past due} \geq \text{threshold in EUR}$$

- The relative component is expressed as the ratio of the sum of all of the customer's past due credit obligations to the total customer exposure:

$$\frac{\sum \text{customer's past due}}{\sum \text{customer's on balance exposures}} \geq \text{threshold in \%}$$

A past due amount is considered material if both thresholds are breached simultaneously.

For retail customers, the absolute regulatory threshold is set at EUR 100. For other customers, this threshold is set at EUR 500. The relative threshold is set at 1% for all customers.

- *Contagion:*

The new guidelines consider the potential for a default to spread from one customer to another. The Group's parent company must estimate the risk of contagion from a customer that has defaulted on a material credit obligation.

For retail customers, the Group's parent company has adopted the principle of automatic contagion of all members of a household who are bound contractually (through a property loan, for example), if the outstanding amount in default for one member of the household exceeds 50% of the household's total outstandings.

For other customers, the contagion risk is evaluated individually by the credit analysts and the default could thus spread from one entity to other entities in the same group.

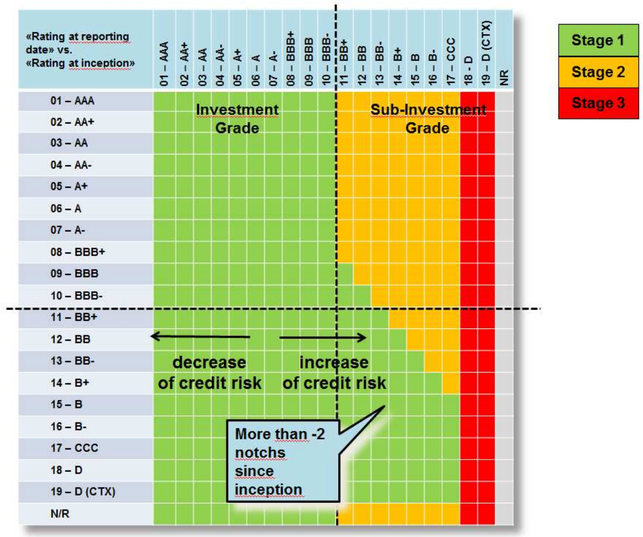
- *Probationary period:*

For a customer to exit default, no trigger of default should continue to apply. Here, the EBA guidelines introduce the concept of a probationary period; the length of the probationary period is defined for all products and all types of customers as follows:

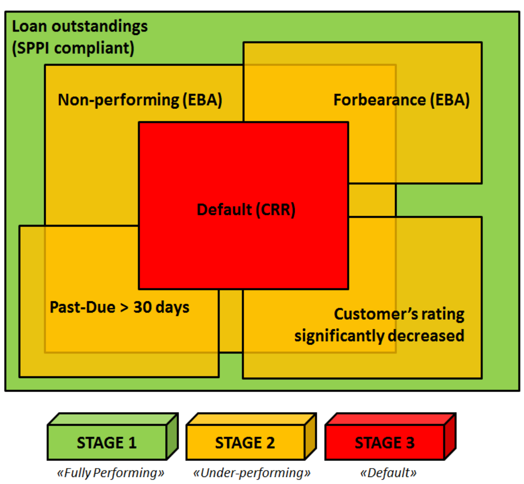
  - 3 months in the case of a default without distressed restructuring;
  - 12 months in the case of a default with distressed restructuring.

The probationary period must be applied for defaults triggered after one or more "Indications of unlikeliness to pay" have been observed.

Assignment matrix for initial "stages" and migration in case of a significant increase in credit risk. The Covid-19 health crisis has not led to any changes in the migration matrix:



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



As the Group's parent company applies the definition of default at the debtor level, all the exposures of a customer in default are found in "stage 3". This "contagion" is not automatically applied for "stage 2". The same customer can therefore have commitments classified in "stage 1" and "stage 2".

The table below summarises the triggers for various events:

Notions	Explanations	IFRS 9 stage
1. "Default"	· No payment arrears, but "unlikeliness to pay" (ULP), in the sense of a serious doubt about the future ability to meet the commitments (e.g. bankruptcy). · The absolute threshold (a) and the relative threshold (b) have been exceeded for 90 consecutive days: a) absolute threshold: arrears > EUR 100 (retail) or EUR 500 (wholesale); b) relative threshold: amount of arrears relative to the total amount of exposures to the debtor on the Bank's balance sheet > 1% (retail and wholesale).	STAGE 3
2. "Non-Performing"	· Late > ½ monthly instalment for > 90 days, or · Overdraft > EUR 100 for 90 days.	STAGE 2
3. "Forbearance/renegotiated due to significant increase in 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) and customer in financial difficulty.	STAGE 2
4. "Past-Due"	· Late payment > 30 days with certain materiality thresholds (EBA notion).	STAGE 2
5. Internal rating	· Internal rating downgraded by ≥ 3 notches "since initial recognition" and "sub-investment grade" rating as at the reporting date.	STAGE 2
6. Stage override	· Potential stage override to account for information not included in the above indicators	STAGE 2

Probationary periods:

Migration	Migration trigger	Probationary period	Conditions
Stage 2 to Stage 1	Forbearance	2 years	- significant amount repaid during the probationary period - investment grade rating - performing
	Wholesale rating	1 year	the variables considered for the Wholesale rating are based on the financial statements published annually: potential impact on the rating for 12 months
	Retail internal rating	6 months	the variables considered for the Retail rating are based on historical behaviour in the last 6 months: potential impact on the rating for 6 months
Stage 3 to Stage 2	Non-performing and forbearance	1 year	Parallel non-performing and forbearance status triggers the default. The customer exits non-performing and default if the forbearance start date ≥ 1 year. There is therefore a one-year probationary period for non-performing/default status.
	Automatic closure of the default (repayment of outstanding debts), but other ongoing stage 2 event	min. 3 months	Payment of outstanding debts triggers a 3-month probationary period (or 12 months for forbearance status). After the probationary period, the customer moves from Stage 3 to Stage 2 (in the event of SICR)
	Manual closure of an unlikeliness to pay default, but other ongoing stage 2 event	min. 3 months	When a default is closed manually, a 3-month probationary period (or 12 months for forbearance status) is also applied.
Stage 3 to Stage 1	Automatic closure of the default (repayment of outstanding debts)	min. 3 months	Payment of outstanding debts triggers a 3-month probationary period (or 12 months for forbearance status). After the probationary period, the customer moves from Stage 3 to Stage 1 (no SICR).
	Manual closure of an unlikeliness to pay default	min. 3 months	When a default is closed manually, a 3-month probationary period (or 12 months for forbearance status) is also applied.

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

Stage	Description	Formula	Explanation
1	Expected loss is calculated over a period of up to one year	$ECL = PD_{M,1} \cdot LGD_1 \cdot Exposures(t_0)$	- $PD_{M,1}$ = 1-(1-PD_1)^M and M the residual maturity in number of days /365,25 of the next year, - PD_1 = Probability of default for the first year, which takes into account the actual residual duration (Daily granularity), - LGD $_1$ = Loss given default during the next year, - Exposure(t_0) = Exposure at the beginning of the period
2	The expected loss is to be estimated over the entire remaining life of the contract (lifetime expected loss)	$ECL = \sum_{k=1}^{n} ECL_k = \sum_{k=1}^{n} PD_{M,k} \cdot \frac{(Exposition_{k-1} \cdot LGD_k)}{(1+i)^{k-1}}$	$PD_{M,k}$ takes into account the actual residual duration (Daily granularity) ECL is the sum of expected losses per year, discounted at the respective contractual rate i. The variable n represents the remaining duration of the exposure expressed in years.
3	The probability of default is 100% for these exposures; the expected loss is therefore a function of the current exposure and the loss rate (LGD), which takes into account the re-estimated future flows	$ECL = 100\% \cdot LGD_1 \cdot Exposures(t_0)$	- LGD_1 = Loss given default during the next year, - Exposure(t_0) = Exposure at the beginning of the period

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 variables, which are based on a macroeconomic scenario.

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

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

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

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

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

The Group's parent company uses three scenarios, weighted as follows at 31 December 2020:

- a baseline scenario weighted at 65%;
- an adverse scenario weighted at 25%;
- an optimistic scenario weighted at 10%.

The scenarios are based on projections by national or international authorities (for example, Statec, the IMF and the ECB). A decision is made about the source based on the availability of the information and its relevance for the Group's parent company.

The results are reviewed and validated by the appropriate bodies.

The tables below show the changes in GDP and inflation factored into the three scenarios for financial years 2019 and 2020:

ECL scenarios and sensitivity at 31/12/2019:

<table>
<tr><th>Type of scenario</th><th>Weighting</th><th>Macroeconomic variables</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th><th>Unweighted ECL</th><th>Weighted ECL</th></tr>
<tr><td rowspan="4">Baseline</td><td rowspan="4">60%</td><td>Luxembourg GDP</td><td>2,80%</td><td>2,70%</td><td>2,60%</td><td>2,60%</td><td>2,60%</td><td rowspan="4">133</td><td rowspan="12">136</td></tr>
<tr><td>Luxembourg CPI</td><td>1,70%</td><td>1,90%</td><td>1,90%</td><td>1,90%</td><td>1,90%</td></tr>
<tr><td>Advanced economies GDP</td><td>1,70%</td><td>1,60%</td><td>1,60%</td><td>1,50%</td><td>1,60%</td></tr>
<tr><td>Advanced economies CPI</td><td>1,80%</td><td>1,80%</td><td>1,90%</td><td>2,00%</td><td>2,00%</td></tr>
<tr><td rowspan="4">Adverse</td><td rowspan="4">20%</td><td>Luxembourg GDP</td><td>-0,39%</td><td>-1,36%</td><td>1,51%</td><td>0,61%</td><td>1,96%</td><td rowspan="4">150</td></tr>
<tr><td>Luxembourg CPI</td><td>0,19%</td><td>1,13%</td><td>1,70%</td><td>1,33%</td><td>0,87%</td></tr>
<tr><td>Advanced economies GDP</td><td>0,14%</td><td>-2,18%</td><td>1,60%</td><td>0,90%</td><td>0,50%</td></tr>
<tr><td>Advanced economies CPI</td><td>0,21%</td><td>0,75%</td><td>1,17%</td><td>0,91%</td><td>0,66%</td></tr>
<tr><td rowspan="4">Optimistic</td><td rowspan="4">20%</td><td>Luxembourg GDP</td><td>5,14%</td><td>4,43%</td><td>6,44%</td><td>8,02%</td><td>9,61%</td><td rowspan="4">132</td></tr>
<tr><td>Luxembourg CPI</td><td>1,84%</td><td>2,06%</td><td>2,21%</td><td>1,92%</td><td>2,82%</td></tr>
<tr><td>Advanced economies GDP</td><td>2,03%</td><td>2,95%</td><td>2,61%</td><td>2,87%</td><td>2,50%</td></tr>
<tr><td>Advanced economies CPI</td><td>1,80%</td><td>1,95%</td><td>1,97%</td><td>2,00%</td><td>2,73%</td></tr>
</table>

ECL scenarios and sensitivity at 31/12/2020:

<table>
<tr><th>Type of scenario</th><th>Weighting</th><th>Macroeconomic variables</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th><th>Unweighted ECL</th><th>Weighted ECL</th></tr>
<tr><td rowspan="4">Baseline</td><td rowspan="4">65%</td><td>Luxembourg GDP</td><td>-7,80%</td><td>5,90%</td><td>3,80%</td><td>3,10%</td><td>2,50%</td><td rowspan="4">178</td><td rowspan="12">178</td></tr>
<tr><td>Luxembourg CPI</td><td>0,40%</td><td>1,40%</td><td>1,80%</td><td>1,90%</td><td>1,90%</td></tr>
<tr><td>Advanced economies GDP</td><td>-8,00%</td><td>3,90%</td><td>2,90%</td><td>2,20%</td><td>1,90%</td></tr>
<tr><td>Advanced economies CPI</td><td>0,30%</td><td>1,60%</td><td>1,60%</td><td>1,70%</td><td>1,80%</td></tr>
<tr><td rowspan="4">Adverse</td><td rowspan="4">25%</td><td>Luxembourg GDP</td><td>-9,00%</td><td>-0,40%</td><td>3,00%</td><td>3,00%</td><td>3,00%</td><td rowspan="4">180</td></tr>
<tr><td>Luxembourg CPI</td><td>0,34%</td><td>-0,09%</td><td>1,42%</td><td>1,84%</td><td>2,28%</td></tr>
<tr><td>Advanced economies GDP</td><td>-8,75%</td><td>1,00%</td><td>3,90%</td><td>2,70%</td><td>2,30%</td></tr>
<tr><td>Advanced economies CPI</td><td>0,27%</td><td>0,41%</td><td>2,15%</td><td>2,09%</td><td>2,18%</td></tr>
<tr><td rowspan="4">Optimistic</td><td rowspan="4">10%</td><td>Luxembourg GDP</td><td>-7,50%</td><td>8,70%</td><td>5,00%</td><td>4,00%</td><td>2,50%</td><td rowspan="4">177</td></tr>
<tr><td>Luxembourg CPI</td><td>0,42%</td><td>2,06%</td><td>2,37%</td><td>2,45%</td><td>1,90%</td></tr>
<tr><td>Advanced economies GDP</td><td>-8,00%</td><td>4,40%</td><td>3,65%</td><td>3,30%</td><td>2,50%</td></tr>
<tr><td>Advanced economies CPI</td><td>0,30%</td><td>1,81%</td><td>2,01%</td><td>2,55%</td><td>2,37%</td></tr>
</table>

As the last update to the macroeconomic variables for 2020 was at end-November 2020, the level of uncertainty surrounding these variables is low and the 2020 variables for the three scenarios have moved closer together (for example, "Advanced economies" GDP is -8% and is the same in the "baseline" and "optimistic" scenarios; it is -8,75% in the "adverse" scenario). Unweighted ECLs are therefore also fairly similar in the three scenarios, as illustrated in the table above. The impact is particularly notable in stage 1, which represents 94,5% of exposures whose credit risk is subject to an impairment calculation.

In response to the Covid-19 crisis, the Group's parent company introduced the following provisions as input overlays in its IFRS 9 models:

- The impairment calculation for the first year is still based on the macroeconomic variables for 2020, to account for the belated effect the current Covid-19-related crisis could have on non-payments. However, projections for 2021 and beyond are taken into consideration in the ECL calculation for exposures classified in stage 2 that will mature in more than 12 months;

- The successive deterioration in the economic environment since the spring of 2020 led to the definition of new sets of higher probabilities of default, implemented at the end of the months of May, September and November after updates to the macroeconomic scenarios. At the reporting date for financial year 2020, the scenario published by the IMF in October 2020 was used as the reference scenario. It was adjusted to account for the latest unfavourable trends at the end of 2020 (an additional 2,0% decline in Luxembourg's 2020 GDP from -5,8% to -7,8% and an additional 2,2% decline in "advanced economies" GDP to -8%, as seen in the charts below comparing the Group's parent company's scenarios with the IMF's scenarios at 31 December 2020).

  Beyond the comparison with the macroeconomic projections published by the IMF, the -7,8% GDP figure used for Luxembourg for 2020 is well below the last GDP estimate of -1,3% published by Statec on 1 March 2021 and the -5,2% figure published by the ECB. The scenario Spuerkeess used for advanced economies in 2020 of -8% is in line with the scenario published by the ECB for the eurozone of -7,3%.

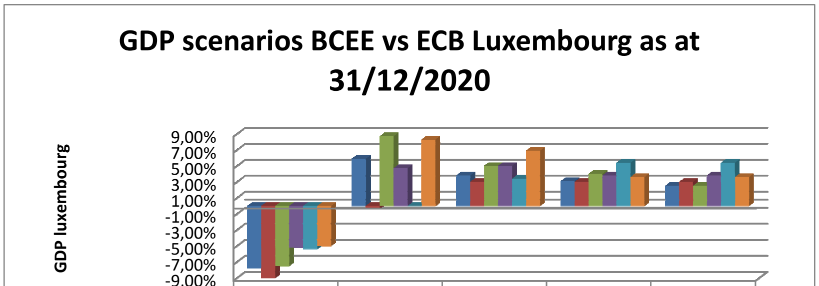
- The weight of the adverse and baseline scenarios has increased by 5% at the expense of the optimistic scenario, as seen in the previous tables;

- The internal ratings of wholesale counterparties active in high-risk sectors have been reviewed and adjusted throughout the health crisis (see Section 3.3.6);

- The value adjustment determination has systematically taken into account an additional three-notch downgrade of the behavioural rating of retail customers who work in one of the high-risk sectors that has been severely affected by the health crisis.

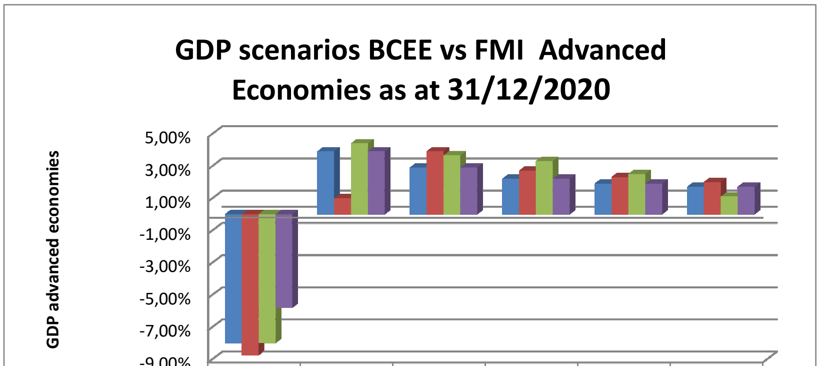
This set of measures was implemented for some 54% of total gross impairments recorded at 31 December 2020.

The parent company provides below a comparison between the three scenarios used relative to the IMF's baseline scenario (see advanced economies) and relative to the ECB's three scenarios (see Luxembourg). This comparison shows that, for 2020, the baseline scenario used by the Bank is more conservative than those published by the ECB for Luxembourg and by the IMF for advanced economies.



	2020	2021	2022	2023	2024
Baseline GDP BCEE	-7,80%	5,90%	3,80%	3,10%	2,50%
Adverse GDP BCEE	-9,00%	-0,40%	3,00%	3,00%	3,00%
Optmiste GDP BCEE	-7,50%	8,70%	5,00%	4,00%	2,50%
Baseline GDP ECB	-5,20%	4,70%	5,00%	3,80%	3,80%
Adverse GDP ECB	-5,40%	0,00%	3,40%	5,40%	5,40%
Optimiste GDP ECB	-5,00%	8,30%	6,90%	3,60%	3,60%

Comparison of scenarios used by Spuerkeess at 31/12/2020 (Luxembourg)



	2020	2021	2022	2023	2024	2025
Baseline GDP BCEE	-8,00%	3,90%	2,90%	2,20%	1,90%	1,70%
Adverse GDP BCEE	-8,75%	1,00%	3,90%	2,70%	2,30%	2,00%
Optmiste GDP BCEE	-8,00%	4,40%	3,65%	3,30%	2,50%	1,10%
Baseline GDP FMI	-5,80%	3,90%	2,90%	2,20%	1,90%	1,70%

Comparison of scenarios used by Spuerkeess at 31/12/2020 (Advanced Economies)

3.3.4.1 *Write-off of receivables measured at amortised cost*

Only stage 3 assets can be the subject of a write-off of receivables.

The decision to write off a receivable is made by Spuerkeess's Executive Committee based on its assessment that the probability of recovering such a debt is near zero.
If appropriate, the entirety of the targeted asset is written off.

3.3.5 Moratoria and public guarantees

Pursuant to EBA guidelines EBA/GL/2020/02 and EBA/GL/2020/07, the Group's parent company publishes information on the moratoria and public guarantees for loans related to the Covid-19 crisis:

- Information on loans and advances at amortised cost, subject to moratoria:

as at 31/12/2020	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non-performing				Performing			Non-performing			
			Of which: exposures with forbearance measures	Of which: Instruments whith significant increase in credit risk since initial recognition but not credit-impaired (stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments whith significant increase in credit risk since initial recognition but not credit-impaired (stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
Loans and advances subject to moratorium	16.341.391	15.257.015	3.581.995	4.790.198	1.084.376	-	1.084.376	-971.500	-323.477	-230.082	-317.277	-648.023	-	-648.023	-
of which: Households	8.985.370	8.985.370	674.174	674.174	-	-	-	-7.009	-7.009	-993	-993	-	-	-	-
of which: Collateralised by residential immovable property	8.651.101	8.651.101	468.745	468.745	-	-	-	-6.024	-6.024	-22	-22	-	-	-	-
of which: Non-financial corporations	7.356.021	6.271.645	2.907.821	4.116.024	1.084.376	-	1.084.376	-964.491	-316.469	-229.088	-316.284	-648.023	-	-648.023	-
of which: Small and Medium-sized Enterprises	2.648.922	1.564.546	-	556.230	1.084.376	-	1.084.376	-648.023	-	-	-	-648.023	-	-648.023	-
of which: Collateralised by commercial immovable property	5.619.672	5.619.672	2.907.821	3.464.051	-	-	-	-229.273	-229.273	-229.088	-229.088	-	-	-	-

- Breakdown of loans and advances at amortised cost subject to legislative and non-legislative moratoria by residual maturity:

As at 31/12/2020	Number of obligors	Gross carrying amount							
			Of which: legislatif moratoria	Of which: expired	Residual maturity				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans ans advances for which moratorium was offered	977	714.336.466							
Loans ans advances subjet to moratorium (granted)	960	702.946.462	-	686.605.071	15.665.284	676.107	-	-	-
of which: Households		138.602.092	-	129.616.722	8.865.494	119.876	-	-	-
of which: Collaterlised by residential immovable property		129.173.471	-	120.522.370	8.651.101	-	-	-	-
of which: Non-financial corporations		564.344.370	-	556.988.350	6.799.790	556.230	-	-	-
of which: Small and medium-sized Entreprises		426.095.304	-	423.446.382	2.092.691	556.230	-	-	-
of which: Collateralised by commercial immovable property		406.225.435	-	400.605.763	5.063.442	556.230	-	-	-

- Information on newly originated loans and advances at amortised cost covered by public guarantees in response to Covid-19:

As at 31/12/2020	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: forborne	Public guarantee received	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	28.644.145	1.002.154	24.347.523	3.836.852
of which: Households	165.773			-
of which: Collateralised by residential immovable property	-			-
of which: Non-financial corporations	28.478.371	1.002.154	24.206.616	3.836.852
of which: Small and medium-sized entreprises	27.790.460			3.836.852
of which: Collateralised by commercial immovable property	503.356			-

The public guarantee covers 85% of the amount of loans originated under certain defined conditions. The term of the loans is limited to a maximum of six years.

The Group's parent company applies the private (non-legislative) moratorium for a period of six months pursuant to the memorandum signed on 16 April 2020 by several financial centre banks in accordance with the criteria established in the European Banking Authority's Guidelines of 2 April 2020 on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (EBA/GL/2020/02). Financial centre banks have decided not to extend the memorandum's validity period. Accordingly, moratoria granted to business customers as from 1 October 2020 no longer fall under this programme.

At 31 December 2020, the amount of commitments covered by the memorandum corresponded to 3,5% of those at end-June 2020.

3.3.6 Sector-based analysis in the context of Covid-19

The pandemic that has raged since the beginning of 2020 and its potential impacts on Luxembourg's economy and on business customers prompted the Group's parent company to categorise its commitments into different sectors based on the international GICS (Global Industry Classification Standard) system. This classification starts with 11 key sectors which are then subdivided into three levels (industry groups, industries and sub-industries). The potential impact of the crisis is categorised as high, medium or low at the sub-industry level.

The Group's parent company has thus reviewed the internal rating of various exposures, giving priority to sectors categorised as "high impact". As a result of this sector-based analysis of high-impact business customers, since February 2020 the ratings of 46,3% of exposures have been confirmed, the ratings of 22,3% of exposures have been downgraded and the ratings of 21,6% of exposures have been upgraded. The Corporate Banking department is in constant contact with customers deemed to be the most affected so that any deterioration in their situation is reflected in their internal rating. Several rounds of customer contacts have been made since the pandemic began and the information gathered is incorporated into the Bank's monitoring process. In all, 90% of outstandings of domestic business customers in high-impact sectors have been covered by the various reviews.

Sectors classified by the Group's parent company as high impact mainly include companies active in the following areas:

- Real Estate Operating Companies;
- Automotive Retail;
- Integrated Oil & Gas;
- Automobile Manufacturers;
- Hotels, Resorts & Cruise Lines;
- Restaurants.

At 31 December 2020, the combined exposures of high-impact customers represented EUR 2.952 million in outstandings and the related expected losses recorded stood at EUR 30,4 million. The breakdown of impairments by stage is as follows:

- 37,0% of impairments come from stage 1;
- 34,4% of impairments come from stage 2;
- 28,5% of impairments come from stage 3.

The Group's parent company also pays close attention to the commitments of customers indirectly affected by the high-impact sectors.

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

3.4.1 Repurchases and reverse repurchases

Securities subject to a sale agreement with a repurchase commitment (sale/buyback transactions) for the same or substantially identical asset remain on the balance sheet. The amount owed to the counterparty is entered in liabilities under "Deposits at amortised cost".

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

By analogy, securities purchased subject to resale agreements (reverse repo) relating to the same or a substantially identical asset are not recorded in the balance sheet. The consideration for securities purchased under reverse repo agreements is entered under "Loans and advances at amortised cost". This type of instrument is part of an HTC business model and respects the characteristics of the SPPI test.

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

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

3.4.2 Lending and borrowing of securities

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

3.5 <u>Interbank market</u>

3.5.1 Borrowings

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

3.5.2 Issuance of debt securities

Debt issued by the Group is classified at amortised cost. However, as part of its EMTN programmes, the Group issues a large number of structured bonds containing embedded derivative financial instruments whose price fluctuations are hedged by swaps with a structure identical to that of the swap contained in the bond.

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

For transactions that are not closely related, the Group applies the fair value option by including them under "Financial liabilities designated at fair value through profit or loss". As the heading indicates, they are measured at fair value through profit of loss. Own credit risk is recorded in other items of comprehensive income; this risk is deemed immaterial for the Group's parent company.

3.6 <u>Tangible assets</u>

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

Tangible assets for own use consist of land and buildings, facilities and installations, computer hardware and other equipment. They also include right-of-use assets whose underlyings are tangible assets.

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

Useful life for the main types of tangible assets:

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

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

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

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

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

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

Gains or losses arising from the removal from active use or disposal of tangible assets are determined by the difference between the proceeds of the disposal and the residual value of the assets and are recognised in profit or loss under "Profit from non-current assets and disposal groups classified as held for sale and not qualifying as discontinued operations" as at the date of disposal or removal from active use.

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

Recognition under this heading of right-of-use assets under a lease is explained in section 3.8.1.

3.7 Intangible assets

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

3.8 Lease agreements

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

3.8.1 A Group entity is a lessee

IFRS 16 "Leases" replaced IAS 17 of the same name on 1 January 2019.

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

These leases led to the:

- recognition of a "right-of-use asset" on the assets side. The cost of the asset includes the initial amount of the lease liability as well as, where applicable, rent payments already made, initial direct costs and dismantling costs. This right of use is recognised under the asset item where the corresponding underlying assets would have been presented, i.e., the "tangible assets" item;
- recognition of a "lease liability" on the liabilities side: the lease liability represents the present value of the lease payments that have not yet been made. This lease liability is recognised on the liabilities side under "other liabilities". The Group has opted to recognise the undiscounted value of the lease payments given that the impact of this discounting would be immaterial. As a result, no interest expense is recognised on liabilities arising from leases;

- recognition in the income statement of "lease payments" and any "penalties" to be paid for early termination of a lease; penalties are recognised as expenses for the year in which the lease is terminated.

3.8.2 A Group entity is a lessor

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

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

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

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

3.9 <u>Employee benefits</u>

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

3.9.1 Short-term benefits

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

3.9.2 Long-term benefits

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

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

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

3.9.3 Post-employment benefits

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

The amount of the benefit covered by the parent company for an agent who is not a civil servant is based on the difference between the amount of the said benefit as provided by the civil service pension scheme and the amount of the benefit under the pension scheme for private sector employees.

Pension supplements payable in this regard concern the following benefits:

- old age pension;
- disability pension;
- surviving spouse/partner pension;
- surviving orphan pension;
- three-month additional pension.

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

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

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

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

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

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

The sum total of the following amounts represents the parent company’s annual pension expenses:
- the current service cost;
- interest cost resulting from the application of the discount rate;
- the change in actuarial gains and losses;

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

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

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

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

The management objective of the "CLP-BCEE" sub-fund is threefold: to coordinate the various cash flows, to minimise the portfolio’s volatility and thus the probability of an extraordinary contribution request, and to match the actual yield with the induced yield. To achieve these objectives, the "CLP-BCEE" sub-fund is authorised to invest in the following instruments:

- conventional financial instruments:
  - securities negotiable on the capital market:
    - shares in companies or other equivalent securities,
    - bonds and other debt securities,
  - money market instruments such as treasury bills, certificates of deposit, commercial paper and treasury notes,
  - shares and units in undertakings for collective investment, including Exchange Traded Funds.

- derivative financial instruments: options, futures, swaps, rate agreements and all other derivatives related to securities, money market instruments, undertakings for collective investment, currencies, interest rates, exchange rates, commodities, yields, other derivative financial instruments, financial indices or financial measures.
- liquidity: all forms of conventional sight and term deposits.
- other instruments: this category includes instruments that do not fall under one of the above-referenced categories, for example, but not limited to, units in investment or professional specialised investment funds, alternative investment funds, venture capital firms and unlisted Luxembourg public limited companies (SOPARFIs (financial holding companies) or others), as well as land and real estate.

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

For the purpose of diversification, investments made with the same issuer or counterparty may not exceed 25% of gross assets. The use of derivative financial instruments is permitted by the investment policy for the purpose of hedging and/or efficient management of the portfolio.

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

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

The CLP-BCEE sub-fund's investment strategy takes environmental, climate and governance factors into account.

3.10 Provisions

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

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

3.11 "Fonds de Garantie des Dépôts Luxembourg" (FGDL, Luxembourg deposit guarantee fund) and "Fonds de Résolution Luxembourg" (FRL, Luxembourg resolution fund)

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

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

The first target level of funding of the "Fonds de Garantie des Dépôts Luxembourg" (FGDL) was set at 0,8% of the covered deposits (as defined in Article 163(8) of the Law) of member institutions. In principle, this target was reached at the end of 2018 thanks to the annual contributions made in 2016 to 2018.

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

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

Contributions to the FGDL and FRL for financial year 2019 were made through the income statement in operating expenses. Since 2020, the contribution has been included in a dedicated line within general expenses.

3.12 Deferred taxes

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

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

Deferred tax assets are recognised to the extent that it is probable that the entity will recover the asset within a given time frame. Deferred taxes relating to unrealised gains or losses on variable-income securities recognised at fair value through the revaluation reserve and to changes in the value of derivative financial instruments designated as cash flow hedges are recognised in equity under "Revaluation reserve". Deferred taxes on actuarial gains and losses related to the Group's pension plan commitments are recognised in equity under "Consolidated reserves".

4 NOTES TO THE BALANCE SHEET[2]
(in euros)

4.1 Cash and sight accounts with central banks

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

Headings*	31/12/2019	31/12/2020
Cash	87.960.417	82.782.418
Deposits with central banks	3.972.367.383	5.389.950.828
Other sight deposits	1.272.790.391	1.655.402.409
Total	**5.333.118.190**	**7.128.135.655**
of which impairment of financial assets	*-1.632.315*	*-3.218.289*

* term of less than one year

4.2 Loans and advances at amortised cost – Credit institutions

Headings	31/12/2019			31/12/2020		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Interbank loans	1.589.757.307	157.890.761	1.747.648.068	1.139.413.151	92.176.695	1.231.589.845
Reverse repurchase/Repurchase agreements	1.068.574.379	127.199.991	1.195.774.370	482.781.865	94.679.600	577.461.465
Roll-over loans	44.708.355	-	44.708.355	-	-	-
Finance leases	15.614	136.746	152.360	27.055	125.709	152.764
Other	11.804.484	-	11.804.484	23.991.817	-	23.991.817
Total	**2.714.860.141**	**285.227.497**	**3.000.087.638**	**1.646.213.888**	**186.982.004**	**1.833.195.892**
of which impairment of financial assets	*-820.372*	*-177.551*	*-997.922*	*-1.331.851*	*-275.038*	*-1.606.888*
Undrawn confirmed credits			493.403.919			289.176.718

In the case of reverse repurchase transactions, the Group becomes the legal owner of the securities received as collateral and has the right to sell or collateralise these securities. As was the case in 2019, no securities received as collateral were sold or collateralised in 2020.

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

Changes in impairments:

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2019	**1.128.805**	**90**	**-**	**1.128.895**
Changes	**-130.893**	**-79**	**-**	**-130.973**
Increase due to acquisition and origination	1.177.704	-	-	1.177.704
Decrease due to repayment	-23.940	-11	-	-23.952
Change related to credit risk	-734.155	-68	-	-734.223
Other changes	-553.368	-	-	-553.368
Depreciation	-	-	-	-
Exchange gain or loss	2.867	-	-	2.867
Position as at 31 December 2019	**997.912**	**10**	**-**	**997.922**

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

Outstanding amounts covered by provisions at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Outstanding	3.001.084.934	628	-	3.001.085.561

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2020	**997.912**	**10**	**-**	**997.922**
Changes	**608.973**	**-7**	**-**	**608.966**
Increase due to acquisition and origination	1.958.201	-	-	1.958.201
Decrease due to repayment	-56.931	-	-	-56.931
Change related to credit risk	-1.292.573	-7	-	-1.292.580
Other changes		-	-	-
Depreciation	-	-	-	-
Exchange gain or loss	276	-	-	276
Position as at 31 December 2020	**1.606.885**	**3**	**-**	**1.606.888**

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

Outstanding amounts covered by provisions at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Outstanding	1.834.802.696	84	-	1.834.802.780

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

4.3 Loans and advances at amortised cost – Customers

Headings	31/12/2019			31/12/2020		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Retail customers	485.437.646	15.020.894.087	15.506.331.733	627.460.463	16.077.762.676	16.705.223.139
Corporate customers	1.468.264.365	4.242.637.485	5.710.901.850	1.726.251.040	4.041.351.542	5.767.602.582
Public sector	468.593.057	1.171.241.695	1.639.834.752	30.551.517	1.595.560.326	1.626.111.843
Total	**2.422.295.068**	**20.434.773.266**	**22.857.068.335**	**2.384.263.020**	**21.714.674.544**	**24.098.937.563**
of which impairment of financial assets	*-51.864.787*	*-60.627.035*	*-112.491.821*	*-37.590.638*	*-85.974.463*	*-123.565.101*
Undrawn confirmed credits			5.283.175.863			6.184.000.961

Of which finance leases:

Headings	31/12/2019			31/12/2020		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Finance leases	12.778.760	140.364.982	153.143.742	11.830.802	147.753.323	159.584.125
Total	**12.778.760**	**140.364.982**	**153.143.742**	**11.830.802**	**147.753.323**	**159.584.125**

Impairment of loans and advances – Customers

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2019	**17.640.503**	**31.319.065**	**70.420.417**	**119.379.985**
of which:				
Retail customers	*2.468.640*	*17.609.502*	*12.834.552*	*32.912.695*
Corporate customers	*15.134.631*	*13.709.563*	*57.585.865*	*86.430.059*
Public sector	*37.231*	-	-	*37.231*
Changes	**833.743**	**-5.378.228**	**-2.343.679**	**-6.888.164**
Increase due to acquisition and origination	8.004.114	6.725.336	21.339.084	36.068.534
Decrease due to repayment	-656.257	-260.346	-20.998.633	-21.915.236
Change related to credit risk	-6.515.978	-11.868.737	-1.697.970	-20.082.686
Other changes	-	25.516	2.352	27.868
Depreciation	-	-	-1.009.808	-1.009.808
Exchange gain or loss	1.865	3	21.297	23.165
Position as at 31 December 2019	**18.474.246**	**25.940.836**	**68.076.739**	**112.491.821**
of which:				
Retail customers	*2.844.350*	*16.194.097*	*12.167.808*	*31.206.255*
Corporate customers	*15.574.586*	*9.746.685*	*55.908.931*	*81.230.201*
Public sector	*55.310*	*54*	-	*55.365*

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Retail customers	**-46.417.238**	**25.108.497**	**21.308.740**	**-**
Transfer from Stage 1	*-686.265.499*	*672.567.480*	*13.698.019*	-
Transfer from Stage 2	*637.174.165*	*-653.605.749*	*16.431.583*	-
Transfer from Stage 3	*2.674.096*	*6.146.766*	*-8.820.862*	-
Corporate customers	**32.881.941**	**-37.148.085**	**4.266.144**	**-**
Transfer from Stage 1	*-82.871.359*	*80.818.224*	*2.053.135*	-
Transfer from Stage 2	*114.625.909*	*-118.468.659*	*3.842.750*	-
Transfer from Stage 3	*1.127.391*	*502.351*	*-1.629.741*	-
Public sector	**-468.358**	**468.358**	**-**	**-**
Transfer from Stage 1	*-468.358*	*468.358*	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-

Outstanding amounts covered by provisions at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Retail customers	14.104.452.109	1.361.071.700	72.014.179	15.537.537.989
Corporate customers	5.288.491.681	335.878.223	167.760.978	5.792.130.882
Public sector	1.639.421.758	468.358	-	1.639.890.116

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2020	**18.474.246**	**25.940.836**	**68.076.739**	**112.491.821**
of which:				
Retail customers	*2.844.350*	*16.194.097*	*12.167.808*	*31.206.255*
Corporate customers	*15.574.586*	*9.746.685*	*55.908.931*	*81.230.201*
Public sector	*55.310*	*54*	*-*	*55.365*
Changes	**20.357.208**	**8.716.605**	**-18.000.533**	**11.073.280**
Increase due to acquisition and origination	8.485.010	1.479.452	624.786	10.589.247
Decrease due to repayment	-324.001	-329.136	-436.113	-1.089.250
Change related to credit risk	12.176.809	6.942.769	-15.278.629	3.840.949
Other changes	32.143	623.523	-501.136	154.530
Depreciation	-	-	-2.341.035	-2.341.035
Exchange gain or loss	-12.752	-3	-68.405	-81.160
Position as at 31 December 2020	**38.831.454**	**34.657.441**	**50.076.206**	**123.565.101**
of which:				
Retail customers	*2.836.479*	*12.489.890*	*11.281.246*	*26.607.616*
Corporate customers	*35.860.177*	*22.167.552*	*38.794.959*	*96.822.688*
Public sector	*134.798*	*-*	*-*	*134.798*

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Retail customers	**89.202.494**	**-125.812.644**	**36.610.150**	**-**
Transfer from Stage 1	*-647.971.764*	*629.575.502*	*18.396.262*	-
Transfer from Stage 2	*729.568.030*	*-759.733.768*	*30.165.738*	-
Transfer from Stage 3	*7.606.228*	*4.345.622*	*-11.951.850*	-
Corporate customers	**-282.926.146**	**225.423.376**	**57.502.770**	**-**
Transfer from Stage 1	*-346.931.914*	*338.015.790*	*8.916.124*	-
Transfer from Stage 2	*63.638.890*	*-113.761.762*	*50.122.871*	-
Transfer from Stage 3	*366.878*	*1.169.348*	*-1.536.225*	-
Public sector	**356.929**	**-356.929**	**-**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	*356.929*	*-356.929*	-	-
Transfer from Stage 3	-	-	-	-

Outstanding amounts covered by provisions at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Retail customers	15.384.307.943	1.255.748.515	91.774.297	16.731.830.755
Corporate customers	5.057.610.311	616.644.210	190.170.749	5.864.425.270
Public sector	1.626.246.641	-	-	1.626.246.641

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

as at 31/12/2019	Performing restructured loans		Non-performing restructured loans		Total restructured loans	
	Outstanding	Impairment	Outstanding	Impairment	Outstanding	Impairment
Retail customers	27.625.850	366.159	9.495.009	553.222	37.120.859	919.381
Corporate customers	27.167.596	5.018.384	172.979.279	31.499.551	200.146.875	36.517.935
Total	**54.793.446**	**5.384.543**	**182.474.288**	**32.052.773**	**237.267.734**	**37.437.316**

as at 31/12/2020	Performing restructured loans		Non-performing restructured loans		Total restructured loans	
	Outstanding	Impairment	Outstanding	Impairment	Outstanding	Impairment
Retail customers	89.446.448	596.372	25.588.178	1.073.831	115.034.626	1.670.203
Corporate customers	37.305.196	5.979.626	146.226.989	12.846.490	183.532.185	18.826.116
Total	**126.751.644**	**6.575.998**	**171.815.167**	**13.920.321**	**298.566.811**	**20.496.319**

4.4 Assets and liabilities held for trading

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

Assets		31/12/2019			31/12/2020	
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Non-derivative financial instruments	-	-	-	-	-	-
Derivative financial instruments (note 4.12.)	78.735.115	64.319.490	143.054.604	60.652.676	78.064.357	138.717.034
Total	**78.735.115**	**64.319.490**	**143.054.604**	**60.652.676**	**78.064.357**	**138.717.034**
Liabilities		**31/12/2019**			**31/12/2020**	
Non-derivative financial instruments	-	-	-	-	-	-
Derivative financial instruments (note 4.12.)	89.981.433	67.079.157	157.060.590	286.513.171	80.130.571	366.643.742
Total	**89.981.433**	**67.079.157**	**157.060.590**	**286.513.171**	**80.130.571**	**366.643.742**

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

Headings		31/12/2019			31/12/2020	
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Debt instruments	**616.522.753**	**604.583.454**	**1.221.106.207**	**310.088.052**	**480.305.932**	**790.393.984**
Public sector	*10.181.767*	*79.300.085*	*89.481.852*	*-*	*151.913.360*	*151.913.360*
Credit institutions	*356.901.946*	*404.414.914*	*761.316.860*	*188.598.998*	*289.062.485*	*477.661.483*
Corporate customers	*249.439.041*	*120.868.455*	*370.307.495*	*121.489.054*	*39.330.087*	*160.819.141*
Loans and advances	**-**	**13.283.675**	**13.283.675**	**-**	**18.642.898**	**18.642.898**
Public sector	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-
Corporate customers	-	*13.283.675*	*13.283.675*	-	*18.642.898*	*18.642.898*
Total	**616.522.753**	**617.867.129**	**1.234.389.882**	**310.088.052**	**498.948.830**	**809.036.882**
of which: Unrealised profit/loss at the reporting date	*13.048.942*	*-8.094.264*	*4.954.677*	*2.555.067*	*-5.078.963*	*-2.523.896*

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

Breakdown of changes in carrying amount of debt instruments:

Debt instruments	2019	2020
Position as at 1 January	**1.232.035.164**	**1.221.106.207**
Acquisitions	121.330.680	162.710.843
Sales	-36.275.162	-71.822.059
Repayments	-99.389.800	-514.600.470
Realised profit/(loss)	2.779.956	-2.261.815
Pro-rata interest	-2.088.995	1.688.782
Unrealised valuations	2.401.405	-5.474.988
Exchange gain or loss	312.959	-952.517
Position as at 31 December	**1.221.106.207**	**790.393.984**

4.6 Fixed-income securities recognised at amortised cost

Headings		31/12/2019			31/12/2020	
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Debt instruments	**3.617.490.185**	**9.865.449.745**	**13.482.939.931**	**2.794.583.281**	**11.238.947.192**	**14.033.530.473**
Public sector	*489.932.251*	*2.389.592.203*	*2.879.524.454*	*286.244.229*	*2.659.080.377*	*2.945.324.606*
Credit institutions	*2.589.768.581*	*4.604.823.270*	*7.194.591.850*	*1.947.478.231*	*4.501.230.143*	*6.448.708.374*
Corporate customers	*537.789.354*	*2.871.034.272*	*3.408.823.626*	*560.860.821*	*4.078.636.672*	*4.639.497.493*
Total	**3.617.490.185**	**9.865.449.745**	**13.482.939.931**	**2.794.583.281**	**11.238.947.192**	**14.033.530.473**
of which: Fair value (interest-rate component) for the purposes of hedge	*10.151.380*	*174.459.634*	*184.611.014*	*9.919.335*	*278.019.303*	*287.938.638*
of which: Impairment of financial assets	*-1.587.644*	*-7.687.914*	*-9.275.558*	*-2.604.983*	*-18.383.866*	*-20.988.849*

Breakdown of changes in carrying amount:

Debt instruments	2019	2020
Position as at 1 January	**14.226.659.023**	**13.482.939.931**
Acquisitions	3.405.003.443	4.357.526.943
Sales	-19.393.855	-22.463.090
Repayments	-4.183.370.464	-3.717.090.938
Realised profit/(loss)	205.442	-158.951
Pro-rata interest	-22.318.992	-30.816.709
Unrealised valuations of hedges	35.484.563	70.086.569
Impairment	2.531.261	-11.713.285
Exchange gain or loss	38.139.510	-94.779.997
Position as at 31 December	**13.482.939.931**	**14.033.530.474**

Table detailing the provisioning:

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2019	**7.730.934**	**25.196**	**4.050.695**	**11.806.825**
of which:				
Public sector	*546.290*	-	-	*546.290*
Credit institutions	*4.067.444*	-	-	*4.067.444*
Corporate customers	*3.117.199*	*25.196*	*4.050.695*	*7.193.090*
Changes	**857.367**	**458.748**	**-3.847.181**	**-2.531.067**
Increase due to acquisition and origination	2.509.935	-	-	2.509.935
Decrease due to repayment	-471.785	-	-	-471.785
Change related to credit risk	-1.197.489	458.748	-3.824.912	-4.563.653
Other net changes	-	-	-	-
Depreciation	-	-	-22.407	-22.407
Exchange gain or loss	16.705	-	137	16.842
Position as at 31 December 2019	**8.588.300**	**483.944**	**203.513**	**9.275.758**
of which				
Public sector	*454.164*	-	-	*454.164*
Credit institutions	*4.892.129*	-	-	*4.892.129*
Corporate customers	*3.242.008*	*483.944*	*203.513*	*3.929.465*

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Public sector	**-**	**-**	**-**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Credit institutions	**-**	**-**	**-**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Corporate customers	**4.815.315**	**1.299.421**	**-6.114.737**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	*2.130.440*	*-2.130.440*	-	-
Transfer from Stage 3	*2.684.875*	*3.429.862*	*-6.114.737*	-

Exposure by stage at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Public sector	2.879.978.425	-	-	2.879.978.425
Credit institutions	7.199.483.980	-	-	7.199.483.980
Corporate customers	3.409.119.716	3.429.862	203.513	3.412.753.091

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2020	**8.588.300**	**483.944**	**203.513**	**9.275.758**
of which:				
Public sector	*454.164*	*-*	*-*	*454.164*
Credit institutions	*4.892.129*	*-*	*-*	*4.892.129*
Corporate customers	*3.242.008*	*483.944*	*203.513*	*3.929.465*
Changes	**11.208.481**	**504.814**	**-204**	**11.713.091**
Increase due to acquisition and origination	4.697.200	-	-	4.697.200
Decrease due to repayment	-251.305	-	-	-251.305
Change related to credit risk	6.813.228	504.814	-204	7.317.838
Other net changes	-	-	-	-
Depreciation	-	-	-	-
Exchange gain or loss	-50.642	-	-	-50.642
Position as at 31 December 2020	**19.796.781**	**988.758**	**203.310**	**20.988.849**
of which				
Public sector	*1.076.874*	*-*	*-*	*1.076.874*
Credit institutions	*10.065.718*	*-*	*-*	*10.065.718*
Corporate customers	*8.654.189*	*988.758*	*203.310*	*9.846.257*

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Public sector	**-**	**-**	**-**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Credit institutions	**-**	**-**	**-**	**-**
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Corporate customers	**-31.446.712**	**31.446.712**	**-**	**-**
Transfer from Stage 1	-34.439.693	34.439.693	-	-
Transfer from Stage 2	*2.992.980*	*-2.992.980*	-	-
Transfer from Stage 3	-	-	-	-

Exposure by stage at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Public sector	2.946.401.481	-	-	2.946.401.481
Credit institutions	6.458.774.091	-	-	6.458.774.091
Corporate customers	4.602.151.524	34.439.693	203.310	4.636.794.526

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

This item includes debt instruments in the form of variable-rate, fixed-rate and other interest-rate bonds subject to compliance with the "Solely Payment of Principal and Interest" (SPPI) criterion in the context of the hold-to-collect-and-sell (HTCS) business model.

Headings	31/12/2019			31/12/2020		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Debt instruments	**11.000.000**	**5.069.764**	**16.069.764**	**-**	**18.042.494**	**18.042.494**
Public sector	-	*5.069.764*	*5.069.764*	-	*18.042.494*	*18.042.494*
Credit institutions	*11.000.000*	-	*11.000.000*		-	-
Corporate customers	-		-	-		-
Total	**11.000.000**	**5.069.764**	**16.069.764**	**-**	**18.042.494**	**18.042.494**
of which: Unrealised profit/loss at the reporting date	*-32.077*	*-16.021*	*-48.098*	-	*520.533*	*520.533*

Breakdown of changes in carrying amount:

Debt instruments	2019	2020
Position as at 1 January	**-**	**16.069.764**
Acquisitions	16.119.377	12.446.525
Sales	-	-
Repayments	-	-11.000.000
Realised profit/loss	-	-
Pro-rata interest	-1.515	-7.871
Unrealised valuations	-48.098	534.077
Exchange gain or loss	-	-
Position as at 31 December	**16.069.764**	**18.042.494**

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

Headings	31/12/2019	31/12/2020
Equity instruments	**820.716.989**	**858.764.091**
Credit institutions	*3.958.116*	*4.018.037*
Corporate	*816.758.873*	*854.746.054*
Total	**820.716.989**	**858.764.091**
of which: Unrealised profit/loss through the revaluation reserve	*486.895.434*	*558.135.840*
Dividends received during the period	31.018.707	15.084.878
of which dividends from positions sold during the period	-	-
Gains/losses on sales in equity	2.709	-13.548.191

Breakdown of changes in carrying amount:

Equity instruments	2019	2020
Position as at 1 January	**863.396.081**	**820.716.989**
Acquisitions	-	-
Sales	-1.473.467	-28.990.235
Profit/(loss) realised through own funds	2.709	-13.548.191
Unrealised valuations	-42.187.349	84.788.598
Exchange gain or loss	979.014	-4.203.070
Position as at 31 December	**820.716.989**	**858.764.091**

4.9 Investments in associates accounted for using the equity method

	31/12/2019	31/12/2020
Acquisition value on 1 January	**51.463.781**	**56.433.552**
Establishment	5.691.671	2.405.000
Disposals	-721.900	-5.000.000
Total (as acquisition value)	**56.433.552**	**53.838.552**

List of associates:

Associates	Fraction of capital held (%)	Acquisition value	Equity-accounted value 2020
Société Nationale de Circulation Automobile S.à r.l.	20,00	24.789	8.372.277
Luxair S.A.	21,81	14.830.609	148.032.343
Société de la Bourse de Luxembourg S.A.	22,75	128.678	28.536.009
Europay Luxembourg S.C.	30,10	188.114	869.528
European Fund Administration S.A.	31,67	5.691.671	4.623.648
LuxHub S.A.	32,50	3.705.000	2.242.004
Visalux S.C.	34,66	365.305	6.501.920
Lalux Group S.A.	40,00	28.904.385	249.881.296
Total		**53.838.552**	**449.059.026**

Associates	Fraction of capital held (%)	Acquisition value	Equity-accounted value 2019
Société Nationale de Circulation Automobile S.à r.l.	20,00	24.789	7.622.140
Luxair S.A.	21,81	14.830.609	97.306.317
Société de la Bourse de Luxembourg S.A.	22,75	128.678	26.922.443
Europay Luxembourg S.C.	30,10	188.114	929.776
European Fund Administration S.A.	31,67	5.691.671	5.817.022
LuxHub S.A.	32,50	1.300.000	293.830
Visalux S.C.	34,66	365.305	7.165.276
Lalux Group S.A.	40,00	28.904.385	240.868.546
BioTechCube (BTC) Luxembourg S.A.	50,00	5.000.000	714.399
Total		**56.433.552**	**387.639.750**

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

The equity-accounted value attributable to the Luxair stake has been adjusted to align the amounts with the Group's consolidation principles.

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	2020			
	Net income from continuing operations	Net income after tax from discontinued operations	Other items of comprehensive income	Total comprehensive income
Direct interests	**45.813.491**	**-**	**-958.803**	**44.854.688**
Société Nationale de Circulation Automobile S.à r.l.	714.462	-	35.675	750.137
Luxair S.A.	16.288.644	-	4.612.101	20.900.745
Société de la Bourse de Luxembourg S.A.	2.909.462	-	-5.296	2.904.166
Europay Luxembourg S.C.	19.502	-	45.343	64.845
European Fund Administration S.A.	-1.172.732	-	-20.642	-1.193.374
LuxHub S.A.	-449.130		-7.696	-456.826
Visalux S.C.	20.037	-	-683.394	-663.357
Lalux Group S.A.	27.483.246	-	-9.220.496	18.262.750
BioTechCube (BTC) Luxembourg S.A.	-	-	4.285.601	4.285.601
Total	**45.813.491**	**-**	**-958.803**	**44.854.688**

Associates	2019			
	Net income from continuing operations	Net income after tax from discontinued operations	Other items of comprehensive income	Total comprehensive income
Direct interests	**13.821.166**	**-**	**26.635.404**	**40.456.570**
Société Nationale de Circulation Automobile S.à r.l.	829.801	-	515.548	1.345.349
Luxair S.A.	-1.552.131	-	-1.906.854	-3.458.985
Société de la Bourse de Luxembourg S.A.	4.174.760	-	602.402	4.777.162
Europay Luxembourg S.C.	22.622	-	-97.864	-75.242
European Fund Administration S.A.	-1.324.868	-	1.448.241	123.373
LuxHub S.A.	-371.481		-634.689	-1.006.170
Visalux S.C.	-100.439	-	-652.634	-753.073
Lalux Group S.A.	12.153.675	-	27.371.816	39.525.491
BioTechCube (BTC) Luxembourg S.A.	-10.773	-	-10.562	-21.335
Indirect interests	**-**	**-**	**-108.040**	**-108.040**
EFA Partners S.A.	-	-	-55.404	-55.404
Pecoma International S.A.	-	-	-52.636	-52.636
Total	**13.821.166**	**-**	**26.527.364**	**40.348.530**

4.10 Securities collateralised

- Securities collateralised in the framework of repurchase agreements

Headings	31/12/2019	31/12/2020
Debt instruments issued by the public sector	297.705.022	140.592.716
Debt instruments issued by credit institutions	199.588.376	17.574.070
Debt instruments issued - other	92.233.713	17.667.270
Total	**589.527.111**	**175.834.056**

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

The decrease observed in debt instruments stems from the smaller number of collateral security agreements as at 31 December 2020.

- Securities lent and other collateral

Headings	31/12/2019	31/12/2020
Securities lending		
Debt instruments issued by the public sector	340.533.182	145.647.174
Debt instruments issued by credit institutions	130.602.601	253.799.470
Debt instruments issued - other	114.551.016	25.771.250
Total	**585.686.799**	**425.217.894**

4.11 Convertible bonds included in the different portfolios

The Group did not hold any convertible bonds as at 31 December 2020 or 31 December 2019.

4.12 Derivative instruments

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

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

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

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

Categories at 31/12/2020	Assets	Liabilities	Notional
Derivative financial instruments held for trading	**138.717.034**	**366.643.742**	**16.283.500.722**
Operations linked to exchange rates	61.169.505	286.798.005	14.811.755.505
- Foreign exchange swaps and forward exchange contracts	*60.327.401*	*286.798.005*	*14.803.109.295*
- CCIS	*842.104*	*-*	*8.646.210*
- other	*-*	*-*	*-*
Operations linked to interest rates	76.171.890	78.470.099	1.464.347.976
- IRS	*75.804.806*	*77.772.031*	*1.356.767.877*
- other	*367.084*	*698.068*	*107.580.099*
Operations linked to equity	1.375.638	1.375.638	7.397.241
- Equity and index options	*1.375.638*	*1.375.638*	*7.397.241*
Fair value hedging derivatives	**67.420.425**	**1.105.132.402**	**13.141.586.570**
Operations linked to exchange rates	40.738.470	159.304.476	1.983.666.551
- CCIS	*40.738.470*	*159.304.476*	*1.983.666.551*
Operations linked to interest rates	26.681.955	945.827.926	11.157.920.020
- IRS	*26.681.955*	*945.827.926*	*11.157.920.020*
Cash flow hedging derivatives	**5.418.070**	**6.942.805**	**157.054.734**
Operations linked to exchange rates	3.587.998	6.942.805	137.654.734
- CCIS	*3.587.998*	*6.942.805*	*137.654.734*
Operations linked to interest rates	1.830.072	-	19.400.000
- IRS	*1.830.072*	*-*	*19.400.000*

Categories at 31/12/2019	Assets	Liabilities	Notional
Derivative financial instruments held for trading	**143.054.604**	**157.060.590**	**17.009.759.617**
Operations linked to exchange rates	78.464.119	84.619.258	15.094.906.053
- Foreign exchange swaps and forward exchange contracts	*77.614.217*	*84.619.258*	*15.085.794.506*
- CCIS	*849.902*	-	*9.111.547*
- other	-	-	-
Operations linked to interest rates	63.492.833	71.343.679	1.896.910.196
- IRS	*62.811.115*	*70.330.949*	*1.779.756.037*
- other	*681.718*	*1.012.730*	*117.154.159*
Operations linked to equity	1.097.653	1.097.653	17.943.368
- Equity and index options	*1.097.653*	*1.097.653*	*17.943.368*
Fair value hedging derivatives	**50.973.791**	**854.199.992**	**11.429.929.630**
Operations linked to exchange rates	19.718.872	172.880.015	1.754.039.010
- CCIS	*19.718.872*	*172.880.015*	*1.754.039.010*
Operations linked to interest rates	31.254.919	681.319.977	9.675.890.620
- IRS	*31.254.919*	*681.319.977*	*9.675.890.620*
Cash flow hedging derivatives	**8.308.799**	**19.108.008**	**428.443.568**
Operations linked to exchange rates	5.731.589	19.108.008	404.043.568
- CCIS	*5.731.589*	*19.108.008*	*404.043.568*
Operations linked to interest rates	2.577.210	-	24.400.000
- IRS	*2.577.210*	-	*24.400.000*

Fair value hedges at 31/12/2020	Balance sheet categories	Fair value of hedged instruments	Change in fair value of hedging instruments	Change in fair value of hedged instruments	Ineffectiveness	Effectiveness rate
Interest rate risk						
Fixed-rate asset instruments	Fixed-income securities recognised at amortised cost, Loans and advances at amortised cost – Customers, Change in fair value of a portfolio of financial instruments hedged against interest rate risk	-691.411.846	200.964.612	-207.906.321	-6.941.709	103,45%
Fixed-rate liability instruments	Issuance of debt securities	21.579.401	-7.905.988	7.974.056	68.068	100,86%
Currency risk						
Fixed-rate asset instruments	Fixed-income securities recognised at amortised cost, Loans and advances at amortised cost – Customers	-87.437.847	40.895.026	-41.090.470	-195.444	100,48%
Fixed-rate liability instruments	Issuance of debt securities	-356.089	356.337	-354.684	1.653	99,54%

Cash flow hedges at 31/12/2020	Balance sheet categories	Change in fair value of hedging instruments	Change in fair value of hedged instruments	Cash flow hedging reserve	
				continuity of hedging	termination of hedging
Interest rate risk					
Fixed-rate asset instruments	Loans and advances at amortised cost - Customers	746.540	-	-1.827.713	-
Currency risk					
Fixed-rate asset instruments	Fixed-income securities recognised at amortised cost	1.102.713	-	2.468.226	-

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

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

Income on hedging activities recognised in net income and other comprehensive income at 31/12/2020	Net income or other comprehensive income
Fair value hedges (micro + macro hedges)	**7.067.431**
gains (losses) on hedging instruments	-235.456.338
gains (losses) on hedged instruments related to the hedged risk	241.377.419
ineffective part	1.146.351
Cash flow hedges	**1.849.253**
ineffective part	-
effective part	1.849.253
reclassified in profit or loss over the period	-

Reconciliation of the equity component at 31/12/2020	Cash flow hedges recognised in revaluation reserve
Balance at 1 January 2020	**1.208.739**
Change in fair value related to hedging of:	-1.849.253
interest rate risk	*-746.540*
foreign exchange risk	*-1.102.713*
Amount reclassified to profit or loss related to hedging of:	-
interest rate risk	-
foreign exchange risk	-
Balance at 31 December 2020	**-640.514**

Income on hedging activities recognised in net income and other comprehensive income at 31/12/2019	Net income or other comprehensive income
Fair value hedges (micro + macro hedges)	**687.007**
gains (losses) on hedging instruments	-194.778.594
gains (losses) on hedged instruments related to the hedged risk	195.586.803
ineffective part	-121.203
Cash flow hedges	**1.622.063**
ineffective part	-
effective part	1.622.063
reclassified in profit or loss over the period	-

Reconciliation of the equity component at 31/12/2019	Cash flow hedges recognised in revaluation reserve
Balance at 1 January 2019	**2.830.802**
Change in fair value related to hedging of:	-1.622.063
interest rate risk	*-741.474*
foreign exchange risk	*-880.589*
Amount reclassified to profit or loss related to hedging of:	-
interest rate risk	-
foreign exchange risk	-
Balance at 31 December 2019	**1.208.739**

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

Headings	31/12/2019	31/12/2020
Assets: Change in fair value of a portfolio of financial instruments hedged against interest rate risk	215.762.686	373.811.797
Total	**215.762.686**	**373.811.797**

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

The change in this item between 2019 and 2020 is due primarily to a volume effect and to the change in the interest-rate curves used to determine fair value.

4.14 Tangible assets for own use

	Land and buildings		Other equipment and furniture	Total
	Property for own use	Right-of-use assets arising from leases		
Position as at 1 January 2020	**393.147.786**	**16.936.305**	**65.887.561**	**475.971.653**
Increase	2.151.019	798.711	12.140.792	15.090.521
Decrease	-6.339.827	-	-13.158.095	-19.497.922
Position as at 31 December 2020	**388.958.977**	**17.735.016**	**64.870.258**	**471.564.252**
Accumulated depreciation				
Position as at 1 January 2020	**151.649.541**	**3.289.044**	**38.319.145**	**193.257.730**
Depreciation	-6.340.558	-	-13.236.028	-19.576.586
Exceptional transfers	-137.474	-	-	-137.474
Additions	11.673.733	3.213.795	9.922.102	24.809.630
Position as at 31 December 2020	**156.845.242**	**6.502.839**	**35.005.219**	**198.353.300**
Net book value				
Position as at 1 January 2020	**241.498.245**	**13.647.262**	**27.568.417**	**282.713.923**
Position as at 31 December 2020	**232.113.735**	**11.232.177**	**29.865.039**	**273.210.952**

	Land and buildings		Other equipment and furniture	Total
	Property for own use	Right-of-use assets arising from leases		
Position as at 1 January 2019	**392.791.279**	**14.446.730**	**64.691.580**	**471.929.589**
Increase	3.474.845	2.489.575	8.869.534	14.833.954
Exceptional transfers	-64.182	-	-	-64.182
Decrease	-3.054.156	-	-7.673.552	-10.727.708
Position as at 31 December 2019	**393.147.786**	**16.936.305**	**65.887.561**	**475.971.653**
Accumulated depreciation				
Position as at 1 January 2019	**142.324.183**	**-**	**37.197.422**	**179.521.606**
Depreciation	-2.831.537	-	-7.636.227	-10.467.764
Exceptional transfers	258.012	-	-	258.012
Additions	11.898.883	3.289.044	8.757.949	23.945.876
Position as at 31 December 2019	**151.649.541**	**3.289.044**	**38.319.145**	**193.257.730**
Net book value				
Position as at 1 January 2019	**250.467.096**	**14.446.730**	**27.494.158**	**292.407.983**
Position as at 31 December 2019	**241.498.245**	**13.647.262**	**27.568.417**	**282.713.923**

4.15 Investment property

Position as at 1 January 2020	**29.354.045**
Increase (acquisitions)	-
Increase (investment expenditure)	242.887
Decrease	-6.552.020
Position as at 31 December 2020	**23.044.912**
Accumulated depreciation	
Position as at 1 January 2020	**17.323.471**
Depreciation	-6.552.020
Exceptional transfers	137.474
Additions	897.738
Position as at 31 December 2020	**11.806.662**
Net book value	
Position as at 1 January 2020	**12.030.574**
Position as at 31 December 2020	**11.238.250**

Position as at 1 January 2019	**30.019.258**
Increase (acquisitions)	-
Increase (investment expenditure)	20.796
Exceptional transfers	64.183
Decrease	-750.192
Position as at 31 December 2019	**29.354.045**
Accumulated depreciation	
Position as at 1 January 2019	**17.256.530**
Depreciation	-608.997
Exceptional transfers	-258.012
Additions	933.950
Position as at 31 December 2019	**17.323.471**
Net book value	
Position as at 1 January 2019	**12.762.729**
Position as at 31 December 2019	**12.030.574**

Rental income from rented investment property amounted to EUR 2.950.001 for the 2020 financial year, versus EUR 3.053.324 in the prior year. Maintenance costs related to investment property were EUR 166.542 in 2020, compared with EUR 174.321 one year earlier.

The fair value of investment property stood at EUR 81.906.577 at year-end 2020, compared with EUR 73.074.580 at end-2019. This fair value measurement is categorised as Level 2 in the fair value hierarchy.

This fair value is estimated by an appraiser according to the following criteria:

- geographical location of the buildings;
- general condition of the building;
- use for residential or commercial purposes;
- surface area of the object.

Investment properties are exclusively located on the national territory.

4.16 Intangible assets

Position as at 1 January 2020	**60.144.617**
Increase	19.936.683
Decrease	-10.758.013
Position as at 31 December 2020	**69.323.287**
Accumulated depreciation	
Position as at 1 January 2020	**30.745.555**
Depreciation	-10.758.013
Additions	17.059.000
Position as at 31 December 2020	**37.046.541**
Net book value	
Position as at 1 January 2020	**29.399.062**
Position as at 31 December 2020	**32.276.746**

Position as at 1 January 2019	**52.712.569**
Increase	16.921.829
Decrease	-9.489.781
Position as at 31 December 2019	**60.144.617**
Accumulated depreciation	
Position as at 1 January 2019	**25.237.519**
Depreciation	-9.489.781
Additions	14.997.817
Position as at 31 December 2019	**30.745.555**
Net book value	
Position as at 1 January 2019	**27.475.050**
Position as at 31 December 2019	**29.399.062**

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

4.17 Taxes: Tax assets and liabilities

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

The Group posted a current tax liability of EUR 64.730.966 as at 31 December 2020 versus a liability of EUR 9.820.434 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 2020, the Group posted a deferred tax asset of EUR 148.617.197, and a deferred tax liability of EUR 123.283.681.

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	01/01/2019	Movements in equity	Movements in income statement	31/12/2019
Deferred tax assets	144.425.889	27.263.253	-22.366.258	149.322.883
Deferred tax liabilities	-142.152.770	-4.146.397	17.799.190	-128.499.977
Net deferred tax assets / liabilities	**2.273.119**	**23.116.855**	**-4.567.067**	**20.822.906**

Headings	01/01/2020	Movements in equity	Movements in income statement	31/12/2020
Deferred tax assets	149.322.883	9.279.610	-9.985.298	148.617.197
Deferred tax liabilities	-128.499.977	-4.406.606	9.622.902	-123.283.681
Net deferred tax assets / liabilities	**20.822.906**	**4.873.004**	**-362.396**	**25.333.516**

4.17.1 Tax assets

Headings	31/12/2019	31/12/2020
Current taxes	-	64.730.960
Income tax	*-*	*52.377.969*
Municipal business tax	*-*	*12.373.857*
Wealth tax	*-*	*-20.866*
Deferred taxes	149.322.883	148.617.197
Tax assets	**149.322.883**	**148.617.197**

Breakdown of deferred tax assets according to origin:

Headings	31/12/2019	31/12/2020
Derivative financial instruments - application of fair value	340.559	615.576
Debt instruments - application of fair value	11.948	-
Equity instruments - application of fair value	5.102.975	2.398.713
Pension funds - actuarial gain or loss	123.669.482	135.503.948
Deferred tax assets due to FTA	20.197.919	10.098.960
Deferred tax assets	**149.322.883**	**148.617.197**

4.17.2 Tax liabilities

Headings	31/12/2019	31/12/2020
Current taxes	9.820.434	-
Income tax	*27.835.263*	*-*
Municipal business tax	*-18.036.229*	*-*
Wealth tax	*21.400*	*-*
Deferred taxes	128.499.977	123.283.681
Tax liabilities	**138.320.411**	**123.283.681**

Breakdown of deferred tax liabilities according to origin:

Headings	31/12/2019	31/12/2020
Derivative financial instruments - application of fair value	642.019	455.832
Debt instruments - application of fair value	-	129.821
Equity instruments - application of fair value	1.486.536	1.429.917
Regulatory and other provisions	104.049.452	102.042.599
Pension funds - actuarial gain or loss	7.410.039	11.769.546
Deferred tax liabilities due to FTA	14.911.932	7.455.966
Deferred tax liabilities	**128.499.977**	**123.283.681**

4.18 Other assets

Headings	31/12/2019	31/12/2020
Operational outstandings	7.383.000	9.977.159
Preferential or secured borrowers	1.219.946	522.292
Other	110.396	1.001
Total	**8.713.342**	**10.500.452**

4.19 Deposits at amortised cost – Credit institutions

Headings	31/12/2019			31/12/2020		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Inter-bank deposits	4.410.456.252	62.781.759	4.473.238.011	2.531.541.026	3.265.409.451	5.796.950.477
of which central bank deposits	*419.365.396*	-	*419.365.396*	*106.642.040*	*3.191.511.111*	*3.298.153.151*
Repurchase/Reverse repurchase agreements	119.596.784	-	119.596.784	37.199.154	-	37.199.154
Other financial liabilities	99.164.486	-	99.164.486	142.698.566	-	142.698.566
Total	**4.629.217.523**	**62.781.759**	**4.691.999.282**	**2.711.438.746**	**3.265.409.451**	**5.976.848.197**

As it did in 2017, the Group's parent company participated in the European Central Bank's Targeted Longer-Term Refinancing Operations (TLTRO) in 2020.

The Group's parent company borrowed a notional amount of EUR 3,2 billion under the fourth tranche of TLTRO III for the three-year period from 24 June 2020 to 28 June 2023 with an early repayment option as from September 2021.

Starting with TLTRO III, the ECB modified its conditions and introduced an optional special reference period, along with special conditions regarding the growth rates required in the targeted loan categories and the return on the notional amount borrowed by the banks.

Subject to meeting the condition of more than 0% growth in eligible lending for the specific reference period, the base rate of -50 basis points will be halved for the first period.

As the special reference period does not end until end-March 2021 and given the uncertainties surrounding the development of the Covid-19 pandemic, the Group's parent company was unable to anticipate with a more than 50% degree of probability that it would exceed the predefined growth thresholds. It therefore incorporated a 50-basis-point return into its calculation of the amortised cost of this deposit.

The Group's parent company is providing this additional information while also noting that it does not consider the TLTRO to be a direct subsidy instrument but rather an instrument that provides access to liquidity if necessary.

The amount of the TLTRO III deposit included in "Deposits at amortised cost – Credit institutions" is EUR 3.191.511.111. The Group's parent company has calculated accrued interest in the amount of EUR 8.488.889, included on the income statement under interest income.

4.20 Deposits at amortised cost – Customers

Headings		31/12/2019			31/12/2020	
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Private sector	**26.112.601.316**	**567.879.085**	**26.680.480.401**	**28.135.279.295**	**471.201.433**	**28.606.480.728**
- Demand deposit and notice accounts	*10.361.379.381*	-	*10.361.379.381*	*13.191.854.902*	-	*13.191.854.902*
- Time deposit accounts	*1.627.168.715*	*567.879.085*	*2.195.047.801*	*820.743.316*	*471.201.433*	*1.291.944.749*
- Savings	*14.124.053.219*	-	*14.124.053.219*	*14.122.681.077*	-	*14.122.681.077*
- Repurchase/Reverse repurchase agreements	-	-	-	-	-	-
Public sector	**5.709.865.375**	**989.336.972**	**6.699.202.347**	**4.960.051.218**	**1.016.552.692**	**5.976.603.909**
Total	**31.822.466.690**	**1.557.216.057**	**33.379.682.748**	**33.095.330.513**	**1.487.754.125**	**34.583.084.637**

4.21 Financial liabilities designated at fair value through profit or loss

Headings		31/12/2019			31/12/2020	
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Issues	-	166.144.407	166.144.407	-	172.175.873	172.175.873
Total	**-**	**166.144.407**	**166.144.407**	**-**	**172.175.873**	**172.175.873**
of which: Unrealised profit/loss at the reporting date	-	*10.678.974*	*10.678.974*	-	*15.026.358*	*15.026.358*

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	2019	2020
Position as at 1 January	**151.566.705**	**166.144.407**
Pro-rata interest	1.840.911	1.842.683
Unrealised valuations	12.597.932	4.347.384
Exchange gain or loss	138.860	-158.602
Position as at 31 December	**166.144.407**	**172.175.873**

4.22 Issuance of debt securities

Headings	31/12/2019			31/12/2020		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Certificates of deposit	43.742.608	28.984.867	72.727.475	28.345.466	14.072.570	42.418.036
Commercial paper	3.318.395.896	-	3.318.395.896	2.457.679.693	-	2.457.679.693
Medium Term Notes and other securities issued	8.817.659	415.139.530	423.957.190	81.715.168	377.429.946	459.145.114
Total	**3.370.956.163**	**444.124.397**	**3.815.080.561**	**2.567.740.328**	**391.502.515**	**2.959.242.843**
of which: Subordinated notes	*8.817.659*	*91.207.770*	*100.025.429*	*41.010.462*	*50.008.687*	*91.019.148*

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

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

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

Issues	2019	2020
Position as at 1 January	**447.778.704**	**423.957.190**
Issues	-	81.037.500
Repayments/redemptions	-42.380.952	-55.891.510
Realised profit/(loss)	-	-
Pro-rata interest	-609.140	3.501.056
Unrealised valuations	17.321.231	7.619.372
Exchange gain or loss	1.847.348	-1.078.494
Position as at 31 December	**423.957.190**	**459.145.114**

Breakdown of subordinated loans as at 31 December 2020

Description	Rate	Issue currency	Nominal amount issued - EUR	Assimilated portion - EUR	Non-assimilated portion - EUR
Loan 2001-2021	-	EUR	11.000.000	150.582	10.849.418
Loan 2001-2021	-	EUR	30.000.000	410.678	29.589.322
Loan 2002-2022	0,269	EUR	50.000.000	18.836.413	31.163.587
Total			**91.000.000**	**19.397.673**	**71.602.327**

The interest expense on subordinated notes stood at EUR 85.165 as at 31 December 2020, compared with EUR 177.821 as at 31 December 2019.

4.23 Provisions

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

Changes during the financial year:

	Provisions			
	Risks and charges	Time savings account	IFRS 9	Total
Position as at 1 January 2019	**2.294.875**	**6.411.941**	**13.118.363**	**21.825.178**
Additions	-	-	7.997.091	7.997.091
Reversals	-211.782	-	-9.375.351	-9.587.133
Use	-	-	104	104
Expense included in personnel expenses	-	3.861.092	-	3.861.092
Position as at 31 December 2019	**2.083.093**	**10.273.033**	**11.740.207**	**24.096.333**
Position as at 1 January 2020	**2.083.093**	**10.273.033**	**11.740.207**	**24.096.333**
Additions	2.607.019	-	20.740.023	23.347.043
Reversals	-	-	-3.578.208	-3.578.208
Use	-	-	-16.419	-16.419
Expense included in personnel expenses	-	7.356.705	-	7.356.705
Position as at 31 December 2020	**4.690.112**	**17.629.738**	**28.885.603**	**51.205.454**

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

Details of IFRS 9 provisioning:

	Stage 1	Stage 2	Stage 3	Total
Position as at 1 January 2019	**10.246.212**	**2.068.790**	**803.361**	**13.118.363**
Changes	**-1.616.244**	**-84.146**	**322.238**	**-1.378.154**
Increase due to acquisition and origination	6.470.917	139.853	547.314	7.158.084
Decrease due to repayment	-3.592.244	-349.533	-563.226	-4.505.003
Change related to credit risk	-4.495.024	125.534	338.150	-4.031.340
Other changes	-	-	-	-
Exchange gain or loss	106	-	-	106
Position as at 31 December 2019	**8.629.968**	**1.984.643**	**1.125.599**	**11.740.209**

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Transfer from Stage 1	-37.681.407	37.439.240	242.167	-
Transfer from Stage 2	33.405.182	-33.536.018	130.836	-
Transfer from Stage 3	138.470	168.519	-306.989	-

Outstanding amounts covered by provisions	Stage 1	Stage 2	Stage 3	Total
Outstanding amounts as at 31 December 2019	6.618.178.791	155.057.581	3.604.776	6.776.841.148
Position as at 1 January 2020	**8.629.968**	**1.984.643**	**1.125.599**	**11.740.209**
Changes	**12.996.796**	**3.441.182**	**707.417**	**17.145.395**
Increase due to acquisition and origination	8.069.254	207.338	76.748	8.353.340
Decrease due to repayment	-3.023.406	-228.561	-326.217	-3.578.184
Change related to credit risk	7.967.368	3.462.432	956.885	12.386.685
Other changes	-	-24	-	-24
Exchange gain or loss	-16.420	-2	-	-16.422
Position as at 31 December 2020	**21.626.764**	**5.425.825**	**1.833.015**	**28.885.603**

Outstanding loan stage transfers	Stage 1	Stage 2	Stage 3	Total
Transfer from Stage 1	-101.353.014	100.170.892	1.182.122	-
Transfer from Stage 2	42.880.063	-46.353.973	3.473.910	-
Transfer from Stage 3	1.027.659	510.969	-1.538.628	-

Outstanding amounts covered by provisions	Stage 1	Stage 2	Stage 3	Total
Outstanding amounts as at 31 December 2020	7.404.927.563	231.290.603	12.502.457	7.648.720.623

4.24 Other liabilities

Headings	31/12/2019	31/12/2020
Operational outstandings	3.193.964	2.718.715
Preferential or guaranteed creditors	21.644.231	20.555.510
Liabilities arising from leases	13.647.262	11.232.177
Other	3.113.659	4.651.330
Total	**41.599.116**	**39.157.732**

4.25 Pension funds - Defined-benefit pension plan

Main estimates used to determine pension commitments:

Variables	31/12/2019	31/12/2020
Discount rate for active employees	1,10%	0,80%
Discount rate for beneficiaries	0,80%	0,70%
Salary increases (including indexation)	3,25%	3,25%
Pension increases (including indexation)	2,25%	2,25%
Induced yield	0,94%	0,75%

The induced yield of 0,75% in 2020 corresponds to the weighted average of the discount rates for active employees and for beneficiaries as fixed at the end of the 2020 financial year.

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

Components	31/12/2019	31/12/2020
Current service cost	11.792.479	14.081.002
Interest cost	11.006.642	7.686.246
Induced yield	-7.373.197	-4.596.753
Total	**15.425.924**	**17.170.495**

Pension commitments:

	2019	2020
Commitments as at 1 January	**682.449.398**	**816.237.677**
Current service cost	11.792.479	14.081.002
Interest cost	11.006.642	7.686.246
Benefits paid	-12.851.647	-13.652.221
Actuarial gains or losses	123.840.805	47.451.748
Commitments as at 31 December	**816.237.677**	**871.804.452**

Civil servants' pension payments are initially made directly by the State to civil servants. Spuerkeess only recognises the payments when the amounts are repaid to the State. Hence, "Benefits paid" amounting to EUR 13.652.221 include the repayments to the Luxembourg State of civil servants' pensions in respect of the 2019 financial year.

Breakdown of actuarial gains and losses:

	2019	2020
Actuarial gains and losses arising from changes in actuarial assumptions	114.490.280	44.116.797
- financial assumptions	*114.490.280*	*44.116.797*
- demographic assumptions	-	-
Actuarial gains and losses arising from experience adjustments	9.350.525	3.334.951
Total actuarial gains and losses:	**123.840.805**	**47.451.748**

Sensitivity analysis of pension commitments:

Impact of changes in actuarial assumptions on the pension commitment as at 31/12/2020	Decrease	Increase
Change in average actuarial rate (-/+ 50 bps)	112.005.709	-94.404.490
Change in wage increase rate (-/+ 50 bps)	-86.159.829	104.002.569
Change in pension increase rate (-/+ 25 bps)	-40.220.264	43.006.672
Change in mortality tables (-/+ 1 year)	32.109.034	-31.478.365

Impact of changes in actuarial assumptions on the pension commitment on 31/12/2019	Decrease	Increase
Change in average actuarial rate (-/+ 50 bps)	102.515.125	-86.645.735
Change in wage increase rate (-/+ 50 bps)	-81.954.215	99.088.386
Change in pension increase rate (-/+ 25 bps)	-36.775.353	39.277.610
Change in mortality tables (-/+ 1 year)	29.303.047	-28.786.696

Maturity analysis of pension commitments:

	31/12/2019	31/12/2020
Average duration of the pension commitment	**23,2 years**	**23,86 years**
Analysis of maturities of commitments to be paid	**816.237.678**	**871.804.452**
pensions outstanding for the year	7.448.265	7.484.052
commitments to be paid within 12 months	14.057.804	14.623.789
commitments to be paid in 1-3 years	29.590.295	30.862.208
commitments to be paid in 3-6 years	47.916.875	50.697.973
commitments to be paid in 6-11 years	91.351.093	97.408.275
commitments to be paid in 11-16 years	100.570.613	106.559.644
commitments to be paid after 16 years	525.302.731	564.168.510

Pension plan assets:

	2019	2020
Assets as at 1 January	**457.163.411**	**488.150.315**
Benefits paid	-12.851.647	-13.652.221
Contribution	17.865.225	11.996.344
Induced yield	7.373.197	4.596.753
Fair value gain / loss	18.600.128	17.479.982
Assets as at 31 December	**488.150.315**	**508.571.172**

In 2020, Spuerkeess made an annual contribution of EUR 11.996.344 versus an annual contribution of EUR 12.565.225 and an extraordinary contribution of EUR 5.300.000 in the previous year. The extraordinary contribution for 2019 was used to offset the impact of the signature of the wage agreement.

Pension plan investments:

2020	Credit institutions	Public sector	Corporate	Total
Fixed-income securities	79.079.831	161.453.502	46.282.764	286.816.097
Variable-income securities	-	-	169.019.504	169.019.504
Real estate investment	-	-	12.130.223	12.130.223
Other assets (primarily deposits)	40.389.836	-	-	40.605.348
Total	**119.469.667**	**161.453.502**	**227.432.492**	**508.571.172**

2019	Credit institutions	Public sector	Corporate	Total
Fixed-income securities	103.894.645	156.577.026	35.943.053	296.414.724
Variable-income securities	-	-	129.618.856	129.618.856
Real estate investment	-	-	11.269.063	11.269.063
Other assets (primarily deposits)	50.847.671	-	-	50.847.671
Total	**154.742.315**	**156.577.026**	**176.830.973**	**488.150.314**

Net pension commitments:

	2018	2019	2020
Pension commitments	682.449.398	816.237.677	871.804.452
Plan assets measured at fair value	-457.163.411	-488.150.315	-508.571.172
Unfinanced commitments	**225.285.987**	**328.087.362**	**363.233.281**

Stock of actuarial gains and losses:

Stock as at 1 January 2019	**360.915.867**
2019 net change	105.240.677
Stock as at 31 December 2019	**466.156.545**
Stock as at 1 January 2020	**466.156.545**
2020 net change	29.971.766
Stock as at 31 December 2020	**496.128.311**

Spuerkeess's estimated total contribution to the pension fund for 2021 is EUR 11.851.000.

4.26 Related-party transactions

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

All transactions with related parties are completed under market conditions.

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

	31/12/2019	31/12/2020
Deposits from associates	153.900.247	176.259.137
Total	**153.900.247**	**176.259.137**

	31/12/2019	31/12/2020
Loans from associates	22.783.083	20.073.540
Total	**22.783.083**	**20.073.540**

4.26.2 Government institutions

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

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

The Group makes the following disclosures concerning its commercial relationship with the Luxembourg State and other governmental institutions while applying the provisions of paragraph 25 of IAS 24:

ASSETS	31/12/2019	31/12/2020
Loans and advances at amortised cost	2.117.944.510	2.092.719.269
Fixed-income securities recognised at amortised cost	691.969.593	555.053.434
Other	3.258.915	2.197.142
TOTAL ASSETS	**2.813.173.018**	**2.649.969.845**

LIABILITIES	31/12/2019	31/12/2020
Deposits at amortised cost	5.970.303.667	4.442.226.255
TOTAL LIABILITIES	**5.970.303.667**	**4.442.226.255**

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

Compensation paid for offices held within the Group's parent company breaks down as follows:

	31/12/2019	31/12/2020
Board of Directors (9 members)	339.477	386.750
Executive Board (5 members)	1.064.533	1.080.081
Total	**1.404.010**	**1.466.831**

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

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

	31/12/2019	31/12/2020
Board of Directors (9 members)	3.689.815	3.686.106
Executive Board (5 members)	37.452	34.057
Total	**3.727.267**	**3.720.163**

4.27 Statutory Auditor's fees

	2019	2020
Statutory audit of the company and consolidated annual financial statements	609.781	656.812
Other audit services	262.805	169.288
Tax services	-	-
Other	-	-
Total	**872.586**	**826.100**

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

4.28 Direct fees and contributions related to the European Banking Union

Headings	2019	2020
European Central Bank supervision charges(1)	1.681.051	-
CSSF supervision charges	517.000	391.000
Single Resolution Board charges	252.653	206.348
Total	**2.450.704**	**597.348**
FGDL contribution	13.545.273	12.932.810
FRL contribution	14.367.325	17.151.220
Total	**27.912.598**	**30.084.030**

(1) The European Central Bank changed its invoicing method in financial year 2020 and the invoice for supervision for financial year 2020 will not be issued until 2021. The Bank accounted for this change by recording a EUR 1.681.051 provision.

4.29 Off-balance sheet items

Type of guarantees issued

Headings	31/12/2019	31/12/2020
Completion bonds	482.263.027	497.787.227
Letters of credit	84.685.327	81.374.447
Counter-guarantees	400.732.006	557.177.856
Other	17.521.204	16.759.254
Total	**985.201.565**	**1.153.098.783**

Commitments

Headings	31/12/2019	31/12/2020
Amounts subscribed and unpaid on securities, equity interests and shares in affiliated companies	6.856.145	12.344.160
Undrawn confirmed credits	5.776.579.783	6.473.177.679
Financing	*3.109.423.835*	*3.612.402.169*
Current accounts	*1.832.226.611*	*2.061.451.441*
Money market contracts	*277.524.514*	*-*
Other	*557.404.822*	*799.324.069*
Documentary credits	10.100.000	10.100.000
Total	**5.793.535.928**	**6.495.621.840**

An amount of EUR 28.885.601 related to the calculation of expected credit losses was recorded in "Provisions" for financial year 2020, versus EUR 11.740.209 for the previous year.

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 [3]

(in euros)

5.1 Interest income

Interest received and similar income	2019	2020
Assets repayable on demand	-	-
Financial assets held for trading	298.599.563	198.721.632
Financial assets mandatorily measured at fair value through profit or loss	2.587.531	51.876
Financial assets recognised at fair value through the revaluation reserve	-	5.265
Fixed-income securities recognised at amortised cost	157.268.902	126.436.630
Receivables at amortised cost	398.472.028	381.397.180
Derivatives - Hedge accounting, interest rate risk	82.807.127	75.329.840
Other assets	2.591.922	1.502.507
Interest received on liability instruments	12.479.742	43.001.203
Total	**954.806.815**	**826.446.133**
of which interest calculated based on the effective interest rate	*937.091.144*	*785.186.878*

Interest paid and similar expenses	2019	2020
Financial liabilities held for trading	-83.207.630	-85.151.780
Financial liabilities designated at fair value through profit or loss	-2.706.073	-2.712.876
Liabilities at amortised cost - Deposits	-105.324.271	-35.322.389
Liabilities at amortised cost - Debt certificates	-105.100.781	-51.911.117
Liabilities at amortised cost - Subordinated loans	-153.966	-29.008
Derivatives - Hedge accounting, interest rate risk	-254.573.135	-233.582.318
Other liabilities	-75.371	-74.317
Interest paid on asset instruments	-26.033.956	-27.918.131
Total	**-577.175.183**	**-436.701.936**
of which interest calculated based on the effective interest rate	*-552.662.656*	*-414.677.459*

Interest income	377.631.632	389.744.197
Total interest received and similar income not recognised at fair value through the income statement	558.332.852	509.336.317
Total interest paid and similar expenses not recognised at fair value through the income statement	-210.654.389	-87.336.831

The breakdown of interest received and paid as at 31 December 2019 was revised to align with the presentation of the financial reporting templates (FINREP).

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

5.2 Income from securities

Headings	2019	2020
Variable-income securities recognised at fair value through the revaluation reserve	31.464.134	15.881.134
Income from securities	**31.464.134**	**15.881.134**

5.3 Fee and commission income

Headings	2019	2020
Loan activities	55.339.329	60.684.091
Asset management	44.842.743	57.591.446
Investment fund activities	50.296.337	53.089.297
Demand deposit accounts and related activities	38.461.349	37.319.666
Insurance premiums	2.576.172	2.595.084
Other (*)	9.093.321	9.662.337
Total commissions received	**200.609.251**	**220.941.921**
Loan activities	-3.864.085	-4.037.288
Asset management	-19.128.153	-21.825.586
Investment fund activities	-10.562.994	-10.427.479
Demand deposit accounts and related activities	-8.682.807	-8.741.632
Other (*)	-3.291.951	-4.402.268
Total commissions paid	**-45.529.990**	**-49.434.253**
Total commissions	**155.079.261**	**171.507.668**

(*) mostly fees on derivative financial instruments.

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

Headings	2019	2020
Fixed-income securities recognised at amortised cost	205.443	-158.951
Variable-income securities recognised at fair value through the revaluation reserve	-	1.740
Loans and advances at amortised cost	13.371	83.530
Financial liabilities at amortised cost	-	-
Total	**218.814**	**-73.681**

5.5 Income from financial instruments held for trading

Headings	2019	2020
Equity instruments and related derivatives	5.124.315	5.367.344
Foreign exchange instruments and related derivatives	5.786.187	-3.506.211
Interest rate instruments and related derivatives	18.838.790	2.061.694
Total	**29.749.292**	**3.922.827**

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

Headings	2019	2020
Financial liabilities designated at fair value through profit or loss	-12.597.932	-4.347.384
Total	**-12.597.932**	**-4.347.384**

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

Headings	2019	2020
Fixed-income securities	-2.575.963	529.634
UCI units	10.537.093	-10.528.252
Loans and advances	171.935	258.229
Total	**8.133.065**	**-9.740.389**

5.8 Income from hedging transactions

Headings	2019	2020
Fair value hedge		
Debt instruments (assets) hedged by derivative financial instruments	-43.430	1.431.581
Debt issues hedged by derivative financial instruments	8.639	-69.720
Loans hedged by derivative financial instruments	721.799	5.705.572
Total	**687.008**	**7.067.433**
Value adjustment on hedged instruments	195.586.804	241.377.419
Value adjustment on hedging instruments	-194.899.796	-234.309.986
Total	**687.008**	**7.067.433**

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

Information on the effectiveness rate is included in Note 4.12.

5.9 Other net operating income

Headings	2019	2020
Other operating income	12.750.617	15.385.398
Other operating expenditure	-3.147.696	-2.760.159
Other net operating income	**9.602.921**	**12.625.239**

"Other operating income and expenditure" mainly includes:

- the rent from property rented and miscellaneous advances from tenants,
- VAT repayments relating to previous financial years,
- income on amortised loans.

Income on amortised loans stood at EUR 2.787.963 for 2020 and at EUR 1.551.658 for 2019.

5.10 Personnel expenses

Headings	2019	2020
Compensation	189.508.750	197.158.198
Social security charges	7.007.293	6.776.599
Pensions and similar expenses	14.490.284	14.201.472
Pension fund expense	15.425.924	17.170.495
Other personnel expenses	6.191.285	5.084.992
Total	**232.623.536**	**240.391.756**

5.11 Other general and administrative expenses

Headings	2019	2020
Expenses related to property and furniture	20.973.038	22.561.261
Rents and maintenance of software	25.568.866	26.434.638
Operating expenditure related to the banking business	31.852.889	31.052.342
Other	10.470.458	7.964.732
Total	**88.865.251**	**88.012.973**

5.12 Cash contributions to resolution funds and deposit guarantee systems

Headings	2019	2020
FGDL contribution	13.545.273	12.932.810
FRL contribution	14.367.325	17.151.220
Total	**27.912.598**	**30.084.030**

For financial year 2019, these contributions were still presented in "Other operating expenditure" (note 5.9). Inclusion in this line was made for comparison purposes only.

5.13 Depreciation allowances for tangible assets

- **Depreciation**

Headings	2019	2020
Depreciation - land and buildings for own use	11.898.883	11.673.733
Depreciation - land and buildings in relation to leases	2.965.971	2.898.142
Depreciation - equipment and furniture	8.757.949	10.002.273
Depreciation of tangible assets	**23.622.803**	**24.574.148**

- **Impairment**

No impairment of tangible assets according to IAS 36 was recognised by the Group in 2019 or 2020.

5.14 Allowances for impairment of investment properties

- **Depreciation**

Headings	2019	2020
Amortisation	933.950	897.738
Depreciation of tangible assets - investment	**933.950**	**897.738**

- **Impairment**

No impairment of investment properties according to IAS 36 was recognised by the Group in 2019 or 2020.

5.15 Allowances for impairment of intangible assets

- Depreciation

Headings	2019	2020
Amortisation	14.997.817	17.059.000
Amortisation of intangible assets	**14.997.817**	**17.059.000**

- Impairment

No impairment of intangible assets according to IAS 36 was recognised by the Group in 2019 or 2020.

5.16 Net allowances for impairment of credit risks

	2019			2020		
	Additions	Reversals	Total	Additions	Reversals	Total
Fixed-income securities recognised at amortised cost	-4.175.486	6.701.182	2.525.696	-14.492.265	2.728.317	-11.763.948
Fixed-income securities recognised at fair value through the revaluation reserve	-193	-	-193	-2.285	-	-2.285
Loans and advances	-55.414.894	60.101.081	4.686.187	-66.311.088	50.619.916	-15.691.172
	-59.590.573	**66.802.263**	**7.211.690**	**-80.805.638**	**53.348.233**	**-27.457.405**

	2019	2020
Interest on impaired fixed-income securities recognised at amortised cost	3.362	-
Interest on impaired loans and advances	2.767.544	3.353.591
Total	**2.770.907**	**3.353.591**

5.17 Provisions and reversal of provisions

Headings	2019	2020
Provisions	-7.997.092	-26.538.694
Reversal of provisions	9.587.134	6.769.860
Net allowances for provisions	**1.590.042**	**-19.768.834**

5.18 Tax expense

Headings	2019	2020
Tax on income from continuing operations	-38.394.720	-30.971.361
Deferred taxes	-4.567.067	-362.396
of which impact due to the change in the tax rate	*3.171.666*	*-*
Tax on profit/(loss) for the period	**-42.961.787**	**-31.333.757**

The nominal tax rate applicable in Luxembourg was 24,94% as at 31 December 2020 and 31 December 2019. The Group's effective tax rate was 15,3% in 2020 and 17,10% in the prior year, given the differences between the Luxembourg tax base and the accounting principles for annual consolidated financial statements in force in Luxembourg.

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

	2019	2020
Income before tax	251.269.745	205.245.329
Tax rate	24,94%	24,94%
Theoretical tax at the standard rate	62.666.674	51.188.185
Tax impact of non-deductible expenses	95.540	116.852
Tax impact of non-taxable income	-14.247.568	-9.127.326
Share in the income of equity-accounted associates	-3.446.999	-15.127.326
Tax rebates and reductions	10.548.218	8.265.024
Change in deferred tax rate	-4.079.142	-
Tax refund/payment from previous financial years	860.001	1.185.815
IFRS 9 FTA impact	-5.739.556	-2.642.993
Other	-3.695.380	-2.429.465
Tax on profit/(loss) for the period	**42.961.788**	**31.428.766**

The tax impact of non-taxable income largely stems from the collection of dividends from the Group's strategic shareholdings in resident companies, fully subject to tax, which enable it to apply the principle of parent companies and subsidiaries in accordance with Article 166 LIR (Income Tax Act) in order to avoid double economic taxation of such income. Excluding this non-taxable income for the Group, the Group's effective tax rate would be 20,4% in 2020.

5.19 Return on assets

In accordance with Article 38-4 of the Law on the Financial Sector, the Group reported its return on assets, which stood at 0,43% for financial year 2019 versus 0,34% in the prior year.

6 RISK MANAGEMENT[4]

6.1 General rules for managing risk

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

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

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

6.1.1 Role of the Board of Directors

Pursuant to the Organic Law of 1989 and to legal obligations or obligations arising from applicable national or European regulations, the Board of Directors defines the Group's parent company's general policy and the main risk management policies, including the Risk Appetite Framework, proposed by the Group's parent company's Executive Committee. To do so, the Board considers the liquidity and solvency of the parent company as well as the medium- and long-term sustainability of the parent company's business models.

In this context, the Board defines the overall strategy of the Group's parent company, on the basis of proposals from the Executive Committee, and oversees the implementation of the related objectives, as well as the administrative, functional and risk management structure resulting from implementation of the strategy. The ICAPP and ILAAP processes are incorporated into these oversight functions to evaluate the strategy and business development in terms of impacts on the Group's parent company's liquidity and solvency.

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

The various risks identified in the Group's parent company's risk mapping are subject to a materiality and likelihood of occurrence assessment, and a supervisory framework is developed to manage them.

6.1.2 Role of the Audit Committee

The Audit Committee advises the Board of Directors in its supervisory mission and thus prepares the decisions to be adopted by the Board. In particular, it assists the Board in the areas of financial reporting, regulatory compliance, internal control including internal audit, and control exercised by the statutory auditor.

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

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

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

6.1.3 Role of the Risk Committee

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

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

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

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

6.1.4 Role of the Appointment and Compensation Committee

The Appointment and Compensation Committee advises the Board of Directors in its supervisory function and thus prepares the decisions to be adopted by the Board. It provides support on specific aspects relating to the appointment of members of the Board of Directors, the Bank's Executive Committee and those responsible for the Bank's internal control functions. The Committee advises the Board of Directors on its legal and regulatory obligations regarding the Bank's remuneration policies.

The Appointment and Compensation Committee consists of four members of the Board of Directors, including a majority of members considered independent within the meaning of the applicable laws and regulations.

6.1.5 Role of the Executive Committee

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

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

6.1.6 Role of the Risk Committee

Risk Committee consists of Executive Committee members as well as several parent company's heads of departments and heads of business units, and handles subjects related to the identification, measure, management and reporting of risks, including Pillar 1 risks like credit, market and operational risks, and Pillar 2 risks like liquidity, compliance and reputational risks. Risk Committee proposals are validated by the Executive Committee. The Risk Committee is assisted by a Risk sub-Committee meeting on a monthly basis.

6.1.7 Responsibilities of the Risk Management function

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

To fulfil its duties, the Risk Management function is tasked mainly with:

- Defining and updating the risk management policies and the Risk Appetite Framework;
- Identifying and assessing Spuerkeess's risks;
- Monitoring, from a macro perspective, changes in the quality of the credit risk of all of Spuerkeess's portfolios;
- Performing stress tests;
- Challenging the first line of defence by performing second-level controls, among others;
- Providing independent validation of the internal models;
- Monitoring and analysing operational incidents;
- Developing, monitoring and updating the Cyber Protection Plan;
- Overseeing Spuerkeess's IT security;
- Drafting opinions for new products and other strategic changes to help the management bodies in their decision-making;
- Implementing and using the ICAAP and ILAAP processes;
- Coordinating the work related to the recovery plan and the resolution plan.

6.1.8 Responsibilities of the Compliance function

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

The Compliance function is part of the second line of defence, together with Risk Management. It reports to the Executive Committee. The Chief Compliance Officer may communicate directly and at his or her own initiative with the Chairman of the Audit Committee, the Chairman of the Risk Committee and the Chairman of the Board of Directors. The Compliance function operates independently from all commercial and operational activities within the Bank.

The areas and responsibilities of the Compliance function are mainly:

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

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

6.1.9 Responsibilities of the Internal Audit function

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

The Internal Audit function is the third line of defence and the Chief Internal Auditor is accountable to the Executive Committee and, ultimately, to the Board of Directors for the performance of his or her duties. The Chief Internal Auditor may communicate directly and at his or her own initiative with the Chairman of the Audit Committee, the Chairman of the Risk Committee and the Chairman of the Board of Directors.

The objectives are the following:

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

- ensure compliance with the procedures governing the adequacy of capital and internal liquidity reserves;
- guarantee the adequacy of risk management;
- ensure the operation and effectiveness of the compliance and risk control functions.

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

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

6.1.10 Responsibilities of the Loans and Credit department

From an organisational point of view, credit risk is managed by the Loans and Credit department (DAG), a unit that operates independently from all commercial activities. It is responsible for:

- establishing a consistent framework to analyse credit risks, performing the analysis itself and continuously monitoring this risk,
- approving or rejecting applications from commercial entities and escalating cases to the Executive Committee that involve transactions whose outstanding amounts are above a limit set for processing by the Credit Committee, which reports to the Executive Committee.

The Credit Analysis unit therefore monitors both credit risk and counterparty risk. This involves analysing loan applications from all commercial entities and performing analyses in order to set ex ante limits. The new Credit Process Management unit (CPM) is responsible for the internal rating models. The head of the "Credit Analysis" unit is in charge of the Credit Analysis and Management department.

6.1.11 Systems for measuring and tracking limits

6.1.11.1 Credit risk

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

The credit quality of retail commitments is monitored on the basis of internal ratings that include a behavioural analysis. Wholesale records also have internal ratings, derived from appraiser models.

Very often, these commitments also have external ratings. The analysis of the difference between the internal and external ratings is part of the monitoring.

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

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

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

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

6.1.11.2 Market risk

Market risk is generally the risk of the Group's parent company 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 greatest market risks are those arising from the Group's parent company's business model and include interest rate risk and price risk on its strategic holdings. Section 6.4 provides information about market risk monitoring and management at the parent company.

6.1.11.3 Counterparty risk stemming from derivative financial instrument transactions

The Group has negotiated International Swaps and Derivatives Association Inc. (ISDA) framework agreements including Credit Support Annexes (CSA) designed to limit counterparty risk on derivative financial instrument trades with a positive mark-to-market valuation. At end-2020, 75,30% of derivative financial instrument transaction outstandings were covered by such agreements.

Alongside the ISDA-CSA framework agreements, the Group is making increasing use of central counterparties (CCPs) to limit counterparty risk. At end-2020, 18,86% of outstanding amounts of derivative transactions were liquidated through these CCPs.

6.1.11.4 Liquidity risk

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

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

The Group conducted the stress tests required by circular CSSF 09/403 in 2020 on at least a monthly basis to show that it would have sufficient liquid assets to cope with unexpected large-scale withdrawals over an extended period.

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

In the event of an urgent need for large amounts of liquidity, the Group's parent company has an intraday and overnight credit line with the Luxembourg Central Bank (BCL) secured by pledges of public sector bonds or other fixed-income securities. To this end, the Group's 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 2020, this portfolio amounted to EUR 3,4 billion. At year-end 2020, the amount of the portfolio of assets eligible for refinancing with the BCL or usable on the interbank market exceeded EUR 14 billion.

Amended CSSF Circular 07/301, § II.1. "Risk identification" explicitly mentions the securitisation risk of which the credit institution is the originator or sponsor. Securitisation is one of the techniques used to manage liquidity, since it allows a bank to remove assets from the balance sheet to raise funds. The

Group's parent company did not participate as originator or sponsor in such a transaction during the 2020 financial year.

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

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

6.2 Operational risk

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

6.2.2 Operational risk management culture

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

The Group's parent company thus:

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

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

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

6.2.3 Operational risk management approach

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

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

The identification, analysis, assessment, and monitoring of operational risks within the Group's parent company constitute an integrated set of activities and methods that help the Group's parent company to measure and manage operational risk. The activities are implemented in a structured, diligent, dynamic, and iterative manner. The choice whether to implement them results from a consistent approach and is based on exposure to the various risks incurred ("risk-based"). The various methods and practices of operational risk management can implement a dual dynamic: ex-ante (e.g. through Key Risk Indicators) or ex-post (e.g. through the collection of incident data).
The various information is used in the determination of the economic capital allocation performed as part of the Internal Capital Adequacy Assessment Process (ICAAP). Regarding the calculation of regulatory capital requirements, the Group adopts the standard approach.

Process and control improvements are actions taken to strengthen the control environment and therefore implement measures to reduce the operational risks inherent in the processes. A treatment measure may be initiated by the first line of defence as part of its responsibility for day-to-day management of inherent risks. A treatment measure may also be initiated following a decision of Senior Management on the treatment of the risk (accept, reduce, avoid, transfer).

The Group's parent company ensures that it has solid continuity plans, in particular the Business Continuity Plan (BCP), which aims to ensure the continuity of critical activities in the event of a major operational incident (involving property, computers, etc.), and the Disaster Recovery Plan (DRP), which aims to ensure the continued operation of critical information systems, supporting the critical processes of the BCP or their timely recovery in the event of a major IT incident.

6.3 Exposure to credit and counterparty risk

6.3.1 Objectives and management of credit and counterparty risk

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

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

Other than the changes implemented due to the Covid-19-related health crisis, the Group's parent company did not change its credit risk management policy in the 2020 financial year.

For interbank markets and international loans, contracts are recognised in the balance sheet under "Loans and advances at amortised cost - Credit institutions", "Loans and advances at amortised cost - Customers", "Fixed-income securities recognised at amortised cost" and "Financial assets mandatorily recognised at fair value through profit or loss"; a large majority of counterparties consist of banking and financial institutions. Internal ratings are applied to banking counterparties using a combination of quantitative and qualitative analyses. The quantitative component is based on ratios that best describe the counterparty's profitability, level of capital, liquidity and the quality of its assets, while the qualitative component is based on the analyst's own assessment of non-financial factors such as market share, quality of management and external ratings. The Group pursued its prudent investment policy in 2018, resulting in:

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

With regard to international loans to non-financial entities recognised in the balance sheet under "Loans and advances at amortised cost - Customers", "Fixed-income securities recognised at amortised cost" and "Financial assets mandatorily recognised at fair value through profit or loss", priority is given to commitments in OECD countries rated as at least Investment Grade. Like all the Group's other counterparties, these are assigned an internal rating based on rules similar to those applied to banks and financial institutions.

Outstanding amounts are subject to counterparty risk monitoring and to regular checks based on updated financial analyses and proposed adjustments to limits per counterparty. The Group also applies a country limit system for all countries in which it has commitments. These limits are reviewed at least annually.
Investments in derivative financial instruments are heavily regulated through the use of industry standard ISDA agreements that include compensation clauses in the event of default by either party. The Group has also adopted an additional risk mitigation mechanism by negotiating the CSA to ISDA agreements with the largest counterparties in respect of off-balance sheet transactions.
The CSA specifies the type of collateral permitted, in the form of cash or first-class securities, on the basis of periodic reassessments of bilateral positions when the net value of agreements involves a counterparty risk for the Group.

6.3.2 Credit and concentration risk

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

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

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

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

Maximum exposure to credit risk	31/12/2019	31/12/2020
Cash and sight accounts with central banks	5.333.118.189	7.128.135.655
Loans and advances at amortised cost – Credit institutions	3.000.087.638	1.833.195.892
Loans and advances at amortised cost – Customers	22.857.068.335	24.098.937.564
Financial instruments held for trading	143.054.603	138.717.034
Hedging derivative financial instruments	59.282.590	72.838.495
Financial assets mandatorily recognised at fair value through profit or loss	1.234.389.882	809.036.881
Fixed-income securities recognised at amortised cost	13.482.939.931	14.033.530.474
Fixed-income securities recognised at fair value through the revaluation reserve	16.069.764	18.042.494
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	215.762.686	373.811.797
Exposure of balance sheet commitments	**46.341.773.618**	**48.506.246.286**
Completion bonds	482.263.027	497.787.227
Letters of credit	84.685.327	81.374.447
Counter-guarantees	400.732.006	557.177.856
Other	17.521.204	16.759.254
Undrawn confirmed credits	5.776.579.783	6.473.177.679
Documentary credits	10.100.000	10.100.000
Exposure of off-balance sheet commitments	**6.771.881.347**	**7.636.376.463**
Total exposure	**53.113.654.965**	**56.142.622.748**

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

- collateral:

Breakdown by type of collateral	31/12/2019	31/12/2020
Mortgages	15.972.667.752	17.983.571.491
Reverse repurchase agreements	1.464.090.017	939.438.787
Pledge through cash or securities deposits	124.633.595	52.154.377

- personal guarantees: these stood at EUR 436.626.410 at year-end 2020, compared with EUR 61.662.060 one year earlier,
- ISDA – CSA contracts,
- Global Master Repurchase Agreements (GMRA).

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

31/12/2020	Financial assets that are the subject of netting			Potential netting not recognised on the balance sheet		Financial assets after taking potential netting into account
	Financial assets before balance sheet netting	Balance sheet netting with financial liabilities	Financial assets recorded on the balance sheet	Financial liabilities	Collateral received	
Reverse repurchase/Repurchase agreements	839.841.692	40.399.470	799.442.223	1.731.443	796.258.264	1.452.516
Derivatives	29.000.763	-	29.000.763	12.613.514	15.901.409	485.840
Total assets	**868.842.455**	**40.399.470**	**828.442.986**	**14.344.957**	**812.159.673**	**1.938.356**

31/12/2019	Financial assets that are the subject of netting			Potential netting not recognised on the balance sheet		Financial assets after taking potential netting into account
	Financial assets before balance sheet netting	Balance sheet netting with financial liabilities	Financial assets recorded on the balance sheet	Financial liabilities	Collateral received	
Reverse repurchase/Repurchase agreements	1.949.219.200	485.116.970	1.464.102.230	4.507.378	1.421.905.988	37.688.864
Derivatives	57.704.407	-	57.704.407	25.475.859	31.123.266	1.105.282
Total assets	**2.006.923.607**	**485.116.970**	**1.521.806.637**	**29.983.237**	**1.453.029.254**	**38.794.146**

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

31/12/2020	Financial liabilities that are the subject of netting			Potential netting not recognised on the balance sheet		Financial liabilities after taking potential netting into account
	Financial liabilities before balance sheet netting	Balance sheet netting with financial assets	Financial liabilities recorded on the balance sheet	Financial assets	Collateral given	
Repurchase/Reverse repurchase agreements	135.184.771	99.721.952	35.462.820	-	34.372.611	1.090.209
Derivatives	918.118.371	-	918.118.371	78.044.062	831.760.345	8.313.964
Total liabilities	**1.053.303.142**	**99.721.952**	**953.581.191**	**78.044.062**	**866.132.956**	**9.404.173**

31/12/2019	Financial liabilities that are the subject of netting			Potential netting not recognised on the balance sheet		Financial liabilities after taking potential netting into account
	Financial liabilities before balance sheet netting	Balance sheet netting with financial assets	Financial liabilities recorded on the balance sheet	Financial assets	Collateral given	
Repurchase/Reverse repurchase agreements	115.089.407	-	115.089.407	-	113.534.537	1.554.870
Derivatives	973.098.752	-	973.098.752	118.510.100	846.179.559	8.409.093
Total liabilities	**1.088.188.159**	**-**	**1.088.188.159**	**118.510.100**	**959.714.096**	**9.963.963**

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

Exposure by geographical area:

Geographical area as at 31.12.2020 (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	6.976.717	156	138.463	2.809	-	9.991	7.128.136
Loans and advances at amortised cost	25.671.786	15.571	14.449	219.996	43	10.289	25.932.133
Financial instruments held for trading and hedging derivative instruments	192.925	-	16.680	1.880	-	70	211.556
Financial assets mandatorily recognised at fair value through profit or loss	588.968	-	134.015	-	36.029	50.025	809.037
Fixed-income securities recognised at amortised cost	9.109.110	592.903	2.487.103	992.079	744.797	107.539	14.033.530
Financial instruments recognised at fair value through the revaluation reserve	876.807	-	-	-	-	-	876.807
Investments in associates accounted for using the equity method	449.059	-	-	-	-	-	449.059
Other	791.103	-	-	-	-	-	791.103
Total	**44.656.474**	**608.630**	**2.790.710**	**1.216.763**	**780.868**	**177.914**	**50.231.360**

Geographical area as at 31.12.2019 (in thousands of euros)	European Union and Switzerland	Other European countries	North America	Asia and Australasia	Supra-national	Other	Total
Cash and sight accounts with central banks	5.188.882	181	105.485	27.614	-	10.956	5.333.118
Loans and advances at amortised cost	25.323.928	20.304	43.195	413.912	21	55.796	25.857.156
Financial instruments held for trading and hedging derivative instruments	192.652	-	8.265	1.402	-	18	202.337
Financial assets mandatorily recognised at fair value through profit or loss	812.982	-	194.625	27.646	149.006	50.131	1.234.390
Fixed-income securities recognised at amortised cost	8.838.792	518.825	2.205.650	1.116.268	673.740	129.665	13.482.940
Variable-income securities recognised at fair value through the revaluation reserve	836.787	-	-	-	-	-	836.787
Investments in associates accounted for using the equity method	387.640	-	-	-	-	-	387.640
Other	569.442	-	-	-	-	-	569.442
Total	**42.151.105**	**539.310**	**2.557.219**	**1.586.842**	**822.767**	**246.567**	**47.903.810**

In the following table, to meet the requirements of IFRS 7 "Financial Instruments: Disclosures", exposure to credit risk as at 31 December 2019 and 2020 is presented according to internal ratings.

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

Exposure by counterparty category and risk class:

	2019			2020		
	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio
Cash and sight accounts with central banks						
High grade	4.440.966.137	4.440.647.983	-	5.903.586.863	5.902.868.849	-
Standard grade	893.781.478	892.467.325	-	1.227.766.443	1.225.266.176	-
Sub-standard grade	2.890	2.882	-	635	631	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories	**5.334.750.505**	**5.333.118.190**		**7.131.353.941**	**7.128.135.655**	
Loans and advances at amortised cost						
Banks						
High grade	1.620.618.434	1.620.076.811	30,00%	676.577.220	676.083.138	31,02%
Standard grade	1.371.627.468	1.371.171.184	51,77%	1.138.116.906	1.137.004.143	44,66%
Sub-standard grade	921	904	-	1.080	1.037	-
Past due not in default	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	8.838.739	8.838.739	-	20.107.573	20.107.573	-
Corporates						
High grade	2.221.557.141	2.216.044.022	34,76%	2.082.756.214	2.069.478.526	50,21%
Standard grade	2.316.710.019	2.311.609.100	35,70%	1.890.871.021	1.883.842.295	45,09%
Sub-standard grade	1.011.505.731	997.467.894	47,17%	1.328.926.599	1.293.225.246	48,96%
Past due not in default	7.006.953	6.531.031	50,25%	25.648.383	25.002.820	59,40%
Default	167.651.496	111.742.565	9,96%	190.089.368	151.294.408	94,18%
Not rated	67.700.712	67.507.238	90,54%	346.133.685	344.759.287	70,24%
Sovereigns						
High grade	1.639.590.191	1.639.535.234	-	1.611.759.785	1.611.647.972	0,08%
Standard grade	9.938	9.906	-	5.925.417	5.903.163	-
Sub-standard grade	14.968	14.626	-	6.925	6.783	-
Past due not in default	275.020	274.986	-	8.554.513	8.553.925	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Retail						
High grade	12.108.828.034	12.107.706.369	92,28%	13.710.427.225	13.709.054.930	92,12%
Standard grade	1.781.101.205	1.780.129.122	90,00%	1.714.160.691	1.712.397.162	91,21%
Sub-standard grade	1.548.363.336	1.531.838.936	89,74%	1.160.753.419	1.148.917.526	89,74%
Past due not in default	27.322.230	26.901.954	88,90%	40.403.698	40.049.110	84,45%
Default	71.920.991	59.753.183	83,91%	91.685.678	80.404.368	80,58%
Not rated	2.194	2.171	17,56%	14.400.043	14.400.043	100,00%
Total of categories	**25.970.645.718**	**25.857.155.973**		**26.057.305.445**	**25.932.133.455**	

	2019			2020		
	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	67.853.939	67.853.939	18,70%	64.059.970	64.059.970	10,80%
Standard grade	111.616.504	111.616.504	18,59%	117.602.445	117.602.445	26,35%
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	1.113.059	1.113.059	26,95%	247.228	247.228	-
Standard grade	18.155.977	18.155.977	-	15.639.986	15.639.986	-
Sub-standard grade	3.023.561	3.023.561	-	8.042.352	8.042.352	-
Default	-	-	-	-	-	-
Not rated	-	-	-	5.102.293	5.102.293	15,48%
Sovereigns						
High grade	-	-	-	-	-	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Retail						
High grade	456.739	456.739	-	650.771	650.771	-
Standard grade	9.377	9.377	-	-	-	-
Sub-standard grade	14.656	14.656	-	108.228	108.228	-
Default	-	-	-	-	-	-
Not rated	93.382	93.382	-	102.254	102.254	-
Total of categories	**202.337.194**	**202.337.194**		**211.555.529**	**211.555.529**	
Financial assets mandatorily recognised at fair value through profit or loss						
Banks						
High grade	523.194.357	523.194.357	-	226.819.044	226.819.044	-
Standard grade	238.122.503	238.122.503	-	250.842.439	250.842.439	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	286.053	286.053	-			-
Corporates						
High grade	169.770.765	169.770.765	-	36.217.066	36.217.066	-
Standard grade	133.846.594	133.846.594		134.051.257	134.051.257	
Sub-standard grade	79.668.276	79.668.276		4.404.079	4.404.079	
Default	1.764	1.764	-	1.296.426	1.296.426	-
Not rated	-	-		3.487.254	3.487.254	
Sovereigns						
High grade	89.481.852	89.481.852	-	151.913.360	151.913.360	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Securitisation						
High grade	-	-	-	-	-	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Default	17.719	17.719	-	5.955	5.955	-
Not rated	-	-	-	-	-	-
Total of categories	**1.234.389.882**	**1.234.389.882**		**809.036.882**	**809.036.882**	

	2019			2020		
	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio
Fixed-income securities recognised at amortised cost						
Banks						
High grade	5.391.544.438	5.388.858.134	-	4.611.511.552	4.606.525.432	-
Standard grade	1.807.939.542	1.805.733.717	-	1.847.262.539	1.842.182.941	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	1.215.357.162	1.214.821.984	-	1.296.309.604	1.295.164.281	-
Standard grade	2.108.915.572	2.106.885.345	-	3.243.169.060	3.236.271.551	-
Sub-standard grade	2.950.651	2.925.909	-	37.060.229	36.037.992	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Sovereigns						
High grade	2.484.607.462	2.484.347.999	-	2.374.253.930	2.373.676.216	-
Standard grade	395.370.963	395.176.455	-	572.147.552	571.648.391	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Securitisation						
High grade	65.314.546	64.794.668	-	54.982.423	54.544.785	-
Standard grade	16.581.786	16.449.801	-	17.619.125	17.478.884	-
Sub-standard grade	3.429.862	2.945.918	-	-	-	-
Default	203.513	-	-	203.310	-	-
Not rated	-	-	-	-	-	-
Total of categories	**13.492.215.495**	**13.482.939.931**		**14.054.519.322**	**14.033.530.474**	

	2019			2020		
	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio	Outstanding excluding impairment	Outstanding with impairment	Average collateralisation ratio
Financial instruments recognised at fair value through the revaluation reserve and investments in associates accounted for using the equity method						
Banks						
High grade	3.958.116	3.958.116	-	4.018.037	4.018.037	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	64.376.578	64.376.578	-	57.052.161	57.052.161	-
Standard grade	1.145.160.798	1.145.160.798	-	720.849.396	720.849.396	-
Sub-standard grade	1.669.765	1.669.765	-	520.612.516	520.612.516	-
Default	714.399	714.399	-	-	-	-
Not rated	3.477.083	3.477.083	-	5.291.008	5.291.008	-
Sovereigns						
High grade	5.069.764	5.069.764	-	18.042.494	18.042.494	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Default	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories	**1.224.426.503**	**1.224.426.503**		**1.325.865.611**	**1.325.865.611**	
Other (*)	569.442.491	569.442.491	-	791.102.674	791.102.674	-
Total of categories	**569.442.491**	**569.442.491**		**791.102.674**	**791.102.674**	
Total	**48.028.207.788**	**47.903.810.164**		**50.380.739.405**	**50.231.360.280**	

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

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

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

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

Banks, Corporates, Sovereigns and Retail:

The grouping according to internal risk category corresponds, for example with the following "S&P" equivalents:

High grade : from AAA to A+
Standard grade : from A to BBB-
Sub-standard grade : from BB+ to BB-

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

Securitisation:

The grouping according to internal risk category corresponds, for example with the following "S&P" equivalents:

High grade : from AAA to A+
Standard grade : from A to BBB-

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

6.4 Market risk

The purpose of risk management is to ensure that the risk incurred matches the Bank's risk appetite. To that end, the parent company has introduced several market risk indicators subject to limits that reflect risk appetite.

The Financial Markets department and, more specifically, the Financial Markets (FIM) and Asset and Liability Management (ALM) units are responsible for operational management of market risks. First-level controls are carried out by the Support, Reporting and Financial Valuation (SRF) unit, which was created in 2020 and is part of the Financial Markets department.

This unit verifies compliance with a number of procedures and limits relating to the activities of each trading floor desk (open positions, counterparty risk, money-market limits, etc.). Automated control reports have been developed to that end, and their results are archived and communicated to management every night.

The ALM and Money Market units take note of these reports, along with the reports they can access independently. If a limit is exceeded, these two units provide an explanation of the situation, take appropriate management actions or suggest a change in the limit framework.

For ALM, whenever thresholds are exceeded or management actions are taken, the details are included in the monthly ALM report.

Second-line controls are carried out by the Risk Management function (RIM), which monitors every instance of a threshold being exceeded through the Risk Working Group, the Executive Committee and the Risk Committee.

6.4.1 Interest rate risk

In 2017, the parent company launched a major project to implement a new tool to manage interest rate risk and liquidity risk. This tool contains all of the parent company's positions and can be used to run a large number of sensitivity analyses and projections (including stress tests). At the end of 2019, interest rate risk management had essentially been migrated to this new tool. Spuerkeess thus takes a day-to-day integrated approach to managing interest rate risk for its entire banking book. This integrated approach can also be broken down into the money-market and ALM scopes. The money-market scope covers the trading floor positions with an initial rate term of less than two years, while the ALM scope covers all other positions sensitive to interest rate risk. This new tool gives the Bank a more accurate view of the nature of its interest rate risk and provides a breakdown of its various components, namely:

- maturity transformation risk;
- options risk (automatic options such as caps/floors, and behavioural options such as early repayments and outflows of liabilities with no maturity).

The indicators produced by the tool to analyse interest rate risk sensitivity are as follows:

- rate schedule grouped according to different time buckets;
- the impact of different rate scenarios on the economic value of the banking book positions sensitive to interest rate risk (delta EVE);
- the impact of different rate scenarios on net interest margin (delta NII).

Delta EVE, for standard stress tests, i.e., a 200-basis-point increase, is as follows:

date	Scope	Scenario	Delta EVE	Delta EVE/Equity
31/12/2020	Entire banking book excluding equity	+200 bp	- 278.485.304	-6,40%
31/12/2019	Entire banking book excluding equity	+200 bp	- 355.480.000	-8,82%

6.4.2 Price risk on shareholdings

The VaR method remained in effect in 2020 to manage the liquid portion of the Group's parent company's equity portfolio, while observing the corresponding limit.

6.4.3 Foreign exchange risk

The parent company's foreign exchange risk is very low. It is subject to open position limits by foreign currency group.
In addition to open position limits, foreign exchange risk is subject to a VaR limit.

6.4.4 Analysis of the fair 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 at 31/12/2020	Carrying amount	Fair value	Unrealised valuation	Level 1	Level 2	Level 3
Financial assets						
Cash and sight accounts with central banks	7.128.135.655	7.128.135.655	-	-	-	-
Loans and advances at amortised cost	25.932.133.456	26.750.622.184	818.488.728	-	100,0%	-
of which measured at fair value for hedging purposes	*1.291.588.076*	*1.291.588.076*	-	-	-	-
Financial instruments held for trading	138.717.034	138.717.034	-	-	-	-
Hedging derivative financial instruments	72.838.495	72.838.495	-	-	-	-
Financial assets mandatorily recognised at fair value through profit or loss	809.036.881	809.036.881	-	-	-	-
Fixed-income securities recognised at amortised cost	14.033.530.474	14.103.864.931	70.334.458	80,1%	19,8%	0,1%
Fixed-income securities recognised at fair value through the revaluation reserve	18.042.494	18.042.494	-	-	-	-
Variable-income securities recognised at fair value through the revaluation reserve	858.764.091	858.764.091	-	-	-	-
Investments in associates accounted for using the equity method	449.059.026	449.059.026	-	-	-	-
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	373.811.797	373.811.797	-	-	-	-
TOTAL	**49.814.069.403**	**50.702.892.589**	**888.823.185**			
Financial liabilities						
Deposits at amortised cost	40.559.932.834	40.994.311.892	434.379.058	-	100,0%	-
Financial instruments held for trading	366.643.744	366.643.744	-	-	-	-
Hedging derivative financial instruments	1.112.075.207	1.112.075.207	-	-	-	-
Financial liabilities designated at fair value through profit or loss	172.175.873	172.175.873	-	-	-	-
Debt securities in issue	2.959.242.843	2.959.371.665	128.822	-	100,0%	-
of which measured at fair value for hedging purposes	*368.125.966*	*368.125.966*	-	-	-	-
TOTAL	**45.170.070.501**	**45.604.578.381**	**434.507.880**			

Categories at 31/12/2019	Carrying amount	Fair value	Unrealised valuation	Level 1	Level 2	Level 3
Financial assets						
Cash and sight accounts with central banks	5.333.118.189	5.333.118.189	-	-	-	-
Loans and advances at amortised cost	25.857.155.973	26.438.723.324	581.567.351	-	100,0%	-
of which measured at fair value for hedging purposes	*1.311.095.443*	*1.311.095.443*	-	-	-	-
Financial instruments held for trading	143.054.603	143.054.603	-	-	-	-
Hedging derivative financial instruments	59.282.590	59.282.590	-	-	-	-
Financial assets mandatorily recognised at fair value through profit or loss	1.234.389.882	1.234.389.882	-	-	-	-
Fixed-income securities recognised at amortised cost	13.482.939.931	13.528.596.538	45.656.607	76,6%	23,4%	-
Fixed-income securities recognised at fair value through the revaluation reserve	16.069.764	16.069.764	-	-	-	-
Variable-income securities recognised at fair value through the revaluation reserve	820.716.989	820.716.989	-	-	-	-
Investments in associates accounted for using the equity method	387.639.750	387.639.750	-	-	-	-
Change in fair value of a portfolio of financial instruments hedged against interest rate risk	215.762.686	215.762.686	-	-	-	-
TOTAL	**47.550.130.357**	**48.177.354.315**	**627.223.958**			
Financial liabilities						
Deposits at amortised cost	38.071.682.030	38.417.394.575	345.712.545	-	100,0%	-
Financial instruments held for trading	157.060.590	157.060.590	-	-	-	-
Hedging derivative financial instruments	873.308.000	873.308.000	-	-	-	-
Financial liabilities designated at fair value through profit or loss	166.144.407	166.144.407	-	-	-	-
Debt securities in issue	3.815.080.561	3.817.223.592	2.143.031	-	100,0%	-
of which measured at fair value for hedging purposes	*323.931.761*	*323.931.761*	-	-	-	-
TOTAL	**43.083.275.588**	**43.431.131.164**	**347.855.576**			

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

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

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

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

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

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

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

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

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

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

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

Hierarchy of financial assets and liabilities at fair value

Financial assets and liabilities at fair value:

Categories at 31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	**-**	**138.717.034**	**-**	**138.717.034**
- Debt instruments	-	-	-	-
- Equity instruments	-	-	-	-
- Derivative financial instruments	-	138.717.034	-	138.717.034
- IRS	-	*75.804.806*	-	*75.804.806*
- CIRS/outright	-	*61.169.505*	-	*61.169.505*
- other	-	*1.742.723*	-	*1.742.723*
Hedging derivative financial instruments	**-**	**72.838.495**	**-**	**72.838.495**
- IRS	-	*28.512.027*	-	*28.512.027*
- CIRS	-	*44.326.468*	-	*44.326.468*
Financial assets mandatorily recognised at fair value through profit or loss	**-**	**809.029.562**	**7.320**	**809.036.882**
- Debt instruments	-	790.386.664	7.320	790.393.984
- Public sector	-	*151.913.360*	-	*151.913.360*
- Credit institutions	-	*477.661.483*	-	*477.661.483*
- Corporate customers		*160.811.820*	*7.320*	*160.819.141*
- Other financial instruments	-	18.642.898	-	18.642.898
- Corporate customers	-	*18.642.898*	-	*18.642.898*
Variable-income securities recognised at fair value through the revaluation reserve	**46.463.330**	**154.499.982**	**657.800.780**	**858.764.091**
- Public sector	-	-	-	-
- Credit institutions	-	-	*4.018.037*	*4.018.037*
- Corporate customers	*46.463.330*	*154.499.982*	*653.782.743*	*854.746.054*
Fixed-income securities recognised at fair value through the revaluation reserve	**18.042.494**	**-**	**-**	**18.042.494**
- Credit institutions	-	-	-	-
- Public sector	*18.042.494*	-	-	*18.042.494*
TOTAL	**64.505.823**	**1.175.085.072**	**657.808.100**	**1.897.398.996**
Financial liabilities				
Derivative financial instruments held for trading	**-**	**366.643.742**	**-**	**366.643.742**
- IRS	-	*77.772.031*	-	*77.772.031*
- CIRS/outright	-	*286.798.005*	-	*286.798.005*
- other	-	*2.073.706*	-	*2.073.706*
Hedging derivative financial instruments	**-**	**1.112.075.207**	**-**	**1.112.075.207**
- IRS	-	*945.827.926*	-	*945.827.926*
- CIRS	-	*166.247.281*	-	*166.247.281*
Financial liabilities designated at fair value through profit or loss	**-**	**- 172.175.873**	**-**	**- 172.175.873**
TOTAL	**-**	**1.306.543.076**	**-**	**1.306.543.076**

Categories at 31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	**-**	**143.054.603**	**-**	**143.054.603**
- Debt instruments	-	-	-	-
- Equity instruments	-	-	-	-
- Derivative financial instruments	-	143.054.603	-	143.054.603
- IRS	-	*62.811.115*	-	*62.811.115*
- CIRS/outright	-	*78.464.119*	-	*78.464.119*
- other	-	*1.779.371*	-	*1.779.371*
Hedging derivative financial instruments	**-**	**59.282.590**	**-**	**59.282.590**
- IRS	-	*33.832.129*	-	*33.832.129*
- CIRS	-	*25.450.461*	-	*25.450.461*
Financial assets mandatorily recognised at fair value through profit or loss	**26.715.246**	**1.207.496.489**	**19.483**	**1.234.389.882**
- Debt instruments	26.715.246	1.194.212.814	19.483	1.221.106.207
- Public sector	-	*89.481.852*	-	*89.481.852*
- Credit institutions	-	*761.316.860*	-	*761.316.860*
- Corporate customers	*26.715.246*	*343.572.766*	*19.483*	*370.307.495*
- Other financial instruments	-	13.283.675	-	13.283.675
- Corporate customers	-	*13.283.675*	-	*13.283.675*
Variable-income securities recognised at fair value through the revaluation reserve	**87.326.531**	**312.864.465**	**420.525.993**	**820.716.989**
- Public sector	-	-	-	-
- Credit institutions	-	-	*3.958.116*	*3.958.116*
- Corporate customers	*87.326.531*	*312.864.465*	*416.567.878*	*816.758.873*
Fixed-income securities recognised at fair value through the revaluation reserve	**16.069.764**	**-**	**-**	**16.069.764**
- Credit institutions	*11.000.000*	-	-	*11.000.000*
- Public sector	*5.069.764*	-	-	*5.069.764*
TOTAL	**130.111.540**	**1.722.698.148**	**420.545.476**	**2.273.513.829**
Financial liabilities				
Derivative financial instruments held for trading	**-**	**157.060.590**	**-**	**157.060.590**
- IRS	-	*70.330.949*	-	*70.330.949*
- CIRS/outright	-	*84.619.258*	-	*84.619.258*
- other	-	*2.110.383*	-	*2.110.383*
Hedging derivative financial instruments	**-**	**873.308.000**	**-**	**873.308.000**
- IRS	-	*681.319.977*	-	*681.319.977*
- CIRS	-	*191.988.023*	-	*191.988.023*
Financial liabilities designated at fair value through profit or loss	**-**	**166.144.407**		**166.144.407**
TOTAL	**-**	**1.196.512.997**	**-**	**1.196.512.997**

Changes in outstanding financial assets from one year to the next stem primarily from the change in the valuation prices of variable-income and fixed-income securities with, however, an exception for financial assets mandatorily recognised at fair value through profit or loss where the carrying amount at Level 2 decreases significantly due to the non-replacement of positions that have matured.

A comparison of the breakdown of financial assets by level at end-2020 shows that 3,4% (5,72% in 2019) of financial assets are classified as Level 1, 61,9% (75,8% in 2019) as Level 2 and 34,7% (18,5% in 2019) as Level 3.

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

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

Level 3 breakdown:

	Financial assets mandatorily recognised at fair value through profit or loss		Variable-income securities recognised at fair value through the revaluation reserve	Total financial assets
	Debt instruments	Equity instruments		
Total as at 1 January 2020	**19.481**	**-**	**420.525.993**	**420.545.475**
Total gains / losses	1.660.905	-	241.505.428	**243.166.333**
- Income statement	*1.660.905*	-	-	***1.660.905***
- Revaluation reserve	-	-	*241.505.428*	***241.505.428***
Purchases	-	-	-	-
Reimbursements/sales	-1.171.773	-	-27.572	**-1.199.345**
Reclassification	-	-	-	-
Other changes	-501.296		-4.203.069	**-4.704.365**
Transfers from Level 1 to Level 3		-	-	-
Transfers from Level 2 to Level 3	-	-	-	-
Transfers from Level 3	-	-	-	-
Total as at 31 December 2020	**508.616**	**-**	**657.800.780**	**657.808.100**
Total gains/losses for the period included in the income statement for financial assets and liabilities held as at 31 December 2020	113.160	-	3.013.500	**3.126.660**

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

For financial year 2020, the transfer from Level 2 to Level 3 involved one position in the variable-income securities recognised at fair value through the revaluation reserve category, which was the subject of a transaction in first-half 2019 and which was therefore reallocated to Level 3 of the fair value hierarchy at 31 December 2020.

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

Sensitivity analysis for Level 3:

Given the small amount recognised for debt instruments, the Group's parent company does not provide a sensitivity analysis for Level 3 for financial years 2020 and 2019.

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

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

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

31/12/2020	Level 3 fair value	Impact on fair value	
		10% decrease depending on the methodology used	10% increase depending on the methodology used
Variable-income securities recognised at fair value through the revaluation reserve	550.625.130	-73.993.942	72.199.179

31/12/2019	Level 3 fair value	Impact on fair value	
		10% decrease depending on the methodology used	10% increase depending on the methodology used
Variable-income securities recognised at fair value through the revaluation reserve	420.525.993	-69.673.538	74.245.645

The sensitivity analysis was performed on the two largest shareholdings.

Analysis of foreign exchange risk: Net currency positions

As at 31/12/2020	Net balance sheet position
CHF	2.809.723
JPY	-2.722.438
USD	10.767.361
Other	-771.340
Total	**10.083.306**

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

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

6.5 Liquidity risk

6.5.1 Schedule of liabilities

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

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2020
Issuance of securities*	1.370.193.462	1.204.491.592	**2.574.685.054**	129.586.918	475.209.538	**604.796.456**	**3.179.481.510**
Deposits at amortised cost -							
Credit institutions	2.005.526.658	402.278.716	**2.407.805.374**	3.490.681.921	54.211.677	**3.544.893.598**	**5.952.698.972**
Customers	31.789.112.269	1.130.522.879	**32.919.635.148**	979.313.443	713.483.203	**1.692.796.646**	**34.612.431.794**
Liabilities arising from leases	750.551	2.251.654	**3.002.205**	6.632.089	1.597.884	**8.229.973**	**11.232.177**
Total	**35.165.582.940**	**2.739.544.841**	**37.905.127.781**	**4.606.214.371**	**1.244.502.302**	**5.850.716.673**	**43.755.844.453**

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2019
Issuance of securities*	1.572.156.515	1.820.757.118	**3.392.913.633**	190.631.135	279.280.143	**469.911.278**	**3.862.824.911**
Deposits at amortised cost -							
Credit institutions	3.605.350.874	1.007.063.127	**4.612.414.001**	51.655.270	63.564.671	**115.219.941**	**4.727.633.942**
Customers	29.243.315.501	1.302.579.187	**30.545.894.688**	2.439.512.561	420.819.614	**2.860.332.175**	**33.406.226.863**
Liabilities arising from leases	838.500	2.515.501	**3.354.001**	7.305.798	2.987.463	**10.293.261**	**13.647.262**
Total	**34.421.661.391**	**4.132.914.933**	**38.554.576.323**	**2.689.104.764**	**766.651.891**	**3.455.756.655**	**42.010.332.978**

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

Table showing balance sheet liabilities according to "expected" maturity dates determined in accordance with the ALM policy:

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2020
Issuance of debt securities	1.496.349.041	1.081.964.163	**2.578.313.204**	121.601.920	269.005.817	**390.607.738**	**2.968.920.942**
Deposits at amortised cost -							
Credit institutions	2.523.955.506	52.143.646	**2.576.099.152**	3.212.224.176	12.232.644	**3.224.456.820**	**5.800.555.972**
Customers	12.099.245.081	5.161.513.630	**17.260.758.711**	10.165.022.185	7.208.784.584	**17.373.806.769**	**34.634.565.480**
Total	**16.119.549.628**	**6.295.621.439**	**22.415.171.067**	**13.498.848.281**	**7.490.023.045**	**20.988.871.326**	**43.404.042.393**

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2019
Issuance of debt securities	1.838.109.420	1.600.920.035	**3.439.029.455**	189.999.754	281.943.991	**471.943.745**	**3.910.973.200**
Deposits at amortised cost -							
Credit institutions	4.403.519.169	139.835.355	**4.543.354.524**	39.601.243	18.690.964	**58.292.207**	**4.601.646.731**
Customers	12.251.313.382	5.714.633.573	**17.965.946.954**	9.462.189.996	6.042.145.078	**15.504.335.074**	**33.470.282.029**
Total	**18.492.941.970**	**7.455.388.963**	**25.948.330.933**	**9.691.790.993**	**6.342.780.033**	**16.034.571.026**	**41.982.901.960**

6.5.2 Schedule of derivative financial instruments

Tables showing derivative financial instruments settled in gross cash flows:

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

Amounts are shown in euros at the exchange rates on 31 December 2020 and 31 December 2019.

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2020
Derivative financial instruments held for trading					
Foreign exchange swaps and forward exchange contracts					
Inflows	10.887.736.164	3.488.741.419	213.556.011	3.948.511	14.593.982.105
Outflows	-11.042.146.689	-3.552.744.000	-213.121.642	-3.497.839	-14.811.510.170
Derivative financial instruments used for hedging purposes					
CCIS					
Inflows	45.857.240	331.871.627	961.638.026	897.541.527	2.236.908.420
Outflows	-60.109.247	-370.720.729	-1.078.275.273	-908.147.670	-2.417.252.919
Total inflows	**10.933.593.404**	**3.820.613.046**	**1.175.194.037**	**901.490.038**	**16.830.890.525**
Total outflows	**-11.102.255.936**	**-3.923.464.729**	**-1.291.396.915**	**-911.645.509**	**-17.228.763.089**

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

Tables showing derivative financial instruments settled in net cash flows:

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

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2020
Derivative financial instruments held for trading					
IRS	-2.539.546	4.660.619	382.045	-27.163.325	-24.660.207
Derivative financial instruments used for hedging purposes					
IRS	49.193.734	104.619.216	461.005.610	423.513.113	1.038.331.673
Total outflows	**46.654.188**	**109.279.835**	**461.387.655**	**396.349.788**	**1.013.671.466**

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2019
Derivative financial instruments held for trading					
IRS	-211.487	4.906.299	-265.109	-33.371.710	-28.942.007
Derivative financial instruments used for hedging purposes					
IRS	42.313.933	95.138.756	392.142.617	386.494.424	916.089.730
Total outflows	**42.102.446**	**100.045.055**	**391.877.507**	**353.122.715**	**887.147.723**

6.6 Economic capital

As part of the ICAAP process, under Basel III Pillar 2, the Group measures economic risk and decides how to allocate its capital resources to the various business lines.

This process and associated work are formally drawn up and reported to the European Central Bank. CSSF Circular 20/753 (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.

As part of the ICAAP process, the various risks to which the Group is exposed are identified and assessed. This includes risks under Pillar 1 of the Basel accords, such as credit, market, and operational risks, and risks under Pillar 2. Identification is based on an ongoing risk assessment and recognition process.

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 latter may result in an increase in capital requirements or have an impact on economic capital.

The Group's parent company's capital management policy meets the objectives of the missions defined in its organic law, including the mission to finance Luxembourg's economy to support its development. 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 prudent approach which consists of considering only the funds immediately available to the Group without restriction as economic capital to cover potential losses or to grow its business.

6.6.1.2 Implementation of internal capital adequacy policy

The Group has adopted the following methodology to implement its internal capital adequacy policy:

- development of an internal risk assessment model (Basel III Pillar 1 risks plus non-Pillar 1 risks);
- determination of a substantial safety margin between available capital and risk hedging, reflected in a high target capitalisation ratio;
- distribution of capital according to the internal organisation of the Group's business lines and its projected results;
- risk exposure forecasts by business;
- calculation of the projected capital requirements to cover the Group's risks in a normative approach and an economic approach;
- allocation of surplus capital according to the Group's strategic guidelines.

In terms of internal governance, the 2020 ICAAP and ILAAP reports were presented to the Board of Directors of the Group's parent company, which approved the proposed guidelines. In accordance with the ICAAP circular, the Board of Directors will be consulted at least annually or more frequently as needed or in the case of a major change in methodology.

7 SEGMENT REPORTING

7.1 The Group's operations

The Group's activities are carried out from the territory of the Grand Duchy of Luxembourg and are organised into three major segments, each with comparable profitability and risk characteristics. The bank also owns stakes in companies in Luxembourg, which are included in a separate segment. The segments defined in this way are managed separately and are grouped into specific structures in the Group's organisational chart:

- Private Banking and Corporate Banking: this segment consists of the branch network with the deposit, lending, advisory and transaction-related activities for retail customers and professional customers, as well as the management services intended for private customers. These products and services are sold through the branch network, by Spuerkeess Direct, by dedicated advisors at the Bank's head office and through the digital channels that serve its customers. From an organisational point of view, these activities fall within the remit of the Private Banking department. The Corporate Banking department manages the relationships with corporate customers and public sector actors. Its loans and credit, leasing and other financial advice services are provided by specialised teams located in Luxembourg.

- Financial Markets and Institutional Clients: this segment comprises the activities relating to Treasury, the Bank's investment portfolio management, Asset and Liability Management, Customer Desk, institutional client monitoring and mutual fund administration and management. From an organisational point of view, these activities fall within the remit of the Financial Markets and Institutional Clients departments.

- Other: this segment consists of income from investments and all the back-office operating activities that provide services to the Private Banking, Corporate Banking, Financial Markets and Institutional Clients segments, as well as the support functions and reconciliation differences. The support functions include, among others, IT, finance, and secretary general, as well as control functions such as audit, compliance and risk management which oversee the activities of all of Spuerkeess's segments.

7.2 Allocation rules and net bank margin

The sector reporting is produced from analytical balance sheet allocation rules, a transfer pricing system and general expense allocation methods.

The transfer pricing system reflects the transfer of interest rate risk which is assumed by the Bank's Asset and Liability Management entity. This entity is responsible for interest rate risk management and for asset/liability management for the entire Bank.

Back-office department and support activity costs are rebilled to the different segments using an analytical cost allocation mechanism that reflects the economic consumption of the products and services provided to these segments.

The Group's net bank margin (NBM) is broken down into these main products:

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

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

Overview by segment:

31/12/2020 (€ thousands)	Retail, Professional, Corporate and Public Sector Banking	Financial Markets and Institutional Clients	Other	Total
Net interest margin	322.995	75.761	-9.012	389.744
Income from securities	-	-	15.881	15.881
Fee and commission income	107.588	47.761	16.159	171.508
Income from financial instruments and foreign exchange	5.189	14.381	-1.650	17.919
Net Bank Margin	**435.772**	**137.903**	**21.378**	**595.052**
Other operating income and expenses	-	-	12.625	12.625
Bank Margin	**435.772**	**137.903**	**34.004**	**607.678**
General expenses plus valuation allowances in respect of intangible and tangible assets	-239.632	-59.887	-101.501	-401.020
Net allowances for valuation and impairment	-25.846	-16.401	-4.979	-47.226
Other	-	-	-	-
Income before tax	**170.294**	**61.614**	**-72.476**	**159.432**
Tax on income for the period and deferred taxes	-	-	-31.334	-31.334
Minority interests / income from associates	-	-	43.902	43.902
Income/(loss)	**170.294**	**61.614**	**-59.907**	**172.001**
Assets	**22.874.280**	**24.864.314**	**2.492.766**	**50.231.360**
Liabilities	**26.816.760**	**22.111.182**	**1.303.419**	**50.231.360**

31/12/2019 (€ thousands)	Retail, Professional, Corporate and Public Sector Banking	Financial Markets and Institutional Clients	Other	Total
Net interest margin	287.420	57.239	32.972	377.632
Income from securities	-	-	31.464	31.464
Fee and commission income	82.081	25.393	47.605	155.079
Income from financial instruments and foreign exchange	3.640	35.816	3.207	42.664
Net Bank Margin	**373.141**	**118.449**	**115.248**	**606.839**
Other operating income and expenses	-	-	9.603	9.603
Bank Margin	**373.141**	**118.449**	**96.938**	**616.442**
General expenses plus valuation allowances in respect of intangible and tangible assets	-210.894	-35.386	-142.676	-388.956
Net allowances for valuation and impairment	7.911	892	-2	8.802
Other	-	-	1.161	1.161
Income before tax	**170.158**	**83.955**	**-16.665**	**237.449**
Tax on income for the period and deferred taxes	-	-	-42.962	-42.962
Minority interests / income from associates	-	-	11.854	11.854
Income/(loss)	**170.158**	**83.955**	**-47.773**	**206.341**
Assets	**21.878.561**	**23.997.540**	**2.027.708**	**47.903.810**
Liabilities	**24.699.743**	**21.787.395**	**1.416.671**	**47.903.810**

Contribution by product to net bank margin:

in thousands of euros	31/12/2019	31/12/2020
Deposits from private customers, business customers, corporates, the public sector and institutional clients	61.396	93.493
Loans and advances to private customers, business customers, corporates, the public sector and institutional clients	254.403	266.218
Other products for private customers, business customers, corporates, the public sector and institutional clients	57.342	76.060
Other products	233.697	159.281
Total Net Bank Margin	**606.838**	**595.052**

The growth in net bank margin from deposits from private customers, business customers, corporates and the public sector can be attributed to several effects, including a methodological change to internal transfer pricing generating higher margins on Spuerkeess's liability products.

SPUERKEESS'S GOVERNING BODIES

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

BOARD OF DIRECTORS AS AT 31 DECEMBER 2020

CHAIRMAN	Camille Fohl
VICE-CHAIRMAN	Elisabeth Mannes-Kieffer
BOARD MEMBERS	Nima Ahmadzadeh
	Simone Delcourt
	Marie-Paule Gillen-Snyers
	Manuel Nicolas
	Jean-Pierre Zigrand
STAFF REPRESENTATIVE	Georges Dennewald
	Carmen Jaffke

SUPERVISORY COMMISSIONER

Bob Kieffer

EXECUTIVE COMMITTEE

CHAIRMAN	Françoise Thoma	Chief Executive Officer
MEMBERS	Guy Rosseljong	Deputy Chief Executive Officer
	Doris Engel	Director
	Aly Kohll	Director
	Romain Wehles	Director

STATUTORY AUDITOR

Ernst & Young, Public Limited Company, Luxembourg

Approved by the Board of Directors during its meeting of 31 March 2021.

Luxembourg, 31 March 2021

For the Board of Directors

Camille Fohl
Chairman