

ANNUAL REPORT 2009
154th FINANCIAL YEAR



BANQUE ET CAISSE D'ÉPARGNE DE L'ÉTAT
LUXEMBOURG

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Board of Directors (as at March 1, 2010)



Executive Committee

1. GOVERNING BODIES OF THE BANK

The organisation of Banque et Caisse d'Epargne de l'Etat, Luxembourg, the country's leading financial institution established in 1856, was updated by the Law of 24 March 1989 which defines the respective powers of the Board of Directors and the Executive Committee. According to Article 8 of this constitutional law, the Board of Directors shall define the general policy of the Bank and supervise the management of the Executive Committee. All administrative acts and arrangements necessary or useful to the Bank's object come within the responsibility of the Executive Committee, subject to those authorisations under the present law.

As at December 31, 2009, the governing bodies are the following:

BOARD OF DIRECTORS

CHAIRMAN	Mr Victor ROD	Directeur du Commissariat aux Assurances
VICE-CHAIRMAN	Mr Patrick GILLEN	Directeur du Contrôle Financier, Ministère des Finances
MEMBERS	Mr Georges DENNEWALD	Représentant du personnel
	Mr Paul ENSCH	Directeur, Chambre des Métiers
	Mrs Elisabeth MANNES-KIEFFER	Premier Conseiller de Gouvernement, Ministère de l'Economie
	Mr Patrick NICKELS	Conseiller de direction 1ère classe, Ministère de l'Economie et du Commerce extérieur
	Mr Nico RAMPONI	Représentant du personnel
	Mrs Betty SANDT	Attaché de Gouvernement 1er en rang, Ministère des Finances
	Mr Fernand SPELTZ	Conseiller économique à la Chambre des Salariés

SUPERVISORY COMMISSIONER

Mr Georges HEINRICH	Directeur du Trésor, Ministère des Finances
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EXECUTIVE COMMITTEE

PRESIDENT	Mr Jean-Claude FINCK	Chief Executive Officer
MEMBERS	Mr Michel BIREL	Deputy Chief Executive Officer
	Mr Gilbert ERNST	Executive Vice President
	Mr Guy ROSSELJONG	Executive Vice President
	Mrs Françoise THOMA	Executive Vice President

2. KEY FIGURES AND MAIN DEVELOPMENTS

1. Key figures

	2008 in thousands of euros	2009	% change 2009/2008
TOTAL BALANCE SHEET	37,522,483	37,641,451	+0.3%
Deposits at amortised cost - Credit institutions	3,805,524	4,806,614	+26.3%
Deposits at amortised cost - Retail and public sector	24,248,314	21,507,188	-12.7%
Securities issued	5,671,112	7,714,426	+36.0%
Loans and advances at amortised cost - Credit institutions	10,112,612	7,646,663	-24.4%
Loans and advances at amortised cost - Customers	12,141,557	13,618,971	+12.2%
Available for sale securities - Fixed income securities	11,806,820	11,283,043	-4.4%
BANK EQUITY CORE CAPITAL (1) ("tier 1 capital")	1,256,500	1,397,416	+11.2%
OPERATING INCOME (2)	532,658	567,246	+6.4%
Total general and administrative expenses (3)	256,288	262,530	+2.4%
NET PROFIT	102,932	224,656	+118.2%
CAPITAL ADEQUACY RATIO (1)	24.1%	23.0%	
CAPITAL ADEQUACY RATIO (1) ("tier 1 capital")	14.6%	14.4%	
AVERAGE STAFF (number of contracts)	1,803.0	1,799.0	-0.2%

(1) Bank equity core capital ("tier 1") and capital adequacy ratio determined in accordance with Circular CSSF 06/273.

(2) Interest and dividend income, fee and commission income, income from financial instruments, operating income and expenses.

(3) General administrative expenses plus value adjustments in respect of intangible and tangible assets.

2. Major developments in 2009: Ongoing increase in an uncertain economic environment

- Growth in banking income (+6.4%) due to the dynamic evolution of the different segments of the Bank: the Retail, Professional, Corporate and Public Sector, the Capital Markets and Investment Funds segments.
- Important growth of loans and advances to the national economy (+12.2%).
- Efficient cost management resulting in a limited increase (+2.4%) of general and administrative expenses and depreciation of tangible and intangible assets.
- Important growth of net profit (+118.2%).
- Solvency ratios kept at very high levels: Capital adequacy ratio of 23.0% and "tier 1 capital ratio" of 14.4%.
- New strategic plan "Spuerkeess 2014" defining the objectives and strategies of the Bank for the forthcoming years.
- Confirmation of the excellent ratings Aaa and AA+ by the rating agencies Moody's and Standard and Poors in 2009.
- Finalisation of the restructuring process of the branch network which encompasses 14 Financial Centres across the whole country.
- Strong development of SME pools in the Financial Centres including an institutional marketing to foster target-orientated communication with corporations.
- Issuing of saving schemes with capital guarantees and a new subfund of the SICAV LUXBOND for customers with a conservative risk profile.
- Promotion of the brand "EcoPrêts" through conferences to increase customer and staff awareness to a rational use of energy and an investment in renewable energies.
- Provision of the request for a personal loan via S-net, allowing customers to complete their request in a highly secure environment which is available 24/7.
- Compliance to the European Payment Services Directive, providing more transparent information and harmonizing the terms of execution of financial transfers in the European Economic Area.
- Granting of the label "Bank of the Year 2009" by the financial magazine "The Banker" for the fourth time in 5 years. Furthermore, the BCEE received the "Best Bank Award 2009" from the magazine "Global Finance".
- Sponsoring of initiatives on the subject of health and quality of life in the working environment, to act on the corporate social responsibility of the company.
- Development of a responsible environment policy, concerning mostly the waste separation and the granting of the label "SuperDrecksKëscht".

3. DECLARATION ON THE CONFORMITY OF THE ANNUAL ACCOUNTS

Luxembourg, March 17, 2010

Declaration on the conformity of the annual accounts and the management report in accordance with the regulations of article 3 of the transparency law ("Loi Transparence")

Hereby, we declare that to the best of our knowledge, the consolidated annual accounts as at December 31, 2009 of Banque et Caisse d'Epargne de l'Etat, Luxembourg have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, the financial position and the income statement and that the management report is an accurate description of the situation, including the main risks and uncertainties of the Bank and the group of companies includes in the consolidated annual accounts.

For and on behalf of the Executive Committee

Michel Birel
Deputy Chief Executive Officer

Jean-Claude Finck
Chief Executive Officer



4. BCEE GROUP CONSOLIDATED MANAGEMENT REPORT

Most of the leading global economies returned to growth at the end of 2009. However, this development was driven by public intervention in the financial markets, accommodative monetary policies and very large budget deficits.

The after-effects of the recession, such as unemployment, public deficits and company bankruptcies will continue to be felt for many years to come.

The Luxembourg economy has obviously not been able to avoid the consequences of the international crisis, as shown by job losses in many companies and significant measures implemented by the Government in the area of short-term employment.

Financial market activities have only made slight headway in this uncertain economic environment. Nevertheless, the markets' recovery in the second half of the year increased the value of securities held by banks. This led to a significant increase in the Bank's other net income, which includes changes in the value of securities held for trading. Conversely, interest margins suffered from the fourth quarter onwards due to less favourable terms to maturity and a year-on-year decrease in balance sheet totals.

BCEE group consists of Banque et Caisse d'Epargne de l'Etat together with its fully consolidated subsidiaries and equity-accounted for associates.

The group has opted to report on its businesses in three segments: Personal, Business, Corporate and Public Sector Banking; Merchant Banking and Investment Funds; and Others.

Consolidation of the "Personal, Business, Corporate and Public Sector Banking" segment

Personal and Business customers

Growth has been particularly encouraging in this segment, as it represents BCEE group's traditional customer base. Significant investments have been made in order to continually improve the quality of the business relationship with these customers.

Firstly, the Bank has completed restructuring its branch network. It now includes 14 Financial Centres across the country. Secondly, a new version of S-net has been launched. Among other things, it allows personal loan simulations and applications to be made via S-net. BCEE currently serves 132,000 S-net subscribers, confirming its position as the undisputed market leader in electronic banking services in Luxembourg. Furthermore, the Bank has continued to promote the EcoPrêts range of ecological loans, in order to raise customers' awareness to the rational use of energy and to promote renewable energies.

In this regard, the Bank has seen dynamic growth in its lending book, particularly in the area of property lending, with total outstanding property loans up by 8.3%.

New savings accounts have grown at an increasing pace. Indeed, the challenging conditions on the financial markets are encouraging customers to seek out security. Time deposit balances, on the other hand, have declined significantly; they are less appealing due to falling money market interest rates.

The Bank has also launched various structured products with a capital guarantee, and has continued to extend its range of investment funds with the launch of a new sub-fund within the Luxbond sicav, targeting customers with a conservative risk profile.

Corporate and Public Sector customers

The Bank has achieved dynamic growth in its business in the highly competitive arena of Corporate and Public Sector banking. Its high quality of service and dynamic staff have led to a significant increase in lending balances.

The Bank has staffed each Financial Centre with SME advisor teams and held conferences for business customers on a wide range of topics as part of its corporate social responsibility activities.

Significant increase in revenue from the “Merchant Banking and Investment Funds” segment

Merchant Banking

Business strongly benefited from favourable maturity conditions in 2009. However, this situation did not last in the second half of the year due to the stabilisation of interest rate yield curves.

Furthermore, the Bank was able to significantly reduce its provisioning levels relative to the previous year, which had been characterised by the default of major financial institutions.

Investment fund Administration and Management

Income earned in this area was not impaired by asset write-downs, as was the case in the previous year. However, securities’ transaction fees decreased owing to poor stock market performance in the early part of the year, which discouraged stock market transactions generating brokerage fees.

"Others" components of net income segment

The "Others" segment mainly consists of Back Office revenue and income from the Bank's strategic investments. Improvement in back office revenue essentially came from the securities' business. Dividends on strategic investments also rose significantly compared to 2008.

Risk management policy

After receiving approval from the "Commission de Surveillance du Secteur Financier" (CSSF), the Bank has applied the internal rating based method (foundation approach) for calculating the McDonough solvency ratio as from January 1, 2008. As in previous years, improving credit risk management methodologies has been one of the Bank's concerns. In 2009, the Bank also implemented regulatory requirements laid down in the following circulars:

- CSSF 07/301 – "Implementation of the internal capital adequacy assessment process (ICAAP)". The Bank has continued to outline its capital adequacy policy, which aims to ensure that a Tier 1 capital ratio of 12% is maintained at all times.
- CSSF 09/403 – "Sound liquidity risk management": the stress tests laid down in this circular have shown that the Bank is in a comfortable liquidity position, and would be able to cope with potential large-scale withdrawals by customers without any major problems.

In general terms, the policy for managing risks inherent to the various businesses is based upon the following guidelines:

- Managing the risk arising from the Bank's transactions and portfolios;
- Facilitating decision-making when entering into new transactions and ensuring an adequate return in relation to the level of risk identified;
- Maintaining an appropriate balance between the various business portfolios;
- Protecting the Bank's long-term sustainability.

This section is divided into subsections covering four major risk categories: counterparty or credit risk, market risk, liquidity risk and operational risk.

Counterparty risk

Decisions on lending to the domestic market are made by a hierarchy of Credit Committees, in accordance with customers' total outstanding exposure. Residential mortgages make up over half of the portfolio. Here, credit risk is covered by the process of assessing customers' ability to repay and the existence of guarantees. For corporate loans and advances, the Bank has established suitable procedures for analysing applications and related collateral. Particular attention is paid to compliance with commitments by sector and counterparty. Using the Basel II methodology, the Bank is able to continually monitor aggregate portfolio risk.

Most of the counterparties in the Bank's international portfolio are banks and financial institutions. Internal ratings are applied to the counterparties in a combination of quantitative and qualitative analysis. The quantitative component is based on ratios describing as closely as possible a counterparty's profitability, capital adequacy, liquidity and asset quality while the qualitative component is an input from the analyst's expert judgement of non-financial factors such as market share, quality of management and external ratings.

International commitments to non-financial entities, are only granted to counterparties rated at least "Investment Grade" in OECD countries. As for the Bank's other counterparties, these counterparties are given an internal rating based on rules similar to those applied to banks and financial institutions.

Lending exposure is monitored for counterparty risk and regularly checked on the basis of updated financial information and proposed limit adjustments by counterparty. The Bank also applies a system of country limits for countries rated below AA-. These limits are subject to periodic review.

Investments in derivatives are extensively regulated through the use of standard ISDA ("International Swaps and Derivatives Association Inc.") agreements, which include compensation clauses in the event that either party should default. The Bank has put in place a further means of reducing risk by negotiating a "Credit Support Annex" (CSA) to ISDA agreements with the biggest counterparties in respect of off balance sheet transactions. Following regular revaluations of bilateral positions, this annex provides for guarantee deposits in the form of cash or first-class securities as soon as the net value of current agreements exceeds a certain threshold. As at the end of 2009, approximately 90% of all derivative transactions entered into by the Bank were covered by an ISDA/CSA agreement.

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 exchange rates.

Within its market risk management policy, the Bank draws a distinction between transformation risk, which arises from structural differences between the maturities of funds and the use of those funds on the Bank's balance sheet, and risk associated with cash flow management and trading activities.

Transformation risk falls within the responsibility of the ALM (Asset Liability Management) Committee, which ensures, on one hand, that the Bank's capital and funds invested in sight and savings accounts are properly managed, and on the other hand, that both lending and bond and equities' portfolios are refinanced so that any negative impact of yield curve movements on the Bank's performance is

minimised. The ALM Committee consists of members of the Bank's Executive Committee and a number of departmental Heads.

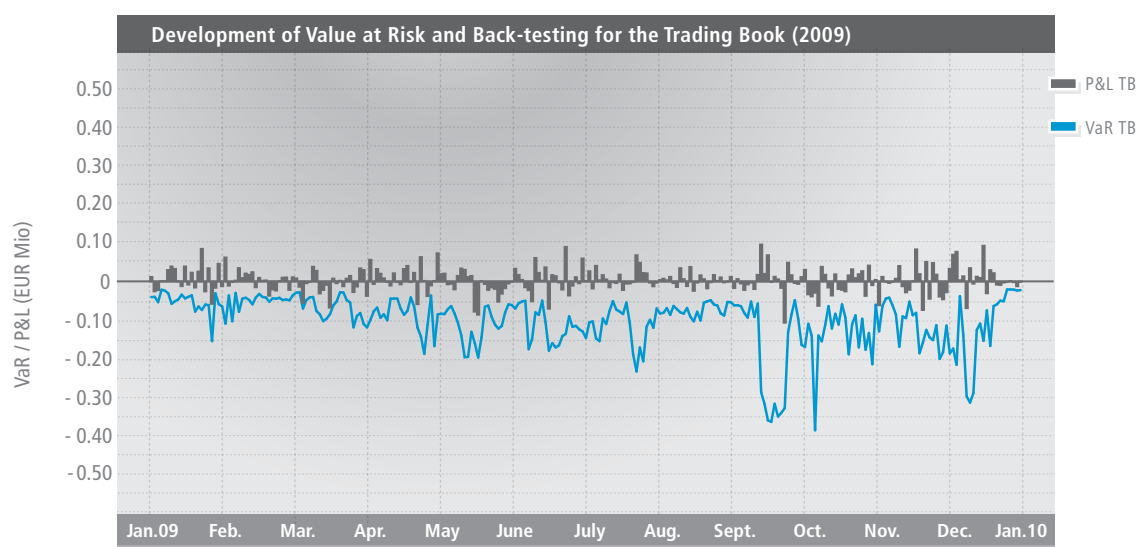
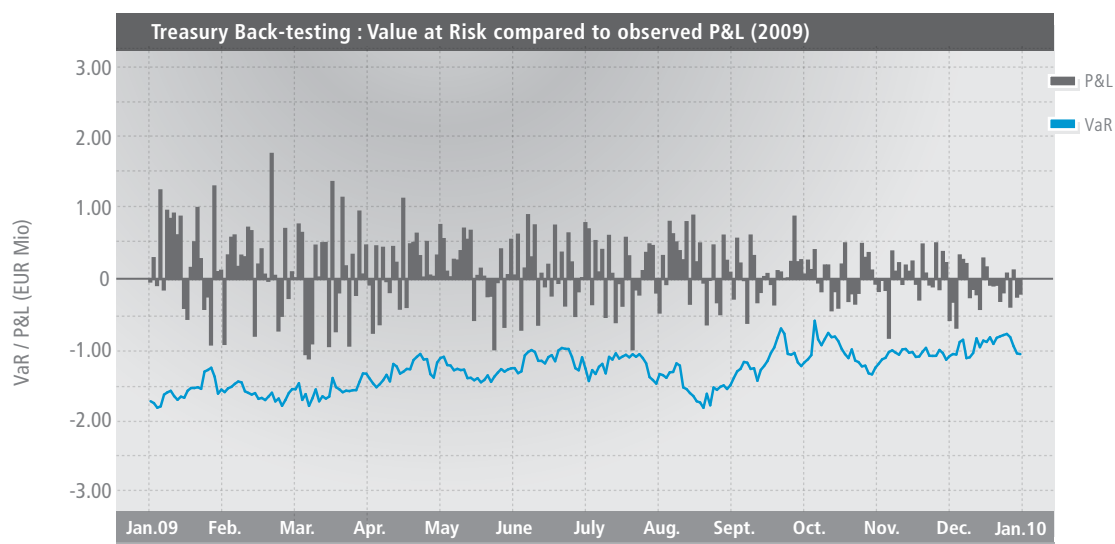
All other components of market risk, such as interest rate risk, foreign exchange risk and share price risk affecting the Bank's treasury positions or trading positions in on and off balance sheet instruments, are centralised in real time, in the trading book, using the Bank's front office system, and are managed within limits set by the Bank's Executive Committee. A regular reporting to the Executive Committee on compliance with limits and levels of risk incurred is prepared by a unit independent of the Financial Markets' Department.

Risk levels are mainly, though not exclusively, monitored using the linear "Value at Risk" (VaR) indicator. The Bank calculates VaR using the so-called historical simulation method. Trading and cash activities are each subject to their own VaR limits.

VaR is assessed for all portfolios subject to market risk (trading, cash and investment portfolios), with the exception of the strategic investment portfolio, on a daily basis. Assessments are made for a one-day period with a 99% confidence threshold. Time series cover a full year, i.e. a total of 259 observations for 2009.

The effectiveness of VaR calculations is subject to backtesting, which involves comparing predicted VaR with observed changes in value. The first graph shows changes in VaR and the results of backtesting for the Bank's treasury positions throughout 2009. The average VaR was €1.26 million. Average 2009 VaR for the trading portfolio alone was €101,000.

Negative results for treasury activities should not exceed average VaR for more than one day in a hundred. VaR was not exceeded in respect of cash activities in 2009.



In addition to VaR, which is used to manage various market risks in an aggregate manner, the Bank uses other risk management tools with regards to the type of financial instrument analysed. For example, interest rate risk is managed by simulating the impact on the net present value of positions of a parallel one basis point (0.01%) shift in interest rate yield curves. Daily reports thus show the change arising from a parallel one basis point shift in all interest rate yield curves, also known as “basis point value” (BPV), which must respect the limits set up. Similarly, foreign exchange risk and equity risk are managed using limits on individual positions and stop-loss orders.

Liquidity risk

Liquidity risk results from a reconciliation problem between inflows and outflows at a specific date. The risk for a financial institution is that it may not be, at any given time, able to meet its payment obligations as a result of having insufficient liquid assets relative to its liabilities which have become payable. By virtue of its capital structure, the Bank generally has excess liquidity.

Over the course of 2009, the Bank initiated various projects following recommendations by the CEBS¹ on tighter regulation of the supervision of liquidity risk, as published through CSSF circular 09/403.

The Bank continually monitors liquidity risk in line with maturities. This monitoring includes both very detailed reconciliation of cash inflows and outflows over a six month horizon and a medium- and long-term view of structural funding requirements. In 2009, the Bank carried out the stress test required by CSSF circular 09/403. The stress test confirmed that the Bank would, by virtue of its liquid assets, be able to cope with unexpected large-scale withdrawals over an extended period.

Beyond that, the Bank has stable and diversified liabilities, particularly 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, ensuring that it holds a comfortable liquidity position. Furthermore, the Bank’s high-quality fixed income securities’ portfolio (with an average rating of AA-) ensures refinancing of its liabilities both with the Banque centrale du Luxembourg (BCL) and on the repo market.

In the event of an urgent call for large amounts of liquidity, the Bank has intraday and overnight credit lines with the BCL, secured by securities issued by the public sector or other fixed-income securities. To this end, the Bank aims to always have a portfolio of at least €4 billion in fixed-income securities which could be used as collateral for the BCL. Overall, the volume of the portfolio of assets eligible for refinancing with the BCL and/or on the interbank market is permanently in excess of €10 billion.

¹ CEBS: Committee of European Banking Supervisors

In 2009, the Bank also became a member of the CLS² foreign exchange transaction settlement system. Membership of this system virtually eliminates settlement risk arising from foreign exchange transactions by way of the “payment-versus-payment” principle, and reduces the Bank’s liquidity risk by netting transactions, leading to a considerable reduction in volumes transferred.

Operational risk

In general terms, operational risk is the risk of loss arising from unsuitable or defective internal procedures, human or system errors or external events.

Operational risk is managed by way of detailed rules and procedures, as well as through an internal control system implemented at all levels of the Bank and monitored by senior management.

To centralise its management of operational risk, the Bank uses a tool to manage internal incidents in accordance with the methodologies proposed by Basel II. For instance, the Bank manages a database of all occurrences having an impact on its performance and relating to human or system failure. Entries to the database are also analysed on a recurring basis by a number of committees of the Bank.

The Bank aims to reduce operational risk by constantly improving its operating systems and organisational structure.

In retail banking, efforts are made to avoid unexpected events by rigorously monitoring business, separating responsibilities at an operational level and tightening procedures. The Compliance department monitors compliance with all current regulations by implementing procedures, delivering training on preventing money laundering and terrorist financing and monitoring customer complaints.

In 2009, a large-scale money laundering prevention training was organised, supplemented by meetings with the people in charge at the business level.

The “Organisation” department is responsible for coordinating the Bank’s major IT projects, with the aim of providing change management and avoiding operational risks inherent to such projects. Beyond that, it monitors the Bank’s physical and IT security and coordinates the Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP), which serve to ensure continuity of the Bank’s operations, should an unexpected event occur.

As regards the security of information systems, particular attention is continually paid to protecting customer data. Security considerations are part of all IT projects, and the Bank regularly calls for dedicated security audits to confirm that it is achieving the required level of security.

To complement these measures, the Bank contracted insurance policies to protect itself against potential financial losses arising from the materialisation of operational risks. These insurance policies cover the Bank's main areas of activities.

Financial risk and hedge accounting within the annual accounts

The Bank uses derivatives to hedge against interest rate, foreign exchange, credit and fixed price risks (stock market indices, share prices). Interest rate swaps (IRSs) and cross currency interest rate swaps (CIRSs) are commonly used in "Plain Vanilla" standard hedging activities. On top of these standardised contracts, the Bank uses swaps with structured components to hedge structured debt positions as well as structured bonds included in its portfolio of Available for sale assets and containing embedded derivatives.

Derivatives are always considered as being held for trading purposes except where they are designated as hedging instruments. When entering into a contract, the Bank may designate certain financial instruments as hedging instruments where the transactions in question meet the criteria set out in IAS 39.

The Bank mainly relies on fair value hedges.

Hedge accounting has to comply with the following complete list of conditions set out in IAS 39:

- Prior to setting up the hedge, a detailed and standardised documentation on the relation between the hedged item and the hedging item, the nature of the hedged risk, the objective and strategy justifying the hedging transaction as well as the method used to measure the effectiveness of the hedging relationship should be prepared;
- The hedging starts with the designation of the financial derivative instrument used for hedging and ends either at the derecognition of the hedged instrument or if the effectiveness of the hedge is not longer given;
- Prospective effectiveness: as soon as the transaction is set up, the characteristics of the hedging transaction should enable an efficient hedge in order to offset fair value changes or changes in the cash flow of the hedged underlying item during the hedging period. Prospective effectiveness is established when the main characteristics between hedged items and hedging items are significantly identical (face value, interest rate, maturity, currency) within the hedging period designated by the Group for the concerned transaction;
- Retrospective effectiveness: back testing of the hedge effectiveness (variations between 80% and 125%) is carried out at each accounting cut-off date.

The Bank's hedging transactions are highly effective.

Strong growth in profitability in an uncertain economic environment

BCEE group's consolidated annual accounts were prepared in compliance with IFRS standards as adopted by the European Union, and include the annual accounts of the Bank, its subsidiaries and equity accounted for affiliates over which the Bank directly or indirectly has the power of control regarding management and financial and operational policies.

Subsidiaries are fully consolidated from their date of acquisition, when the Bank, as parent company, starts to exercise control. They are deconsolidated as and when such control ceases.

The Group's financial performance as at December 31, 2009 was significantly stronger than its 2008 performance.

The Bank generated €201.3 million in net income for the group. Consolidated companies generated €20.8 million in net income.

Operating income grew by 6.5%, standing at €567.2 million at year-end 2009.

Net interest income increased by 3.4% as a result of growth in the volume of non-bank customer loans and deposits and favourable maturity transformation conditions in respect of market activities.

Commission income rose by 5.8%, mainly as a result of strong growth in "traditional" banking business with non-bank customers in the area of loans and payments.

Income from variable income securities increased by 13.9%, including a further increase in dividends received on strategic investments recognised as Available for sale financial assets.

Net income from financial instruments rose from €0.3 million at year-end 2008 to €14 million as at December 31, 2009. This unstable revenue item includes net income from securities and derivatives trading, sale of Available for sale financial assets, fair value hedging transactions and foreign exchange transactions. The impact of revaluing fixed-income securities, which are part of the Available for sale financial assets and whose prices have suffered as a result of the widespread crisis of confidence on the financial markets, is recognised in equity under the caption "Revaluation reserve". The same applies to the revaluation of variable income securities recognised under Available for sale financial assets.

The revaluation reserve grew considerably in 2009.

Other operating income and expenses fell from €4.2 million in 2008 to €2.1 million as at year-end 2009.

Through a rigorous cost control policy, BCEE group has been able to limit growth in total overheads, including amortisation charges of tangible and intangible fixed assets, to 2.4%. Major process re-engineering and automation projects help to constantly improve efficiency. These actions have enabled the Bank to compensate for the effects of structural growth in employee expenses while protecting quality of service.

In line with its policy of caution and in a context of financial crisis, BCEE group recognised net impairment losses in respect of individual and collective credit risk of €61.2 million in 2009, as compared with €146.6 million in 2008.

In light of the preceding, the group is able to post a 2009 net profit of €222.1 million, as compared with €100.8 million a year earlier – an increase of €121.3 million.

After distributing part of its net profit, the remainder will be used by BCEE group to strengthen its equity base, which is more than sufficient to comply with European Community solvency standards. Equity under IFRS amounts to €2,672.0 million as at December 31, 2009.

2010 outlook

As the year begins, the European economy is beginning to recover thanks to stimulus plans, low borrowing costs and strong economic performance by China and India in particular.

Over the next few months, governments will have to define fiscal measures and savings to reduce public deficits from 2011 onwards, so as to gradually bring them back within the standards defined by the Maastricht treaty. At the same time, the European Central Bank will be thinking about when and to what extent it should scale back its accommodative monetary policy.

At a domestic level, industrial and commercial performance vary by business sector, and currently available indicators do not point to a deep and widespread decline in corporate sector credit quality.

The housing market is heterogeneous and is in a consolidation phase, while the availability rate of commercial office space rose from 1.7% at the end of 2008 to 5.3% at the end of 2009.

Based on this outlook, the Bank has prepared its “Spuerkeess 2014” business plan, setting out its targets and strategies for the coming years.

Given the Bank’s very solid deposit base, the need to refinance on the bond market will be very limited this year. As such, the EMTN programme will mainly serve to enable the Bank to issue structured savings products to meet demand from domestic customers in a very low interest rate environment.

Within the context described above, BCEE group is confident in its ability to successfully develop its business in line with past developments.

No significant events impacting on the normal course of business occurred after the end of the 2009 financial year.

Luxembourg, March 17, 2010

On behalf of the Executive Committee

Michel Birel
Deputy Chief Executive Officer

Jean-Claude Finck
Chief Executive Officer



5. INDEPENDENT AUDITOR'S REPORT

Report on the consolidated annual accounts

Following our appointment by the Government of the Grand Duchy of Luxembourg, on proposal of the Board of Directors of Banque et Caisse d'Epargne de l'Etat, Luxembourg, and of its agencies ("the Group"), we have audited the accompanying consolidated annual accounts of Banque et Caisse d'Epargne de l'Etat, Luxembourg, which comprise the consolidated balance sheet as at December 31, 2009, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Executive Committee's and Board of Directors' responsibility for the annual accounts

The Executive Committee is responsible for the preparation and fair presentation of these consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union, which are submitted to the Board of Directors for approval, in accordance with the constitutional law of March 24, 1989. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

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

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

Opinion

In our opinion, these annual accounts give a true and fair view of the financial position of Banque et Caisse d'Épargne de l'Etat, Luxembourg, as of December 31, 2009, and of the results of its operations and of its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Executive Committee and which is approved by the Board of Directors, is in accordance with the consolidated annual accounts.

PricewaterhouseCoopers S.à r.l.,
Réviseur d'entreprises
Represented by

Luxembourg, March 17, 2010

Pierre Krier

Only the French version of the present Annual Report has been reviewed by the auditors. Consequently, the auditors' report only refers to the French version of the report. In case of differences between the French version and the translation, the French version should be retained.

6. CONSOLIDATED AUDITED ANNUAL ACCOUNTS

A. CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2009

ASSETS in euros	Notes	31.12.2008	31.12.2009
Cash and balances with central banks	4.1.	355,194,150	618,593,103
Loans and advances at amortised cost - Credit institutions	4.8.	10,112,612,285	7,646,662,526
Loans and advances at amortised cost - Customers	4.9.	12,141,556,621	13,618,971,120
Financial assets held for trading	4.2. 4.7.	213,600,989	130,467,088
Hedging derivatives	4.7.	141,802,858	103,103,272
Available for sale - Fixed income securities	4.2.	11,806,819,966	11,283,043,418
Available for sale - Variable income securities	4.2.	707,704,021	771,098,403
Held to maturity securities	4.4.	1,337,266,570	2,845,872,095
Investments in associates accounted for by using the equity method	4.3.	161,001,583	174,395,501
Property, plant and equipment	4.10.	182,595,193	177,200,140
Investment property	4.12.	15,852,020	15,401,895
Intangible assets	4.11.	9,635,760	10,297,335
Current tax assets	4.14.	1,653,379	1,960,708
Deferred tax assets	4.14.	259,222,286	200,944,591
Other assets	4.13.	75,965,039	43,439,980
TOTAL ASSETS		37,522,482,720	37,641,451,175

LIABILITIES in euros	Notes	31.12.2008	31.12.2009
Deposits at amortised cost - Credit institutions	4.16.	3,805,523,752	4,806,613,761
Deposits at amortised cost - Private customers and public sector	4.17.	24,248,313,923	21,507,187,754
Financial liabilities held for trading	4.2. 4.7.	329,148,392	81,905,268
Hedging derivatives	4.7.	316,147,027	463,219,908
Debt securities in issue	4.15.	5,671,111,996	7,714,426,298
Provisions	4.19.	30,916,733	4,620,892
Other liabilities	4.20.	311,753,507	69,756,610
Current tax liabilities	4.14.	23,095,391	31,265,394
Deferred tax liabilities	4.14.	268,908,638	279,584,847
Pension fund	4.18.	244,713,006	8,015,939
Sub-total LIABILITIES (before equity) to be carried forward		35,249,632,365	34,966,596,671

The notes on pages 32 to 116 are an integral part of these annual accounts.

A. CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2009

EQUITY <small>in euros</small>	31.12.2008	31.12.2009
Sub-total of LIABILITIES before equity, brought forward	35,249,632,365	34,966,596,671
Share capital	173,525,467	173,525,467
Revaluation reserve	136,198,177	373,634,559
- <i>Available for sale</i>	136,294,067	372,521,461
Consolidated reserves	1,859,640,045	1,902,677,607
- <i>Equity method adjustment</i>	91,537,878	118,487,212
Income from current year	100,819,199	222,142,580
Sub-total equity - attributable to the equity holders of the parent entity	2,270,182,888	2,671,980,213
Minority interest	2,667,467	2,874,291
Total Equity	2,272,850,355	2,674,854,504
TOTAL LIABILITIES AND EQUITY	37,522,482,720	37,641,451,175

B. CONSOLIDATED INCOME STATEMENT AS AT DECEMBER 31, 2009

in euros	Notes	31.12.2008	31.12.2009
Interest and similar income	5.1.	408,465,403	422,258,312
Dividend income	5.2.	26,031,942	29,651,226
Fee and commission income	5.3.	93,719,910	99,172,357
INCOME FROM INTEREST, DIVIDENDS AND FEES AND COMMISSIONS		528,217,255	551,081,895
Net income from financial instruments not recognised at fair value through profit or loss	5.4.	-2,995,531	-4,593,474
Trading income	5.5.	-10,986,084	20,354,732
Net income from hedge accounting	5.6.	7,545,895	-6,001,175
Foreign currency translation differences		6,694,671	4,310,656
Other operating income	5.7.	7,011,316	40,581,518
Other operating expense	5.7.	-2,829,850	-38,487,773
OPERATING INCOME		532,657,672	567,246,379
Personnel expenses	5.8.	-168,964,892	-174,638,250
General and administrative expenses	5.9.	-62,397,089	-62,027,676
Amortisation expenses on tangible and intangible assets	5.10. 5.11. 5.12.	-24,926,685	-25,864,863
INCOME AFTER GENERAL EXPENSES		276,369,006	304,715,590
Impairment on financial assets - individual and collective assessments	5.13.	-146,581,042	-61,203,963
Provisions	5.14.	-28,076,733	-6,473,512
Share of profit of associates accounted for using the equity method		14,819,446	24,336,103
PROFIT BEFORE INCOME TAX AND NON-CURRENT ASSETS		116,530,677	261,374,218
Profit from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations		321,097	649,319
Tax on income from continuing operations	5.15.	-28,126,777	-26,710,106
Deferred tax assets	5.15.	14,206,582	-10,657,891
PROFIT FOR THE YEAR		102,931,579	224,655,540
OF WHICH:			
PROFIT FOR THE YEAR ATTRIBUTABLE TO MINORITY INTEREST		2,112,380	2,512,960
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT ENTITY		100,819,199	222,142,580

The notes on pages 32 to 116 are an integral part of these annual accounts.

C. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS AT DECEMBER 31, 2009

in euros	31.12.2008	31.12.2009
Profit for the year	102,931,579	224,655,540
Net gains/(losses) on available for sale financial assets	-552,342,449	306,548,363
- <i>Variation of the revaluation reserve</i>	-555,472,929	301,568,414
- <i>Net reclassification, to the income statement of realised net gains</i>	3,130,480	4,979,949
Actuarial losses in defined benefit pension scheme	-1,938,604	-44,327,705
Cash flow hedges	5,446,737	1,693,024
Impact of differed taxes	124,909,752	-58,592,363
Other comprehensive income for the year, net of tax	-423,924,564	205,321,319
Total comprehensive income for the year	-320,992,985	429,976,859



Christian MAIS, Centre Financier Dudelange, Agence Bettembourg

D. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT DECEMBER 31, 2009

in euros	Share capital	Consolidated reserves	Revaluation reserve	Net result	Total equity - equity holders of the parent entity	Minority interest	Total equity
As at January 1, 2009	173,525,467	1,859,640,045	136,198,177	100,819,199	2,270,182,888	2,667,467	2,272,850,355
Appropriation of the result for the year 2008	0	100,819,199	0	-100,819,199	0	0	0
Net result for the year 2009	0	0	0	222,142,580	222,142,580	0	222,142,580
Distributions for the year 2008	0	-35,000,000	0	0	-35,000,000	0	-35,000,000
Actuarial losses in defined benefit pension plans	0	-32,115,063	0	0	-32,115,063	0	-32,115,063
Net evaluation results of operations on available for sale financial instruments	0	0	236,227,393	0	236,227,393	0	236,227,393
Net evaluation results of cash flow hedges	0	0	1,208,989	0	1,208,989	0	1,208,989
Others	0	9,333,426	0	0	9,333,426	206,824	9,540,250
As at December 31, 2009	173,525,467	1,902,677,607	373,634,559	222,142,580	2,671,980,213	2,874,291	2,674,854,504

For the year 2009, the Bank has allocated EUR 35,000,000 (2008: EUR 35,000,000) of its results as distribution to the Luxembourg Government.

in euros	Share capital	Consolidated reserves	Revaluation reserve	Net result	Total equity - equity holders of the parent entity	Minority interest	Total equity
As at January 1, 2008	173,525,467	1,718,128,033	538,636,052	201,669,100	2,631,958,652	3,178,946	2,635,137,598
Appropriation of the result for the year 2007	0	201,669,100	0	-201,669,100	0	0	0
Net result for the year 2008	0	0	0	100,819,199	100,819,199	0	100,819,199
Distributions for the year 2007	0	-35,000,000	0	0	-35,000,000	0	-35,000,000
Actuarial losses in defined benefit pension plans	0	-1,813,231	0	0	-1,813,231	0	-1,813,231
Net evaluation results of operations on available for sale financial instruments	0	0	-425,942,806	0	-425,942,806	0	-425,942,806
Net evaluation results of cash flow hedges	0	0	3,831,473	0	3,831,473	0	3,831,473
Transfer of deferred taxes	0	-19,673,458	19,673,458	0	0	0	0
Others	0	-3,670,399	0	0	-3,670,399	-511,479	-4,181,878
As at December 31, 2008	173,525,467	1,859,640,045	136,198,177	100,819,199	2,270,182,888	2,667,467	2,272,850,355

The notes on pages 32 to 116 are an integral part of these annual accounts.

E. CONSOLIDATED STATEMENT OF CASH FLOWS AS AT DECEMBER 31, 2009

in euros	31.12.2008	31.12.2009
Cash and cash balances with central banks	355,250,344	618,593,110
Loans and advances at amortised cost - Credit institutions	7,713,624,308	5,446,108,621
Loans and advances at amortised cost - Customers	1,816,326,264	1,265,516,726
Financial instruments held for trading	858,592	288,195
Available for sale financial instruments - Variable income securities	792,010,899	903,627,078
Held to maturity securities	24,293,405	262,154,494
	10,702,363,814	8,496,288,223

The statement of cash flows represents the inflow and outflow of cash. Cash and cash equivalents include cash in hand, deposits with central banks as well as assets maturing within 90 days.

The statement of cash flows classifies the cash flows of the period in operating activities, investing activities and financing activities.

Cash flow from operating activities

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

	31.12.2008	31.12.2009
Interest received	3,510,144,188	1,755,642,251
Interest paid	-3,077,555,350	-1,302,686,012
Income from securities	53,740,785	29,651,226
Commissions received	98,914,070	128,616,457
Commissions paid	-29,060,133	-29,444,100
Other operating income	6,887,874	5,455,934
Income taxes	-18,024,990	-26,710,106
Other administrative charges	-221,364,441	-236,665,926
Other operating charges	-2,437,166	-3,362,189
Sub-total	321,244,838	320,497,535

- Cash flow from changes in operating assets

Net variations	31.12.2008	31.12.2009
Financial assets held for trading	4,593,241	2,077,824
Available for sale - Fixed income securities	3,019,143,946	921,719,344
Available for sale - Variable income securities	17,488,618	6,691,165
Loans and advances at amortised cost - Credit institutions	-263,166,288	155,686,260
Loans and advances at amortised cost - Customers	-2,649,951,870	-2,054,081,661
Derivative instruments used for hedging	2,553,017	-114,563
Other assets	42,617,552	32,030,419
Sub-total	173,278,216	-935,991,211

- Cash flow from changes in operating liabilities

Net variations	31.12.2008	31.12.2009
Securities held for trading - Short sales	-142,388	289,321
Deposits at amortised cost - Credit institutions	-3,788,209,041	1,000,462,834
Deposits at amortised cost - Customers	3,775,541,575	-2,667,135,428
Hedging derivatives	-7,887,783	-516,450
Other liabilities	141,218,408	-231,972,152
Debt securities in issue	-2,102,123,615	2,103,585,300
Sub-total	-1,981,602,844	204,713,425
Cash flow from operating activities	-1,487,079,790	-410,780,251

Cash flow from investing activities

	31.12.2008	31.12.2009
Purchase of available for sale securities - Variable income securities	1,468,229	-15,615,955
Purchase of variable income securities - Subsidiaries	-7,775	0
Purchase of variable income securities - Affiliates accounted for under the equity method	39,250	1,076,500
Acquisition / repayment of held to maturity securities	66,768,208	-1,261,078,478
Acquisitions / proceeds of intangible and tangible assets	-4,463,843	25,833,817
Cash flow from investing activities	63,804,069	-1,249,784,116

Cash flow from financing activities

	31.12.2008	31.12.2009
Proceeds from subordinated liabilities	-111,672,420	-80,993,593
Income distribution	-35,000,000	-35,000,000
Cash flow from financing activities	-146,672,420	-115,993,593
Net change	-1,569,948,140	-1,776,561,564

Change in cash and cash equivalents

	2008	2009
Situation as at January 1	12,298,699,766	10,702,363,814
Net change in cash flow	-1,569,948,142	-1,776,561,562
Effect of exchange rates on cash and cash equivalents	-26,387,810	-429,514,029
Situation as at December 31	10,702,363,814	8,496,288,223



Martine MEYERS et Cristina SANTOS RODRIGUES, Centre Financier Auchan, Agence Banque Européenne d'Investissement

The notes on pages 32 to 116 are an integral part of these annual accounts.

7. NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

1. General information

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

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

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

The consolidated annual accounts for the BCEE Group, of which Banque et Caisse d'Épargne de l'Etat is the parent company, were prepared in accordance with IFRS "International Financial Reporting Standards" as adopted by the European Union. The Group's average staff headcount for the financial year 2009 was 1,799 (1,803 in 2008).

The financial year is in line with the calendar year.

The consolidated annual accounts were approved for issue by the Board of Directors on March 17, 2010.

2. Basis of preparation of the consolidated annual accounts

2.1 COMPLIANCE WITH GENERAL IFRS PRINCIPLES

The consolidated annual accounts of the Group for the year 2009 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

a. New standards or revised standards adopted by the Group

Starting January 1, 2009, the Group has applied the amendments to IFRS 7, relating to liquidity risk and disclosures about fair value measurements, and the revised IAS 1 which requires a separate presentation of a statement of changes in equity and a detailed income statement, directly followed by a statement of comprehensive income.

b. New standards or revised standards not adopted by the Group

The Group considered that the other new or revised standards relevant to the Group as from January 1, 2009 were of no material impact on the consolidated annual accounts. The following standards are concerned:

- IAS 23 "Borrowing costs"
- IFRS 2 "Share-based payments"

c. New standards, revised standards or interpretations which are not yet effective and which have not been early adopted by the Group

- IAS 27 (revised): "Consolidated and separate annual accounts"
- IFRIC 17: "Distribution of non-cash assets to owners"
- IFRS 3 (revised): "Business combinations"
- IAS 38 (changed): "Intangible assets"
- IFRS 5 (changed): "Non-current Assets Held for Sale and Discontinued Operations"
- IAS 1 (changed): "Presentation of annual accounts"
- IFRS 2 (changed): "Share-based payment"

The consolidated annual accounts are stated in euro, the functional currency of the parent company and its subsidiaries (except one subsidiary – see note 2.2.2.). The annual accounts have been prepared at historical cost or amortised cost, adjusted to fair value for available for sale financial assets, financial assets held for trading and derivatives.

Financial assets and liabilities at amortised cost, designated as hedged items in the context of fair value hedges, must be adjusted for any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

2.2 CONSOLIDATION**2.2.1 Consolidation scope**

The consolidation scope comprises the parent company, its subsidiaries and equity accounted for affiliates over which the Group directly or indirectly has the power of control regarding management and financial and operational policies. Subsidiaries are fully consolidated from their date of acquisition, when the Bank, as parent company, starts to exercise control. They are deconsolidated as and when such control ceases.

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

The acquisition is accounted for at cost, i.e. the amount of cash or cash equivalents representing the fair value plus costs directly attributable to the acquisition. Inter-company transactions and unrealised gains on transactions between group companies are eliminated. Unrealised losses relating to inter-company transactions are also eliminated unless the cost cannot be recovered.

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

If a member of the Group has a differing financial year-end, adjustments are made to take into account transactions made and any other significant events that occurred between the end of its financial year and the end of the financial year of its parent company.

The share of minority interests in shareholders' equity is recorded on a separate line. In the same way, the part of earnings attributable to minority interests is identified on a separate line.

2.2.1.1. Fully consolidated subsidiaries

The consolidated annual accounts comprise the assets and liabilities as well as income and expenses of the Group and its subsidiaries. A subsidiary is a company in which the Group holds at least a 50% stake of the voting rights or any company over which the Group directly or indirectly has the power of control regarding management and financial and operational policies.

List of subsidiaries included in the consolidation scope:

Name	% of voting rights
Lux-Index US Advisory	81.38
Lux-Pension Advisory	83.00
Lux-Investment Advisors	90.00
Lux-World Fund Advisory S. A.	87.70
Lux-Croissance Advisory S. A.	85.57
Luxcash Advisory S. A.	86.00
Lux-Garantie Advisory S. A.	85.27
Lux-Protect Fund Advisory	88.38
Luxbond Advisory S. A.	93.20
BCEE Ré S. A.	99.90
Bourbon Immobilière S. A.	99.90
Luxembourg State and Savings Bank Trust Company S. A.	99.90

2.2.1.2. Investments in associates

Associates are entities over which the Group exercises significant influence. They are accounted for using the equity method. Significant influence means that the Group is in a position to influence the company's financial and operational policies so as to obtain a significant part of rewards. The Group is considered to exercise significant influence when it owns, directly or indirectly through its subsidiaries, 20% or more of the voting rights of a company.

Investments in associates are recognised at cost and the book value is increased or decreased by the Group's share in the associate's results after the acquisition date. The Group's share of the associate's profit or loss is recognised in the income statement.

Consolidation using the equity method ceases when the carrying amount of the investments is reduced to nil, unless the Group is under the obligation to assume or guarantee the associate's commitments.

The scope of associated companies accounted for using the equity method has been modified because of the entry of SIX GROUP AG in the capital of CETREL S.A. up to 50% during the first half of 2009. The fraction of capital of CETREL S.A. held by the Group decreased from 28.70% as at December 31, 2008 to 14.99% as at December 31, 2009, which is below the threshold of the equity method.

As at December 31, 2009, the fractions of capital held by the Group in the licence companies VISALUX and EUROPAY Luxembourg have not changed. However, there is an intention to transfer the acquiring and issuing activities to CETREL S.A., respectively to the local banks, which will result in the dissolution of the two companies in the medium term.

As a result, the Group has transferred its investment in the company CETREL S.A. to the caption "Available for sale – variable income securities". The evaluation of this company is at fair value through the revaluation reserve.

Investments in associates of the Group:

Associates	% of capital held
Direct holdings	
Société Nationale de Contrôle Technique S. à r. l.	20.00
Bourse de Luxembourg	22.74
Parking Théâtre	26.23
Visalux	30.87
Europay Luxembourg	29.20
La Luxembourgeoise	40.00
La Luxembourgeoise-Vie	40.00
Indirect holdings	
Pecoma International	33.33
EFA Partners	29.05

The overall position held within Luxair is 21.81% of Luxair's capital. The Group considers that it does not exercise significant influence given that it acquired 8.4% of Luxair's capital during the third quarter of 2008 with the objective of reselling within a medium period. The overall position is recognised under "Available for sale financial assets – Variable income securities" and is valued at fair value through the revaluation reserve.

2.2.2 Foreign currency translation

Within the consolidated accounts, the balance sheet items of the only consolidated company in foreign currency (Lux-Index-US Advisory) are translated into the Group's functional currency (euro) at the rate prevailing at the end of the financial year. Income and expense items originating from the subsidiary expressed in US dollars are converted on the basis of the average rate of the year.

Translation results produced by the consolidation are recognised directly in equity which ensures their neutrality in the income statement. In the event that the company be sold, these translation results would be recognised as profit or loss in the income statement.

2.3 FOREIGN CURRENCY TRANSLATION

The impact of exchange rate fluctuations on the main items of the income statement is detailed below. BCEE'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 with the closing rate as at the balance sheet date.

Non-monetary items measured at historical cost denominated in a foreign currency are translated using the exchange rate at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rate at the date of the fair value measurement.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as gains or losses if the transaction is considered as a cash flow hedge.

For monetary assets classified as "Available for sale assets", translation differences relating to the difference between their fair value on the balance sheet date and their acquisition cost are accounted for in the revaluation reserve, whereas translation differences relating to the adjustment of the amortised cost are recognised in the income statement.

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

For the main currencies, the following exchange rates were used for preparing the consolidated annual accounts, which means that 1 euro equals:

	31/12/2008	31/12/2009
CHF	1.4930	1.4840
GBP	0.9670	0.8914
JPY	126.8500	133.1700
SEK	10.9000	10.2575
USD	1.4050	1.4417

2.4 BANKING TRANSACTIONS

2.4.1 Initial measurement and recognition

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

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

Derivatives are recognised at their fair value on the transaction date in the balance sheet. The classification of derivatives on initial recognition depends on their characteristics and purpose. Thus, a classification into "financial assets held for trading" or into "hedging instruments" is possible.

Derivatives are recognised as assets when their fair value is positive and as liabilities when it is negative. In this context, the fair value corresponds to the “dirty price” of these instruments, therefore including accrued interest.

Embedded derivatives, according to the definition of standard IAS 39, are separated from the host instrument and recognised at fair value if their economic characteristics and risks are not closely linked to those of the host contract and if the overall financial instrument is not classified as being held for trading or has not been designated as being valued at fair value through profit or loss. Embedded derivatives that have been separated from their host contract are recognised at fair value in the trading portfolio and changes in fair value are recognised in the income statement.

Gains or losses on sales 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 or amortised cost of the financial asset.

2.4.2 Subsequent measurement

The valuation of financial instruments will depend on their characteristics and their classification into a valuation category. The valuation categories are the following: Financial assets held for trading and hedging, Held to maturity investments and Available for sale financial assets.

The valuation methods used are:

- “Historical cost”: The historical cost is the amount initially recognised.
- “Amortised cost”: The amortised cost corresponds to the amount initially recognised, less repayments of capital, adjusted for premiums and discounts (difference between the initial amount and the repayment amount on maturity) over the life of the asset less impairment recognised whenever there is objective evidence that the asset is impaired.
- “Fair value”: The fair value of the financial instrument can usually be determined by reference to an active market or using valuation techniques based on observable market data.

2.4.3 Judgement and accounting estimates

In the course of the preparation of the consolidated accounts under IFRS, the Bank had to make a number of estimates and judgements.

The most significant judgements or estimates relate to:

2.4.3.1. *The fair value of financial instruments*

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

The Group determines if the markets for fixed-income transferable securities are liquid or not according to criteria such as the proportion held by the Bank in the total bond exposure, the number of price contributors, the average "Bid Size" and the differences between "Bid and Ask" prices.

When the market is considered active, the Group uses the prices of an official quotation source. For bonds or shares for which the Bank estimates that the market is inactive, the Bank first calculates a price by applying the discounted cash flow method on interest rate curves and spread curves, determined according to the issuer's rating. The price thus calculated is then weighted with a price indication provided by a quotation source, even if the price indication originates from a market which the Bank considered as being inactive due to its active / inactive market analysis.

2.4.3.2. Impairment of financial assets at amortised cost

In accordance with IAS 39, the Group recognises an impairment whenever there is objective evidence that an asset is impaired.

For retail banking, the estimation of the irrecoverable amount is carried out from observations of historical loss data, whereas an assessment carried out case by case fixes the irrecoverable amount for wholesale banking exposures. A specific value adjustment is recognised as a result.

The Bank assimilates "objective impairment evidence" as stated by IFRS to the definition of default by applying the internal management regulations of credit risk defined for the calculation of the capital adequacy ratio in accordance with Basel II.

The Bank also recognises "collective impairment" on loans and advances not identified individually as being in default in order to take into account the progressive credit risk after the date on which the loan was granted. The allowance for impairment is based on historical loss data with a higher weighting for recent years.

2.4.3.3. Impairment of available for sale securities

The Bank considers the securities of the available for sale (AFS) portfolio as impaired when it expects a decrease in future contractual cash flows because of "objective impairment evidence".

Non-exhaustive list of "objective impairment evidence":

- Cash problems due to a delay in payment or reimbursement,
- Downgrade of the rating below a threshold deemed critical,
- Worsening of solvency.

In this context, a price deterioration of more than 20% automatically initiates a depreciation test, irrespective of the existence of objective impairment evidence.

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

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

2.5 STATEMENT OF CASH FLOWS

The statement of cash flows shows the in- and out-flow of cash. Cash and cash equivalents include cash in hand, cash balances with central banks and assets becoming due within 90 days.

The statement of cash flows classifies the cash flows for the year as cash flow from operating activities, investing activities and financing activities.

The Group uses the indirect method to determine the cash flows and corrects the net result to eliminate pure accounting flows which do not translate in an in- or out-flow of liquidities for the Group.

Operational activities

Operational activities are the main activities generating income. They include all activities except investing or financing activities. From a practical point of view, they consist of operating income and expense, of cash flows relating to financial and other income and expenses and of the different types of taxes paid during the year.

Investing activities

Investing activities mainly consist in the acquisition and disposal of assets in the long term and every other investment not included in cash equivalents.

Financing activities

Financing activities are activities impacting the equity structure and subordinated debt issued by the Bank.

The figures on the cash flows relating to the year 2008 have been updated so as to take into account the integration of the effect of loans and advances and securities held for a period of less than 90 days, as well as the "nostro" accounts which have not been considered as operational amounts in the liabilities. The change of the method implies for the year 2008 a decrease of the net situation of EUR 488,403,180.



Cindy DA CRUZ, Centre Financier Walferdange, Agence Walferdange

3. Information on the accounting principles applied to balance sheet categories

3.1 CASH AND CASH BALANCES WITH CENTRAL BANKS

Cash flow consists mainly of the following items: cash and minimum compulsory reserve at the Banque centrale du Luxembourg.

Money is transferred to the minimum compulsory reserve in order to satisfy the reserve requirements imposed by the Banque centrale du Luxembourg.

These funds are not available for financing the Bank's ordinary transactions. The reserve base, calculated on a monthly basis, is defined according to items from the balance sheet, in compliance with Luxembourg accounting principles. The calculation of the base and the reserve requirements is carried out by the Banque centrale du Luxembourg.

3.2 FINANCIAL INSTRUMENTS

3.2.1 Assets and liabilities held for trading

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

Since the concept of "short-term" is not defined by IAS 39, the Bank considers the average duration to be six months for non-derivatives.

Financial assets held for trading are initially recognised at fair value with any subsequent adjustments in fair value recognised in "Trading income" in the income statement. Accrued interest is recorded under "Net interest income" and dividends are recorded under "Dividend income" according to the contractual conditions or when the right to payment is established.

3.2.2 Fixed income securities held to maturity

Listed securities with a fixed maturity that the Group expressly intends and has the means to hold to maturity are recognised under "Held to maturity investments" at amortised cost, using the effective interest rate method integrating premiums and discounts spread over the life of the asset, after deduction of impairment, if any. Discounts and premiums are recorded in the income statement under "Net interest income".

Conditions for classification as held to maturity investments, as well as the strict portfolio requirements (limited conditions for transfer and sale) have led the Group to limit the use of this portfolio. Since these assets are held to maturity and are not valued at fair value, they are not exposed to a risk of interest rate fluctuation and as a result it is not possible to hedge this risk. Nevertheless, foreign currency risk and credit risk can be hedged. The Group invests mainly in securities issued or guaranteed by highly rated sovereign debt or banks under its Asset and Liabilities Management policy.

3.2.3 Available for sale financial assets

Available for sale financial assets are assets that have initially been designated as such or which are not initially classified in any of the other three categories "Financial assets held for trading, Held to maturity investments or Loans and advances".

Available for sale financial assets include fixed income securities, loans quoted in an active market as well as variable income securities, notably investments in shares and in SICAV. Moreover, the Group has opted for valuation at fair value, in compliance with standard IAS 39, of the shareholdings in associates and subsidiaries by classifying the said investments as Available for sale financial assets for the needs of the separate annual accounts. Available for sale financial assets are initially recognised at fair value, including transaction costs. Interest is recognised in interest income using the effective interest rate method. Dividends are recognised in the income statement under "Dividend income" once the right to payment has been established.

Available for sale financial assets are valued at their fair value based on the bid price in an active market in the case of listed securities or using models based on observable market data or internal estimations. Gains or losses resulting from changes in fair value are recognised in equity under "Revaluation reserve". Impairment is recognised in the income statement and is therefore no longer recorded in equity under "Revaluation reserve".

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

Unrealised or realised gains or losses on fixed income securities are measured by comparing the fair value of the security to its amortised cost. In the case of variable income securities, gains or losses are measured by comparing the market price with the acquisition cost including transaction costs.

The accounting treatment for bonds included in the Available for sale portfolio and hedged against interest rate risk is described in the following paragraphs.

3.2.4 Derivative instruments used for hedging purposes

The Bank uses derivative instruments to hedge interest rate, foreign exchange, credit and price risk such as stock market indices or share prices. The instruments used for “Plain Vanilla” standard hedging transactions are Interest Rate Swaps (IRS) and Cross-currency Interest Rate Swaps (CIRS). The Group also uses swaps with structured components to hedge specific EMTN issues and structured bonds containing embedded derivatives held in the portfolio of Available for sale financial assets.

A derivative instrument is always considered to be held for trading unless designated as a hedging instrument. At inception, the Group may designate financial instruments as hedging instruments if they are part of hedging transactions meeting the criteria defined in IAS 39.

The Bank classifies hedging instruments in the following categories:

- Fair value hedge of an asset, a liability or a firm commitment;
- Cash flow hedge covering future cash flows attributable to a specific asset or liability or future transaction.

The Bank mainly uses fair value hedges.

Hedge accounting should comply with the following restrictive conditions specified by the IAS 39 standard:

- Prior to setting up the hedge, a detailed and standardised documentation on the relation between the hedged item and the hedging item, the nature of the hedged risk, the objective and strategy justifying the hedging transaction as well as the method used to measure the effectiveness of the hedging relationship should be prepared;
- The hedging starts with the designation of the financial derivative instrument used for hedging and ends either at the derecognition of the hedged instrument or if the effectiveness of the hedge is not longer given;
- Prospective effectiveness: as soon as the transaction is set up, the characteristics of the hedging transaction should enable an efficient hedge in order to offset fair value changes or changes in the cash flow of the hedged underlying item during the hedging period. Prospective effectiveness is established when the main characteristics between hedged items and hedging items are significantly identical (face value, interest rate, maturity, currency) within the hedging period designated by the Group for the concerned transaction;
- Retrospective effectiveness: back testing of the hedge effectiveness (variations between 80% and 125%) is carried out at each accounting cut-off date.

Changes in the fair value of derivatives designated as fair value hedges which meet the criteria for hedge accounting and have proven their effectiveness relative to the hedged instrument are recognised in the income statement under "Net income from hedge accounting" as well as the changes in the fair value of the hedged instruments.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to profit or loss over the remaining period to maturity as adjustment to the return on the hedged item.

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

When a hedging instrument expires, is sold, cancelled or exercised or when a hedge no longer meets the hedge accounting criteria, the Group ceases to apply hedge accounting. Any adjustment in the carrying amount 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 the income statement.

3.2.5 Sale and repurchase agreements - lending/borrowing of securities

Sale and repurchase agreements:

Securities sold under repurchase agreements (repo transactions) concerning the same or a significantly identical asset remain on the balance sheet and are considered as assets held for trading, Available for sale financial assets or Held to maturity financial assets. The amount due to the counterparty is recorded as a liability under "Deposits at amortised cost".

The Group mainly enters into repurchase agreements relating to the same or a similar asset.

Therefore, securities purchased subject to resell ("reverse repo") agreements relating to the same or an identical asset are not recorded in the balance sheet. The amount due to the counterparty of securities purchased under reverse repos are recorded as "loans and advances at amortised cost".

The Group carries out "triparty-repo" and "triparty-reverse repo" transactions with counterparties whose ratings are higher than or equal to the grading "A". An intermediary intervenes as a third party during the whole lifespan of the "triparty

repo" in order to manage delivery versus payment, control securities' eligibility criteria, calculate and manage margin calls and securities' substitutions. Maturity dates of these contracts vary between overnight and six months.

Income from sale and repurchase agreements is accounted for in the income statement in the caption "Interest income".

Lending and borrowing of securities

Securities lent remain on the balance sheet. Borrowed securities are not recognised in the balance sheet.

3.2.6 Loans and advances at amortised cost

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

Loans and advances with fixed maturity issued by the Group are recorded at amortised cost using the effective interest rate method. They are tested for impairment at each balance sheet date and an allowance for impairment is recorded if necessary.

IAS 18 requires loan administration expenses to be considered as origination fees, which means they must be taken into account for the calculation of the effective interest rate. The actuarial method consists in spreading over the asset's life material expenses and commissions linked to fixed income loans and recording them as an adjustment to the asset's effective rate of return. If the amounts are not material, they are directly recognized in the income statement.

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

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

3.2.7 Interbank activity

3.2.7.1. Borrowings

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

3.2.7.2. Issuance of debt securities

Initially, debt issued by the Group is at amortised cost. However, with its EMTN (Euro medium term notes) programs, the Group issues a large number of structured bonds containing embedded derivatives whose price fluctuations are hedged by swaps with a structure identical to that of the swap contained in the bond.

The Group has designated these transactions as fair value hedges, which enables offsetting the market effect in the income statement.

3.2.8 Impairment of financial assets

In accordance with IAS 39, the Bank records impairment losses whenever there is objective evidence that an asset is impaired.

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

In the case of instruments at fair value, the recoverable amount corresponds either to the fair value or to the value of estimated future cash flows discounted at the market rate applicable to similar instruments. Impairment allowances relating to available for sale financial instruments or to loans and advances reduce the carrying amount of the asset directly.

Two categories of impairment can be distinguished:

Impairment relating to individual value adjustments: The amount of the impairment loss is measured as the difference between the asset's carrying amount and its recoverable amount. Financial assets are valued contract by contract. However, financial assets of small amounts such as retail loans, showing similar risk characteristics, are in principle grouped together in order to carry out an overall valuation of the impairment rate.

Impairment relating to collective value adjustments: In case no individual value adjustments can be made, IFRS standards provide for the setting up of collective value adjustments to cover the risk of potential loss, if there is an objective indication of probable loss in certain portfolio segments or in other loan commitments existing on the balance sheet date. Currently the Group only applies this principle to retail customers for the "Loans and advances at amortised cost" portfolio. Calculating the collective value adjustments, the Group uses its experience and historical data for incurred losses. The probability of default for the different types of loans is calculated by taking into account the period between the time the loan was granted and the time it defaulted.

If the Group's Executive Committee considers a financial asset as being totally unrecoverable, it is written off. Subsequently, should any incoming funds be recognised on this asset, they are to be recognised as income under the caption "Other operating income".

3.2.9 Other financial assets and liabilities

Other assets comprise short-term receivables. Other liabilities comprise mainly short-term payables, amounts due to sundry creditors, coupons payable and amounts due to preferential creditors as well as the share of profit payable to the Luxembourg State.

3.2.10 Income and expenses relating to financial assets and liabilities

Interest income and expenses are recognised in the income statement for all financial instruments at amortised cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts future cash payments or receipts over the scheduled duration of the financial instrument in order to obtain the net accounting value of the financial asset or liability.

The calculation includes transaction costs and income, premiums and discounts. Transaction costs and income that are fully part of the contract's effective rate can be treated as additional interest, such as for instance handling fees.

Financial instruments held for trading are recorded at their fair value. Changes in their fair value are accounted for in the income statement in the caption "Result on financial instruments held for trading". Dividends are recorded in the caption "Dividend income", interest is recorded in the caption "Interest and similar income".

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

- Fees paid for continuing services are spread out as income over the duration of the rendered service (handling fees on loans, transaction costs...);
- Fees paid for one-off services are fully recognised as income when the service has been delivered;
- Fees paid for the execution of an important transaction are fully recognised as income at the time of the execution of that transaction.

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

3.3 TANGIBLE ASSETS

Tangible assets for own use as well as investment property are recorded at acquisition cost. Directly related acquisition expenses are considered as an integral part of the acquisition cost.

Tangible assets for own use consist of land and buildings, facilities and installations, computer hardware and other equipment. The caption "Investment property" of IAS 40 includes rented-out property.

Tangible assets are recognised at historical cost less accumulated amortisation and possible impairment. The amortisable amount of these assets is calculated after deduction of their residual value. These assets are amortised over their estimated useful life using the straight-line method. Land is recognised at cost. Directly related acquisition costs are capitalised and amortised as an integral part of the acquisition cost at the same pace as the principal asset.

Estimated useful life of main types of tangible assets:

- Buildings: 50 years,
- Computer equipment: 4 years,
- Office fixtures, furniture and other equipment: between 2 and 10 years,
- Vehicles: 4 years.

Investments on leased buildings are amortised over the remaining term of the lease. If the duration of the lease is not fixed, amortisation is done over ten 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 value of an asset drops below its carrying amount, the carrying amount in the balance sheet must be adjusted to the estimated recoverable value through the recognition of an impairment.

Expenses incurred for the purpose of increasing the economic benefits generated by a tangible asset or which extend its useful life are recognised as an asset at their fair value and amortised over the asset's estimated useful life.

Gains or losses on the removal from active use or disposal of tangible assets are determined by the difference between the disposal proceeds and the residual value of the assets and are recognised in income or expense for the period as appropriate under "Other net operating income or expense" as at the date the asset is abandoned or disposed of.

Equipment and furniture with a useful life of less than one year are charged directly to the income statement for the year.

3.4 INTANGIBLE ASSETS

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

3.5 LEASE AGREEMENTS

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

3.5.1 A Company of the Group is a lessee

The Bank and its subsidiaries have mainly concluded operating lease agreements for renting its offices or equipment. Lease payments are recognised in the income statement. If a lease contract is early terminated, the penalties to be paid are recognised as an expense in the financial year during which the termination has occurred.

3.5.2 A Company of the Group is a lessor

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

3.6 EMPLOYEE BENEFITS

Employee benefits are accounted for in accordance with IAS 19. The employee benefits granted by the Group are divided into three categories:

3.6.1 Short-term benefits

Short-term benefits cover mainly wages, annual holidays and bonuses paid within twelve months of the end of the financial year in respect of that financial year. These are recorded as expenses for the year, including the amounts still due at the end of the financial year.

3.6.2 Long-term benefits

Long-term benefits are benefits that generally relate to the length of service, paid to employees still in activity and paid more than twelve months after year-end. A

provision is recorded corresponding to the outstanding commitments at year-end. These commitments are valued using the same actuarial method as that applied to post-employment benefits.

3.6.3 Post-employment benefits

In compliance with the law dated March 24, 1989 regarding Banque et Caisse d'Epargne de l'Etat, Luxembourg, employees not considered as civil servants ("agents employés") benefit from a pension supplement, at the Bank's expense, if they are eligible for the civil service pension scheme. Pension supplements concern the following benefits:

- Old-age pension,
- Invalidity pension,
- Surviving spouse/partner pension,
- Surviving orphan pension,
- Three-month additional pension.

Furthermore, pensions for employees who are civil servants are also paid for by the Bank.

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

As such this scheme is inherently a defined benefit plan which finances commitments relating to the first 'pillar'.

The liabilities recorded in the balance sheet correspond to the present value of the defined benefit obligation as at the closing date, net of plan assets and adjustments due 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 payments based on the interest rate of high quality corporate bonds, denominated in the currency of the payment of the service rendered and of which the term is close to the estimated average term of the post-employment benefit obligation.

Per annum, the Group's pension expenses are the sum of the following amounts:

- Current service costs,
- Interest cost resulting from the application of the discount rate,
- All actuarial gains and losses.

The expected return of plan assets is deducted from these amounts as from December 1, 2009, which is the date of the externalisation of the pension fund to the BCEE subfund of the "Compagnie Luxembourgeoise de Pension (CLP)", established as an association for saving and pension "ASSEP".

Actuarial gains and losses are systematically recognised in equity in the caption "Reserve".

The Group uses the STATEC mortality tables adjusted by five years to take account of the longevity of the beneficiaries.

3.7 PROVISIONS

A provision, according to IAS 37, is a liability of uncertain timing or amount, but which represents an obligation towards a third party arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

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

3.8 DEFERRED TAXES

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

The tax regulation applied and the tax rate used to determine the deferred taxes are those provided for by existing tax laws and which will be applied when the tax becomes recoverable or payable.

Deferred tax assets are recognised to the extent that it is likely for the entity to recover the asset within a given time frame. Deferred taxes are recognised in the income statement as income or expense with the exception of deferred taxes on unrealised gains or losses on Available for sale financial assets and changes in the value of derivative instruments designated as cash flow hedges, which are recognised in equity in the caption "Revaluation reserve".



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4. Notes to the balance sheet (in euros)

4.1 CASH AND CASH BALANCES WITH CENTRAL BANKS

Cash comprises cash and cash balances with central banks. The compulsory reserve with the Banque centrale du Luxembourg is recognized under this caption. This is a minimum reserve required by the Banque centrale du Luxembourg. As a result, these funds are not available for financing the Group's operating activities.

4.2 FINANCIAL INSTRUMENTS

The analysis of financial instruments is made by counterparty and type, distinguishing the instruments with a maturity up to one year and the instruments with a maturity of more than one year.

4.2.1 Assets and liabilities held for trading

Assets	31/12/2008			31/12/2009		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Non-derivative instruments	1,769,718	5,956,600	7,726,318	1,245,972	3,734,093	4,980,065
Derivative instruments (note 4.7.)	188,991,568	16,883,103	205,874,671	116,635,368	8,851,655	125,487,023
Total	190,761,286	22,839,703	213,600,989	117,881,340	12,585,748	130,467,088
Liabilities	31/12/2008			31/12/2009		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Non-derivative instruments	4,593	673	5,266	293,806	0	293,806
Derivative instruments (note 4.7.)	308,704,986	20,438,140	329,143,126	57,748,142	23,863,320	81,611,462
Total	308,709,578	20,438,813	329,148,392	58,041,948	23,863,320	81,905,268
Assets - Non-derivative instruments	31/12/2008			31/12/2009		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Debt instruments	1,497,378	5,956,600	7,453,978	987,237	3,734,093	4,721,330
<i>Public sector</i>	62,646	2,442,347	2,504,993	89,707	1,816,433	1,906,140
<i>Credit institutions</i>	540,656	2,692,972	3,233,628	790,630	1,438,314	2,228,944
<i>Corporate</i>	894,076	821,281	1,715,357	106,900	479,346	586,246
Equity instruments	272,340	0	272,340	258,735	0	258,735
Total	1,769,718	5,956,600	7,726,318	1,245,972	3,734,093	4,980,065
Unrealised result at year-end	45,463	112,487	157,950	10,376	78,871	89,247
Liabilities - Non-derivative instruments	31/12/2008			31/12/2009		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Short sales						
<i>Bonds</i>	0	673	673	0	0	0
<i>Shares</i>	4,593	0	4,593	293,806	0	293,806
Total	4,593	673	5,266	293,806	0	293,806

4.2.2 Assets available for sale

Categories	31/12/2008			31/12/2009		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Debt instruments	2,339,656,771	9,467,163,195	11,806,819,966	2,891,009,844	8,392,033,572	11,283,043,418
Public sector	51,319,651	2,483,643,204	2,534,962,855	22,481,638	2,897,516,615	2,919,998,253
Credit institutions	1,709,327,640	3,952,839,572	5,662,167,212	2,454,030,931	3,672,372,797	6,126,403,729
Corporate	579,009,480	3,030,680,419	3,609,689,899	414,497,275	1,822,144,161	2,236,641,436
Equity instruments	707,704,021	0	707,704,021	771,098,403	0	771,098,403
Credit institutions	17,050,799	0	17,050,799	17,346,727	0	17,346,727
Corporate	667,311,626	0	667,311,626	725,447,508	0	725,447,508
Other	23,341,596	0	23,341,596	28,304,168	0	28,304,168
Total	3,047,360,792	9,467,163,195	12,514,523,988	3,662,108,247	8,392,033,572	12,054,141,822
Impairment of financial assets	-30,474,206	-79,029,447	-109,503,654	-6,508,568	-119,306,017	-125,814,586
Unrealised result at year-end	431,028,027	-293,987,342	137,040,685	496,431,765	24,615,116	521,046,881

Impairment of financial assets available for sale

	Corporate		Credit institutions	Total
	ABS/MBS	Other		
Situation as at January 1, 2008	13,064,670	0	0	13,064,670
Additions	36,139,066	8,185,054	74,051,771	118,375,891
Reversal	-13,064,668	-400,683	0	-13,465,351
Write-off	0	0	-8,906,579	-8,906,579
Situation as at December 31, 2008	36,139,068	7,784,371	65,145,192	109,068,631
Situation as at January 1, 2009	36,139,068	7,784,371	65,145,192	109,068,631
Additions	33,247,931	2,000,780	8,865,467	44,114,177
Reversal	-2,254,210	-3,812,450	-150,000	-6,216,659
Write-off	0	0	-21,151,563	-21,151,563
Situation as at December 31, 2009	67,132,789	5,972,701	52,709,096	125,814,586

Unrealised result on assets available for sale

The breakdown of the unrealised result at the closing date consists of the following items:

Debt instruments

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

31/12/2009	Fair value adjustments of debt instruments		Value adjustment of the swap leg hedging the asset	
	Changes in unhedged risks (credit and liquidity spread)	Changes in hedged risks (interest rate and price)	Changes in hedged risk	Retrospective efficiency rate
Fixed rate bonds and structured bonds	-54,280,225	187,084,104	-186,709,000	99.80%
Variable rate bonds	-108,188,764			

31/12/2008	Fair value adjustments of debt instruments		Value adjustment of the swap leg hedging the asset	
	Changes in unhedged risks (credit and liquidity spread)	Changes in hedged risks (interest rate and price)	Changes in hedged risk	Retrospective efficiency rate
Fixed rate bonds and structured bonds	-187,202,042	120,240,731	-120,229,949	99.99%
Variable rate bonds	-235,550,177			

Table detailing the variation of the book value:

Debt instruments	2008	2009
Situation as at January 1	15,071,949,811	11,806,819,966
Acquisitions	1,240,876,327	1,920,232,434
Sales	-239,126,377	-121,338,868
Reimbursements	-4,134,567,291	-2,526,767,958
Realised results	-4,625,119	-4,529,583
Accrued Interest	-25,087,650	21,424,645
Fair value revaluation	-133,605,574	327,126,603
Impairment	-91,377,625	-31,060,758
Foreign exchange difference	122,383,464	-108,863,063
Situation as at December 31	11,806,819,966	11,283,043,418

Equity instruments

31/12/2009	Fair value adjustments of equity instruments
Equity instruments	496,431,765
of which: Impairment of financial assets	-6,508,568

31/12/2008	Fair value adjustments of equity instruments
Equity instruments	445,023,533
of which: Impairment of financial assets	-5,061,360

4.3 INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

	31/12/2008	31/12/2009
Book value as at January 1	31,301,022	31,267,827
Acquisitions	0	0
Sales	-33,195	-1,076,500
Sub-total	31,267,827	30,191,327

List of associates:

Associates	Percentage of capital held (in %)	Acquisition cost 2009	Value accounted for using the equity method 2009
Société Nationale de Contr. Tech. S.à r. l.	20.00	24,789	2,019,473
Bourse de Luxembourg	22.74	112,166	15,267,319
Parking Théâtre	26.23	8,733	187,912
Visalux	30.87	251,159	2,488,706
Europay Luxembourg	29.20	168,195	2,204,829
La Luxembourgeoise	40.00	16,856,760	92,474,270
La Luxembourgeoise-Vie	40.00	12,047,625	58,568,254
Sub-total direct associates		29,469,427	173,210,763
Pecoma International	33.33	170,000	198,071
EFA Partners	29.05	551,900	986,667
Sub-total indirect associates		721,900	1,184,738
Total		30,191,327	174,395,501

Associates	Percentage of capital held (in %)	Acquisition cost 2008	Value accounted for using the equity method 2008
Société Nationale de Contr. Tech. S.à r. l.	20.00	24,789	1,971,682
Bourse de Luxembourg	22.74	112,166	13,230,008
Parking Théâtre	26.23	8,733	182,709
Cetrel	28.70	1,076,500	9,575,939
Visalux	30.87	251,159	4,313,193
Europay Luxembourg	29.20	168,195	1,376,882
La Luxembourgeoise	40.00	16,856,760	80,851,510
La Luxembourgeoise-Vie	40.00	12,047,625	48,314,923
Sub-total direct associates		30,545,927	159,816,846
Pecoma International	33.33	170,000	198,071
EFA Partners	29.05	551,900	986,666
Sub-total indirect associates		721,900	1,184,737
Total		31,267,827	161,001,583

4.4 HELD TO MATURITY SECURITIES

Categories	31/12/2008			31/12/2009		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Debt instruments						
Public sector	2,844,053	490,750,005	493,594,058	106,733,403	595,786,100	702,519,503
Credit institutions	189,040,167	548,437,195	737,477,362	517,702,727	1,528,500,989	2,046,203,716
Corporate	0	106,195,150	106,195,150	0	97,148,876	97,148,876
Total	191,884,220	1,145,382,350	1,337,266,570	624,436,130	2,221,435,965	2,845,872,095

The Group has not recognised any impairment loss at year-end on held-to-maturity securities. The significant increase of the value of this portfolio is in line with the Group's ALM policy.

Table detailing the variation of the book value:

Investment held to maturity	2008	2009
Situation as at January 1	1,450,062,610	1,337,266,570
Acquisitions	156,385,005	2,072,306,195
Reimbursements	-269,048,743	-570,474,916
Accrued Interest	-358,053	2,759,081
Fair value revaluations	0	0
Impairment	0	0
Foreign exchange difference	225,751	4,015,165
Situation as at December 31	1,337,266,570	2,845,872,095

4.5 COLLATERALISED SECURITIES IN THE CONTEXT OF REPURCHASE AGREEMENTS

Categories	31/12/2008	31/12/2009
Debt instruments issued by the public sector	0	990,162,870
Debt instruments issued - Others	0	96,701,217
Equity instruments	0	994,620
Total	0	1,087,858,707

4.6 CONVERTIBLE BONDS INCLUDED IN THE DIFFERENT PORTFOLIOS

Categories	31/12/2008	31/12/2009
Convertible bonds	91,907,907	91,152,504

Convertible bonds in which the Group has invested are available-for-sale assets and are hedged by swaps against the fluctuations of interest rates.



Daniel IRRTHUM, Centre Financier Esch-sur-Alzette, Agence Belvaux

4.7 DERIVATIVE INSTRUMENTS

	Assets	Liabilities	Notional
Categories	Balances as at 31/12/2009		
Derivative instruments held for trading	125,487,023	81,611,462	11,395,914,658
Operations linked to exchange rates	87,660,526	52,154,810	8,885,463,949
- Foreign exchange swaps and forward foreign exchange contracts	87,660,025	48,937,253	8,756,316,120
- Others	501	3,217,557	129,147,829
Operations linked to interest rates	37,826,254	25,561,279	1,962,960,663
- IRS	37,826,254	25,561,279	1,962,960,663
Operations linked to credit risk	243	3,895,373	547,490,046
- Credit derivatives (CDS)	243	3,895,373	547,490,046
Fair value hedge	101,894,526	463,219,908	9,358,510,174
Operations linked to exchange rates	5,852,350	1,436,486	538,994,985
- CCIS	5,852,350	1,436,486	538,994,985
Operations linked to interest rates	29,562,443	385,174,715	6,145,351,126
- IRS (interest rate)	29,562,443	385,174,715	6,145,351,126
Operations linked to other indices	66,479,733	76,608,707	2,674,164,063
- IRS (other indices)	66,479,733	76,608,707	2,674,164,063
Cash flow hedge	1,208,746	0	80,000,000
Operations linked to interest rates	1,208,746	0	80,000,000
- IRS	1,208,746	0	80,000,000

	Assets	Liabilities	Notional
Categories	Balances as at 31/12/2008		
Derivative instruments used for trading purposes	205,874,671	329,143,126	19,835,831,382
Operations linked to exchange rates	24,177,291	151,082,797	7,050,731,803
- Foreign exchange swaps and forward foreign exchange contracts	20,870,516	151,082,797	6,539,768,422
- Others	3,306,775	0	510,963,381
Operations linked to interest rates	181,659,074	159,699,593	11,927,537,301
- IRS	181,659,074	159,699,593	11,927,537,301
Operations linked to credit risk	38,306	18,360,735	857,562,278
- Credit derivatives (CDS)	38,306	18,360,735	857,562,278
Fair value hedge	141,578,389	315,779,103	9,319,948,924
Operations linked to exchange rates	77,249,485	0	732,320,013
- CCIS	77,249,485	0	732,320,013
Operations linked to interest rates	23,433,562	235,273,056	5,435,967,595
- IRS (interest rate)	23,433,562	235,273,056	5,435,967,595
Operations linked to other indices	40,895,342	80,506,048	3,151,661,316
- IRS (other indices)	40,895,342	80,506,048	3,151,661,316
Cash flow hedge	224,469	367,925	80,000,000
Operations linked to exchange rates	224,469	367,925	80,000,000
- IRS	224,469	367,925	80,000,000

4.8 LOANS AND ADVANCES AT AMORTISED COST - CREDIT INSTITUTIONS

Categories	31/12/2008			31/12/2009		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Interbank loans	1,910,712,193	145,884,558	2,056,596,751	4,075,683,087	277,640,186	4,353,323,273
Reverse repurchase agreements	7,781,453,670	0	7,781,453,670	3,130,884,942	0	3,130,884,942
Roll-over credits	270,142,672	4,073,612	274,216,284	159,521,758	2,503,224	162,024,982
Finance lease	4,984	340,596	345,580	429,329	0	429,329
Sub-total	9,962,313,519	150,298,766	10,112,612,285	7,366,519,116	280,143,410	7,646,662,527
Unused confirmed credit lines			88,433,473			164,760,268
Impairment of financial assets			-10,500,000			-5,009,937

In the event of reverse repurchase transactions, the Group becomes the legal owner of the securities received as a collateral and has the right to sell or collateralise these securities. As of December 31, 2009, no such security had been sold or collateralised.

4.9 LOANS AND ADVANCES AT AMORTISED COST - CUSTOMERS

Categories	31/12/2008			31/12/2009		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Retail customers	284,648,006	6,242,099,658	6,526,747,664	255,440,411	7,460,521,946	7,715,962,357
Corporate customers	2,184,794,838	1,586,529,373	3,771,324,211	2,214,710,255	1,825,766,676	4,040,476,931
Public sector	94,775,637	1,748,709,109	1,843,484,746	177,124,674	1,685,407,158	1,862,531,832
Sub-total	2,564,218,481	9,577,338,140	12,141,556,621	2,647,275,340	10,971,695,780	13,618,971,120
Unused confirmed credit lines			3,033,481,623			2,961,649,303
Impairment of financial assets			-60,870,028			-81,134,711

Of which finance leases:

Categories	31/12/2008			31/12/2009		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Finance leases	9,869,069	85,485,744	95,354,813	8,338,673	84,274,438	92,613,111
Sub-total	9,869,069	85,485,744	95,354,813	8,338,673	84,274,438	92,613,111

Impairment of loans and advances

	Retail customers	Corporate	Public sector	Total
Situation as at January 1, 2008	13,267,566	16,514,572	0	29,782,138
Additions	8,653,350	46,052,120	0	54,705,470
Reversals	-7,024,027	-15,864,322	0	-22,888,349
Write-off (*)	-729,231	0	0	-729,231
Situation as at December 31, 2008	14,167,658	46,702,370	0	60,870,028
Impairment of financial assets - individual assessment	10,520,758	46,702,370	0	57,223,128
Impairment of financial assets - collective assessment	3,646,900	0	0	3,646,900
Total	14,167,658	46,702,370	0	60,870,028
Situation as at January 1, 2009	14,167,658	46,702,370	0	60,870,028
Additions	10,308,784	51,972,890	0	62,281,674
Reversals	-5,756,133	-28,317,335	0	-34,073,468
Write-off (*)	-605,878	-7,337,645	0	-7,943,523
Situation as at December 31, 2009	18,114,431	63,020,280	0	81,134,711
Impairment of financial assets - individual assessment	12,972,309	63,020,280	0	75,992,589
Impairment of financial assets - collective assessment	5,142,122	0	0	5,142,122
Total	18,114,431	63,020,280	0	81,134,711

(*) The write-off of loans and advances represents the amounts considered as definitely lost on impaired assets.

Outstanding amounts on impaired loans: EUR 238,998,676 against EUR 332,766,111 a year earlier.

Impairment losses cover the principal amount and interest.

4.10 TANGIBLE ASSETS FOR OWN USE

	Land and buildings	Other furnitures and fittings	TOTAL
Situation as at January 1, 2009	248,516,937	70,414,632	318,931,569
Increase	2,719,007	7,897,245	10,616,252
Decrease	-21,812,945	-15,950,281	-37,763,226
Situation as at December 31, 2009	229,422,998	62,361,596	291,784,594
Accumulated depreciation			
Situation as at January 1, 2009	91,778,754	44,557,623	136,336,377
Reversals	-21,234,593	-15,985,926	-37,220,519
Additions	4,672,141	10,796,456	15,468,597
Situation as at December 31, 2009	75,216,302	39,368,153	114,584,455
Net book value			
Situation as at January 1, 2009	156,738,183	25,857,009	182,595,193
Situation as at December 31, 2009	154,206,696	22,993,443	177,200,140

	Land and buildings	Other furnitures and fittings	TOTAL
Situation as at January 1, 2008	245,476,922	69,269,534	314,746,456
Increase	3,532,841	11,760,273	15,293,114
Decrease	-492,826	-10,615,175	-11,108,001
Situation as at December 31, 2008	248,516,937	70,414,632	318,931,569
Accumulated depreciation			
Situation as at January 1, 2008	86,557,482	43,880,698	130,438,180
Reversals	-73,594	-10,615,175	-10,688,769
Additions	5,294,866	11,292,100	16,586,966
Situation as at December 31, 2008	91,778,754	44,557,623	136,336,377
Net book value			
Situation as at January 1, 2008	158,919,440	25,388,837	184,308,277
Situation as at December 31, 2008	156,738,183	25,857,009	182,595,193

4.11 INTANGIBLE ASSETS

Situation as at January 1, 2009	23,767,239
Increase	9,065,146
Decrease	-7,621,671
Situation as at December 31, 2009	25,210,714

Accumulated depreciation

Situation as at January 1, 2009	14,131,479
Reversals	-7,621,671
Additions	8,403,571
Situation as at December 31, 2009	14,913,379

Net book value

Situation as at January 1, 2009	9,635,760
Situation as at December 31, 2009	10,297,336

Situation as at January 1, 2008	23,663,146
Increase	8,276,063
Decrease	-8,171,970
Situation as at December 31, 2008	23,767,239

Accumulated depreciation

Situation as at January 1, 2008	14,460,260
Reversals	-8,171,970
Additions	7,843,189
Situation as at December 31, 2008	14,131,479

Net book value

Situation as at January 1, 2008	9,202,886
Situation as at December 31, 2008	9,635,760

Depreciation expense of the year on intangible assets are recognised in the income statement under "Depreciation of tangible and intangible assets".

4.12 INVESTMENT PROPERTY

Situation as at January 1, 2009	26,203,344
Increase (acquisitions)	0
Increase (investment expenditure)	47,353
Decrease	0
Situation as at December 31, 2009	26,250,697

Accumulated depreciation

Situation as at January 1, 2009	10,351,324
Reversals	0
Additions	497,478
Situation as at December 31, 2009	10,848,802

Net book value

Situation as at January 1, 2009	15,852,020
Situation as at December 31, 2009	15,401,895

Situation as at January 1, 2008	26,197,746
Increase (acquisitions)	67,496
Increase (investment expenditure)	247,020
Decrease	-308,918
Situation as at December 31, 2008	26,203,344

Accumulated depreciation

Situation as at January 1, 2008	9,954,001
Reversals	-99,208
Additions	496,531
Situation as at December 31, 2008	10,351,324

Net book value

Situation as at January 1, 2008	16,243,745
Situation as at December 31, 2008	15,852,020

The rental income from rented out investment property amounts to EUR 2,293,297 for the year 2009, against EUR 2,241,806 a year earlier. Maintenance costs in relation to investment property amount to EUR 517,328 as at December 31, 2009, compared to EUR 452,905 in 2008.

The fair value of investment property amounts to EUR 46,668,512 as at December 31, 2009.

4.13 OTHER ASSETS

Categories	31/12/2008	31/12/2009
Miscellaneous debtors ⁽¹⁾	43,702,351	7,568,671
Other short-term receivables ⁽²⁾	29,270,722	30,300,381
Others	1,017,550	5,570,928
Total	73,990,623	43,439,980

(1) Mainly operations on securities and coupons.

(2) Mainly operations on credit cards and cheques.

The Group modified its accounting of securities' transactions on behalf of its customers during the year 2009. The exposure arising from differences in value dates is shown net in the balance sheet. This change in the accounting policy explains most of the substantial variation of this caption, with no impact on the income statement of the Group. The Group considered that it is not necessary to restate 2008 figures following a cost-benefit analysis.

4.14 TAX ASSETS AND LIABILITIES

Whereas current tax is a current liability, deferred taxes are the amounts of income taxes payable in future periods in respect of taxable temporary differences (liabilities) or the amounts of income taxes recoverable in future periods in respect of deductible temporary differences (assets).

As at December 31, 2009, the Bank records an amount of EUR 1,960,708 of current tax assets and an amount of EUR 31,265,394 of current tax liabilities.

In the absence of a new tax law incorporating IFRS standards and in agreement with the tax authorities, the Group calculates current tax liability on the basis of the change in net assets of the balance sheet items through the income statement. However, the valuation results of the derivatives negotiated in an over-the-counter market and fair value hedging transactions are excluded from the tax base because of their improbable realisation. These valuations give rise to deferred taxes within the income statement.

As at December 31, 2009, the Bank records a deferred tax asset of EUR 200,944,591 and a deferred tax liability of EUR 279,584,847.

4.14.1 Tax assets

Categories	31/12/2008	31/12/2009
Current tax assets	1,653,379	1,960,708
Deferred tax assets	259,222,286	200,944,591
Tax assets	260,875,665	202,905,299

Breakdown of deferred tax assets according to their origin:

Categories	31/12/2008	31/12/2009
Derivatives - application of fair value	93,156,241	97,918,611
Debt instruments - application of fair value	120,991,713	47,944,401
Capital instruments - application of fair value	16,128,298	11,245,275
Other - financial instruments	8,155,707	6,361,831
Pension funds - actuarial difference	20,790,327	37,474,472
Deferred tax assets	259,222,286	200,944,591

4.14.2 Tax liabilities

Categories	31/12/2008	31/12/2009
Current tax liabilities	23,095,391	31,265,394
<i>Income tax</i>	21,399,826	26,912,150
<i>Commercial tax</i>	1,695,565	4,353,244
Deferred tax liabilities	268,908,638	279,584,847
Tax liabilities	292,004,029	310,850,241

Breakdown of deferred tax liabilities according to their origin:

Categories	31/12/2008	31/12/2009
Derivatives - application of fair value	35,017,923	22,653,063
Debt instruments - application of fair value	63,582,416	74,113,587
Capital instruments - application of fair value	25,622,606	17,335,197
Other - financial instruments	16,903,069	25,810,853
Pension fund - actuarial difference	12,272,584	19,999,011
Regulatory and other provisions	115,510,040	119,673,136
Deferred tax liabilities	268,908,638	279,584,847

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.

Deferred tax assets / liabilities	31/12/2008	Equity movements	Income statement movements	31/12/2009
Deferred tax assets	259,222,286	-67,810,054	9,532,359	200,944,591
Deferred tax liabilities	-268,908,638	9,514,040	-20,190,249	-279,584,847
Net deferred tax assets / liabilities	-9,686,352	-58,296,014	-10,657,890	-78,640,256

Deferred tax assets / liabilities	31/12/2007	Equity movements	Income statement movements	31/12/2008
Deferred tax assets	132,007,754	128,463,540	-1,249,010	259,222,286
Deferred tax liabilities	-280,812,234	-3,551,996	15,455,592	-268,908,638
Net deferred tax assets / liabilities	-148,804,480	124,911,544	14,206,582	-9,686,352

4.15 DEBT CERTIFICATES ISSUED

Categories	31/12/2008			31/12/2009		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Cash certificates	274,766,319	74,645,266	349,411,585	549,236,379	149,210,049	698,446,428
Commercial paper	2,684,879,315	0	2,684,879,315	5,045,714,537	0	5,045,714,537
Medium Term Notes and other securities issued	538,563,087	2,098,258,009	2,636,821,096	268,718,484	1,701,546,849	1,970,265,333
Total	3,498,208,721	2,172,903,275	5,671,111,996	5,863,669,400	1,850,756,898	7,714,426,298
Of which:						
- subordinated notes (at issuance value)	80,000,000	254,757,896	334,757,896	0	253,764,302	253,764,302

During the financial year 2009, the Group issued EMTNs for a value of EUR 673,400,803 (EUR 369,147,410 during the financial year 2008).

New issues in	2008	2009
With a maturity of < 2 years	46,093,578	94,556,197
With a maturity between 2 and 5 years	174,300,514	462,143,626
With a maturity of more than 5 years	148,753,318	116,700,980
Total	369,147,410	673,400,803
<i>Of which:</i>		
- Subordinated notes (at issuance value)	0	0
- Structured notes (at issuance value)	296,013,824	562,400,803

The main category of structured notes issued in 2009 are "Interest linked" notes.

Securities issued which have either come to maturity or have been reimbursed prior to maturity during the year 2009 or 2008:

	2008	2009
Maturities / reimbursements	2,122,711,265	1,389,264,891
Total	2,122,711,265	1,389,264,891
<i>Of which:</i>		
- Subordinated notes (at issuance value)	113,726,501	80,000,000
- Structured notes (at issuance value)	2,003,780,028	1,273,597,216

During the financial year 2009, the Group repurchased own debt issued for a value of EUR 52,701,332 (EUR 183,703,384 during the financial year 2008).

Breakdown as at December 31, 2009 of subordinated notes:

Description	Rate	Currency	Balance upon issuance	Assimilated part	Non-assimilated part
Note 1999 - 2014	1.049	EUR	20,000,000	20,000,000	0
Note 2000 - 2012	6.720	GBP	11,218,308	6,730,985	4,487,323
Note 2000 - 2015	1.094	EUR	25,000,000	25,000,000	0
Note 2000 - 2020	1.084	EUR	25,000,000	25,000,000	0
Note 2001 - 2021	1.525	EUR	20,000,000	20,000,000	0
Note 2001 - 2021	1.525	EUR	30,000,000	30,000,000	0
Note 2001 - 2016	2.700	EUR	25,000,000	25,000,000	0
Note 2002 - 2012	1.092	EUR	5,500,000	3,300,000	2,200,000
Note 2002 - 2012	3.014	EUR	4,500,000	2,700,000	1,800,000
Note 2002 - 2022	1.338	EUR	50,000,000	50,000,000	0
Note 2003 - 2013	0.883	JPY	37,545,994	30,036,795	7,509,199
Total			253,764,302	237,767,780	15,996,522

The interest expense on subordinated notes amounts to EUR 10,931,521 as at December 31, 2009, against EUR 18,965,763 as at December 31, 2008.

4.16 DEPOSITS AT AMORTISED COST – CREDIT INSTITUTIONS

Categories	31/12/2008			31/12/2009		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Interbank deposits	3,805,523,752	0	3,805,523,752	3,719,112,479	828,000	3,719,940,479
Repurchase agreements	0	0	0	1,086,673,282	0	1,086,673,282
Total	3,805,523,752	0	3,805,523,752	4,805,785,760	828,000	4,806,613,760

4.17 DEPOSITS AT AMORTISED COST – PRIVATE CUSTOMERS AND PUBLIC SECTOR

Categories	31/12/2008			31/12/2009		
	=<1 year	> 1 year	Total	=<1 year	> 1 year	Total
Private customers	19,528,680,569	205,649,860	19,734,330,429	18,877,541,027	210,994,790	19,088,535,817
- Repayable on demand	3,596,317,097	0	3,596,317,097	3,510,336,127	0	3,510,336,127
- Time-deposit account	11,850,524,518	205,649,860	12,056,174,378	7,227,695,229	210,994,790	7,438,690,019
- Savings	4,081,838,954	0	4,081,838,954	8,137,697,071	0	8,137,697,071
- Repurchase agreements	0	0	0	1,812,600	0	1,812,600
Public Sector	4,513,983,494	0	4,513,983,494	2,418,651,937	0	2,418,651,937
Total	24,042,664,063	205,649,860	24,248,313,923	21,296,192,964	210,994,790	21,507,187,754

4.18 PENSION FUND – DEFINED BENEFIT PENSION PLAN

Main estimates used in determining pension commitments:

Variables	31/12/2008	31/12/2009
Discount rate for staff (active)	5.40%	5.00%
Discount rate for retired staff	5.00%	3.50%
Future salary increases (indexation included)	3.50%	3.50%
Future pension increases (indexation included)	2.50%	2.50%
Expected return (as from December 1, 2009)	na	3.00%

Net transfer to the pension fund (recognised as "Staff expenses"):

Components	31/12/2008	31/12/2009
Current service cost	3,488,182	3,490,250
Interest cost	12,054,951	12,609,818
Expected return	0	-689,405
Staff contribution	-9,403,025	0
Total	6,140,108	15,410,663

On December 1, 2009, the pension fund liability on the balance sheet was transferred to the "CLP-BCEE" subfund of a pension fund registered as an "Assep" under the name of "Compagnie Luxembourgeoise de Pension". Thus, an expected return of 3% on the externalised commitments has been taken into account, based on a judgement by the Management of the parent company, for the month of December 2009. Following IAS 19, offsetting pension scheme liabilities with plan assets is prohibited if the pension fund is

part of the Group's accounts. Therefore, the gross amount of pension plan commitments as at December 31, 2008 was EUR 244,713,006, rather than EUR 8,015,939 as at December 31, 2009, which represents the net commitment of the Group to the external pension fund as per IAS 19.

The staff contribution is used for financing the basic pension scheme and consists of a pension allowance of 8%. Starting in 2009, it does not contribute any longer to the pension fund, but is recorded as an offset to some of the Bank's social security costs.

Pension commitments:

	2008	2009
Commitments as at January 1	235,999,135	244,713,006
Current service cost	3,488,182	3,490,250
Interest cost	12,054,951	12,609,818
Paid benefits	-8,767,867	-9,086,998
Actuarial gains / losses	1,938,605	44,327,706
Commitments as at December 31	244,713,006	296,053,782

Plan assets:

	2009
Situation as at January 1	288,296,408
Pension payments	-302,895
Contribution for the year 2009	0
Expected return	689,405
Actuarial gains / losses	-645,076
Situation as at December 31	288,037,842

The Bank does not record civil servants' pension payments until the time of reimbursement to the Luxembourg State which directly pays the pensions of its civil-servants having worked for the Bank prior to their retirement. Therefore, the paid benefits amounting to EUR 9,086,998 include reimbursements to the Luxembourg State for the pensions paid to its civil servants in the year 2008 and redeemed by the Bank in 2009.

As the pension fund commitments have only been externalised as at December 1, 2009, the evolution of the plan assets relates to one single month. The pension payments represent the payments of the non civil-servant employees for the month of December.

Net pension commitments as at December 31, 2009:

Pension commitments	296,053,782
Fair value of the assets of the pension plan	-288,037,842
Unfinanced commitments as at December 31, 2009	8,015,940

4.19 PROVISIONS

Movements of the financial year:

	31/12/2008	31/12/2009
Situation as at January 1	3,218,483	30,916,733
Allowance	28,076,733	6,473,512
Reversal	-378,483	0
Reclassification		-32,769,353
Situation as at December 31	30,916,733	4,620,893

The caption "Provisions" registers liabilities of uncertain timing or amount. The reclassification of EUR 32,769,353 has no impact on the income statement and relates to a different presentation of the AGDL ("Association pour la Garantie des Dépôts à Luxembourg") payments and reimbursements in relation to the financial distress of three Icelandic banks.

4.20 OTHER LIABILITIES

Categories	31/12/2008	31/12/2009
Short term payables (1)	272,132,507	40,541,370
Preferential or secured creditors	39,621,000	29,215,240
Total	311,753,507	69,756,610

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

The Group modified its accounting of securities' transactions on behalf of its customers during the year 2009. The exposure arising from differences in value dates is shown net in the balance sheet. This change in the accounting policy explains most of the substantial variation of this caption, with no impact on the income statement of the Group. The Group considered that it is not necessary to restate 2008 figures following a cost-benefit analysis.

4.21 TRANSACTIONS WITH RELATED PARTIES

The related parties of Banque et Caisse d'Epargne de l'Etat, Luxembourg are the consolidated companies, associates, governmental institutions and the key management personnel of the Group.

4.21.1 Governmental institutions

The Group, established by the law of February 21, 1856 and governed by the law of March 24, 1989, is a self-governing public institution endowed with legal personality. Ultimate responsibility for the institution falls within with the Government Minister who heads the Treasury.

Therefore, the Luxembourg Government controls the Group and as a result, IAS 24 requirements have to be complied with.

Hence, the Group delivers the following information concerning its commercial relationship with the Luxembourg Government and other governmental institutions.

in euros	31/12/2009
ASSETS (principally loans at amortised cost)	2,477,825,179

in euros	31/12/2009
LIABILITIES (Deposits at amortised cost)	2,311,542,840

4.21.2 Allowances of the Bank's management and administrative bodies

Breakdown of allowances paid to the members of the Board of Directors and the Executive Committee:

	31/12/2008	31/12/2009
Board of Directors (9 members)	122,450	113,900
Executive Committee (5 members)	821,998	890,414
Total	944,448	1,004,314

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

Breakdown of the loans and advances granted to members of the Bank's management and administrative bodies:

	31/12/2008	31/12/2009
Board of Directors (9 members)	912,662	1,040,026
Executive Committee (5 members)	679,597	931,672
Total	1,592,259	1,971,698

4.22 INDEPENDENT AUDITOR'S FEES

	2008	2009
Audit	470,000	470,000
Other audit services	38,550	55,000
Tax services	30,000	22,121
Others	163,745	72,860
Total	702,295	619,981

4.23 OFF BALANCE SHEET ITEMS**Type of guarantees issued**

	31/12/2008	31/12/2009
Completion guarantees	229,460,612	193,725,669
Credit letters	104,476,583	69,583,684
Counter-guarantees	272,424,069	260,716,581
Documentary credits	26,958,621	22,851,113
Others	78,143,624	61,053,942
Total	711,463,509	607,930,989

Commitments

	31/12/2008	31/12/2009
Amounts subscribed and unpaid on securities, participating interests and shares in affiliated undertakings	6,599,507	4,934,507
Loan commitments	3,121,915,096	3,126,409,571
Others	7,247,274	5,217,145
Total	3,135,761,877	3,136,561,223

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 (in euros)

5.1 INTEREST INCOME

Interest received and similar income	2008	2009
Assets repayable on demand	17,579,400	7,175,685
Financial assets held for trading	69,417,911	21,529,369
Available for sale financial assets	643,076,721	350,705,865
Loans and advances - Debt instruments	138,551,454	37,474,597
Loans and advances - Loans and advances	776,145,300	482,149,772
Held to maturity investments valued at amortised cost	48,802,019	61,555,237
Derivatives used for hedging purposes, interest rate risk	2,015,964,909	921,125,754
Other assets	1,027,358	1,315,433
Total	3,710,565,072	1,883,031,712
Interest paid and similar expense	2008	2009
Financial liabilities held for trading	-107,534,826	-29,385,993
Liabilities measured at amortised cost - Deposits	-948,514,555	-309,192,670
Liabilities measured at amortised cost - Debt certificates	-160,376,773	-6,992,281
Liabilities measured at amortised cost - Subordinated debts	-18,789,520	-12,052,874
Derivatives used for hedging purposes, interest rate risk	-2,064,925,581	-1,102,331,346
Other liabilities	-1,958,414	-818,236
Total	-3,302,099,669	-1,460,773,400
Interest income, net	408,465,403	422,258,312
Total of interest received and similar income on financial instruments not recognised at fair value through profit or loss	3,641,147,161	1,861,502,343
Total of paid interest and similar expense on financial instruments not recognised at fair value through profit or loss	-3,194,564,843	-1,431,387,407

5.2 DIVIDEND INCOME

	2008	2009
Financial assets held for trading	45,412	7,042
Available for sale financial assets	25,986,530	29,644,184
Dividend income	26,031,942	29,651,226

5.3 COMMISSIONS

Categories	2008	2009
Loan activities	22,724,730	26,419,486
Asset management	18,745,774	17,006,930
Undertakings for collective investment activities	28,187,671	30,177,427
Repayable on demand and related activities	13,973,011	15,439,709
Insurance premium	3,709,861	3,841,383
Others	6,378,863	6,287,422
Commissions received and paid	93,719,910	99,172,357

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

Categories	2008	2009
Available for sale financial assets	-3,130,479	-4,979,949
Loans and advances measured at amortised cost	185,897	249,942
Held to maturity investments	6,959	136,533
Financial liabilities measured at amortised cost	-57,908	0
Total	-2,995,531	-4,593,474

5.5 TRADING INCOME

Categories	2008	2009
Equity instruments and related derivatives	509,780	1,548,513
Currency exchange instruments and related derivatives	1,591,670	-904,346
Interest rate instruments and related derivatives	7,082,670	4,333,419
Credit derivatives	-20,669,551	14,437,852
Commodities and related derivatives	499,347	939,294
Total	-10,986,084	20,354,732

The improvement of income from financial instruments is mostly due to a decrease in credit spreads on "credit default swaps".

5.6 NET INCOME FROM HEDGE ACCOUNTING

	2008	2009
Fair-value hedge		
Debt instruments (assets) hedged by derivatives	6,997,724	-7,844,866
Debt issuances hedged by derivatives	-2,754,785	3,376,989
Loans hedged by derivatives	3,875,095	-1,965,997
Deposits hedged by derivatives	-572,139	432,699
Total	7,545,895	-6,001,175
Value adjustment on hedged instruments	222,955,024	59,925,386
Value adjustment on hedging instruments	-215,409,129	-65,926,561
Total	7,545,895	-6,001,175

Market risk hedging transactions are highly effective.

5.7 OTHER NET OPERATING INCOME

	2008	2009
Other operating income	7,011,316	40,581,518
Other operating charges	-2,829,850	-38,487,773
Other net operating income	4,181,466	2,093,745

"Other operating income and expenses" include mainly:

- The rent for rented out property and various advances from tenants,
- VAT repayments relating to previous financial years,
- Income from funds on amortised loans.

Concerning the restocking of the AGDL provision and by way of exception, EUR 35,125,584 have been processed via these accounts. Further information can be found in note 4.19.

5.8 STAFF EXPENSES

Categories	2008	2009
Wages	131,959,260	136,673,885
Social security costs	6,729,870	7,004,342
Pensions and similar expenses	19,309,014	10,850,868 (*)
Transfer to the pension fund	6,140,108	15,410,663 (*)
Other staff expenses	4,826,640	4,698,492
Total	168,964,892	174,638,250

(*) Further information can be found in note 4.18.

5.9 OTHER ADMINISTRATIVE EXPENSES

Categories	2008	2009
Expenses linked to property and furnishing	15,804,133	15,625,808
Rents and maintenance of software	13,083,966	13,567,508
Operating costs linked to the banking business	19,466,503	18,734,025
Other	14,042,487	14,100,335
Total	62,397,089	62,027,676

5.10 VALUE ADJUSTMENTS ON TANGIBLE ASSETS**Depreciations**

Categories	2008	2009
Depreciation - buildings	5,294,866	4,672,141
Depreciation - equipment and furnishing	11,292,100	10,796,456
Depreciation of tangible assets	16,586,966	15,468,597

Impairments

In 2008 and 2009, the Group did not recognise any impairment on tangible assets under IAS 36.

5.11 VALUE ADJUSTMENTS ON INTANGIBLE ASSETS**Depreciations**

Categories	2008	2009
Depreciations	7,843,189	9,898,788
Depreciation of intangible assets	7,843,189	9,898,788

Impairments

In 2008 and 2009, the Group did not recognise any impairment on intangible assets under IAS 36.

5.12 VALUE ADJUSTMENTS ON INVESTMENT PROPERTY

Depreciation

Categories	2008	2009
Depreciations	496,531	497,478
Depreciation of tangible assets investment	496,531	497,478

Impairments

In 2008 and 2009, the Group did not recognise any impairment on investment property under IAS 36.

5.13 IMPAIRMENT OF FINANCIAL ASSETS - INDIVIDUAL AND COLLECTIVE ASSESSMENTS

Collective impairment

2008				2009		
Collective impairment	Allowance	Reversal	Total	Allowance	Reversal	Total
Loans and advances	-156,876	618,914	462,038	-1,714,511	221,626	-1,492,884
	-156,876	618,914	462,038	-1,714,511	221,626	-1,492,884

Individual impairment

2008				2009		
Individual impairment	Allowance	Reversal	Total	Allowance	Reversal	Total
Available for sale financial assets	-121,113,076	17,271,957	-103,841,119	-44,951,502	6,492,878	-38,458,624
Loans and advances	-62,508,408	19,306,447	-43,201,961	-61,778,134	40,513,095	-21,265,039
	-183,621,484	36,578,404	-147,043,080	-106,729,636	47,005,973	-59,723,663

2009	
Interest on depreciated financial assets available for sale	1,939,192
Interest on depreciated loans and advances	4,452,760
Total	6,391,952

5.14 PROVISIONS

	2008	2009
Provision allowance	-28,076,733	-6,473,512
Provision allowance	-28,076,733	-6,473,512

A provision allowance amounting to EUR 4,692,619 has been booked, representing the additional loss expected from the financial distress of an Icelandic bank. This estimate is based on AGDL scenario figures analysing different unwinding assumptions.

5.15 TAX EXPENSE

	2008	2009
Tax on income from ordinary operations	28,126,777	26,710,106
Deferred tax	-14,206,582	10,657,891
Tax on profit for the financial year	13,920,195	37,367,997

Deferred taxes in the income statement may show significant variations as they mainly come from changes in the valuation of derivative instruments and hedging results. The standard tax rate applicable in Luxembourg was 28.59% as at December 31, 2009 and 29.63% as at December 31, 2008. The Group's effective tax rate was 16.82% and 16.39% for 2009 and 2008 respectively, given the differences between the Luxembourg tax base and the accounting principles for consolidated annual accounts in accordance with IFRS.

The difference in these two rates can be analysed as follows:

	2008	2009
Net income before tax	116,530,681	261,374,218
Tax rate	29.63%	28.59%
Theoretical tax at standard rate	34,528,041	74,726,889
Tax impact of non-deductible expenses	8,452,297	2,034,246
Tax impact of non-taxable income	-20,545,142	-24,431,752
Share of profit of associates	-4,391,002	-6,957,692
Tax rebate and relief	-3,471,597	-4,865,454
Tax refund from previous years	0	-3,982,639
Others	-652,403	844,399
Tax on profit for the financial year	13,920,195	37,367,997



6. Management of financial risks

6.1 GENERAL SET OF RULES FOR THE MANAGEMENT OF FINANCIAL RISKS

Traditionally, the BCEE Group has adopted a prudent and conservative policy in respect to risk management. In recent years, the Bank has increased its efforts to further harmonise control procedures and to move towards maximum transparency in management methodology.

6.1.1 Organisation of Risk Management

Banks face different types of risks, such as financial risks (e.g. credit or market risk), and operational risks.

Within the Group, the Executive Committee of the parent company has the ultimate responsibility with regard to the analysis and the management of risks. However, from an organisational point of view, risk management and control are delegated to the Risk Management department ("Analyse des risques").

6.1.2 Executive Committee

The Bank's Management, through the Executive Committee of the parent company, sets the objectives for the commercial entities' business, the type of transactions to be carried out and the related limits, as well as the rules for internal organisation and control.

6.1.3 Responsibilities of the Risk Management department

The Risk Management department is separated from the commercial activities of the Bank and is responsible:

- To set up a coherent framework to analyse financial risks, which includes the analysis itself and the permanent monitoring of these risks,
- Of the approval or rejection of commercial entities' requests and the transmission of files to the Executive Committee for transactions with a volume beyond the threshold set by the Executive Committee,
- To monitor limits (credit, market and trading) of the different commercial entities.

The department consists of two units:

- Analysis and Risk Monitoring: The Analysis and Risk Monitoring ("Analyse et Suivi Risque" or "ASR") unit is responsible for analysing and monitoring credit risk, either at individual exposure level or at the Group's various portfolios level .

- **Risk Control:** The Risk Control unit is responsible to supervise activities originated in the Financial Markets Department. This encompasses the administration and parameterisation of systems used by the Financial Markets Department, the modelling, risk valuation and monitoring of limits of the Financial Markets Department's activities, as well as internal reporting of profits or losses. The Risk Control unit has a direct reporting line to the Executive Committee.

6.1.4 Compliance

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

Compliance risk falls within the oversight of the Compliance department, which ensures in particular:

- Adherence to anti-money-laundering obligations, including use of tools aimed at detecting suspicious transactions,
- General adherence to the Bank's regulatory environment (with certain elements being delegated to the Internal Audit department),
- Monitoring of customer claims.

6.1.5 Internal Audit

The Risk Management function is subject to regular and recurrent reviews by the Internal Audit department. During these reviews, the Internal Audit department validates the suitability and the respect of Risk Management procedures.

6.1.6 Systems measuring and tracking limits

a. Market risk

Market risk refers to the risk of economic value loss of financial instruments held by the Group caused by unfavourable developments in the markets.

Within the framework of market risk valuation and monitoring, the Bank applies a set of methods including:

- Permanent calculation of the "Basis Point Value" (BPV) indicator for positions subject to interest rate risk. BPV is a simple and efficient method allowing to quantify market risk originating from small interest rate fluctuations for the held positions. Traders are permanently operating within BPV limits set by the Executive Committee. Adherence to these limits is monitored by Risk Control.
- Calculation of Value-at-risk (VaR), both for the trading book and the banking book, in order to measure amounts at risk with respect to positions held by the

Bank. Risk amounts are subject to limits set by the Executive Committee and supervised by Risk Control. VaR represents an improvement from less sophisticated indicators such as BPV, allowing Risk Control to:

- Integrate correlations of changes in risk factors for held positions,
- Show potential loss in a single amount that can be compared to the Bank's equity,
- Quantify the probability of this loss occurring,
- Stress-test held positions in order to value the impact of unexpected market movements which may otherwise not be accurately captured by VaR.

b. Credit risk

Permanent quality monitoring of all debtors is performed within the Risk Management department. This review is based on the internal ratings' monitoring per counterparty and on a behavioural analysis of commitments. Risk Management continuously informs the Executive Committee of the parent company on changes in the quality of debtors. In addition, Risk Management performs a quarterly check of the changes in credit quality with regard to the Bank's portfolios. The results of these analyses are provided to the Executive Committee of the parent company on a continuing basis.

The positions held by the Financial Markets Department are continuously monitored in real-time to comply with the credit limits set by the Executive Committee of the parent company.

In addition to counterparty limits, the Bank has set up a system of limits by sector and region for monitoring concentration risk.

c. Counterparty risk resulting from transactions on derivatives

The Bank has negotiated ISDA (« International Swaps and Derivatives Association Inc. ») framework agreements including CSA (« Credit Support Annex ») appendices in order to limit the counterparty risk resulting from transactions on derivatives where these transactions show a positive market valuation. By the end of 2009, approximately 90% of the volume of transactions on derivatives took place within the framework of these agreements.

d. Liquidity risk

Liquidity risk arises from mismatch of incoming and outgoing financial flows at a given date. The risk for a financial institution is of not being able, at any given time, to honour its payments due to a lack of liquid assets compared to liabilities that have become payable. Because of its financial structure, the Bank usually finds itself with a liquidity surplus.

The Bank performs a permanent monitoring of liquidity risk with regard to maturity dates. The Financial Market Department is in charge of short-term liquidity management. Furthermore, the Bank has stable and diversified liabilities, notably in the form of a very solid and constantly growing customer deposit base with ECP, USCP and EMTN refinancing programs which put the Bank in a comfortable liquidity position. Moreover, the portfolio of high quality fixed income securities (average rating of AA-) allows the Bank to participate, if needed, in the European Central Bank's Open Market Operations as well as to raise money with bilateral and triparty repo counterparties. Finally, the extension of high quality criteria to collateral accepted by the European Central Bank has increased refinancing possibilities with the latter.

In the event of an urgent and important call for liquidity, the Bank may use an intraday and overnight credit line with the Banque centrale du Luxembourg ("BCL") by pledging public securities or other fixed income securities. To that effect, the Bank keeps at all times a portfolio of at least EUR 4 billion in fixed income securities which could be used as a guarantee for the BCL.

CSSF Circular 07/301 mentions explicitly in § II.1 – "Identification of risks" the securitisation risk that a credit institution sponsors or initiates. Securitisation can be considered as a technique of liquidity management since it enables assets to be removed from the balance sheet and thus allows a bank to raise funds.

The Bank has not initiated or sponsored such an operation and it is not likely to do so in the future.

6.2 EXPOSURE TO CREDIT RISKS

6.2.1 Objectives and management of credit risk

Each commitment of the Bank that will lead to a credit risk is subject to prior analysis by the Risk Analysis and Monitoring unit.

With regard to loans granted to the domestic economy recognised in the balance sheet under the caption "Loans and advances at amortised cost - Customers", the decision-making structure is organised into a hierarchy with different credit committees, depending on the customer's overall outstanding amount. Starting at a defined threshold, files must be analysed and agreed to by the Bank's Executive Committee. The portfolio's structure is made up of residential mortgage loans for over half of the outstanding amount. Credit risk relating to residential mortgage loans is assessed by the process of evaluating customers' ability to pay and by the existence of guarantees. As far as loans and advances to companies are concerned, the Bank applies rigorous procedures to analyse files and to take sufficient guarantees. Particular attention is paid to the respect of limits per sector and per counterparty. Basel II methodology allows for a continuous monitoring of aggregate portfolios in respect of risk trends. The Bank did not change its approach regarding risk management during the financial year 2009.

For interbank markets and international loans, contracts are recognised in the balance sheet under the captions "Loans and advances at amortised cost - Credit institutions", "Loans and advances at amortised cost - Customers" and "Available for sale financial assets - Fixed income securities". In these captions, a large majority of counterparties are made up of banking and financial institutions and a set of quantitative and qualitative analyses is used to allocate an internal rating to a counterparty. The quantitative element is based on the ratios that best describe the counterparty's profitability, capital strength, liquidity and the quality of its assets, while the qualitative analysis is done by the analyst, taking into account non-financial aspects such as market share, management quality and external rating.

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

Outstanding amounts are subject to counterparty risk monitoring and to regular checks through current financial analysis and proposals for counterparties' limit adjustments. The Bank also applies a set of limits for countries with a rating less than AA. The Financial Markets Department is required to adhere, for each on balance sheet and off-balance sheet instrument, both to the counterparties' credit limit and to the settlement limits (settlement limit and daily settlement limit). These limits are subject to periodical review.

Investments in derivatives are largely regulated using ISDA (International Swaps and Derivatives Association Inc.) type contracts, including compensation clauses in the event of bankruptcy of one of the counterparties. The Bank has secured a means of additional risk reduction by negotiating the CSA (Credit Support Annex) appendix to the ISDA contracts with the most important counterparties in the area of off-balance sheet transactions.

This appendix stipulates, following periodical revaluations of bilateral positions, that guarantees in the form of cash or top-rated securities must be deposited whenever the net value of outstanding contracts exceeds a certain threshold.

6.2.2 Credit and concentration risk

Concentration risk is the risk resulting from an excessive exposure with regard to one single debtor, a group of debtors, an economic sector or a country. To avoid this risk, the Bank has set up several procedures ensuring efficient management of the allocated limits. It is equally possible to consider concentration risk not only from the commitment point of view, but also from that of the Bank's resources, in which case this risk could be seen in the context of liquidity risk.

In addition to the counterparty limits, the Bank has set up a system of limits per sector and per country in order to maintain concentration risk at an acceptable level.

Therefore the Bank has invested in risk management tools suitable for the different risk profiles and financing techniques.

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

Maximum exposure to credit risk in euros	31/12/2008	31/12/2009
Cash and cash balances with central banks	355,194,150	618,593,103
Loans and advances at amortised cost - Credit institutions	10,112,612,285	7,646,662,526
Loans and advances at amortised cost - Customers	12,141,556,621	13,618,971,120
Financial assets held for trading	213,600,989	130,467,087
Derivative instruments used for hedging purposes	141,802,858	103,103,272
Available for sale financial assets - Fixed income securities	11,806,819,966	11,283,043,418
Held to maturity investments	1,337,266,570	2,845,872,095
Exposures relating to on-balance sheet commitments	36,108,853,439	36,246,712,622
Completion guarantees	229,460,612	193,725,669
Credit letters	104,476,583	69,583,684
Counter-guarantees	272,424,069	260,716,581
Documentary credits	26,958,621	22,851,113
Other	78,143,624	61,053,942
Loan commitments	3,121,915,096	3,126,409,571
Exposures relating to off-balance sheet commitments	3,833,378,605	3,734,340,560
Total exposure	39,942,232,044	39,981,053,182

The Bank uses following standard techniques to reduce credit risk:

Collateral

Breakdown by type of collateral	2008	2009
Mortgages	6,014,126,703	6,491,816,505
Repurchase agreements	7,725,871,886	4,128,515,375
Pledge for cash deposits or security deposits	86,748,475	317,869,954

Personal guarantees

Personal guarantees amounted to EUR 1,179,748,654 at the end of 2009, compared with EUR 1,249,156,080 in 2008.

ISDA – CSA contracts.

6.2.3 Analysis of credit risk on financial assets

The Group defines the exposure of financial assets' credit risk as their book value within the IFRS standards.

In order to meet the requirements of IFRS 7 "Financial Instruments: Disclosures", credit risk exposure as at December 31, 2009 is detailed according to internal ratings.

In the following tables relating to credit risk disclosures, exposures are shown at book value before risk mitigation. The application of a collateralisation rate points out the risk mitigation effect.

Credit risk is shown according to the following exposures:

- Geographical area,
- Counterparty category,
- Risk classification (internal ratings).



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Exposures by geographical sector:

Geographical sector as at December 31, 2009 (in thousands of euros)	European Union and Switzerland	Other European Countries	North America	Asia and Australasia	Supra- national	Others	Total
Cash and cash balances with central banks	618,586	0	7	0	0	0	618,593
Loans and advances at amortised cost	20,884,915	84,132	85,261	176,574	0	34,751	21,265,634
Financial assets held for trading and derivatives used for hedging purposes	230,026	4	3,480	32	28	0	0
Available for sale securities	9,840,834	244,212	1,349,187	486,246	108,306	199,752	12,228,537
Held to maturity investments	2,643,765	22,940	66,222	80,518	32,427	0	2,845,872
Other	449,245	0	0	0	0	0	449,245
Total	34,667,371	351,288	1,504,157	743,370	140,762	234,503	37,407,881
Geographical sector as at December 31, 2008 (in thousands of euros)	European Union and Switzerland	Other European Countries	North America	Asia and Australasia	Supra- national	Others	Total
Cash and cash balances with central banks	355,194	0	0	0	0	0	355,194
Loans and advances at amortised cost	21,921,903	130,641	112,175	58,810	0	30,640	22,254,169
Financial assets held for trading and derivatives used for hedging purposes	352,459	0	2,945	0	0	0	355,404
Available for sale securities	10,029,698	285,554	1,457,615	450,410	92,743	359,505	12,675,525
Held to maturity investments	1,336,752	0	0	0	515	0	1,337,267
Other	543,561	76	1,129	105	0	53	544,924
Total	34,539,567	416,271	1,573,864	509,325	93,257	390,198	37,522,483

Exposures by counterparty category and by risk classification:

	2008			2009		
	Outstanding amount	Average collateralisation rate	Impairment rate	Outstanding amount	Average collateralisation rate	Impairment rate
Cash and cash balances with central banks						
Sovereigns						
High grade	355,194,150	-	-	618,593,102	-	-
Standard grade	0	-	-	0	-	-
Sub-standard grade	0	-	-	0	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	0	-	-	0	-	-
Not rated	0	-	-	0	-	-
Total Categories	355,194,150	-	-	618,593,102	-	-
Loans and advances at amortised cost						
Banks						
High grade	9,409,384,326	79.98%	-	5,543,853,886	46.26%	-
Standard grade	748,703,176	26.71%	-	2,076,196,477	78.04%	-
Sub-standard grade	0	-	-	0	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	14,107,410	-	74.43%	10,230,588	-	48.97%
Not rated	9,225	-	-	0	-	-
Corporates						
High grade	898,024,568	1.18%	-	1,806,944,874	0.11%	-
Standard grade	476,776,069	5.43%	-	1,334,812,389	2.28%	-
Sub-standard grade	230,100,105	24.19%	-	437,147,786	14.54%	-
Past due but not impaired	0	-	-	17,488,725	32.88%	-
Impaired	149,114,298	25.95%	31.32%	112,085,012	32.88%	48.41%
Not rated	419,247,536	4.28%	-	340,963,982	1.25%	-
Sovereigns						
High grade	2,456,577,960	13.62%	-	1,852,424,012	17.95%	-
Standard grade	0	-	-	10,107,819	-	-
Sub-standard grade	0	-	-	0	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	0	-	-	0	-	-
Not rated	0	-	-	0	-	-

	2008			2009		
	Outstanding amount	Average collateralisation rate	Impairment rate	Outstanding amount	Average collateralisation rate	Impairment rate
Retail						
High grade	3,242,881,443	75.27%	-	3,751,019,541	87.74%	-
Standard grade	2,974,627,042	76.89%	-	3,237,733,736	81.57%	-
Sub-standard grade	959,762,290	77.26%	-	599,487,295	83.63%	-
Past due but not impaired	14,049,337	77.26%	-	11,038,709	83.63%	-
Impaired	257,441,528	52.82%	4.09%	116,683,077	87.74%	18.63%
Not rated						
Others						
High grade	0	-	-	0	-	-
Standard grade	0	-	-	0	-	-
Sub-standard grade	0	-	-	0	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	0	-	-	0	-	-
Not rated	3,362,593	-	-	7,415,741	-	-
Total Categories	22,254,168,906	-	-	21,265,633,647	-	-
Financial instruments held for trading and derivatives used for hedging purposes						
Banks						
High grade	252,135,742	4.95%	-	190,434,965	12.80%	-
Standard grade	93,437,210	4.51%	-	33,415,785	33.82%	-
Sub-standard grade	1,971,378	-	-	3,182,466	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	0	-	-	0	-	-
Not rated	7,859,517	-	-	6,537,144	-	-
Total Categories	355,403,847	-	-	233,570,360	-	-
Available for sale securities						
Banks						
High grade	5,330,613,260	-	-	3,755,247,549	-	-
Standard grade	1,663,364,537	-	-	1,495,531,582	-	-
Sub-standard grade	0	-	-	0	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	76,440,193	-	84.70%	54,718,128	-	89.52%
Not rated	0	-	-	0	-	-

	2008			2009		
	Outstanding amount	Average collateralisation rate	Impairment rate	Outstanding amount	Average collateralisation rate	Impairment rate
Corporates						
High grade	433,049,719	-	-	1,210,022,671	-	-
Standard grade	607,112,795	-	-	1,015,340,402	-	-
Sub-standard grade	0	-	-	42,878,327	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	0	-	-	4,508,566	-	100.00%
Not rated	62,502	-	-	0	-	-
Sovereigns						
High grade	2,381,878,869	-	-	2,665,407,410	-	-
Standard grade	273,890,585	-	-	231,928,126	-	-
Sub-standard grade	0	-	-	4,412,314	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	0	-	-	0	-	-
Not rated	0	-	-	0	-	-
Securitisation						
High grade	100,476,722	-	-	84,358,781	-	-
Standard grade	616,985,728	-	-	708,921,466	-	-
Sub-standard grade	0	-	-	35,637,407	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	80,720,804	-	54.91%	88,687,288	-	81.55%
Not rated	1,086,182,471	-	-	829,683,118	-	-
Retail						
High grade	0	-	-	0	-	-
Standard grade	0	-	-	0	-	-
Sub-standard grade	0	-	-	0	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	0	-	-	0	-	-
Not rated	0	-	-	0	-	-
Others						
High grade	24,747,383	-	-	1,254,185	-	-
Standard grade	0	-	-	0	-	-
Sub-standard grade	0	-	-	0	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	0	-	-	0	-	-
Not rated	0	-	-	0	-	-
Total Categories	12,675,525,568	-	-	12,228,537,320	-	-

	2008			2009		
	Outstanding amount	Average collateralisation rate	Impairment rate	Outstanding amount	Average collateralisation rate	Impairment rate
Held to maturity securities						
Banks						
High grade	498,580,403	-	-	1,306,347,823	-	-
Standard grade	268,171,765	-	-	615,010,190	-	-
Sub-standard grade	0	-	-	0	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	0	-	-	0	-	-
Not rated	0	-	-	0	-	-
Corporates						
High grade	0	-	-	244,698,725	-	-
Standard grade	0	-	-	32,190,495	-	-
Sub-standard grade	0	-	-	0	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	0	-	-	0	-	-
Not rated	69,985,076	-	-	25,430,159	-	-
Sovereigns						
High grade	500,529,326	-	-	622,194,703	-	-
Standard grade	0	-	-	0	-	-
Sub-standard grade	0	-	-	0	-	-
Past due but not impaired	0	-	-	0	-	-
Impaired	0	-	-	0	-	-
Not rated	0	-	-	0	-	-
Total Categories	1,337,266,570	-	-	2,845,872,096	-	-
Non-financial assets (*)	544,905,676	-	-	449,244,651	-	-
Total Categories	544,905,676	-	-	449,244,651	-	-
Total	37,522,482,719	-	-	37,641,451,175	-	-

(*) The category "Non-financial assets" includes "Tangible assets for own use", "Investment Property", "Intangible assets", "Current tax", "Deferred tax" and "Other assets" categories.

"Loans and advances at amortised cost" in relation with "Retail" and "Corporate" customers, as mentioned in the line "Past due but not impaired" relate to items where the contractual maturity of payment is past due between 1 to 90 days. Beyond this limit, an impairment is recorded if the Bank decides that it is in line with its accounting policy as described in part 3. In "Available for sale securities", the Group does not record any items in the line "Past due but not impaired", but uses the "Objective impairment evidence" to determine an individual impairment.

The average collateralisation rate shows the average hedging rate of outstanding amounts by collateral held.

The average impairment rate shows the average percentage of outstanding amounts deemed unrecoverable.

Banks, Corporates and Sovereigns:

The grouping according to internal risk category matches, as an 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 categorised as "Impaired" relate to outstanding amounts showing "objective impairment evidence" and whose internal risk category (internal rating) is equal to or lower than a B+ rating.

Securitisations:

The grouping according to internal risk category matches with the following "S&P" equivalents:

High grade: from AAA to A+
 Standard grade: from A to BBB-

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

6.3 MARKET RISK

6.3.1 Determination of risk exposure

Market risk consists in the risk of loss resulting from unfavourable fluctuations of various financial parameters, mainly interest rates, share prices and exchange rates.

6.3.2 Objectives and risk management

To manage market risk, the Bank distinguishes between maturity mismatch risk, resulting from structural maturity differences between resources and reinvestments on the Bank's balance sheet, and the risk linked to treasury management as well as the risk linked to trading operations.

The maturity mismatch risk is supervised by the ALM (Asset Liability Management) committee which seeks to minimise any negative effects in changes in interest rate curves on the Bank's performance by matching its own funds and funds deposited in demand deposit accounts or savings accounts with the refinancing of domestic and international loan portfolios and with the Bank's bond and equity portfolios. The ALM Committee is made up of members of the Bank's Executive Committee and a number of unit managers.

All other market risk components, such as interest rate risk, foreign exchange risk or equity price risks affecting treasury positions or on- and off-balance sheet trading positions are centralised in real time in the front-office system and are kept within the limits set by the Bank's Executive Committee. The latter is regularly informed of compliance with limits and risk exposure by the "Risk Control" unit that is independent from the Financial Market Department.

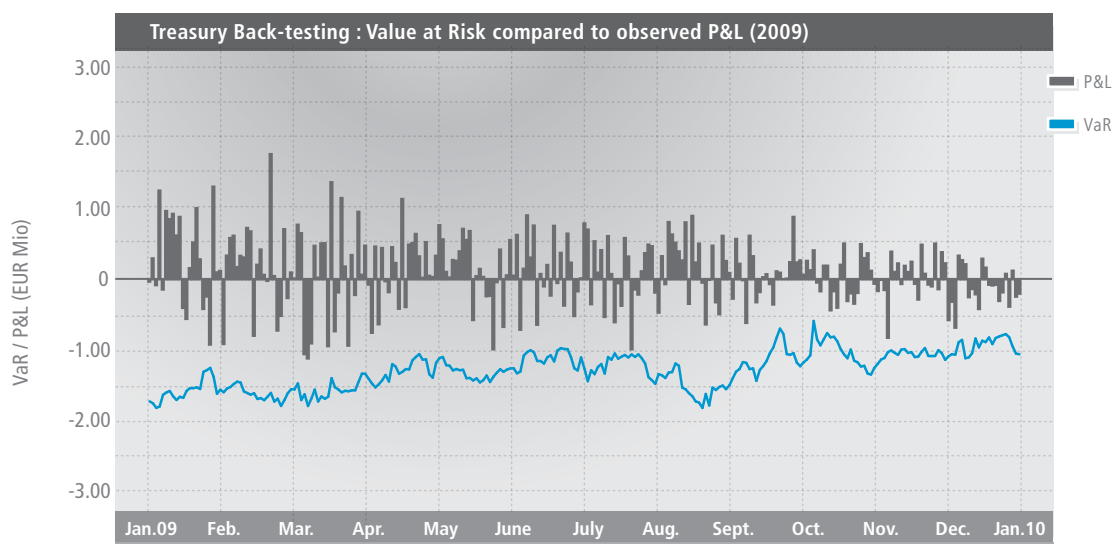
During the year 2009, the Bank did not change its approach in its risk management policy.

Risk levels are mainly monitored using the linear Value at Risk (VaR) indicator introduced in 2003. The Bank calculates VaR using the historical simulation method. Trading and treasury activities are subject to VaR limits per activity.

VaR is measured on a daily basis for all market risk portfolios (trading, treasury and investment), except for the Bank's portfolio of participating interests. This valuation covers a one-day period with a 99% confidence threshold. The time series cover a full year, which, for 2009, make up a total of 259 observations (261 observations in 2008).

The effectiveness of VaR calculations is monitored ex-post by a back-testing procedure where forecasts using VaR are compared with the observed changes in value. The chart below shows VaR and back-testing trends for the Bank's Treasury in 2009. On average VaR was EUR 1.26 million (EUR 1.48 million in 2008). VaR averaged EUR 101,000 for the only trading portfolio in 2009 (EUR 131,000 in 2008).

The negative result of the Treasury activity should not exceed VaR for more than one day out of a hundred on average. In 2009, the threshold was not exceeded, whilst in 2008, the VaR threshold was exceeded three times.



In addition to VaR, which allows overall management of the various market risks, the Bank uses other risk management techniques depending on the financial instruments analysed. Accordingly, interest rate risk is managed by simulating the impact of a one basis point (0.01%) variation in the interest rate curve on the Net Present Value of positions. Daily reports therefore show the variation resulting from a parallel one basis point variation in all interest rate curves, known as the Basis Point Value (BPV), which must remain within set limits. Moreover, foreign exchange risk and equity market risk are managed by limits on individual positions and stop-loss limits.

6.3.3 Analysis of the fair value of financial instruments

The table below shows the comparison by category of the book value and fair value of the Group's financial instruments recognised in the consolidated annual accounts.

Categories as at December 31, 2009	Book value	Fair value	Unrealised result
Financial assets			
Cash and cash balances with central banks	618,593,103	618,593,103	0
Loans and advances at amortised cost - Credit institutions	7,646,662,526	7,646,662,526	0
Loans and advances at amortised cost - Customers	13,618,971,120	14,617,671,963	998,700,843
Financial assets held for trading	130,467,087	130,467,087	0
Hedging derivatives	103,103,272	103,103,272	0
Available for sale financial assets - Fixed income securities	11,283,043,418	11,283,043,418	0
Available for sale financial assets - Variable income securities	771,098,404	771,098,404	0
Held to maturity investments	2,845,872,095	2,900,004,999	54,132,904
TOTAL	37,017,811,025	38,070,644,772	1,052,833,747
Financial liabilities			
Deposits at amortised cost - Credit institutions	4,806,613,760	4,806,613,760	0
Deposits at amortised cost - Customers and public sector	21,507,187,754	21,535,921,128	28,733,374
Financial liabilities held for trading	81,905,268	81,905,268	0
Derivative instruments used for hedging purposes	463,219,908	463,219,908	0
Debt certificates issued	7,714,426,298	7,714,426,298	0
TOTAL	34,573,352,988	34,602,086,362	28,733,374

Categories as at December 31, 2008	Book value	Fair value	Unrealised result
Financial assets			
Cash and cash balances with central banks	355,194,150	355,194,150	0
Loans and advances at amortised cost - Credit institutions	10,112,612,285	10,112,612,285	0
Loans and advances at amortised cost - Customers	12,141,556,621	12,522,452,053	380,895,432
Financial assets held for trading	213,600,989	213,600,989	0
Hedging derivatives	141,802,858	141,802,858	0
Available for sale financial assets - Fixed income securities	11,806,819,966	11,806,819,966	0
Available for sale financial assets - Variable income securities	707,704,021	707,704,021	0
Held to maturity investments	1,337,266,570	1,333,601,916	-3,664,654
TOTAL	36,816,557,460	37,193,788,238	377,230,778
Financial liabilities			
Deposits at amortised cost - Credit institutions	3,805,523,752	3,805,523,752	0
Deposits at amortised cost - Customers and public sector	24,248,313,923	24,258,229,144	9,915,221
Financial liabilities held for trading	329,148,392	329,148,392	0
Derivative instruments used for hedging purposes	316,147,029	316,147,029	0
Debt certificates issued	5,671,111,996	5,671,111,996	0
TOTAL	34,370,245,092	34,380,160,313	9,915,221

The fair value of financial instruments not recognised at fair value in the consolidated annual accounts is determined following the methods and estimations detailed hereafter.

Assets and liabilities at amortised cost in the balance sheet and having a 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 value as being very close to their book value. Credit risk is considered to be immaterial owing to the Group's prudent policy and the proximity of the maturity date. Moreover, the short residual duration makes for an insignificant interest rate risk.

Similarly, the value of assets systematically collateralised is very close to their book value, the credit risk being hedged. Essentially, these consist of repurchase agreements, secured loans and equipment loans.

Financial assets at amortised cost in the balance sheet and having a value different from the book value:

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

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

The fixed income securities that are part of the Held to maturity portfolio are sovereign bonds, respectively supranational bonds that are quoted on an active market.

Regarding financial assets and liabilities towards customers, fair value calculation is done by using the discounted cash flow method and by taking into account:

- a. credit risk data such as the customer's risk classification, the probability of default as well as the loss given default. These criteria were established using historical observations of realised default and they allow the determination of credit risk premiums (credit spreads) by risk classification, maturity date and type of financial instrument.
- b. a reference rate curve.

Fair value hierarchy

The Group uses valuation techniques based on observable and non observable market data for the determination of fair value:

- Observable data reflects the market variations obtained from independent sources and reflecting real transactions (e.g. a swap rate of 3 years);
- Non-observable data reflects estimations and internal assumptions in relation with market variations adopted by the Bank (e.g. an estimation of the payment plan of an MBS).

According to the nature of the observable and non-observable data, a fair value hierarchy has been established:

- **Level 1:** Essentially quoted prices in active markets for identical financial instruments. This level contains listed equity securities and debt instruments on stock exchanges, as well as derivative instruments traded on a regulated market.
- **Level 2:** Inputs, other than quoted prices included in level 1, observable for financial instruments, either directly (such as prices) or indirectly (derived from observable prices, e.g. the implicit volatility of an equity security derived from the observable price of option contracts of the same security). This level includes the majority of over-the-counter derivative instruments and structured debt securities issued. Specialised financial data providers make these inputs available, such as "EURIBOR" yield curves or credit spreads.
- **Level 3:** Inputs for fair value determination models are mainly inputs not directly observable on a market. This level includes equity instruments or debt securities with significant parameters used in the valuation models based on internal estimations and assumptions.

To determine the fair value hierarchy with regard to the importance of observable data (directly or indirectly) on the markets, the Group has reviewed all of its financial instruments valued at fair value.

The following items are included in the observable market data:

- Credit spread curves based on CDS prices;
- Interbank interest rates or swap rates;
- Exchange rates;
- Stock indices;
- Counterparties' credit spreads.



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Financial assets and liabilities at fair value:

Categories as at December 31, 2009	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
- Debt instruments	3,932,836	788,494	0	4,721,330
- Equity instruments	258,735	0	0	258,735
- Derivative instruments	0	125,487,023	0	125,487,023
Available for sale financial assets				
- Debt instruments	7,219,449,982	3,566,708,728	496,884,708	11,283,043,418
- Equity instruments	549,981,648	136,457,191	259,055,054	945,493,894
Hedging derivatives	1,470,939	100,551,653	1,080,680	103,103,272
TOTAL	7,775,094,140	3,929,993,089	757,020,443	12,462,107,672
Financial liabilities				
Financial liabilities held for trading	293,806	0	0	293,806
Derivative instruments held for trading	0	81,611,463	0	81,611,463
Debt securities issued	0	1,785,642,808	185,299,120	1,970,941,928
Hedging derivatives	254,935,972	208,032,343	251,593	463,219,908
TOTAL	255,229,778	2,075,286,614	185,550,713	2,516,067,105

The most important transfers in the table above are mainly due to the recovery of financial markets during the year 2009. In fact, a lot of debt instruments have been at level 2 or even 3 at the end of 2008 because of inactive markets. The Bank used valuation models based on market data for level 2 and valuation models based on estimations and market data for level 3. The most significant transfers have been made for debt instruments such as "Asset backed securities (ABS)" and "Mortgage backed securities (MBS)" from level 3 to level 2 and from level 3 to level 1.

Details of level 3 :

	Financial assets available for sale			Total financial assets	Financial liabilities		Total financial liabilities
	Dept instruments	Equity instruments	Hedging derivatives		Dept securities issued	Hedging derivatives	
Total as at January 1, 2009	1,035,967,635	265,199,705	13,011	1,301,180,351	205,925,720	862,747	206,788,467
Total profit / (losses)	9,014,913	-3,268,304	1,067,670	6,814,279	851,244	-611,154	240,090
- Income statement	36,139,066	-1,882,232	1,067,670	35,324,504	851,244	-611,154	240,090
- Revaluation reserve	-27,124,153	-1,386,072	0	-28,510,225	0	0	0
Acquisitions	5,112,394	6,254,151	0	11,366,545	0	0	0
Issuances	0	0	0	0	66,075,172	0	66,075,172
Reimbursements / sales	-98,263,746	-9,130,498	0	-107,394,244	-73,053,016	0	-73,053,016
Transfers from or to level 3	-454,946,488	0	0	-454,946,488	-14,500,000	0	-14,500,000
Total as at December 31, 2009	496,884,708	259,055,054	1,080,681	757,020,443	185,299,120	251,593	185,550,713
Total gains / (losses) for the period included in the income statement for the financial assets and liabilities held on December 31, 2009	0	1,882,232	1,080,681	2,962,913	-824,251	-251,593	-1,075,844

The turbulences on the financial markets in 2008 and 2009 have revealed a good resistance of the Group to fair value shifts of financial instruments. The Group has made "stress tests" for the different classes of financial instrument, though without specifically focusing on instruments classified in level 3. These "stress tests" are reported on a monthly basis to the Executive Committee of the parent company. A sensitivity analysis of the assumptions used for the valuation of financial instruments classified in level 3 would have a rather significant impact on the fair value of the financial instruments included in this level, which represents, however, only 6.3% of the total volume of the financial assets and liabilities valued at fair value. Considering the small volume of level 3 financial assets and liabilities and the fact that a change in straight line assumptions for instruments with heterogeneous characteristics does not make economic sense, the Group did not make a specific sensitivity analysis for the instruments in level 3.

6.3.4 Analysis of exchange risk: Net currency positions

As at December 31, 2009	USD	GBP	Others	Total
Net positions in the balance sheet	2,224,209	-4,076,682	-31,481	-1,883,955
As at December 31, 2008	USD		Others	Total
Net positions in the balance sheet	24,717,708	N/A	5,205,698	29,923,406

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

6.4 LIQUIDITY RISK

6.4.1 Maturity analysis of liabilities

Tables showing the balance sheet liabilities over the remaining residual life until repayment (contractual data)

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

Categories	On sight - 3 months	3 months - 1 year	Sub-total <1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2009
Debt certificates issued	4,991,794,607	635,716,443	5,627,511,050	1,529,170,454	748,577,512	2,277,747,966	7,905,259,016
Deposits at amortised cost - Credit institutions	4,405,995,442	401,761,202	4,807,756,645	2,168	1,096,927	1,099,095	4,808,855,740
Deposits at amortised cost - Customers and public sector	20,021,168,504	1,224,892,656	21,246,061,160	222,524,881	42,600,247	265,125,128	21,511,186,288
Total	29,418,958,553	2,262,370,301	31,681,328,854	1,751,697,503	792,274,686	2,543,972,189	34,225,301,044

Categories	On sight - 3 months	3 months - 1 year	Sub-total <1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2008
Debt certificates issued	2,710,669,177	730,296,046	3,440,965,223	1,065,991,787	1,164,154,986	2,230,146,773	5,671,111,996
Deposits at amortised cost - Credit institutions	3,540,576,697	264,947,055	3,805,523,752	0	0	0	3,805,523,752
Deposits at amortised cost - Customers and public sector	21,644,456,848	2,397,183,180	24,041,640,028	182,881,024	23,792,871	206,673,895	24,248,313,923
Total	27,895,702,722	3,392,426,281	31,288,129,003	1,248,872,811	1,187,947,857	2,436,820,668	33,724,949,671

Table showing deposits from customers and public sector according to "expected" maturity dates determined under the asset-liability management policy.

Categories	On sight - 3 months	3 months - 1 year	Sub-total <1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2009
Deposits at amortised cost - Customers and public sector	9,723,989,667	3,190,159,297	12,914,148,964	7,450,637,293	1,095,924,230	8,546,561,523	21,460,710,487
Categories	On sight - 3 months	3 months - 1 year	Sub-total <1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2008
Deposits at amortised cost - Customers and public sector	17,582,581,827	2,962,443,146	20,545,024,973	3,194,666,368	508,622,582	3,703,288,950	24,248,313,923

6.4.2 Maturity analysis of derivatives

Tables showing derivatives with gross cash flow payment

Given that residual life is calculated using contractual data, the optional feature of certain contracts has not been taken into account.

Amounts are shown in EUR using the exchange rate on December 31, 2009.

Categories	On sight - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2009
Derivative instruments held for trading					
<u>Currency swaps and foreign exchange</u>					
Inflow	8,154,128,076	585,459,860	54,893,270	0	8,794,481,206
Outflow	-8,124,943,532	-575,793,440	-55,579,148	0	-8,756,316,120
Derivative instruments held for hedging purposes					
<u>CCIS</u>					
Inflow	37,322,815	75,109,388	176,931,819	254,046,827	543,410,849
Outflow	-40,627,147	-83,304,381	-186,646,075	-228,417,381	-538,994,984
Total increase	8,191,450,891	660,569,248	231,825,089	254,046,827	9,337,892,055
Total decrease	-8,165,570,679	-659,097,821	-242,225,223	-228,417,381	-9,295,311,104
Categories	On sight - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2008
Derivative instruments held for trading					
<u>Currency swaps and foreign exchange</u>					
Inflow	6,128,329,405	271,615,522	0	0	6,399,944,927
Outflow	-6,272,280,654	-267,487,768	0	0	-6,539,768,422
Derivative instruments held for hedging purposes					
<u>CCIS</u>					
Inflow	14,951,837	37,178,846	238,526,108	518,913,319	809,570,110
Outflow	-14,085,231	-41,005,539	-234,454,037	-442,775,206	-732,320,013
Total increase	6,143,281,242	308,794,368	238,526,108	518,913,319	7,209,515,037
Total decrease	-9,497,084,420	-308,493,307	-234,454,037	-442,775,206	-7,272,088,435

Tables showing derivatives with net cash flow payment

Net liabilities of cash flow originating from derivatives settled on a net basis are as follows:

Categories	On sight - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2009
Derivative instruments held for trading					
IRS	10,028,638	13,643,723	41,284,672	15,062,358	80,019,391
Derivative instruments held for hedging purposes					
IRS	96,382,155	160,945,129	791,086,981	416,617,747	1,465,032,012
Total decrease	106,410,793	174,588,852	832,371,653	431,680,105	1,545,051,403
Categories	On sight - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2008
Derivative instruments held for trading					
IRS	73,577,315	206,989,008	45,124,017	10,926,685	336,617,025
Derivative instruments held for hedging purposes					
IRS	106,765,421	148,961,345	672,745,094	440,222,790	1,368,694,650
Total decrease	180,342,736	355,950,353	717,869,111	451,149,475	1,705,311,675

6.5 ECONOMIC CAPITAL

The Group has entered a process of measuring economic risk and of planning its equity resources allocation to the different businesses.

This study and work was formalised and submitted to the CSSF as ICAAP report. CSSF Circular 07/301 ICAAP (Internal Capital Adequacy Assessment Process) foresees to set up "healthy, efficient and exhaustive strategies and processes, allowing institutions to assess and keep at any time the amount, type and allocation of internal equity capital they deem appropriate to cover the type and level of risks which they are or could be exposed to".

This document describes the identification and management processes of the various risks the Group is facing, whether described in Pillar 1 of the Basel agreements or not (e.g. liquidity, profitability, etc...).

The economic methods used to quantify the different risks are based on adjustments and supplements to regulatory methods as well as on the valuation of risks not considered by Pillar 1.

The capital management policy is in line with the mission defined in the Bank's articles of association: to contribute to the development of the Luxembourg economy. Therefore, BCEE aims to keep a moderate leverage which materialises through a high target capitalisation ratio. Furthermore, capital resources are allocated primarily to activities within the domestic market.

6.5.1 Capital management

6.5.1.1. Determination of 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.

Within the Group's economic capital model, the determination of capital is based on an economic approach, unlike regulatory capital. The basic prudent principle for the Group's economic equity retains as capital only funds which are immediately available to the Bank to cover unforeseen losses and to develop its activities.

6.5.1.2. Process for implementing the internal capital adequacy policy

In order to implement its internal capital adequacy policy, the Group has adopted the following approach:

- Development of an internal risk valuation model (Pillar 1 risks of Basel II as well as risks not covered by Pillar 1).
- Definition of an important safety margin between available capital and risk hedging, materialised through a high Tier 1 target ratio.
- Allocation of capital in accordance with the Group's internal organisation and the forecasts of its results.
- Forecasting on risk exposures by activity (maximum economic risk, regulatory risk).
- Calculation of the provisional amount of equity necessary to contain risks.
- After compliance with the minimum ratio requirements, allocation of the surplus of capital according to the Group's strategic orientations.

Regarding the internal control system, the new ICAAP report was presented to the Group's Board of Directors, which has validated the guidelines concerning ICAAP. The Board of Directors will be informed at least yearly, according to the ICAAP circular, or more often if deemed advisable or in the event of a major change or methodological development.

It the Bank's view, economic capital consists of unredeemable funds and covers the Bank's overall risks. Economic capital shows consistency even if the measured risks are based on a one year timescale.

Regulatory capital consists of unredeemable funds, except in the case of a default, and includes two sources of volatility: the revaluation reserve and yearly results.

Regarding the revaluation reserve, its volatility is subject to the materialisation of risks included in the ICAAP: credit risk on debt instruments and market risk on the equity banking book.

Future profits are deemed to reduce profitability risks.

With regard to the above, the Group considers that its economic capital encompasses its entire regulatory capital, including the revaluation reserve. During the financial year ended December 31, 2009, the Bank has complied with the minimum capital requirements as stipulated in CSSF Circular 06/273.

7. Segment reporting

The Group provides segment reporting based on its internal organisation and on its internal financial information system ("management view") in accordance with IFRS 8.

7.1 BUSINESS SEGMENTS

The Group's businesses are grouped into relevant segments showing similar profitability and risk features. The segments represent coherent product groups aimed at the same type of customers and counterparties. The businesses thus defined are managed separately and are supported by specific business lines within the BCEE Group organisation. They are organised as follows:

- Retail, Professional, Corporate and Public Sector banking: the business includes deposits, loans, advisory and transactions linked activities, excluding activities directly handled by the Financial Markets Department. From an organisational point of view, these activities are within the responsibilities of "Retail and Private Banking" and "Corporate Banking" departments.
- Financial markets and Investment funds: this includes activities relating to Treasury, Trading, Asset and Liability Management, Customer Desk, Mutual Fund administration and management. From an organisational point of view, these activities are handled by "Financial Markets" and "Investment Funds" departments.
- "Others": includes all back-office and support activities, revenues from investments and costs not allocated to a specific business on a reasonable basis.

The results of the different activities include transactions between the different entities. These transactions are valued by reference to a market price for transactions relating to financing and lending between businesses. Back office services are also valued by reference to a market price if available.

The difference between the sum of the figures from the different segments and the Group's overall consolidated accounts relates to the following items:

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

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

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

In 2009, the margin difference was below the level of materiality defined by the Group.

- Commissions: the reconciliation difference consists of the sum of commissions not directly linked to a business. The BCEE Group considers that the system cost for attributing these flows to a business would exceed the benefit resulting from this information.
- Assets and liabilities are valued according to IFRS rules which are valid for global reporting.

Gross loans and deposit amounts of the “Retail and Private Banking” and “Corporate Banking” businesses are recognised for their annual average amount and not for their end-of-year amount. This presentation is in line with the “management view”.

The reconciliation difference for assets and liabilities result from the consideration of average outstanding amounts compared to end-of-period outstanding amounts, assets for customers not linked to a business and from assets not spread out over businesses (suspense accounts, tax assets and liabilities, internal accounts).

7.2 GEOGRAPHICAL INFORMATION

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

7.3 INFORMATION ON PRODUCTS AND SERVICES

Breakdown of the Group’s Net Banking Income (NBI) into the following main products:

- Deposits from individual clients, professional clients, businesses and the public sector,
- Loans and advances to individual clients, professional clients, businesses and the public sector,
- Other products to individual clients, professional clients, businesses and public sector,
- Other products.

The NBI is measured by taking into account interest, fees and commissions being reinvoiced between businesses.

7.4 INFORMATION ON IMPORTANT CUSTOMERS

Neither an individual customer nor any consolidated group of customers generates more than 10% of the BCEE Group’s NBI.

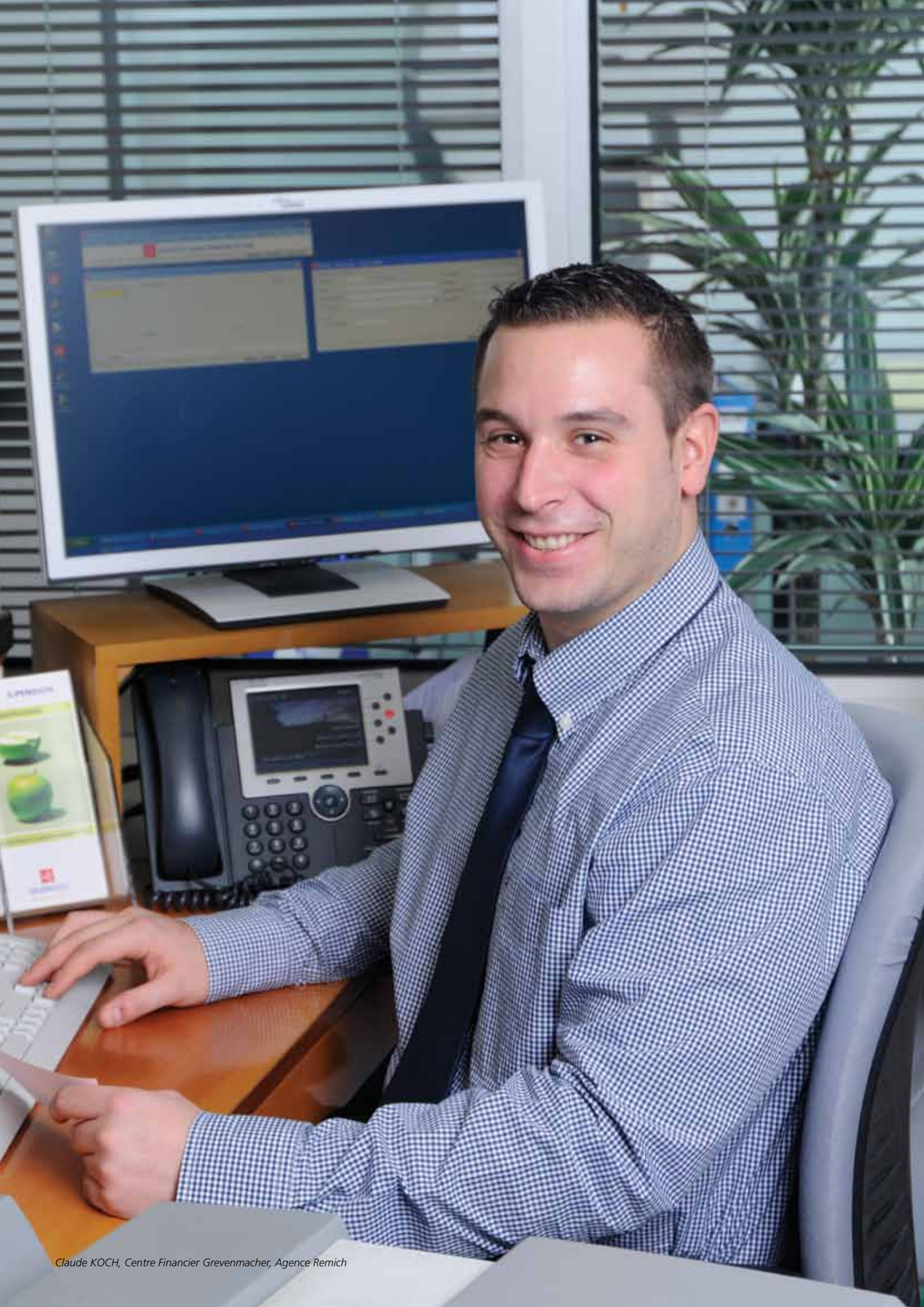
Thousands of euros December 31, 2009	Retail, Professional, Corporate and Public Sector Banking	Financial markets and investment funds	Others	Reconciliation	Total
Net interest margin	217,115	226,052	9,601	-30,510	422,258
Dividend income	0	9,478	20,173	0	29,651
Commissions	27,554	13,129	58,489	0	99,172
<i>External commissions</i>	55,973	33,936	9,263	0	99,172
<i>Internal commissions</i>	-28,418	-20,807	49,226	0	0
Income on financial instruments and on foreign exchange	3,231	9,391	1,449	0	14,070
Net Banking Income	247,900	258,051	89,712	-30,510	565,152
Other operating income and expenses	0	-410	2,504	-1	2,093
Operating Income	247,900	257,640	92,216	-30,511	567,245
General administrative expenses and value adjustments on tangible and intangible assets	-147,136	-23,770	-91,625	0	-262,530
Net value adjustments and impairment	-19,404	-42,936	-5,338	0	-67,677
Others	0	0	649	0	649
Income before tax	81,360	190,935	-4,097	-30,511	237,687
Tax on profit and deferred taxes	0	0	-37,368	0	-37,368
Minority interest and income from associates	0	-2,059	23,882	0	21,823
Net Income	81,360	188,877	-17,584	-30,511	222,142
Assets	16,175,883	20,068,417	2,709,610	-1,312,459	37,641,451
Liabilities	20,162,357	14,829,077	4,842,139	-2,192,122	37,641,451

Thousands of euros December 31, 2008	Retail, Professional, Corporate and Public Sector Banking	Financial markets and investment funds	Others	Reconciliation	Total
Net interest margin	234,994	171,695	11,958	-10,182	408,465
Dividend income	0	10,556	15,475	0	26,032
Commissions	25,552	9,169	60,271	-1,272	93,720
<i>External commissions</i>	54,415	30,951	9,283	-929	93,720
<i>Internal commissions</i>	-28,862	-21,782	50,988	-344	0
Income on financial instruments and on foreign exchange	4,828	-4,586	17	0	259
Net Banking Income	265,374	186,836	87,721	-11,455	528,476
Other operating income and expenses	0	-202	4,383	0	4,181
Operating Income	265,374	186,634	92,104	-11,455	532,658
General administrative expenses and value adjustments on tangible and intangible assets	-138,771	-24,066	-93,452	0	-256,289
Net value adjustments and impairment	-1,603	-144,997	-28,057	0	-174,658
Others	0	0	321	0	321
Income before tax	125,001	17,570	-29,084	-11,455	102,032
Tax on profit and deferred taxes	0	0	-13,920	0	-13,920
Minority interest and income from associates	0	-1,658	14,365	0	12,707
Net Income	125,001	15,912	-28,639	-11,455	100,819
Assets	10,000,466	26,013,276	2,033,134	-524,394	37,522,483
Liabilities	18,693,351	12,491,107	2,283,955	4,054,069	37,522,483

Net banking income	Thousands of euros December 31, 2008	Thousands of euros December 31, 2009
Deposits from individual clients, professional clients, businesses and public sector	115,037	84,955
Loans and advances to individual clients, professional clients, businesses and public sector	89,178	107,035
Other products to individual clients, professional clients, businesses and public sector	61,159	56,581
Other products	263,102	319,503

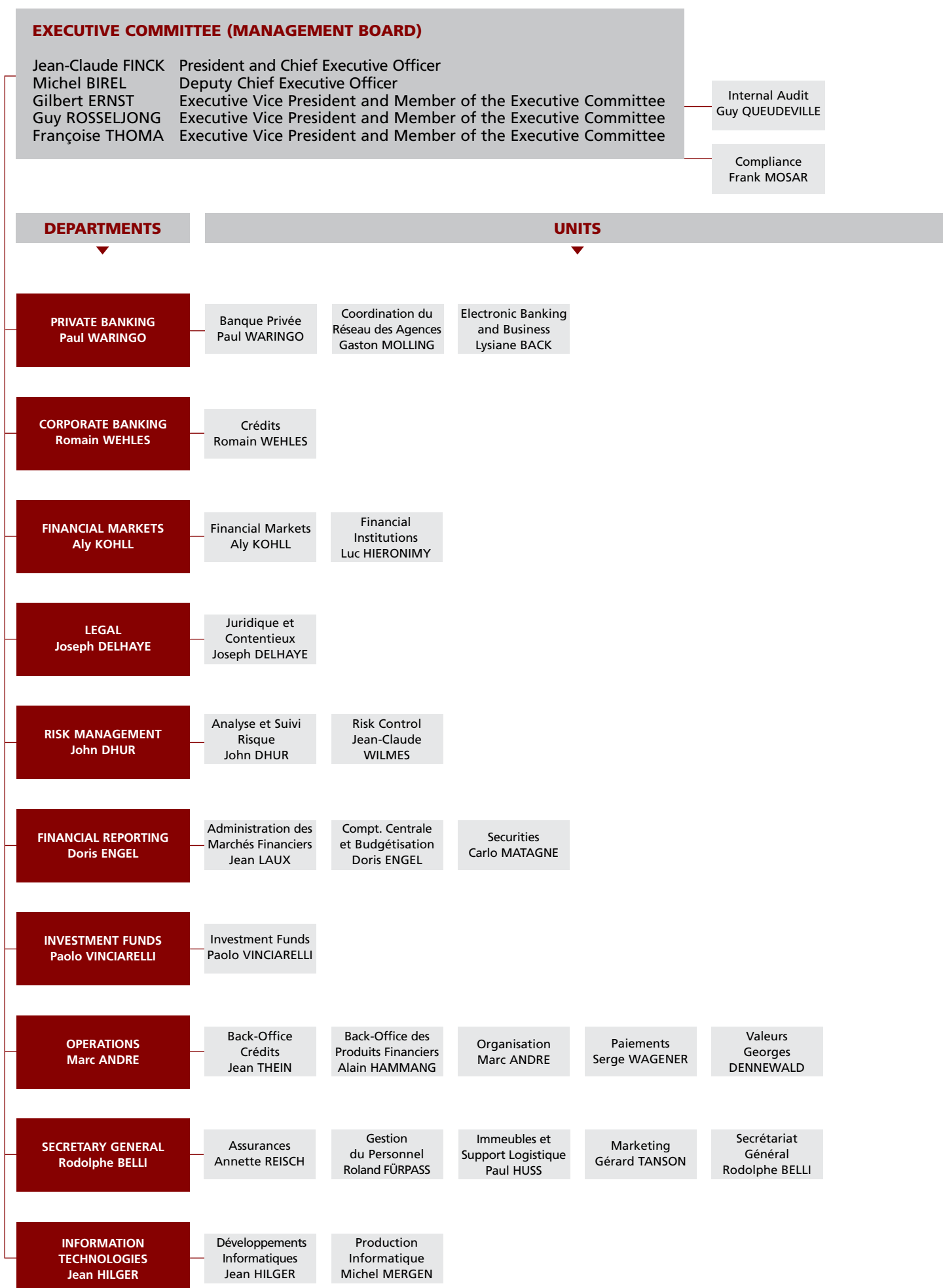


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8. ORGANISATION CHART (as at December 31, 2009)





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Flavie HENGEN, Service Marketing

Photos: Claudine Bosseler
(photos on page 2, 4 (Board of Directors), and 9)
Service Marketing (other photos)

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