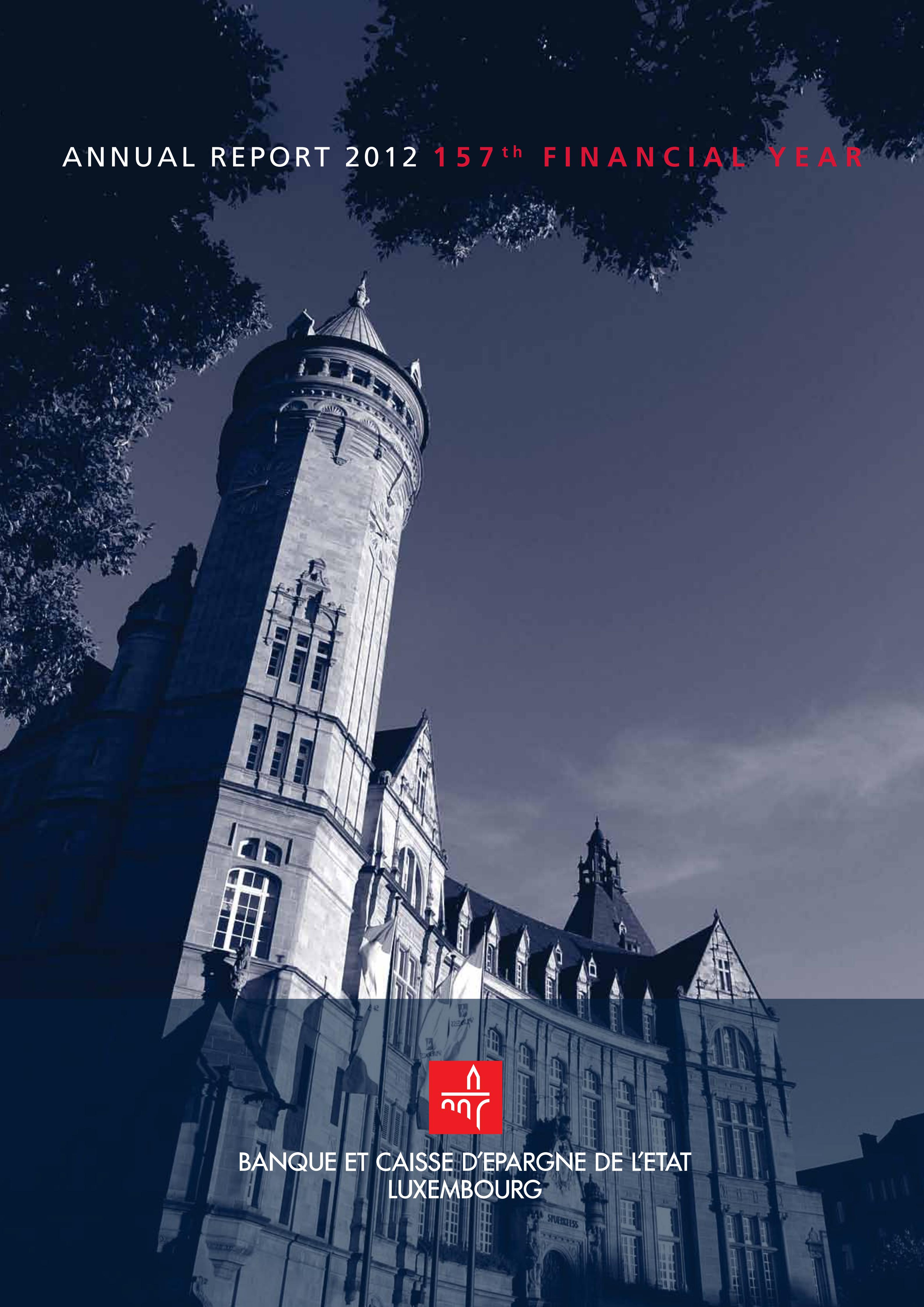
ANNUAL REPORT 2012 157th FINANCIAL YEAR



BANQUE ET CAISSE D'EPARGNE DE L'ETAT
LUXEMBOURG

This annual report is a translation from the original French report. In case of differences between the French version and the translation, the French version is to be retained.

TABLE OF CONTENTS

Board of Directors

Executive Committee

1. GOVERNING BODIES OF THE BANK

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

As at 31 December 2012, the governing bodies of the Bank are:

BOARD OF DIRECTORS

Victor ROD, Directeur du Commissariat aux Assurances	Chairman
Patrick GILLEN, Directeur du Contrôle Financier, Ministère des Finances	Vice-Chairman
Georges DENNEWALD, Représentant du Personnel	Member
Paul ENSCH, Directeur, Chambre des Métiers	Member
Elisabeth MANNES-KIEFFER, Premier Conseiller de Gouvernement, Ministère de l'Economie	Member
Manuel NICOLAS, Conseiller de Direction 1re classe, Ministère de l'Economie	Member
Nico RAMPONI, Représentant du Personnel	Member
Betty SANDT, Conseiller de Direction adjoint, Ministère des Finances	Member
Fernand SPELTZ, Conseiller économique à la Chambre des Salariés e.r.	Member

SUPERVISORY COMMISSIONER

Georges HEINRICH, Directeur du Trésor, Ministère des Finances

EXECUTIVE COMMITTEE

Jean-Claude FINCK	President and Chief Executive Officer
Michel BIREL	Deputy Chief Executive Officer
Gilbert ERNST	Executive Vice President
Guy ROSSELJONG	Executive Vice President
Françoise THOMA	Executive Vice President

STATUTORY AUDITOR

PricewaterhouseCoopers S.C. Luxembourg

2. FINANCIAL HIGHLIGHTS AND BUSINESS DEVELOPMENTS

1. Financial Highlights for BCEE Group

	2011	2012	% change
	in thousands of euros		2012/2011
TOTAL BALANCE SHEET	39,741,416	40,493,378	+1.9%
Deposits at amortised cost - Credit institutions	4,255,616	3,786,194	-11.0%
Deposits at amortised cost - Private customers and public sector	24,324,264	24,473,545	+0.6%
Debt securities in issue	7,277,048	7,385,931	+1.5%
Loans and advances at amortised cost - Credit institutions	5,858,242	7,094,565	+21.1%
Loans and advances at amortised cost - Customers	16,594,034	16,716,490	+0,7%
Available-for-sale securities - Fixed-income securities	8,438,493	8,443,341	+0.1%
TOTAL EQUITY	2,858,812	3,399,635	+18.9%
BANKING INCOME (2)	469,987	561,989	+19.6%
Total general and administrative expenses (3)	272,479	278,996	+2.4%
NET INCOME	127,344	228,901	+79.8%
TOTAL CAPITAL RATIO (1)	23.0%	25.3%	
COMMON EQUITY TIER 1 CAPITAL RATIO (1)	14.4%	16.7%	
AVERAGE WORKFORCE (number of contracts of parent and fully consolidated subsidiaries)	1,804.0	1,804.0	+0.0%
AVERAGE WORKFORCE (in work units of parent and fully consolidated subsidiaries)	1,636.5	1,645.0	+0.5%

(1) Common equity Tier 1 capital ratio and Total capital ratio for BCEE bank only and in accordance with the Luxembourg "Commission de Surveillance du Secteur Financier" (CSSF - Luxembourg authority responsible for the prudential supervision of credit institutions and the financial sector) Circulars 06/273, 10/450, 10/475 and 10/496.

(2) Interest income, dividend income, fee and commission income, income from financial instruments, hedging and FOREX transactions, other operating income and expenditure.

(3) General administrative expenses plus depreciation allowances in respect of intangible and tangible assets.

2. Main business developments in 2012

Excellent performance in a rapidly changing economic environment

- Very strong growth in net income (+79.8%).
- Robust growth in the home loan portfolio (+9.0%).
- Growth in loans to businesses and to the public sector (+2.9%).
- Slight lift (+0.6%) in overall customer deposits, 3.1% growth in private customer deposits. Deposits were highly volatile as very low interest rates led customers to seek value elsewhere.
- Continued strengthening of capital ratios, with a Total capital ratio of 25.3% and a Tier 1 ratio of 16.7%.
- Excellent AA+ and Aa1 ratings confirmed by both Standard and Poor's and Moody's.
- BCEE ranked amongst the world's 10 safest banks, and was awarded the "Best Bank Award - Luxembourg" by Global Finance magazine.
- Opening of a BCEE online branch, offering the same services but without a physical presence.
  Presentation of the new e-ZEBRA packages for private customers, with a focus on electronic channels for everyday banking transactions.
- Launch of gradual rate deposits, for accounts denominated in euros for terms from 18 months to five years, with or without an exit option, intended for private customers and offering an interest rate that increases every six months.
- Launch of a new LUX-EQUITY SICAV (open-end investment fund) segment, investing primarily in companies that pay out attractive dividends and enjoy significant growth potential, and a new LUXBOND SICAV (open-end investment fund) segment for customers with a conservative risk profile.
- 54 employees hired.

3. STATEMENT ON THE COMPLIANCE OF THE FINANCIAL STATEMENTS

Luxembourg, 19 March 2013

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

We hereby declare that to the best of our knowledge, the consolidated financial statements as at 31 December 2012 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 results, and that the management report is an accurate description of the situation, including the main risks and uncertainties facing the Bank and the consolidated group of companies.

For the Executive Committee

Michel Birel
Deputy Chief Executive Officer

Jean-Claude Finck
Chief Executive Officer

4. BCEE GROUP CONSOLIDATED MANAGEMENT REPORT

Five years after the outbreak of the subprime crisis, the recovery in the global economy continues to sputter. Growth in Europe and the United States remains too weak to reduce long-term unemployment, while growth in emerging markets has slowed considerably. The major challenge of global policies is to resolve persistent structural problems and find the path to sound, long-term growth, balancing the imperatives of sustaining global growth while restoring financial stability.

The eurozone fell back into recession at the beginning of 2013, with domestic demand weakened by the austerity policies introduced by some countries as part of medium- and long-term public deficit reduction plans. Worries remain about the solvency of a number of banks and sovereign borrowers, whose fates are closely interlinked due to the public guarantees provided during the financial crisis. However, the interventions of the European Central Bank to save the single currency during 2012, subsequent political decisions on European banking supervision and the Greek rescue plan all acted to reassure financial markets, which stabilised during the year.

At the core of the European market, Luxembourg's GDP has not managed to return to pre-crisis levels. Inflationary pressures persisted in 2012 and unemployment continued its upward trend as key sectors in the Luxembourg developed in extended order. Financial sector revenues were up, while other sectors, such as industry and construction, activities related to trade and transport and services to business, saw a decline in their added value. Stagnant or falling household consumption was also a feature for the Luxembourg economy in 2012.

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

BCEE Group has opted for business reporting in four segments: Retail, Professional, Corporate and Public Sector Banking; Financial Markets, Investment Funds; and Others. These segments are presented in detail in the following pages.

Sustained momentum in Retail, Professional, Corporate and Public Sector Banking

Retail and Professional

Growth has been particularly encouraging in this segment, which represents BCEE Group's traditional customer base. Significant investments are made every year to constantly improve the quality of the business relationship with these customers.

In 2012, the Bank inaugurated the new building in the Finance Centre Grevenmacher, designed to be a low-energy building promoting the use of renewables. This project is part of the branch network modernisation program based on a marketing strategy of opening finance centres in locations across the country and giving customers access to specialist advisors in the different banking areas.

The branch network's personalised banking services offer is rounded out by the range of state-of-the-art and constantly updated electronic banking services. Following up on this strategy, the Bank opened its first BCEE online branch, offering the same services as a traditional bank branch but without a physical outlet, intended for customers who prefer to do their banking electronically using messaging, S-net, telephone and email.

The resounding success of its S-net systems confirms BCEE's undisputed leadership in the electronic banking services market in Luxembourg.

The Bank saw dynamic growth in its financial exposure, particularly in the area of property loans with the home loan portfolio up 9%.

Savings deposits continued to increase as customers seek security amid financial market uncertainty. On the other hand, time deposit exposure declined, reflecting the product's lack of appeal, but the fall was partially offset by the launch of the euro-denominated gradual-rate deposit account, for terms of 18 months to five years, with or without exit option, offering an interest rate that increases every six months.

The Bank continued to expand its range of investment funds with the launch of a new LUX-EQUITY SICAV (open-end investment fund) segment, investing primarily in companies that pay out attractive dividends and enjoy significant growth potential, and a new LUXBOND SICAV segment aimed at customers with a conservative risk profile.

To enhance its visibility in the insurance market, BCEE, together with insurance company La Luxembourgeoise-Vie, launched "LALUX Study Cover", a long-term savings life insurance policy to help a child. Funds are released in the form of annuities during the child's education.

Corporate and Public Sector

The Bank experienced growth momentum in the highly competitive area of corporate and public sector banking. 2012 saw a tightening in commercial margins on investment products for business customers. With very low money market rates, the Bank did not pass on all the rate reductions to the range of investment products offered to customers.

Backed by the quality of its service and motivated staff, it maintained a high level of outstanding amounts.

The Bank has a team of advisors for small and medium-sized companies in each finance centre and held conferences for business customers on a wide range of topics as part of its corporate social responsibility activities.

Financial Markets and Investment Funds revenues

Financial Markets

In a market environment characterised by very low intermediation margins, the Bank managed to achieve a higher interest margin, due to the historical positions of its bond portfolio and the Asset Liability Management (ALM) Committee's prudent policy of changing maturities. Nonetheless, as the yield curve flattens, it is increasingly difficult to find investment conditions with good margins for matured investments.

In 2012, the cost of risk fell substantially compared with 2011, when allowances for impairment of a sovereign debt were recognised and BCEE's exposure to the bonds of another sovereign state was reduced.

Investment Fund Administration and Management

Net banking income rose slightly year-on-year reflecting the higher revenues from the administration and management of foreign investment funds.

However, income from this activity declined due to the write-back of allowances for impairment in 2011 which unfavourably impacted the annual comparison.

BCEE's exposure to sovereign risk

As the sovereign debt crisis continues - closely watched by the financial markets - the breakdown of the Bank's exposure to eurozone sovereign states as at 31 December 2012 is as follows:

Nominal amount by country and year of maturity:

Country	2013	2014	2015	2016	2017	2018	2019	2042	Total
Spain	100,000,000	-	-	-	-	-	65,000,000	-	165,000,000
Greece	-	-	-	-	-	-	-	409,500	409,500
Italy	-	155,280,760	136,475,092	305,000,000	250,000,000	90,000,000	25,000,000	-	961,755,853
Portugal	-	65,000,000	100,000,000	-	-	-	25,000,000	-	190,000,000
Total	100,000,000	220,280,760	236,475,092	305,000,000	250,000,000	90,000,000	115,000,000	409,500	1,317,165,353

Book value by asset class:

			31/12/2011			**31/12/2012**
Country	Available-for-sale assets	Held-to-maturity securities	Total	Available-for-sale assets	Held-to-maturity securities	Total
Spain	167,939,697	5,001,740	172,941,437	164,714,148	5,006,276	169,720,424
Greece	32,871,549	-	32,871,549	10,773	-	10,773
Italy	1,134,927,509	-	1,134,927,509	993,242,824	-	993,242,824
Portugal	122,218,243	15,107,985	137,326,228	174,049,966	15,110,850	189,160,815
Total	1,457,956,998	20,109,725	1,478,066,723	1,332,017,712	20,117,126	1,352,134,837

Fair value by asset class:

			31/12/2011			**31/12/2012**
Country	Available-for-sale assets	Held-to-maturity securities	Total	Available-for-sale assets	Held-to-maturity securities	Total
Spain	167,939,697	4,924,921	172,864,618	164,714,148	4,908,500	169,622,648
Greece	32,871,549	-	32,871,549	10,773	-	10,773
Italy	1,134,927,509	-	1,134,927,509	993,242,824	-	993,242,824
Portugal	122,218,243	11,204,132	133,422,375	174,049,966	15,097,275	189,147,241
Total	1,457,956,998	16,129,053	1,474,086,051	1,332,017,711	20,005,775	1,352,023,486

The Bank has no exposure to Irish or Cypriot sovereign debt.

The Bank continued to sell positions in the available-for-sale asset class throughout the first half of 2012 to reduce its exposure to Italian sovereign risk. These sales amounted to an equivalent nominal amount of EUR 250 million.

Special treatment for Greece and method applied:

Among the countries that applied for an EU rescue package, Greece was the only one to have shown objective evidence of impairment under IFRS, and more specifically IAS 39, paragraph 9iii.

All positions held by the Bank fell within the scope of the program to reschedule a portion of Greek debt held by the private sector. The agreement on the Greek bailout hammered out at the meeting of eurozone Finance Ministers on February 21 2012 set private sector involvement at 53.5%.

The depreciation of the existing provision of 74.7% corresponds to the forgiveness of the 53.5%, and the recognition at fair value of the new securities received in exchange.

The Bank sold practically all its remaining positions in Greek sovereign debt at the end of H1 2012.

Risk management policy

Credit risk management remains one of the Bank's key priorities in the current economic climate. In 2012, BCEE continued the preparatory work necessary for the implementation of the new Basel III agreement, which will be transposed into European law by the CRR/CRD IV regulations, providing for substantially strengthening rules on capital requirements for credit institutions, compliance with new liquidity ratios and the introduction of a leverage ratio.

The Bank was one of a number of European banks selected by the European Banking Authority (EBA) in 2012 to monitor bank recapitalisation measures imposed by European regulators. The results of this exercise demonstrate that BCEE very substantially exceeded the EBA's capitalisation requirements.

They illustrate once again that the Bank has the solid equity capital and robustness required to absorb market shocks in case of an economic crisis, confirming the results of the tests conducted in 2011 and 2010.

Risk management is described in detail in note 6 to the financial statements as at December 31, 2012. This chapter is subdivided into four major risk categories: counterparty or credit risk, market risk, liquidity risk and operational risk.

Credit risk

Decisions on loans to the domestic economy are made in the various credit committees, organised hierarchically according to the customer's overall credit outstanding. Residential mortgage loans account for more than half of the portfolio and the credit risk is covered by the process of assessing customers' ability to repay loans and the existence of actual guarantees. The Bank follows appropriate procedures for analysing loan applications and obtaining the related collateral for corporate loans and advances, paying particular attention to compliance with sector and counterparty commitment limits. The Bank has the ability to continuously monitor the aggregate portfolio risk through its internal ratings system.

Most counterparties in the international portfolio are banks and financial institutions. Internal ratings are applied to banking counterparties using a combination of quantitative and qualitative analyses. The quantitative component is based on profitability, capital adequacy and liquidity ratios to assess the counterparty's financial soundness, while the qualitative component is based on the analyst's own assessment of non-financial factors such as market share, quality of management and external ratings.

Investments in derivatives are heavily regulated through the use of industry standard ISDA (International Swaps and Derivatives Association Inc.) agreements that include compensation clauses in the event of default by either party. The Bank has also adopted an additional risk mitigation mechanism by negotiating the CSA (Credit Support Annex) annex to ISDA agreements with the largest counterparties in respect of off-balance sheet transactions. The CSA specifies the type of collateral permitted, in the form of cash or first-class securities, on the basis of periodic reassessments of bilateral positions when the net value of outstanding agreements exceeds a certain threshold. At end-2012, approximately 98% of derivative transactions were covered by ISDA-CSA agreements.

Market risk

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

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

Mismatch risk is handled by the ALM (Asset Liability Management) Committee. The Committee ensures that the Bank's equity capital and invested funds are appropriately managed, and that its loan portfolios and proprietary bond and equity portfolios are refinanced in such a way as to minimise the negative impact of yield curve movements on the Bank's performance. The ALM committee comprises the members of the Bank's Executive Committee and a number of department heads.

All components of market risk, such as interest rate risk, foreign exchange risk and share price risk affecting the ALM positions of on- and off-balance sheet instruments, treasury positions or trading positions, are centralised in real time in the trading room's front-office system and are managed within limits set by the Bank's Executive Committee. A unit operating independently of the trading room is responsible for regular reporting on compliance with limits and the levels of risk incurred to the Executive Committee.

Risk levels are mainly, though not exclusively, monitored using a VaR (Value at Risk) model. Trading and treasury activities are each subject to their own VaR limits.

In addition to VaR, which is used for the aggregate management of the different types of market risk, the Bank uses other risk management tools depending on the characteristics of the financial instruments concerned. Accordingly, interest rate risk is managed by simulating the impact of a parallel one basis point (0.01%) change in the yield curve on the net present value (NPV) of each position. Daily reports show the change arising from a parallel one basis point shift in all yield curves, also known as basis point value (BPV), which must stay within pre-set limits. Likewise, foreign exchange risk and equity risk are managed by placing limits on individual positions and stop-loss orders.

Liquidity risk

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

The Bank constantly monitors liquidity risk on the basis of maturities, including both very detailed reconciliation of cash inflows and outflows over a six-month horizon and a medium- and long-term assessment of structural funding requirements. The Bank conducted the stress tests required by circular CSSF 09/403 in 2012 on a quarterly basis. The results of the exercise confirmed that the Bank would have sufficient liquid assets to cope with unexpected large-scale withdrawals over an extended period.

BCEE has stable and diversified liabilities, notably in the form of a very solid customer deposit base and Euro Commercial Paper (ECP), US Commercial Paper (USCP) and Euro Medium Term Note (EMTN) refinancing programs, which ensure a comfortable liquidity position. Furthermore, due to its high-quality fixed-income securities' portfolio, the Bank can obtain refinancing from the European Central Bank and in the repo market.

In the event of an urgent need for large amounts of liquidity, the Bank has an intraday and overnight credit line with the Luxembourg Central Bank (BCL) secured by pledges of public sector bonds or other fixed-income securities. The Bank keeps a portfolio of at least EUR 4 billion in fixed-income securities for the purpose for use as collateral with the BCL. As of 31 December 2012, the portfolio amounted to EUR 4.218 billion. At year-end 2012, the volume of the portfolio of assets eligible for refinancing with the BCL or usable on the interbank market exceeded EUR 10 billion.

BCEE has been an indirect member of the CLS (Continuous-Linked Settlement) foreign exchange transaction settlement system since 2009[1]. The overwhelming majority of foreign-exchange transactions are now handled by the CLS. Membership of this system virtually eliminates counterparty risk arising from foreign-exchange transactions through the "payment-versus-payment" principle and reduces the Bank's liquidity risk by netting transactions, which considerably reduces settlement volumes.

Operational risk

Generally speaking, operational risk is the risk of losses arising from inadequate or faulty internal procedures, human or system errors or external events.

The Bank controls operational risk through the application of detailed rules and procedures, as well as an internal control system implemented at all levels and monitored by the Bank's senior management.

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

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

In the retail banking sector, rigorous activity monitoring, separating responsibilities at an operational level and tightening procedures are all aimed at avoiding unexpected events. The Compliance function monitors compliance with all applicable regulations by implementing procedures, providing training on the prevention of money laundering and terrorist financing and monitoring customer complaints.

1 Continuous-Linked Settlement

The Organisation unit is responsible for coordinating the Bank's major IT projects, with the aim of steering change management and avoiding the operational risks inherent in such projects. In addition, the unit monitors the Bank's physical and IT security and coordinates the Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP), which serve to ensure the continuity of the Bank's operations in the event of a major incident.

As part of IT systems security, particular attention is paid at all times to protecting customer data. Security considerations are an integral part of all IT projects, and the Bank regularly conducts security audits to confirm that it is achieving the required level of security.

Lastly, the Bank has taken out insurance policies to protect it from potential financial losses arising from the occurrence of an operational risk, covering its main business lines. A portion of these risks is covered by reinsurance company Spuerkeess-Ré.

Financial risk and hedge accounting

The Bank uses derivatives to hedge against interest-rate, foreign-exchange, credit and fixed-price risks (stock market indices and share prices). The derivatives commonly used are interest rate swaps (IRS) and Cross currency interest rate swaps (CIRS) in standard plain vanilla hedging transactions. In addition to these standardised contracts, the Bank uses structured swaps to specifically hedge structured issues and acquisitions of structured bonds included in its portfolio of available-for-sale assets and containing embedded derivatives.

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

The Bank primarily uses fair value hedges.

Management and monitoring of risks inherent in compiling financial reporting

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

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

The accounting and risk management departments work in close cooperation to evaluate portfolio positions or to calculate valuation allowances for assets showing evidence of impairment.

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

Corporate governance

Corporate governance of the parent is governed by the constitutional law of 24 March 1989.

Excellent performance in a rapidly changing economic environment

The consolidated financial statements of BCEE group have been prepared in accordance with IFRS as adopted by the European Union and comprise the annual financial statements of the Bank, its subsidiaries and entities over which the Bank has direct or indirect effective control of management and financial and operating policies.

Subsidiaries are consolidated from their date of acquisition, when the Bank, as the parent company, has the power to direct their financial policies. They are deconsolidated on the date such control ceases.

The Group's financial results as at 31 December 2012 grew strongly compared with the 2011 financial year.

Banking income amounted to EUR 562 million at year-end 2012.

The Bank grew its interest margin 5.6% on strong growth in its loan business and the prudent maturity-switching policy of the ALM Committee, which mitigated the negative impact of downward yield curve movements on the Bank's performance.

Fee and commission income was up 1.7%, driven primarily by the growth in traditional loans and payment banking activities with non-bank customers.

Income from variable-income securities rose 8.8%, as a result of higher dividends received from investments in strategic holdings classified as available-for-sale financial assets.

Income from financial instruments improved from a loss of - EUR 97.4 million at end-2011 to a loss of - EUR 20.1 million at year-end 2012. More volatile by nature, this revenue item includes income from securities and derivatives trading, the disposal of available-for-sale financial assets, fair value hedging transactions and forex transactions. The significant increase in volatility in this category in a long-term low-rate environment is due to the reclassification of interest-rate swaps, initially recognised as "net income from hedge accounting" and transferred to "income from financial instruments held for trading" following the sale in 2011 of sovereign bonds that were originally hedged.

The measurement of fixed-income securities, which are classified as available-for-sale financial assets, is recognised in equity under the heading "revaluation reserve". The same is true for the measurement of variable-income securities classified as available-for-sale financial assets. As the sovereign debt crisis eased, the fair value measurement of these securities exerted a very positive influence on the revaluation reserve, which increased 174.9% (EUR 388 million) year-on-year to EUR 609.9 million at end-2012.

Other operating income and expenditure fell to EUR 5.8 million at year-end from EUR 18.5 million at the end of 2011.

BCEE group's rigorous cost control policy enabled it to limit the increase in its total general expenses, including allowances for impairment of tangible and intangible non-current assets, to 2.4%. Productivity is constantly enhanced by major process engineering and automation projects. These factors were sufficient to offset the effect of structural increases in payroll expenses while preserving quality of service.

Despite the deterioration in the general economic environment, net allowances for impairment for BCEE group's credit risk amounted to only EUR 23.7 million in 2012.

In view of the above, the Group recorded strong growth of 80.6% (an increase of EUR 101.5 million) in income for the year to EUR 227.5 million in FY 2012, up from EUR 126 million in the prior year.

Equity attributable to equity holders of the parent amounted to EUR 3,397.9 million at 31 December 2012.

2013 outlook

Europe should see a return to growth in the second half of 2013, albeit at a low rate, in light of developments such as the agreement on the framework for the introduction of European banking supervision, progress made in achieving financial stability and the European Central Bank's (ECB) continued policy of keeping interest rates low.

In Luxembourg, the general economy will continue to weigh on the public purse and the labour market, with the risk of the impact spreading to sectors of the economy which had been relatively spared until now.

In the regulatory arena, the Bank continues its preparatory work for implementation of the CRR/CRD IV regulations, focusing on compliance with new stricter capital adequacy ratios, the calculation of new liquidity ratios and the introduction of a leverage ratio. With its stable equity capital and comfortable liquidity, BCEE will be in a position to meet future requirements in this area. Moreover, given its very sound deposit base, its funding needs in the bond market will be very limited in 2013.

In the particular context described above, the Bank will closely monitor economic indicators and the financial markets and will continue to take the measures required to address negative developments, without endangering its growth and fully assuming its roles and responsibilities as a bank serving its customers and the country's economy in general, in accordance with its missions under the law of 24 March 1989, and in line with the Bank's history.

The European Central Bank has kept interest rates at a record low since the rate cut on 5 July 2012. However the policy has failed to kick-start the eurozone economy, which remained in recession in the fourth quarter of 2012 and is struggling to recover in the first quarter of 2013. Interest rates are expected to remain at historically low rates, which in turn will have a negative impact on BCEE's interest income in the 2013 financial year.

Events after the reporting period

No significant events occurred after the reporting period that could impact the normal course of BCEE group's business.

Luxembourg, 19 March 2013

For the Executive Committee

Michel Birel Deputy Chief Executive Officer	Jean-Claude Finck Chief Executive Officer

5. STATUTORY AUDITOR'S REPORT

Report on the consolidated annual financial statements

In accordance with our engagement by the Government of the Grand Duchy of Luxembourg, on the proposal of the Board of Directors of the Banque et Caisse d'Epargne de l'Etat, Luxembourg, we have audited the accompanying consolidated annual financial statements of the Banque et Caisse d'Epargne de l'Etat, Luxembourg, which comprise the consolidated balance sheet as at December 31 2012, 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 ended on this date, as well as a summary of the main accounting policies and other explanatory notes.

Executive Committee's and Board of Directors' responsibility for the consolidated annual financial statements

The Executive Committee is responsible for the preparation and fair presentation of these consolidated annual financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union, which are submitted for approval to the Board of Directors, pursuant to the organic law of 24 March 1989. The Executive Committee is also responsible for implementing the internal control procedures deemed necessary to ensure the preparation and fair presentation of consolidated annual financial statements that are free from material misstatement, whether due to fraud or error.

Statutory Auditor's responsibility

Our responsibility is to express an opinion on these consolidated annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by Luxembourg's prudential supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the statutory auditor's judgement, including the assessment of the risks that the consolidated annual financial statements contain material misstatements, whether due to fraud or error. In making this assessment, the statutory auditor considers the internal control procedures relevant to the entity's preparation and fair presentation of the consolidated annual financial statements to determine audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, under the responsibility of the Executive Committee and approved by the Board of Directors, as well as the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated annual financial statements give a true and fair view of the Group's financial position and cash flows as at December 31, 2012, 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 submitted for the approval of the Board of Directors, is in line with the consolidated annual financial statements.

PricewaterhouseCoopers Société coopérative
Represented by

Luxembourg, 19 March 2013

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. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

A. CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2012

ASSETS in euros	Notes	31/12/2011	31/12/2012
Cash and balances with central banks	4.1.	2,459,527,085	1,291,679,360
Loans and advances at amortised cost – Credit institutions	4.9.	5,858,242,107	7,094,564,634
Loans and advances at amortised cost – Customers	4.10.	16,594,034,238	16,716,489,554
Financial instruments held for trading	4.2. 4.8.	235,341,022	85,646,698
Hedging derivatives	4.8.	149,193,054	67,139,194
Available-for-sale securities – Fixed-income securities	4.2.	8,438,492,520	8,443,341,261
Available-for-sale securities – Variable-income securities	4.2.	788,561,055	910,278,050
Held-to-maturity securities	4.4.	4,644,327,498	5,315,888,143
Investments in associates accounted for using the equity method	4.3.	285,573,619	280,246,062
Property, plant and equipment for own use	4.11.	175,648,350	177,471,636
Investment property	4.13.	17,942,535	17,356,074
Intangible assets	4.12.	12,492,193	12,244,231
Deferred tax assets	4.15.	43,335,631	-
Other assets	4.14.	38,704,895	81,032,735
TOTAL ASSETS		**39,741,415,802**	**40,493,377,632**

The notes on pages 32 to 124 are an integral part of these consolidated financial statements.

A. CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2012 (continued)

LIABILITIES in euros	Notes	**31/12/2011**	**31/12/2012**
Deposits at amortised cost - Credit institutions	4.17.	4,255,615,701	3,786,193,933
Deposits at amortised cost - Private customers and public sector	4.18.	24,324,263,715	24,473,545,033
Financial instruments held for trading	4.2. 4.8.	150,587,688	324,581,083
Hedging derivatives	4.8.	713,548,684	822,908,804
Debt securities in issue	4.16.	7,277,048,463	7,385,930,607
Provisions	4.20.	4,813,364	4,200,369
Other liabilities	4.21.	63,747,017	60,508,671
Current tax liabilities	4.15.	75,779,375	84,227,576
Deferred tax liabilities	4.15.	-	63,431,254
Pension fund	4.19.	17,199,314	88,214,816
Sub-total of LIABILITIES (before equity capital) to be carried forward		**36,882,603,321**	**37,093,742,146**

EQUITY in euros	**31/12/2011**	**31/12/2012**
Sub-total of LIABILITIES (before equity capital) carried forward	**36,882,603,320**	**37,093,742,146**
Share capital	173,525,467	173,525,467
Revaluation reserve	221,836,111	609,867,885
- *Available-for-sale assets*	*217,454,695*	*603,667,755*
Consolidated reserves	2,335,655,411	2,386,960,748
- *Equity method adjustment*	*206,718,030*	*215,006,563*
Income for the year	125,972,275	227,499,362
Sub-total of equity - attributable to equity holders of the parent	2,856,989,264	3,397,853,462
Minority interests	1,823,217	1,782,024
Total equity	**2,858,812,481**	**3,399,635,486**
TOTAL LIABILITIES, including EQUITY	**39,741,415,801**	**40,493,377,632**

The notes on pages 32 to 124 are an integral part of these consolidated financial statements.

B. CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2012

in euros	Notes	31/12/2011	31/12/2012
Interest income	5.1.	416,238,619	439,338,533
Income from variable-income securities	5.2.	29,974,327	32,597,456
Fee and commission income	5.3.	102,630,213	104,379,435
INCOME FROM INTEREST, DIVIDENDS AND FEES AND COMMISSION		**548,843,159**	**576,315,424**
Income from financial instruments not recognised at fair value through profit or loss	5.4.	-41,553,018	7,734,488
Income from financial instruments held for trading	5.5.	-65,550,627	-31,108,752
Income from hedging transactions	5.6.	1,709,878	-5,237,733
Exchange gains or losses		8,024,415	8,463,744
Other operating income	5.7.	19,600,915	6,420,002
Other operating expenditure	5.7.	-1,087,937	-598,161
BANKING INCOME		**469,986,784**	**561,989,012**
Personnel expenses	5.8.	-176,795,334	-181,000,767
Other general and administrative expenses	5.9.	-68,941,339	-70,698,548
Depreciation allowances for tangible and intangible assets	5.10. 5.11 5.12	-26,742,213	-27,296,554
INCOME AFTER GENERAL EXPENSES		**197,507,898**	**282,993,143**
Net allowances for impairment of individual and collective credit risks	5.13.	-87,611,533	-23,678,683
Provisions	5.14.	639,937	609,195
Share in the profit of equity-accounted associates		22,072,047	11,606,390
INCOME BEFORE TAXES AND NON-CURRENT ASSETS		**132,608,349**	**271,530,045**
Profit from non-current assets and disposal groups classified as held for sale and not qualifying as discontinued operations		-3,860,866	1,069,205
Tax on income from continuing operations	5.15.	-17,967,414	-27,786,720
Deferred taxes	5.15.	16,563,624	-15,911,611
INCOME FOR THE YEAR		**127,343,693**	**228,900,919**
OF WHICH:			
INCOME FOR THE YEAR ATTRIBUTABLE TO MINORITY INTERESTS		**1,371,418**	**1,401,557**
INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**125,972,275**	**227,499,362**

The notes on pages 32 to 124 are an integral part of these consolidated financial statements.

C. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS AT 31 DECEMBER 2012

in euros	31/12/2011	31/12/2012
INCOME FOR THE YEAR	**127,343,693**	**228,900,919**
Available-for-sale assets	-138,397,186	651,113,979
- Variation in measurement results	*-162,141,179*	*658,670,629*
- Net reclassification to the income statement of realised net gains	*23,743,993*	*-7,556,650*
Actuarial gains/(losses) on the defined-benefit pension scheme	-24,119,281	-72,005,524
Cash flow hedges	3,104,878	2,606,046
Impact of deferred taxes	44,987,139	-81,797,344
OTHER ITEMS OF COMPREHENSIVE INCOME FOR THE YEAR - NET OF TAX	**-114,424,450**	**499,917,157**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**12,919,243**	**728,818,076**

Francesco Vito CASTELLANETA

The notes on pages 32 to 124 are an integral part of these consolidated financial statements.

D. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2012

in euros	Share capital	Consolidated reserves	Revaluation reserve	Net income	Total equity - equity holders of the parent	Minority interests	Total equity
As at 1 January 2012	**173,525,467**	**2,335,655,411**	**221,836,111**	**125,972,275**	**2,856,989,264**	**1,823,217**	**2,858,812,481**
Appropriation of 2011 income	-	125,972,275	-	-125,972,275	-	-	-
2012 net income	-	-	-	227,499,362	227,499,362	1,399,962	228,899,324
Distribution for FY 2011	-	-30,000,000	-	-	-30,000,000	-	-30,000,000
Actuarial gains/(losses) on pension fund	-	-50,690,083	-	-	-50,690,083	-	-50,690,083
Net measurement results of available-for-sale financial instruments	-	-	386,213,060	-	386,213,060	-	386,213,060
Net measurement results of cash flow hedges	-	-	1,818,714	-	1,818,714	-	1,818,714
Other	-	6,023,145	-	-	6,023,145	-1,441,155	4,581,990
As at 31 December 2012	**173,525,467**	**2,386,960,748**	**609,867,885**	**227,499,362**	**3,397,853,462**	**1,782,024**	**3,399,635,486**

The Bank has appropriated EUR 30,000,000 (the same amount as in 2011) from its net profit for distribution to the State.

in euros	Share capital	Consolidated reserves	Revaluation reserve	Net income	Total equity - equity holders of the parent	Minority interests	Total equity
As at 1 January 2011	**173,525,467**	**2,098,152,173**	**319,087,633**	**215,935,764**	**2,806,701,037**	**2,522,612**	**2,809,223,647**
Appropriation of 2010 income	-	215,935,764	-	-215,935,764	-	-	-
2011 net income	-	-	-	125,972,275	125,972,275	-	125,972,275
Distribution for FY 2010	-	-30,000,000	-	-	-30,000,000	-	-30,000,000
Actuarial gains/(losses) on pension fund	-	-17,172,928	-	-	-17,172,928	-	-17,172,928
Net measurement results of available-for-sale financial instruments	-	-	-99,462,195	-	-99,462,195	-	-99,462,195
Net measurement results of cash flow hedges	-	-	2,210,673	-	2,210,673	-	2,210,673
Other	-	68,740,402	-	-	68,740,402	-699,395	68,041,007
As at 31 December 2011	**173,525,467**	**2,335,655,411**	**221,836,111**	**125,972,275**	**2,856,989,264**	**1,823,217**	**2,858,812,481**

The notes on pages 32 to 124 are an integral part of these consolidated financial statements.

E. CONSOLIDATED STATEMENT OF CASH FLOW AS AT 31 DECEMBER 2012

in euros	31/12/2011	31/12/2012
Cash and cash equivalents		
Cash and balances with central banks	2,459,527,248	1,291,651,378
Loans and advances at amortised cost - Credit institutions	3,157,940,835	4,716,951,443
Loans and advances at amortised cost - Customers	1,807,758,544	1,732,595,514
Financial instruments held for trading	1,106,441	108,174
Available-for-sale securities - Fixed-income securities	728,588,229	777,634,556
Held-to-maturity securities	708,527,220	610,639,981
Total	**8,863,448,518**	**9,129,581,046**

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

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

CASH FLOW FROM OPERATING ACTIVITIES

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

in euros	31/12/2011	31/12/2012
Interest received	1,133,172,527	1,086,409,357
Interest paid	-712,781,843	-639,899,836
Income from variable-income securities	29,974,327	32,597,456
Fees and commission received	128,206,707	132,161,015
Fees and commission paid	-25,576,494	-27,781,580
Other operating income	19,600,915	6,420,002
Current taxes	-17,967,414	-27,786,720
Other general and administrative expenses	-237,038,614	-244,135,837
Other operating expenditure	-1,087,937	-598,161
Sub-total	**316,502,174**	**317,385,697**

The notes on pages 32 to 124 are an integral part of these consolidated financial statements.

- Cash flow from changes in operating assets:

Net changes in euros	31/12/2011	31/12/2012
Financial instruments held for trading	-268,768	1,781,091
Available-for-sale securities - Fixed-income securities	2,005,315,309	566,844,533
Available-for-sale securities - Variable-income securities	22,731,330	-6,880,675
Loans and advances at amortised cost - Credit institutions	-744,095,817	322,172,029
Loans and advances at amortised cost - Customers	-1,090,036,194	-139,397,467
Hedging derivatives	6,302,989	667,497
Other assets	11,261,184	-39,973,089
Sub-total	**211,210,033**	**705,213,918**

- Cash flow from changes in operating liabilities:

Net changes in euros	31/12/2011	31/12/2012
Securities held for trading - Short sales	840,785	-1,073,385
Deposits at amortised cost - Credit institutions	-64,900,146	241,233,756
Deposits at amortised cost - Customers	259,412,506	-469,396,324
Hedging derivatives	1,398,388,218	154,157,085
Other liabilities	-15,886,391	16,486,199
Debt securities in issue	-2,903,329	-4,130,170
Sub-total	**1,574,951,643**	**-62,722,839**
Cash flow from operating activities	**2,102,663,850**	**959,876,776**

CASH FLOW FROM INVESTMENT ACTIVITIES

in euros	31/12/2011	31/12/2012
Acquisition of available-for-sale securities - Variable-income securities	-3,827,553	-313,671
Disposals of available-for-sale securities - Variable-income securities	26,993,236	6,902,907
Acquisition of variable-income securities - Subsidiaries	-3,903,786	-
Disposals of variable-income securities - Subsidiaries	4,880,206	-
Acquisition of variable-income securities - Equity-accounted associates	-	-
Disposals of variable-income securities - Equity-accounted associates	-	-
Acquisition of held-to-maturity securities	-1,551,731,198	-2,753,908,697
Acquisition/redemption of held-to-maturity securities	1,510,632,101	1,995,436,849
Acquisitions/disposals of intangible and tangible assets	-9,243,672	-6,259,041
Cash flow from investment activities	**-26,200,667**	**-758,141,653**

The notes on pages 32 to 124 are an integral part of these consolidated financial statements.

CASH FLOW FROM FINANCING ACTIVITIES

in euros	31/12/2011	31/12/2012
Proceeds from subordinated liabilities	-616,639	-45,761,486
Income distribution	-30,000,000	-30,000,000
Cash flow from financing activities	**-30,616,639**	**-75,761,486**
Net change	**2,045,846,544**	**125,973,637**

CHANGE IN CASH AND CASH EQUIVALENTS

in euros	2011	2012
Position as at 1 January	**7,038,624,523**	**8,863,448,518**
Net change in cash	2,045,846,544	125,973,637
Effect of exchange rates on cash and cash equivalents	-221,022,549	140,158,891
Position as at 31 December	**8,863,448,518**	**9,129,581,046**

Philippe HOFFMANN

The notes on pages 32 to 124 are an integral part of these consolidated financial statements.

7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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

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

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

The consolidated financial statements concern the Group, of which Banque et Caisse d'Epargne de l'Etat is the parent company. The parent and its fully consolidated subsidiaries had an average workforce of 1,804 in 2012 (unchanged from 2011), including staff on skills-acquisition contracts.

The financial year is in line with the calendar year.

The consolidated financial statements were approved by the Board of Directors' meeting on 19 March 2013.

2. Basis of preparation of the consolidated financial statements

2.1 COMPLIANCE WITH GENERAL ACCOUNTING PRINCIPLES

The Group's consolidated financial statements for the 2012 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

a) New or revised standards adopted by the Group

The following standards, whose application is compulsory in financial years beginning on or after 1 January 2012, were adopted by the Group and have had no material impact on the consolidated financial statements:

- Amendment to IFRS 7: Financial Instruments,
- IAS 1 revised: Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income, improvements to the content of the Statement of Changes in Equity,
- Amendment to IAS 12: Income Taxes: Deferred Tax: Recovery of Underlying Assets.

b) New and revised standards and interpretations relevant for the Group, which are not yet compulsory and which have not been early adopted by the Bank:

- IFRS 10: Consolidated Financial Statements,
- IFRS 11: Joint Arrangements,
- IFRS 12: Disclosure of Interests in Other Entities,
- IFRS 13: Fair Value Measurement,
- IAS 19 revised: Employee Benefits,
- IAS 27: Consolidated and Separate Financial Statements,
- IAS 28: Investments in Associates and Joint Ventures,
- Amendment to IAS 32: Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities.

The potential impact of these new standards is currently being assessed.

The consolidated financial statements are stated in euros, the functional currency of the parent company and its subsidiaries (except one subsidiary – see note 2.2.2.). They have been prepared on the basis of historical cost or amortised cost, adjusted to fair value for available-for-sale financial assets, financial assets held for trading, derivatives and pension fund assets.

2.2 CONSOLIDATION

2.2.1 Scope of consolidation

The consolidated financial statements comprise the parent, its subsidiaries and ad hoc entities over which the Group directly or indirectly exercises effective control of management and financial and operational policies. Subsidiaries are consolidated from their date of acquisition, when the Bank, as the parent company, has the power to direct their financial policies. They are deconsolidated on the date such control ceases.

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

Acquisitions are recognised at cost, i.e. the amount of cash or cash equivalents paid representing the fair value, plus all costs directly attributable to the acquisition. All intra-group transactions and unrealised gains on transactions between Group companies are eliminated. Unrealised losses on intra-group transactions are also eliminated unless the cost cannot be recovered.

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

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

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

2.2.1.1 Fully consolidated subsidiaries

The consolidated financial statements record the assets, liabilities, income and expenditure of the Group and its subsidiaries. A subsidiary is a company in which the Group holds at least 50% of the voting rights, as well as companies in which the Group directly or indirectly exercises control with the power to direct the company's financial and operating policies.

Subsidiaries included in the scope of consolidation:

Name	% of voting rights
Lux-Index US Advisory S.A.	76.13
Lux-Pension Advisory S.A.	83.88
Lux-Croissance Advisory S.A.	87.27
Luxcash Advisory S.A.	87.33
Lux-World Fund Advisory S.A.	87.47
Luxbond Advisory S.A.	89.90
BCEE Asset Management S.A.	90.00
Lux-Protect Fund Advisory S.A.	93.00
Bourbon Immobilière S.A.	99.90
Luxembourg State and Savings Bank Trust Company S.A.	99.90
Spuerkeess Ré S.A.	100.00

The Bank's decision in December 2012 to wind up Lux-Garantie Advisory S.A. resulted in removing the company from the Group's portfolio and from the scope of full consolidation.

2.2.1.2 Investments in associates

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

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

Equity-method consolidation ceases when the Group's interest is reduced to zero, unless the Group has incurred legal or constructive obligations to assume or guarantee commitments on behalf of the associate.

The Group's investments in associates:

Associates	% of capital held
Direct interests	
Société Nationale de Circulation Automobile S.à r.l.	20.00
Luxair S.A.	21.81
Société de la Bourse de Luxembourg S.A.	22.74
Europay Luxembourg S.C.	27.90
Visalux S.C.	35.46
La Luxembourgeoise S.A.	40.00
La Luxembourgeoise-Vie S.A.	40.00
BioTechCube S.A.	50.00
Indirect interests	
Pecoma International S.A.	33.33
EFA Partners S.A.	29.05

The Group's decision in December 2012 to dispose of its share in Société du Parking du Théâtre S.A. removed this company from the scope of equity-method consolidation.

In 2012, Société Nationale de Contrôle Technique S.àr.l. was renamed Société Nationale de Circulation Automobile S.àr.l..

Note that the acquiring and issuing activities of VISALUX S.C. and EUROPAY Luxembourg S.C. are planned to be transferred to CETREL S.A., respectively to the local banks, which will result in the dissolution of the two companies in the medium term.

2.2.2 Foreign exchange translation as a result of consolidation

Within the consolidated accounts, the balance sheet items of the only consolidated company in foreign currency (Lux-Index-US Advisory S.A.) 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 is sold, these translation results would be recognised as profit or loss in the income statement.

2.3 FOREIGN CURRENCY TRANSACTION

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

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

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

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

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

For monetary assets 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 recognised in the revaluation reserve, whereas translation differences relating to the adjustment of the amortised cost relative to the acquisition value are recognised through profit or loss.

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

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

	31/12/2011	31/12/2012
CHF	1.2160	1.2076
GBP	0.8378	0.8161
JPY	100.1400	113.6200
SEK	8.9294	8.5895
USD	1.2936	1.3195

2.4 BANKING TRANSACTIONS

2.4.1 Initial recognition and measurement

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

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

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

Derivatives are recognised in assets when the fair value is positive, and in liabilities when it is negative. By fair value here is meant the "dirty price" of the instruments, i.e., including the accrued interest.

Embedded instruments according to the definition of IAS 39 are separated from the host contract and accounted for at fair value if the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract, and the entire instrument is not classified as held for trading, or has not been designated as measured at fair value in the income statement. 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 the sale of financial assets that are not subject to revaluation through the income statement are calculated as the difference between the amount received net of transaction costs and the acquisition cost or amortised cost of the financial asset

2.4.2 Subsequent measurement

Subsequent to initial recognition, financial instruments are measured according to their characteristics and the valuation categories to which they belong. The valuation categories used are: financial instruments held for trading or hedging, financial assets held to maturity, available-for-sale assets, and loans and advances.

2.4.2.1 Historical cost

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

2.4.2.2 Amortised cost

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

2.4.2.3 Fair value

The fair value of the counterpart received or tendered can usually be determined by reference to an active market or by using valuation techniques based chiefly on observable market inputs.
To determine a consistent value for the financial instruments measured at fair value, the Group uses the following methods:

- derivative financial instruments held for trading or hedging: the Bank uses the discounted cash flow (DCF) method for plain vanilla contracts and the Black-Karasinski model for structured contracts.

- financial assets:

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

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

- financial liabilities:
  EMTNs issued by BCEE group are initially recognised at amortised cost. These transactions are subsequently designated as fair value hedges to avoid an accounting impact on the income statement due to hedging these issues with derivatives. Thus, the fair value measurement method applied to the issue and to the hedge are identical, namely the discounted cash flow or "Black-Karasinski" method.

2.4.3 Accounting judgements and estimates

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

The most significant of these are:

2.4.3.1 Fair value of financial instruments

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

The Group determines if the markets for fixed-income securities are active or inactive, based on criteria such as the weighting of the Group's position in the total bond issue, the number of price contributors, the average bid size and the spread between bid and ask prices.

When the market is considered active, the Group uses the prices provided by an official quotation source. For issues for which the Group estimates that the market is inactive based on its criteria, it first calculates a price using the DCF (discounted flow method) based on the yield curves and spreads, determined according to the issuer's rating. The price thus calculated is then weighted with a price indication provided by a quotation source, even if the price indication originates from a market which the Bank considered inactive based on its active / inactive market analysis.

2.4.3.2 Impairment of financial assets measured at amortised cost

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

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

The Group assimilates the concept of default with objective indications of impairment as determined by IFRS, by applying the internal credit risk management regulations defined for the calculation of the capital adequacy ratio according to Basel II.

It also recognises "collective impairment" of loans and advances not identified individually as being in default in order to take account of the progressive credit risk after the date on which the loan was granted.

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

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

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

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

2.4.3.3 Impairment of Available-for-sale assets

The Group considers the securities in the available-for-sale (AFS) portfolio to be impaired when it expects a long-term decrease in future contractual cash flows due to objective indications of impairment.

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

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

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

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

2.5 CASH FLOW STATEMENT

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

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

The Group uses the indirect method to determine the cash flows and adjusts the net result to eliminate pure accounting flows which do not translate into an inflow or outflow of liquidities for the Group.

Operating activities

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

Investing activities

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

Financing activities

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

3. Information on accounting policies applied to balance sheet categories

3.1 CASH AND BALANCES WITH CENTRAL BANKS

Cash consists essentially of cash on hand and the minimum mandatory reserve with the Banque centrale du Luxembourg (BCL).

The minimum mandatory reserve is funded to satisfy the reserve requirement imposed by the BCL.

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

3.2 FINANCIAL INSTRUMENTS

3.2.1 Assets and liabilities held for trading

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

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

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

3.2.2 Fixed-income securities held to maturity

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

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

The Group has adopted a procedure in compliance with IAS 39 AG 22 (a) detailing that sales before maturity may respect the conditions set out in paragraph 9 of the standard, and consequently will not raise doubts as to the entity's intention to hold its other investments to maturity, if these sales are conducted after a substantial deterioration in the issuer's credit quality.

3.2.3 Available-for-sale assets

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

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

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

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

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

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

3.2.4 Derivative instruments used for hedging purposes

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

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

The Group classifies hedging instruments in the following categories:

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

The Group primarily uses fair value hedges.

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

- prior to being set up, the hedging relationship is formally designated and documented, including the entity's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness,
- the hedging starts with the designation of the derivative financial instrument used for hedging and ends either at the derecognition of the hedged instrument or if the effectiveness of the hedge is no longer given,
- prospective effectiveness: as soon as the transaction is set up, it is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the

hedged risk during the hedging period. Prospective effectiveness is established when the main characteristics between hedged items and hedging items are substantially identical (par value, interest rate, maturity and currency) within the hedging period designated by the Group for the transaction,
- retrospective effectiveness: effectiveness is assessed retrospectively (results within a range of 80 to 125%) at each reporting date.

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

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

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 recognised in equity under "Revaluation reserve – cash flow hedges".

If a hedging instrument expires or is sold, terminated, or exercised, or if the hedge no longer meets the hedge accounting criteria, the Group ceases to apply hedge accounting. Any adjustment in the 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 profit or loss.

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

3.2.5.1 Repurchases and reverse repurchases

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

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

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

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

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

3.2.5.2 Lending and borrowing of securities

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

3.2.6 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 recorded as origination fees, which means they must be included in the calculation of the effective interest rate. According to the actuarial method, the material expenses and commissions linked to fixed-rate loans are spread over the life of the asset and recognised as an adjustment to the asset's effective rate of return.
If the amounts are not significant, they are recognised directly in profit or loss.

In the case of variable- or adjustable-rate loans, the straight-line method is used instead of the actuarial method.

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

3.2.7 Interbank market

3.2.7.1 Borrowings

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

3.2.7.2 Debt securities in issue

Initially, debt issued by the Group is measured at amortised cost. However, as part of its EMTN 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 operations as fair value hedges, which allows it to offset the market effect in the income statement.

3.2.8 Impairment of financial assets

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

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

The recoverable amount for instruments measured at fair value is either the fair value or the estimated future cash flows discounted at the market rate applicable to similar financial instruments.
Allowances for impairment of the available-for-sale portfolio and loans and advances reduce the carrying amount of the asset concerned.

The Bank distinguishes between two categories of impairment:

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

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

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

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

3.2.9 Other financial assets and liabilities

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

3.2.10 Income and expenses relative to financial assets and liabilities

Interest income and expenses are recognised in profit or loss for all financial instruments measured at amortised cost, according to the effective interest rate method.
The effective interest rate is the rate that exactly discounts future cash disbursements or receipts over the expected life of the financial instrument in order to obtain the net book value of the financial asset or liability. The calculation includes transaction costs and income, premiums and discounts. Transaction costs and income that are an integral part of the contract's effective rate, such as loan administration fees for instance, are treated as additional interest.

Financial instruments held for trading are recorded at their fair value. Changes in their fair value are recognised in the income statement under the caption "Income from financial instruments held for trading". Dividends are entered under "Income from securities", while interest is entered under "Interest income".

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

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

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

3.3 TANGIBLE ASSETS

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

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

Tangible assets are recognised at historical cost less accumulated depreciation and possible impairment. Costs related directly to the acquisition are capitalised and depreciated as an integral part of the acquisition cost at the same pace as for the principal asset. The amount to be depreciated on these assets is calculated after deduction of their residual value. Tangible assets are depreciated over their estimated useful life using the straight-line method. Land is recognised at cost.

Useful life for the main types of tangible assets:

- constructions:	50 years
- computer hardware:	4 years
- office fixtures, furniture and other equipment:	2 to 10 years
- vehicles:	4 years

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

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

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

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

Gains or losses arising from the removal from active use or disposal of tangible assets are determined by the difference between the proceeds of the disposal and the residual value of the assets, and are recognised in profit or loss under "Other operating income or expense" as at the date of disposal or removal from active use.

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

3.4 INTANGIBLE ASSETS

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

3.5 LEASE AGREEMENTS

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

3.5.1 A Group entity is a lessee

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

3.5.2 A Group entity is a lessor

When the Group leases an asset within the framework of a finance lease, the net present value of the lease payments is recognised as a receivable under "Loans and 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 under "Interest income" in the income statement. The lease payments and the arrangement costs for the lease are spread over the term of the agreement so that the income generates a constant effective interest rate.

3.6 EMPLOYEE BENEFITS

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

3.6.1 Short-term benefits

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

3.6.2 Long-term benefits

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

3.6.3 Post-employment benefits

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

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

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

A civil servant's pension entitlement is determined according to the civil service pension scheme. The pension supplement for an "agent employé" is based on the difference between the amount of the said benefit as provided by the civil service pension scheme and the amount of the benefit under the pension scheme for private sector employees.

Thus, this scheme is inherently a defined-benefit plan which finances commitments relating to the first pillar of the Luxembourg private sector pension scheme which is based on three pillars.

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

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

The sum total of the following amounts represents the annual pension expenses of the Group's parent:

- the current service cost;
- interest cost resulting from the application of the discount rate;
- all actuarial gains and losses;

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

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

The Group's parent uses the STATEC (the national statistical institute of Luxembourg) mortality tables with an allowance made for a five-year improvement to take into account a longer life expectancy of the beneficiaries.

3.7 PROVISIONS

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

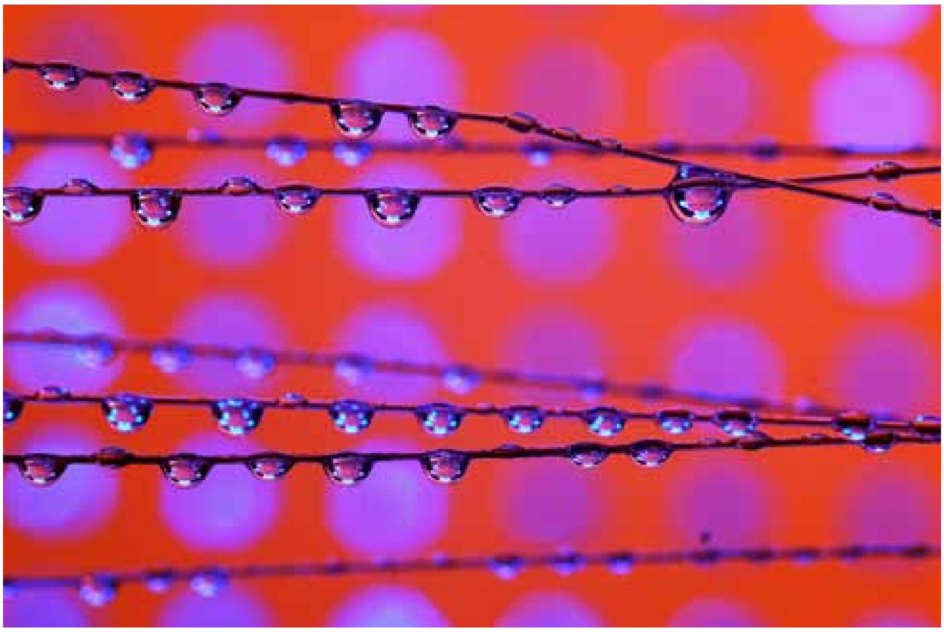
The Bank recognises a provision at the present value when a reliable estimate can be made of the amount of the obligation.

3.8 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 comprehensive calculation method, which takes into account all temporary differences, regardless of the date on which the tax will become payable or recoverable.

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

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



Sylvia ROSSLER

4. Notes to the balance sheet [2] (in euros)

4.1 CASH AND CASH BALANCES WITH CENTRAL BANKS

Cash consists of cash and cash balances with central banks. The minimum reserve requirement with the Banque centrale du Luxembourg is entered under this heading. This is the minimum mandatory reserve to satisfy the reserve requirement imposed by the Luxembourg central bank. Hence, these funds are not available to finance the Bank's ordinary operations. The minimum reserve ratio was reduced from 2% to 1% of deposit liabilities included in the basis for the reserve as of the reference period commencing on 18 January 2012.

Headings*	31/12/2011	31/12/2012
Cash	55,564,572	57,784,211
Reserve requirement	898,606,902	838,050,362
Deposits with central banks	1,505,355,611	395,844,787
Total	**2,459,527,085**	**1,291,679,360**

** term of less than one year*

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

4.2 FINANCIAL INSTRUMENTS

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

4.2.1 Assets and liabilities held for trading

Assets	31/12/2011			31/12/2012		
	≤ 1 year	**> 1 year**	**Total**	**≤ 1 year**	**> 1 year**	**Total**
Non-derivative financial instruments	1,402,975	5,607,079	7,010,054	2,394,891	410,064	2,804,955
Derivative instruments (note 4.8.)	204,749,598	23,581,370	228,330,968	33,363,847	49,477,893	82,841,740
Total	**206,152,573**	**29,188,449**	**235,341,022**	**35,758,738**	**49,887,957**	**85,646,695**

Liabilities	31/12/2011			31/12/2012		
Non-derivative financial instruments	150	1,010,380	1,010,530	-	5,212	5,212
Derivative instruments (note 4.8.)	37,277,319	112,299,839	149,577,158	144,131,428	180,444,443	324,575,871
Total	**37,277,469**	**113,310,219**	**150,587,688**	**144,131,428**	**180,449,655**	**324,581,083**

Assets - Non-derivative financial instruments	31/12/2011			31/12/2012		
Debt instruments	**1,402,474**	**5,607,079**	**7,009,553**	**2,208,173**	**410,064**	**2,618,237**
Public sector	-	*1,817,368*	*1,817,368*	*1,750,547*	*1,347*	*1,751,893*
Credit institutions	*1,166,539*	*3,469,535*	*4,636,073*	*279,352*	*178,320*	*457,671*
Corporate customers	*235,936*	*320,177*	*556,112*	*178,275*	*230,398*	*408,672*
Equity instruments	**501**	**-**	**501**	**186,718**	**-**	**186,718**
Total	**1,402,975**	**5,607,079**	**7,010,054**	**2,394,891**	**410,064**	**2,804,955**
Unrealised profit/loss at the reporting date	7,529	154,832	162,361	98,487	14,899	113,386

Liabilities - Non-derivative financial instruments	31/12/2011			31/12/2012		
Short sales						
Bonds	*150*	*1,010,380*	*1,010,530*	-	*5,212*	*5,212*
Shares	-	-	-	-	-	-
Total	**150**	**1,010,380**	**1,010,530**	**-**	**5,212**	**5,212**

4.2.2 Available-for-sale financial assets

Headings	31/12/2011			31/12/2012		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Debt instruments	**1,833,205,083**	**6,605,287,437**	**8,438,492,520**	**2,127,483,261**	**6,315,857,997**	**8,443,341,257**
Public sector	*49,627,968*	*2,021,149,166*	*2,070,777,134*	*140,452,457*	*1,894,604,660*	*2,035,057,117*
Credit institutions	*1,186,632,130*	*2,871,122,658*	*4,057,754,788*	*1,511,410,805*	*2,788,002,891*	*4,299,413,696*
Corporate customers	*596,944,985*	*1,713,015,613*	*2,309,960,598*	*475,619,999*	*1,633,250,445*	*2,108,870,444*
Equity instruments	**788,561,055**	**-**	**788,561,055**	**910,278,050**	**-**	**910,278,050**
Credit institutions	*2,367,021*	-	*2,367,021*	*2,529,749*	-	*2,529,749*
Corporate customers	*785,895,320*	-	*785,895,320*	*907,433,442*	-	*907,433,442*
Other	*298,714*	-	*298,714*	*314,859*	-	*314,859*
Total	**2,621,766,138**	**6,605,287,437**	**9,227,053,575**	**3,037,761,311**	**6,315,857,997**	**9,353,619,307**
Impairment of financial assets	-19,008,587	-148,909,936	-167,918,523	-15,076,212	-52,146,015	-67,222,228
Unrealised profit/loss at the reporting date	561,141,947	-213,948,863	347,193,084	704,197,077	188,788,631	892,985,708

Impairment of available-for-sale financial assets

	Corporate customers		Credit institutions	Public Sector	Total
	ABS/MBS	Other			
Position as at 1 January 2011	**55,617,089**	**9,322,858**	**12,365,226**	**-**	**77,305,173**
Reclassification	1,379,361	535,865	-1,915,226	-	-
Additions	1,430,483	1,682,418	5,483,850	99,388,984	107,985,735
Reversals	-9,780,102	-682,418	-	-	-10,462,520
Write-off of receivables	-7,787,876	-	-	-	-7,787,876
Exchange gain or loss	711,997	166,014	-	-	878,011
Position as at 31 December 2011	**41,570,952**	**11,024,737**	**15,933,850**	**99,388,984**	**167,918,523**
Position as at 1 January 2012	**41,570,952**	**11,024,737**	**15,933,850**	**99,388,984**	**167,918,523**
Additions	17,973,817	240,415	750,000	-	18,964,232
Reversals	-8,455,600	-1,090,311	-5,483,850	-	-15,029,761
Write-off of receivables	-5,000,000	-	-	-99,388,984	-104,388,984
Exchange gain or loss	-143,155	-98,629	-	-	-241,784
Position as at 31 December 2012	**45,946,014**	**10,076,212**	**11,200,000**	**-**	**67,222,228**

Unrealised profit/loss on available-for-sale financial assets:

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

Debt instruments

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

31/12/2012	Fair value adjustments of debt instruments		Fair value adjustment of the swap leg hedging the asset	
	Changes in unhedged risk ("credit and liquidity spread")	Changes in hedged risk (interest rate and price)	Changes in hedged risk	Retrospective efficiency rate
Fixed-rate bonds and structured bonds	88,168,133	-310,080,833	311,816,112	100.56%
Variable-rate bonds	20,774,938			

31/12/2011	Fair value adjustments of debt instruments		Fair value adjustment of the swap leg hedging the asset	
	Changes in unhedged risk ("credit and liquidity spread")	Changes in hedged risk (interest rate and price)	Changes in hedged risk	Retrospective efficiency rate
Fixed-rate bonds and structured bonds	373,153,950	-261,893,197	263,118,454	100.47%
Variable-rate bonds	119,159,300			

In the framework of the partial sale of hedged positions held in a European sovereign state, reclassifications were made from the "Hedging derivatives" category to the "Financial assets held for trading" category.

Breakdown of changes in carrying amount:

Debt instruments	2011	2012
Position as at 1 January	**10,661,088,955**	**8,438,492,520**
Acquisitions	1,218,947,796	1,828,523,178
Sales	-954,547,519	-430,696,671
Repayments	-2,269,196,487	-1,871,924,735
Realised profit/(loss)	-24,812,742	1,160,646
Pro-rata interest	-16,162,092	-7,490,998
Unrealised valuations	-112,576,387	431,557,816
Impairment	-89,447,336	99,747,771
Exchange gain or loss	25,198,332	-46,028,269
Position as at 31 December	**8,438,492,520**	**8,443,341,257**

Equity instruments

	Fair value adjustment of equity instruments	
in euros	31/12/2011	31/12/2012
Equity instruments	577,613,137	691,847,947
Impairment of financial assets	-11,024,737	-10,076,212

4.3 INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

	31/12/2011	31/12/2012
Acquisition value as at 1 January	35,294,914	50,125,523
Establishment	-	-
Disposals	-	-8,733
Integration of Luxair S.A.	14,830,609	-
Total (as acquisition value)	**50,125,523**	**50,116,790**

List of associates:

Associates	Fraction of capital held (in %)	Acquisition cost 2012	Value accounted for using the equity method 2012
Société Nationale de Circulation Automobile S.à r.l.	20.00	24,789	2,053,654
Luxair S.A.	21.81	14,830,609	86,817,465
Société de la Bourse de Luxembourg S.A.	22.74	112,166	19,308,685
Europay Luxembourg S.C.	27.90	129,283	498,270
Visalux S.C.	35.46	393,657	771,209
La Luxembourgeoise S.A.	40.00	16,856,760	90,634,854
La Luxembourgeoise-Vie S.A.	40.00	12,047,625	72,701,762
BioTechCube S.A.	50.00	5,000,000	790,121
Sub-total direct holdings in associates		**49,394,890**	**273,576,022**
Pecoma International S.A.	33.33	170,000	245,189
EFA Partners S.A.	29.05	551,900	846,725
Sub-total indirect holdings in associates		**721,900**	**1,091,914**
Difference due to equity-accounted partial disposals		-	5,578,126
Total		**50,116,790**	**280,246,062**

Associates	Fraction of capital held (in %)	Acquisition cost 2011	Value accounted for using the equity method 2011
Société Nationale de Contrôle Technique S.à r. l.	20.00	24,789	2,089,473
Luxair S.A.	21.81	14,830,609	88,872,210
Société de la Bourse de Luxembourg S.A.	22.74	112,166	17,596,554
Parking du Théâtre S.A.	26.23	8,733	188,113
Europay Luxembourg S.C.	27.90	129,283	1,053,531
Visalux S.C.	35.46	393,657	1,454,813
La Luxembourgeoise S.A.	40.00	16,856,760	98,892,963
La Luxembourgeoise-Vie S.A.	40.00	12,047,625	66,350,800
BioTechCube S.A.	50.00	5,000,000	2,241,777
Sub-total direct holdings in associates		**49,403,622**	**278,740,234**
Pecoma International S.A.	33.33	170,000	269,549
EFA Partners S.A.	29.05	551,900	985,709
Sub-total indirect holdings in associates		**721,900**	**1,255,258**
Difference due to equity-accounted partial disposals		-	5,578,126
Total		**50,125,522**	**285,573,619**

4.4 SECURITIES HELD TO MATURITY

Headings	31/12/2011			31/12/2012		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Debt instruments						
Public sector	-	356,757,757	356,757,757	107,988,824	302,365,996	410,354,820
Credit institutions	1,781,845,365	1,911,554,916	3,693,400,281	1,749,261,184	2,169,831,550	3,919,092,734
Corporate customers	186,350,472	407,818,988	594,169,460	322,747,694	663,692,897	986,440,591
Total	**1,968,195,837**	**2,676,131,661**	**4,644,327,498**	**2,179,997,702**	**3,135,890,443**	**5,315,888,145**

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

The relative increase in the portfolio value is in line with the Group's ALM policy.

Breakdown of changes in carrying amount:

Held-to-maturity securities	2011	2012
Position as at 1 January	**4,373,847,759**	**4,644,327,498**
Acquisitions	2,264,859,482	2,656,021,459
Sales	-354,958,334	-
Repayments	-1,613,248,851	-1,994,116,121
Realised profit/(loss)	-18,055,572	-
Pro-rata interest	-10,658,189	9,786,223
Unrealised valuations	-	-
Impairment	-	-
Exchange gain or loss	2,541,203	-130,915
Position as at 31 December	**4,644,327,498**	**5,315,888,145**

4.5 SECURITIES COLLATERALISED IN THE FRAMEWORK OF REPURCHASE AGREEMENTS

Headings	31/12/2011	31/12/2012
Debt instruments issued by the public sector	-	115,874,315
Debt instruments issued - others	55,132,527	9,226,714
Equity instruments	5,380,800	16,953,638
Total	**60,513,327**	**142,054,667**

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

The increase observed in debt instruments stems from the growing number of collateral security agreements entered into against the backdrop of financial crisis and uncertainty.

4.6 CONVERTIBLE BONDS INCLUDED IN THE DIFFERENT PORTFOLIOS

Headings	31/12/2011	31/12/2012
Convertible bonds	22,730,365	22,578,628

The convertible bonds the Group has invested in are available-for-sale assets and are hedged by interest rate swaps. No new investments in convertible bonds were made in 2012.

4.7 SOVEREIGN BONDS INCLUDED IN THE DIFFERENT PORTFOLIOS

As the sovereign debt crisis continues - closely watched by the financial markets - the Bank's exposure to eurozone sovereign states breaks down as follows as at 31 December 2012:

Nominal amount by country and year of maturity:

Country	2013	2014	2015	2016	2017	2018	2019	2042	Total
Spain	100,000,000	-	-	-	-	-	65,000,000	-	165,000,000
Greece	-	-	-	-	-	-	-	409,500	409,500
Italy	-	155,280,760	136,475,092	305,000,000	250,000,000	90,000,000	25,000,000	-	961,755,853
Portugal	-	65,000,000	100,000,000	-	-	-	25,000,000	-	190,000,000
Total	**100,000,000**	**220,280,760**	**236,475,092**	**305,000,000**	**250,000,000**	**90,000,000**	**115,000,000**	**409,500**	**1,317,165,353**

Book value by asset class:

			31/12/2011			31/12/2012
Country	Available-for-sale-assets	Held-to-maturity-securities	Total	Available-for-sale-assets	Held-to-maturity-assets	Total
Spain	167,939,697	5,001,740	172,941,437	164,714,148	5,006,276	169,720,424
Greece	32,871,549	-	32,871,549	10,773	-	10,773
Italy	1,134,927,509	-	1,134,927,509	993,242,824	-	993,242,824
Portugal	122,218,243	15,107,985	137,326,228	174,049,966	15,110,850	189,160,815
Total	**1,457,956,998**	**20,109,725**	**1,478,066,723**	**1,332,017,712**	**20,117,126**	**1,352,134,837**

Fair value by asset class:

			31/12/2011			31/12/2012
Country	**Available-for-sale-assets**	**Held-to-maturity-securities**	**Total**	**Available-for-sale-assets**	**Held-to-maturity-assets**	**Total**
Spain	167,939,697	4,924,921	172,864,618	164,714,148	4,908,500	169,622,648
Greece	32,871,549	-	32,871,549	10,773	-	10,773
Italy	1,134,927,509	-	1,134,927,509	993,242,824	-	993,242,824
Portugal	122,218,243	11,204,132	133,422,375	174,049,966	15,097,275	189,147,241
Total	**1,457,956,998**	**16,129,053**	**1,474,086,051**	**1,332,017,712**	**20,005,775**	**1,352,023,487**

The Bank has no exposure to Irish or Cypriot sovereign debt.

The Bank sold substantial positions in the available-for-sale asset class throughout the first half of 2012 to reduce its exposure to Italian sovereign risk. These sales amounted to an equivalent nominal amount of EUR 250 million.

Special treatment for Greece and approach applied:

Among the countries that applied for an EU rescue package, Greece was the only one to have shown objective evidence of impairment under IFRS, and more specifically IAS 39, paragraph 9iii.
All positions held by the Bank fall within the scope of the program to reschedule a portion of Greek debt held by the private sector. The agreement on the Greek bailout hammered out at the meeting of eurozone Finance Ministers on February 21 2012 set private sector involvement at 53.5%.

The write-off of the accumulated impairment of 74.7% corresponds to the forgiveness of the 53.5%, and the recognition at fair value of the new securities received in exchange.

The Bank sold almost all its remaining positions in Greek sovereign debt at the end of H1 2012.

Henri BARTHEL

4.8 DERIVATIVE INSTRUMENTS

Balances as at 31/12/2012	Assets	Liabilities	Notional
Derivative instruments held for trading	**82,841,740**	**324,575,871**	**13,930,434,808**
Operations linked to exchange rates	30,493,827	142,168,577	11,095,599,545
- *Foreign exchange swaps and forward exchange contracts*	*29,674,078*	*141,114,261*	*10,692,682,823*
- *Others*	*819,749*	*1,054,316*	*402,916,722*
Operations linked to interest rates	52,347,913	182,107,684	2,815,888,693
- *IRS*	*50,461,248*	*180,219,746*	*2,641,602,613*
- *Others*	*1,886,665*	*1,887,938*	*174,286,080*
Operations linked to credit risk	-	299,610	18,946,571
- *Credit derivatives (CDS)*	-	*299,610*	*18,946,571*
Fair value hedges	**58,373,667**	**822,908,804**	**8,701,728,618**
Operations linked to exchange rates	40,565,494	55,163,442	1,375,455,512
- *CCIS*	*40,565,494*	*55,163,442*	*1,375,455,512*
Operations linked to interest rates	3,556,976	711,124,064	5,842,960,024
- *IRS (interest rate)*	*3,556,976*	*711,124,064*	*5,842,960,024*
Operations linked to other indices	14,251,197	56,621,298	1,483,313,082
- *IRS (other indices)*	*14,251,197*	*56,621,298*	*1,483,313,082*
Cash flow hedges	**8,765,526**	**-**	**61,800,000**
Operations linked to interest rates	8,765,526	-	61,800,000
- *IRS*	*8,765,526*	-	*61,800,000*

Balances as at 31/12/2011	Assets	Liabilities	Notional
Derivative instruments held for trading	**228,330,968**	**149,577,157**	**11,902,839,205**
Operations linked to exchange rates	201,153,069	37,511,063	9,550,102,074
- *Foreign exchange swaps and forward exchange contracts*	*191,427,549*	*27,917,707*	*8,776,975,002*
- *Others*	*9,725,519*	*9,593,356*	*773,127,072*
Operations linked to interest rates	27,176,612	110,687,687	2,272,546,036
- *IRS*	*27,176,612*	*110,687,687*	*2,272,546,036*
Operations linked to credit risk	1,287	1,378,408	80,191,095
- *Credit derivatives (CDS)*	*1,287*	*1,378,408*	*80,191,095*
Fair value hedges	**143,037,885**	**713,548,684**	**8,664,555,752**
Operations linked to exchange rates	51,396,419	107,069,616	796,482,791
- *CCIS*	*51,396,419*	*107,069,616*	*796,482,791*
Operations linked to interest rates	12,837,981	575,636,619	5,880,709,826
- *IRS (interest rate)*	*12,837,981*	*575,636,619*	*5,880,709,826*
Operations linked to other indices	78,803,484	30,842,449	1,987,363,135
- *IRS (other indices)*	*78,803,484*	*30,842,449*	*1,987,363,135*
Cash flow hedges	**6,155,169**	**-**	**67,800,000**
Operations linked to interest rates	6,155,169	-	67,800,000
- *IRS*	*6,155,169*	*-*	*67,800,000*

4.9 LOANS AND ADVANCES AT AMORTISED COST - CREDIT INSTITUTIONS

Headings	31/12/2011			31/12/2012		
	≤ 1 year	**> 1 year**	**Total**	**≤ 1 year**	**> 1 year**	**Total**
Interbank loans	2,560,068,331	350,964,056	2,911,032,387	4,900,344,969	20,513,612	4,920,858,581
Reverse repos	2,906,154,703	-	2,906,154,703	2,170,274,245	-	2,170,274,245
Roll-over loans	40,690,112	-	40,690,112	3,037,902	-	3,037,902
Finance leases	70,237	294,669	364,906	33,595	360,310	393,905
Sub-total	**5,506,983,382**	**351,258,725**	**5,858,242,107**	**7,073,690,710**	**20,873,922**	**7,094,564,632**
Undrawn confirmed loans			52,679,412			304,737,504
Impairment of financial assets			-			-516,190

In the case of reverse repurchase transactions, the Group becomes the legal owner of the securities received as collateral and has the right to sell or collateralise these securities. No security was sold or collateralised as at 31 December 2012.

Impairment of loans and advances – Credit institutions

	Credit institution
Position as at 1 January 2012	**-**
Transfer from Corporate customers	466,381
Additions	49,809
Reversals	-
Write-off of receivables	-
Exchange gain or loss	-
Position as at 31 December 2012	**516,190**

4.10 LOANS AND ADVANCES AT AMORTISED COST - CUSTOMERS

Headings	31/12/2011			31/12/2012		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Retail customers	1,542,479,904	7,744,813,801	9,287,293,705	298,791,175	9,745,007,797	10,043,798,972
Corporate customers	3,313,676,309	2,022,321,863	5,335,998,172	2,279,369,068	2,404,496,685	4,683,865,753
Public sector	238,798,828	1,731,943,532	1,970,742,361	278,632,511	1,710,192,317	1,988,824,828
Sub-total	**5,094,955,041**	**11,499,079,197**	**16,594,034,238**	**2,856,792,754**	**13,859,696,799**	**16,716,489,553**
Undrawn confirmed loans			2,940,651,273			3,185,933,416
Impairment of financial assets			-59,702,421			-78,998,816

Of which finance leases:

Headings	31/12/2011			31/12/2012		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Finance leases	2,869,115	100,767,654	103,636,770	4,342,978	92,623,312	96,966,290
Sub-total	**2,869,115**	**100,767,654**	**103,636,770**	**4,342,978**	**92,623,312**	**96,966,290**

Impairment of loans and advances-Customers

	Retail customers	Corporate	Public sector	Total
Position as at 1 January 2011	**22,205,471**	**61,418,648**	**-**	**83,624,118**
Customer category reclassification	-4,022,226	4,022,226	-	-
Additions	3,364,800	8,479,989	-	11,844,789
Reversals	-2,156,136	-19,600,337	-	-21,756,473
Write-off of receivables (*)	-450,050	-13,776,259	-	-14,226,309
Exchange gain or loss	-	216,295	-	216,295
Position as at 31 December 2011	**18,941,859**	**40,760,561**	**-**	**59,702,421**
Impairment of assets - individual risk	11,661,294	40,760,561	-	52,421,856
Impairment of assets - collective risk	7,280,565	-	-	7,280,565
Total	**18,941,859**	**40,760,561**	**-**	**59,702,421**
Position as at 1 January 2012	**18,941,859**	**40,760,561**	**-**	**59,702,421**
Transfer to credit institutions	-	-466,381	-	-466,381
Additions	8,882,970	21,225,925	1,317,399	31,426,294
Reversals	-1,752,248	-7,685,834	-	-9,438,082
Write-off of receivables (*)	-644,521	-1,492,739	-	-2,137,260
Exchange gain or loss	-	-88,176	-	-88,176
Position as at 31 December 2012	**25,428,061**	**52,253,356**	**1,317,399**	**78,998,816**
Impairment of assets - individual risk	15,659,136	52,253,356	1,317,399	69,229,891
Impairment of assets - collective risk	9,768,925	-	-	9,768,925
Total	**25,428,061**	**52,253,356**	**1,317,399**	**78,998,816**

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

Outstanding amounts of impaired loans: EUR 218,138,126 as at 31 December 2012, compared with EUR 182,374,230 a year earlier.

Value adjustments cover the principal and interest.

The impaired loans as at 31 December 2012 amounting to EUR 79 million do not take into account a specific impairment of EUR 29.2 million related to the integration into the consolidated financial statements of a loss on three Icelandic banks compensated via the Luxembourg Deposit Guarantee Scheme (Association pour la Garantie des Dépôts à Luxembourg - AGDL) in 2008/2009. As at 31 December 2011, this impairment amounted to EUR 31.5 million.

4.11 TANGIBLE ASSETS FOR OWN USE

	Land and constructions	Other equipment and furniture	TOTAL
Position as at 1 January 2012	**238,358,405**	**55,419,302**	**293,777,707**
Increase	5,203,748	10,681,099	15,884,847
Decrease	-566,075	-12,491,551	-13,057,626
Position as at 31 December 2012	**242,996,078**	**53,608,850**	**296,604,928**
Accumulated depreciation			
Position as at 1 January 2012	**84,818,003**	**33,311,354**	**118,129,357**
Reversals	-759,975	-11,927,415	-12,687,390
Additions	5,437,124	8,254,201	13,691,325
Position as at 31 December 2012	**89,495,152**	**29,638,140**	**119,133,292**
Net book value			
Position as at 1 January 2012	**153,540,402**	**22,107,948**	**175,648,351**
Position as at 31 December 2012	**153,500,926**	**23,970,710**	**177,471,637**

	Land and construction	Other equipment and furniture	TOTAL
Position as at 1 January 2011	**233,437,185**	**57,902,846**	**291,340,031**
Increase	6,685,068	10,424,518	17,109,586
Decrease	-1,763,848	-12,908,062	-14,671,910
Position as at 31 December 2011	**238,358,405**	**55,419,302**	**293,777,707**
Accumulated depreciation			
Position as at 1 January 2011	**80,338,530**	**37,342,723**	**117,681,252**
Reversals	-905,148	-12,908,062	-13,813,210
Additions	5,384,621	8,876,694	14,261,315
Position as at 31 December 2011	**84,818,003**	**33,311,354**	**118,129,357**
Net book value			
Position as at 1 January 2011	**153,098,655**	**20,560,123**	**173,658,779**
Position as at 31 December 2011	**153,540,402**	**22,107,948**	**175,648,350**

4.12 INTANGIBLE ASSETS

Position as at 1 January 2012	**36,360,225**
Increase	13,426,760
Decrease	-10,560,363
Position as at 31 December 2012	**39,226,622**
Accumulated depreciation	
Position as at 1 January 2012	**23,868,032**
Reversals	-9,961,181
Additions	13,075,540
Position as at 31 December 2012	**26,982,391**
Net book value	
Position as at 1 January 2012	**12,492,193**
Position as at 31 December 2012	**12,244,231**

Position as at 1 January 2011	**32,959,571**
Increase	11,676,717
Decrease	-8,276,063
Position as at 31 December 2011	**36,360,225**
Accumulated depreciation	
Position as at 1 January 2011	**20,024,019**
Reversals	-8,276,063
Additions	12,120,075
Position as at 31 December 2011	**23,868,032**
Net book value	
Position as at 1 January 2011	**12,935,551**
Position as at 31 December 2011	**12,492,193**

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

4.13 INVESTMENT ASSETS

Position as at 1 January 2012	**29,841,278**
Increase (acquisitions)	-
Increase (investment expenditure)	485,138
Decrease	-679,507
Position as at 31 December 2012	**29,646,909**
Accumulated depreciation	
Position as at 1 January 2012	**11,898,744**
Reversals	-154,189
Additions	546,281
Position as at 31 December 2012	**12,290,836**
Net book value	
Position as at 1 January 2012	**17,942,535**
Position as at 31 December 2012	**17,356,074**

Position as at 1 January 2011	**26,432,731**
Increase (acquisitions)	-
Increase (investment expenditure)	3,408,547
Decrease	-
Position as at 31 December 2011	**29,841,278**
Accumulated depreciation	
Position as at 1 January 2011	**11,349,921**
Reversals	-
Additions	548,822
Position as at 31 December 2011	**11,898,744**
Net book value	
Position as at 1 January 2011	**15,082,810**
Position as at 31 December 2011	**17,942,535**

Rental income from rented investment property amounted to EUR 2,525,444 for the 2012 financial year, versus EUR 2,408,112 in the prior year. Maintenance costs related to investment property were EUR 926,514 in 2012, up from EUR 779,866 one year earlier.

The fair value of investment property stood at EUR 60,064,309 at year-end 2012, compared with EUR 58,832,536 at end-2011.

4.14 OTHER ASSETS

Headings	31/12/2011	31/12/2012
Miscellaneous debtors [(1)]	16,436,603	14,413,746
Other short-term receivables [(2)]	12,729,305	25,858,636
Other	9,538,987	40,760,353
Total	**38,704,895**	**81,032,735**

(1) Primarily operations on securities and coupons

(2) Primarily operations on credit cards and cheques.

4.15 TAXES: TAX ASSETS AND LIABILITIES

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

The Group posted a current tax liability of EUR 84,227,576 as at 31 December 2012.

As no new tax law incorporating IFRS standards has been passed in Luxembourg, the Group calculates the tax liability payable based on the increase in net assets of the balance sheet items valued through the income statement.

As at 31 December 2012, the Group posted a deferred tax asset of EUR 78,162,674, and a deferred tax liability of EUR 141,593,928.

4.15.1 Tax assets

Headings	31/12/2011	31/12/2012
Deferred tax assets	164,912,281	78,162,674
Tax assets	**164,912,281**	**78,162,674**

Breakdown of deferred tax assets according to origin:

Headings	31/12/2011	31/12/2012
Debt instruments - application of fair value	142,282,346	35,251,672
Equity instruments - application of fair value	3,743,549	2,709,176
Pension funds - actuarial gain or loss	18,886,386	40,201,826
Deferred tax assets	**164,912,281**	**78,162,674**

4.15.2 Tax liabilities

Headings	31/12/2011	31/12/2012
Current tax liabilities	75,779,375	84,227,576
Income tax	*64,068,845*	*65,000,773*
Municipal business tax	*11,710,530*	*19,226,803*
Deferred tax assets	121,576,650	141,593,928
Tax liabilities	**197,356,025**	**225,821,504**

Breakdown of deferred tax liabilities according to origin:

Headings	31/12/2011	31/12/2012
Derivative instruments - application of fair value	1,772,258	2,559,590
Debt instruments - application of fair value	496,129	3,418,507
Equity instruments - application of fair value	13,383,504	13,779,460
Regulatory and other provisions	105,924,759	121,836,371
Deferred tax liabilities	**121,576,650**	**141,593,928**

The table below gives a breakdown of the changes to deferred tax assets and liabilities, depending on whether the changes relate to items that are charged or credited to equity, or relate to items that are charged or credited to the income statement.

Headings	31/12/2011	Movements in equity	Movements in income statement	31/12/2012
Deferred tax assets	164,912,281	-86,749,607	-	78,162,674
Deferred tax liabilities	-121,576,650	-4,105,667	-15,911,611	-141,593,928
Net deferred tax assets / liabilities	**43,335,632**	**-90,855,274**	**-15,911,611**	**-63,431,254**

Headings	31/12/2010	Movements in equity	Movements in income statement	31/12/2011
Deferred tax assets	121,655,251	43,257,030	-	164,912,281
Deferred tax liabilities	-172,870,318	34,730,045	16,563,624	-121,576,650
Net deferred tax assets / liabilities	**-51,215,067**	**77,987,075**	**16,563,624**	**43,335,632**

4.16 DEBT SECURITIES IN ISSUE

Headings	31/12/2011			31/12/2012		
	≤ 1 year	**> 1 year**	**Total**	**≤ 1 year**	**> 1 year**	**Total**
Cash certificates	466,147,189	393,902,441	860,049,630	562,136,380	398,492,299	960,628,679
Commercial paper	4,730,980,856	-	4,730,980,856	5,016,952,833	-	5,016,952,833
Medium Term Notes and other securities issued	321,800,512	1,364,217,465	1,686,017,977	645,272,501	763,076,593	1,408,349,094
Total	**5,518,928,557**	**1,758,119,906**	**7,277,048,463**	**6,224,361,715**	**1,161,568,892**	**7,385,930,606**
of which:						
- subordinated notes	21,160,545	240,758,543	261,919,088	44,072,054	176,481,514	220,553,568

The Group issued Medium Term Notes for a nominal amount of EUR 563,777,153 in 2012, as against EUR 591,882,999 the previous year.

New issues	2011	2012
maturing in < 2 years	85,558,069	499,136,013
maturing in 2 - 5 years	465,159,000	56,720,000
maturing in > 5 years	41,165,930	7,921,141
Total	**591,882,999**	**563,777,153**
of which:		
- Structured notes (at issue value)	*591,882,999*	*563,777,153*

The main structured notes issued in 2012 were in the interest-linked notes category.

Securities issued which have either come to maturity or have been reimbursed prior to maturity during 2012 or 2011:

	2011	2012
Maturities/repayments	861,419,223	689,760,039
Total	**861,419,223**	**689,760,039**
of which:		
- Subordinated notes (at issue value)	-	*22,675,878*
- Structured notes (at issue value)	*861,419,223*	*633,084,161*

The Group bought back its own issues in the amount of EUR 40,728,936 during 2012 (vs. EUR 35,602,656 in 2011).

Breakdown of subordinated loans as at 31 December 2012

Description	Rate	Issue currency	Nominal amount issued-EUR	Assimilated portion-EUR	Non-assimilated portion-EUR
Loan 1999-2014	0.527	EUR	20,000,000	8,000,000	12,000,000
Loan 2000-2015	0.571	EUR	23,800,000	14,280,000	9,520,000
Loan 2000-2020	2.700	EUR	8,600,000	8,600,000	-
Loan 2001-2016	0.561	EUR	25,000,000	20,000,000	5,000,000
Loan 2001-2021	1.076	EUR	11,000,000	11,000,000	-
Loan 2001-2021	1.076	EUR	30,000,000	30,000,000	-
Loan 2002-2022	0.757	EUR	50,000,000	50,000,000	-
Loan 2003-2013	0.883	JPY	44,006,337	8,801,267	35,205,070
Total			**212,406,337**	**150,681,267**	**61,725,070**

The interest expense on subordinated notes stood at EUR 6,389,168 as at 31 December 2012, compared with EUR 7,706,843 at year-end 2011.

4.17 DEPOSITS AT AMORTISED COST – CREDIT INSTITUTIONS

Headings	31/12/2011			31/12/2012		
	≤ 1 year	**> 1 year**	**Total**	**≤ 1 year**	**> 1 year**	**Total**
Inter-bank deposits	4,188,130,023	11,035,519	4,199,165,542	3,641,689,626	-	3,641,689,626
Repurchase agreements	56,450,159	-	56,450,159	144,504,308	-	144,504,308
Total	**4,244,580,182**	**11,035,519**	**4,255,615,701**	**3,786,193,934**	**-**	**3,786,193,934**

4.18 DEPOSITS AT AMORTISED COST – PRIVATE CUSTOMERS AND PUBLIC SECTOR

Headings	31/12/2011			31/12/2012		
	≤ 1 year	**> 1 year**	**Total**	**≤ 1 year**	**> 1 year**	**Total**
Private customers	20,329,534,765	153,518,189	20,483,052,954	20,287,380,102	831,729,260	21,119,109,362
- Demand deposit and notice accounts	*4,354,749,170*	*-*	*4,354,749,170*	*5,336,188,072*	*-*	*5,336,188,072*
- Time deposit accounts	*6,444,838,951*	*153,518,189*	*6,598,357,140*	*4,764,704,768*	*831,729,260*	*5,596,434,028*
- Savings	*9,524,664,291*	*-*	*9,524,664,291*	*10,186,160,658*	*-*	*10,186,160,658*
- Repurchase agreements	*5,282,353*	*-*	*5,282,353*	*326,604*	*-*	*326,604*
Public sector	3,833,740,144	7,470,617	3,841,210,761	3,354,262,671	172,999	3,354,435,671
Total	**24,163,274,909**	**160,988,806**	**24,324,263,715**	**23,641,642,773**	**831,902,259**	**24,473,545,033**

4.19 PENSION FUNDS - DEFINED-BENEFIT PENSION PLAN

Main estimates used to determine pension commitments:

Variables	31/12/2011	31/12/2012
Discount rate for active employees	4.60%	3.30%
Discount rate for beneficiaries	3.60%	2.60%
Salary increases (including indexation)	3.50%	3.50%
Pension increases (including indexation)	2.50%	2.50%
Expected return	3.00%	3.00%

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

Components	31/12/2011	31/12/2012
Current service cost	3,989,178	4,037,204
Interest cost	13,391,409	12,681,920
Expected return	-8,682,527	-9,155,646
Total	**8,698,060**	**7,563,478**

Pension commitments:

	2011	2012
Commitments as at 1 January 2012	**290,701,061**	**322,387,504**
Current service cost	3,989,178	4,037,204
Interest cost	13,391,409	12,681,920
Benefits paid	-10,529,495	-10,985,642
Actuarial gains or losses	24,835,351	84,461,729
Commitments as at 31 December 2012	**322,387,504**	**412,582,715**

The sharp increase in pension commitments stems from the reduction in the actuarial rates throughout 2012 on the one hand, and the impact of the Luxembourg Pension Insurance Reform Act of 21 December 2012 on the other. At constant actuarial rates, the pension commitment would have been EUR 341,079,911.

Civil servants' pension payments are initially made directly by the State to civil servants. The Bank only recognises the payments when the amounts are repaid to the State. Hence, "Benefits paid" amounting to EUR 10,985,642 include the repayments to the Luxembourg State of civil servants' pensions in respect of the 2011 financial year.

Pension plan assets:

	2011	2012
Assets as at 1 January	**289,417,575**	**305,188,189**
Pension payments	-10,529,495	-10,985,642
Contribution	16,901,513	8,553,500
Expected return	8,682,527	9,155,646
Fair value gain / loss	716,070	12,456,205
Assets as at 31 December	**305,188,189**	**324,367,897**

On top of the 2011 annual contribution of EUR 8,947,978, the Bank made a special contribution of EUR 7,953,535, corresponding to the difference between the fund's net assets at 31 December 2010 and the pension fund commitments discounted at a rate of 4.50%.

Pension plan investments:

	2011	2012
Fixed-income securities:	90.12%	88.45%
Variable-income securities:	3.35%	5.40%
Other assets (primarily deposits)	6.53%	6.15%
Total	**100.00%**	**100.00%**

Net pension commitments:

	2009	2010	2011	2012
Pension commitments	296,053,782	290,701,061	322,387,504	412,582,715
Plan assets measured at fair value	-288,037,842	-289,417,575	-305,188,190	-324,367,897
Unfinanced commitments	**8,015,940**	**1,283,486**	**17,199,314**	**88,214,818**

Stock of actuarial gains and losses:

Stock as at 1 January 2011	**-22,764,843**
2011 net change	24,119,281
Stock as at 31 December 2011	**1,354,438**
Stock as at 1 January 2012	1,354,438
2012 net change	72,005,524
Stock as at 31 December 2012	**73,359,962**

The Bank's estimated annual contribution to the pension fund for 2013 is EUR 8,153,213.

4.20 PROVISIONS

Changes during the financial year

	31/12/2011	31/12/2012
Position as at 1 January	**4,321,642**	**4,813,364**
Additions	755,081	2,763,151
Reversals	-142,078	-3,372,346
Application	-121,281	-3,800
Position as at 31 December	**4,813,364**	**4,200,369**

4.21 OTHER LIABILITIES

Headings	31/12/2011	31/12/2012
Short-term payables (1)	28,774,809	23,538,582
Preferential or secured creditors	34,972,208	36,970,089
Total	**63,747,017**	**60,508,671**

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

Norbert NICKELS

4.22 RELATED-PARTY TRANSACTIONS

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

4.22.1 Government institutions

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

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

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

in euros	31/12/2011	31/12/2012
ASSETS (mainly loans at amortised cost)	**2,774,917,333**	**2,923,758,176**
in euros	31/12/2011	31/12/2012
LIABILITIES (deposits at amortised cost)	**2,881,892,315**	**2,553,816,816**

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

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

	31/12/2011	31/12/2012
Board of Directors (nine members)	111,850	108,100
Executive Board (five members)	922,939	948,705
Total	**1,034,789**	**1,056,805**

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

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

	31/12/2011	31/12/2012
Board of Directors (nine members)	1,127,263	3,663,189
Executive Board (five members)	1,431,791	1,404,837
Total	**2,559,054**	**5,068,026**

4.23 STATUTORY AUDITOR'S FEES

	2011	2012
Statutory audit of the annual financial statements	482,000	480,000
Other audit services	91,000	70,925
Tax services	30,000	-
Other	132,942	57,787
Total	**735,942**	**608,712**

4.24 OFF-BALANCE SHEET ITEMS

Type of guarantees issued

Headings	31/12/2011	31/12/2012
Completion bonds	483,517,832	329,532,103
Letters of credit	46,382,189	45,471,770
Counter-guarantees	397,008,018	367,457,509
Documentary credits	28,699,076	21,133,731
Other	90,032,148	20,073,373
Total	**1,045,639,263**	**783,668,485**

Commitments

Headings	31/12/2011	31/12/2012
Amounts subscribed and unpaid on securities, equity interests and shares in affiliated companies	3,934,507	3,083,482
Undrawn confirmed loans	2,993,330,685	3,490,670,921
Other	10,265,861	14,591,815
Total	**3,007,531,053**	**3,508,346,218**

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.

Frank BLESER

5. Notes to the income statement [3] (in euros)

5.1 INTEREST INCOME

Interest received and similar income	2011	2012
Assets repayable on demand	6,860,763	3,002,957
Financial assets held for trading	27,441,638	51,671,125
Available-for-sale financial assets	314,476,540	267,896,775
Receivables at amortised cost - Debt instruments	39,960,253	38,520,108
Receivables at amortised cost - Loans and advances	436,221,949	419,974,472
Investments held to maturity at amortised cost	114,199,360	134,696,748
Derivatives - Hedge accounting, interest rate risk	203,156,300	183,482,727
Other assets	869,444	854,215
Total	**1,143,186,247**	**1,100,099,126**

Interest paid and similar expenses	2011	2012
Financial liabilities held for trading	-37,208,695	-19,107,711
Liabilities at amortised cost - Deposits	-239,649,918	-179,913,833
Liabilities at amortised cost - Debt certificates	-61,772,257	-28,304,407
Liabilities at amortised cost - Subordinated loans	-5,937,109	-4,362,000
Derivatives - Hedge accounting, interest rate risk	-380,926,974	-428,047,193
Other liabilities	-1,452,675	-1,025,450
Total	**-726,947,628**	**-660,760,594**
Interest income	**416,238,619**	**439,338,533**
Total interest received and similar income not recognised at fair value through the income statement	1,115,744,609	1,048,428,002
Total interest paid and similar expenses not recognised at fair value through the income statement	-689,738,933	-641,652,883

5.2 INCOME FROM VARIABLE-INCOME SECURITIES

Headings	2011	2012
Financial assets held for trading	29	20
Available-for-sale financial assets	29,974,298	32,597,436
Income from securities	**29,974,327**	**32,597,456**

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

5.3 FEE AND COMMISSION INCOME

Headings	2011	2012
Loan activities	30,429,526	29,011,053
Asset management	17,100,418	18,275,058
Investment fund activities	26,506,845	27,196,067
Demand deposit accounts and related activities	17,701,171	19,206,586
Insurance premiums	3,811,172	3,830,491
Other	7,081,081	6,860,182
Commissions received and paid	**102,630,213**	**104,379,435**

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

Headings	2011	2012
Available-for-sale financial instruments	-23,743,993	7,399,982
Loans and advances at amortised cost	255,981	265,344
Financial instruments held to maturity	-18,055,571	-
Financial liabilities at amortised cost	-9,435	69,162
Total	**-41,553,018**	**7,734,488**

Changes within this income category stem largely from the Available-for-sale financial instruments heading, following various partial sales of fixed-income securities and some sales of variable-income securities.

5.5 INCOME FROM FINANCIAL INSTRUMENTS HELD FOR TRADING

Headings	2011	2012
Equity instruments and related derivatives	1,720,686	3,182,935
Foreign exchange instruments and related derivatives	3,557,176	-3,527,571
Interest rate instruments and related derivatives	-73,757,601	-33,063,022
Credit derivatives	1,002,048	1,083,025
Commodities and related derivatives	1,927,065	1,215,883
Total	**-65,550,627**	**-31,108,750**

The significant change in this income category is due to the reclassification of interest rate swaps from the “Net income from hedging transactions” category to the “Income from financial instruments held for trading" category, following the sale of assets that were originally hedged. Pursuant to IAS 39, the Group had to unwind the hedging relationships between these assets and derivative instruments in the form of interest rate swaps following the sale of hedged assets in 2012 and 2011. Interest rate swaps linked to asset sales were unwound to limit the Bank’s exposure to fluctuations in the yield curves used in the calculation of fair value.

5.6 NET INCOME FROM HEDGING TRANSACTIONS

Headings	2011	2012
Fair value hedge		
Debt instruments (assets) hedged by derivatives	-703,781	-2,294,413
Debt issues hedged by derivatives	-114,384	222,453
Loans hedged by derivatives	2,483,073	-2,310,232
Deposits hedged by derivatives	44,970	-855,539
Total	**1,709,878**	**-5,237,731**
Value adjustment on hedged instruments	24,986,143	208,955,069
Value adjustment on hedging instruments	-23,276,265	-214,192,800
Total	**1,709,878**	**-5,237,731**

Market risk hedging operations are highly efficient.

5.7 OTHER NET OPERATING INCOME

Headings	2011	2012
Other operating income	19,600,916	6,420,002
Other operating expenditure	-1,087,937	-598,161
Other net operating income	**18,512,978**	**5,821,841**

"Other operating income and expenditure" mainly include:
- the rent from property rented and miscellaneous advances from tenants,
- VAT repayments relating to previous financial years,
- income on amortised loans.

5.8 PERSONNEL EXPENSES

Headings	2011	2012
Compensation	143,664,821	148,553,634
Social security charges	8,337,992	9,162,579
Pensions and similar expenses	11,360,752	11,721,857
Pension fund expense	8,698,060	7,563,478
Other personnel expenses	4,733,709	3,999,219
Total	**176,795,334**	**181,000,767**

5.9 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Headings	2011	2012
Expenses related to property and furniture	17,718,283	18,406,843
Rents and maintenance of software	15,215,872	16,105,856
Operating expenditure related to the banking business	22,428,120	22,649,514
Other	13,579,064	13,536,335
Total	**68,941,339**	**70,698,548**

5.10 DEPRECIATION ALLOWANCES FOR TANGIBLE ASSETS

- Depreciation

Headings	2011	2012
Depreciation - buildings	5,196,622	5,437,126
Depreciation - equipment and furniture	8,876,694	8,237,605
Depreciation of tangible assets	**14,073,316**	**13,674,731**

- Impairment

No impairment of tangible assets according to IAS 36 was recognised by the Group in 2011 or 2012.

5.11 DEPRECIATION ALLOWANCES FOR INTANGIBLE ASSETS

- Depreciation

Headings	2011	2012
Depreciation	12,120,075	13,075,541
Depreciation of intangible assets	**12,120,075**	**13,075,541**

- Impairment

No impairment of intangible assets according to IAS 36 was recognised by the Group in 2011 or 2012.

5.12 DEPRECIATION ALLOWANCES FOR INVESTMENT PROPERTIES

- Depreciation

Headings	2011	2012
Depreciation	548,822	546,282
Depreciation of tangible assets - investment	**548,822**	**546,282**

- Impairment

No impairment of investment properties according to IAS 36 was recognised by the Group in 2011 or 2012.

5.13 NET ALLOWANCES FOR IMPAIRMENT OF INDIVIDUAL AND COLLECTIVE CREDIT RISKS

- Collective impairment

			2011			2012
Collective impairment	Additions	Reversals	Total	Additions	Reversals	Total
Loans and advances	-717,460	48,519	-668,941	-2,531,788	43,428	-2,488,360
Total	**-717,460**	**48,519**	**-668,941**	**-2,531,788**	**43,428**	**-2,488,360**

- Individual impairment

			2011			2012
Individual impairment	Additions	Reversals	Total	Additions	Reversals	Total
Available-for-sale financial assets	-107,985,735	10,462,520	-97,523,216	-18,964,232	15,029,761	-3,934,471
Loans and advances	-11,127,329	21,707,954	10,580,624	-28,944,315	11,688,465	-17,255,850
Total	**-119,113,065**	**32,170,473**	**-86,942,592**	**-47,908,547**	**26,718,226**	**-21,190,321**

	2011	2012
Interest on impaired available-for-sale financial assets	6,907,426	6,987,336
Interest on impaired loans and advances	5,898,579	1,052,795
Total	**12,806,005**	**8,040,131**

5.14 PROVISIONS AND REVERSAL OF PROVISIONS

Headings	2011	2012
Provisions	-755,081	-2,763,151
Reversal of provisions	1,395,018	3,372,346
Net allowances for provisions	**639,937**	**609,195**

5.15 TAX EXPENSE

Headings	2011	2012
Tax on income from continuing operations	17,967,414	27,786,720
Deferred taxes	-16,563,624	15,911,611
Tax on profit/(loss) for the period	**1,403,790**	**43,698,331**

The standard tax rate applicable in Luxembourg was 28.80% as at 31 December 2012 and 31 December 2011. The Group's effective tax rate was 16.03% and 1.09% in 2012 and 2011, respectively, given the differences between the Luxembourg tax base and the accounting principles for consolidated financial statements under IFRS.

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

	2011	2012
Net income before tax	128,747,483	272,599,250
Tax rate	28.80%	28.80%
Theoretical tax at the standard rate	37,079,275	78,508,584
Tax impact of non-deductible expenses	144,480	1,801,467
Tax impact of non-taxable income	-12,914,624	-11,445,449
Share in the income of equity-accounted associates	-7,538,423	-3,342,640
Tax rebates and reductions	-12,150,392	-18,976,628
Tax refund/payment from previous financial years	-4,406,363	-3,748,948
Other	1,189,837	901,946
Tax on profit/(loss) for the period	**1,403,790**	**43,698,331**

As in 2011, the Group had the benefit of an investment tax allowance in respect of 2012, deducted at the line "Tax rebates and reductions".

Mireille HERRMANN-MATAGNE

6. FINANCIAL RISK MANAGEMENT [4]

6.1 GENERAL RULES FOR MANAGING FINANCIAL RISK

Traditionally, the Group has adopted a prudent and conservative risk management policy. The Group has stepped up its efforts in recent years to further harmonise control procedures and to move towards maximum transparency in management methodology.

6.1.1 Role of the Board of Directors

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

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

6.1.2 Role of the Executive Committee

The parent company's senior management sets the objectives for the commercial entities, the type of transactions to perform and the limits applicable to such transactions, as well as the organisation and internal control rules.

6.1.3 Responsibilities of the Risk Management Department

From an organisational point of view, management and control of risks is delegated to the Risk Management Department (risk analysis), a unit which operates independently from all commercial activities. It is responsible for:

- establishing a consistent framework to analyse financial risks, comprising the analysis itself and continuous monitoring of these risks,
- approving or rejecting applications from commercial business lines, and escalating cases to the Executive Committee that involve transactions above a limit set by the Executive Committee,
- monitoring compliance with limits (credit, market and trading) within which the commercial entities must operate.

There are two units in the Department:

- Risk Analysis and Monitoring (ASR): the unit is tasked with analysing and monitoring credit risk at individual and Group-wide portfolio exposure level.

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

- Risk Control: the unit is tasked with oversight of all trading room activities. The Risk Control unit's responsibilities include the administration and configuration of the systems used, risk modelling and assessment, monitoring of limits defined, and internal reporting of profits or losses. Risk Control reports to the parent company's Executive Committee via the Risk Management Department.

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 is the responsibility of the Compliance unit, which ensures in particular:

- compliance with anti-money laundering requirements through the use of a tool designed to detect suspect transactions,
- in general, compliance with the Bank's regulatory environment, delegating a number of elements to other departments, including Internal Audit,
- monitoring of customer complaints.

6.1.5 Internal Audit

Internal Audit performs regular and repeated audits of the Risk Management environment. During these audit missions, Internal Audit checks the appropriateness of procedures and their application by the Risk Management Department.

6.1.6 Systems for measuring and tracking limits

6.1.6.1 Market risk

Market risk is the risk of the Group suffering financial loss on the instruments it holds as a result of unfavourable developments in market parameters.

The Bank applies a set of methods to assess and monitor market risk:

- permanent calculation of the Basis Point Value (BPV) indicators for trading room positions exposed to interest rate risk. BPV is a simple and effective method of quantifying the market risk generated by small interest rate fluctuations for the positions held. Traders are required to always operate within the BPVs set by the Executive Committee of the parent and monitored by Risk Control.

- Value-at-risk (VaR) for trading book and banking book positions to determine the amounts at risk with respect to the positions held by the Bank. Risk amounts are subject to limits set by the parent company's Executive Committee and supervised by the Risk Control unit. VaR is a more sophisticated measurement tool than simpler indicators such as BPV, since it:
  - integrates correlations of changes in risk factors between positions held,
  - expresses the potential loss as a single amount that can be compared with the Bank's equity,
  - quantifies the probability of the occurrence of the loss,
  - performs stress-testing of positions held to assess the impact of unexpected market movements.

6.1.6.2 Credit risk

The Risk Management Department continuously monitors the quality of all debtors. This supervision is based on monitoring of each counterparty's internal rating and on a behavioural analysis of commitments. The Risk Management Department reports to the parent company's Executive Committee on a continuous basis on changes in the quality of debtors. In addition, the department conducts a quarterly analysis of the changes in credit quality with regard to the Bank's portfolios and submits the results to the parent company's Executive Committee.

The positions held by the trading room are continuously monitored in real time to ensure compliance with the credit limits set by the parent's Executive Committee.

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

6.1.6.3 Counterpart risk stemming from derivatives transactions

The Bank has negotiated International Swaps and Derivatives Association Inc. (ISDA) framework agreements including Credit Support Annexes (CSA) designed to limit counterparty risk on derivatives trades with a positive mark-to-market valuation. At end-2012, approximately 98% of derivatives transactions were covered by ISDA-CSA agreements.

6.1.6.4 Liquidity risk

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

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

The Bank conducted the stress tests required by circular CSSF 09/403 in 2012 on a quarterly basis. The results of the exercise confirmed that the Bank would have sufficient liquid assets to cope with unexpected large-scale withdrawals over an extended period.

In addition, BCEE has stable and diversified liabilities, notably in the form of a very solid customer deposit base and Euro Commercial Paper (ECP), US Commercial Paper (USCP) and Euro Medium Term Note (EMTN) refinancing programs, which ensure a comfortable liquidity position. Furthermore, due to its high-quality fixed-income securities portfolio, the Bank can obtain refinancing from the European Central Bank and in the repo market.

In the event of an urgent need for large amounts of liquidity, the Bank has an intraday and overnight credit line with the Luxembourg Central Bank (BCL) secured by pledges of public sector bonds or other fixed-income securities. The Bank keeps a portfolio of at least EUR 4 billion in fixed-income securities for use as collateral with the BCL. As at 31 December 2012, this portfolio amounted to EUR 4.218 billion. At year-end 2012, the volume of the portfolio of assets eligible for refinancing with the BCL or usable on the interbank market exceeded EUR 10 billion.

§ II.1 of CSSF Circular 07/301 "Risk identification" explicitly mentions the securitisation risk of which the credit institution is the originator or sponsor. Securitisation is a technique used to manage liquidity, since it allows a bank to remove assets from the balance sheet to raise funds. BCEE has not participated in such an operation as either an initiator or a sponsor and it is not likely to do so in the future.

BCEE has been an indirect member of the CLS (Continuous-Linked Settlement) foreign exchange transaction settlement system since 2009[5]. The overwhelming majority of foreign-exchange transactions are now handled by the CLS. Membership of this system virtually eliminates counterparty risk (settlement risk) arising from foreign-exchange transactions through the “payment-versus-payment” principle and reduces the Bank’s liquidity risk by netting transactions, which considerably reduces settlement volumes.

[5] *Continuous-Linked Settlement*

6.2 EXPOSURE TO CREDIT RISK

6.2.1 Objectives and management of credit risk

Each Bank commitment giving rise to a credit risk is subject to prior analysis by the Risk Analysis and Monitoring unit.

For loans granted to the domestic economy recognised in the balance sheet under "Loans and advances at amortised cost - Customers", the decision-making structure is hierarchically organised into a number of credit committees, depending on the customer's overall outstanding amount. From a specified threshold, cases must be ratified by the parent company's Executive Committee. The portfolio structure breaks down into residential mortgage loans for over half of the outstanding amount. Credit risk relating to residential mortgage loans is covered by the process of assessing customers' ability to repay loans and the existence of actual guarantees. The Bank follows rigorous procedures for analysing loan applications and obtaining the related collateral for corporate loans and advances, paying particular attention to compliance with sector and counterparty commitment limits. The Bank uses Basel II methodology to continuously monitor risk trends across all portfolios.

The Bank did not change its risk management policy in the 2012 financial year.

For interbank markets and international loans, contracts are recognised in the balance sheet under "Loans and advances at amortised cost - Credit institutions", "Loans and advances at amortised cost - Customers" and "Available-for-sale financial assets - Fixed-income securities", where a large majority of counterparties consist of banking and financial institutions. A set of quantitative and qualitative analyses is used to allocate an internal rating to a counterparty. The quantitative component is based on ratios that best describe the counterparty's profitability, capital strength, liquidity and the quality of its assets, while the qualitative component is based on the analyst's own assessment of non-financial factors such as market share, quality of management and external ratings. The Bank pursued its prudent investment policy in 2012, resulting in:

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

With regard to international loans to non-financial entities recognised in the balance sheet under "Loans and advances at amortised cost - Customers" and "Available-for-sale financial assets - Fixed-income securities", priority is given to

commitments in OECD countries classified as at least Investment Grade. Like all the Bank's other counterparties, these are assigned an internal rating based on rules similar to those applied to banks and financial institutions.

Outstanding amounts are subject to counterparty risk monitoring and to regular checks based on updated financial analyses and proposed adjustments to limits per counterparty. The Bank also applies a country limit system for countries rated under AA-, which are periodically reviewed.

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

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

6.2.2 Credit and concentration risk

Concentration risk is the risk resulting from an excessive exposure with regard to one single debtor, a group of debtors, an economic sector or a country. To avoid this risk, the Bank has implemented a set of procedures to efficiently manage the limits set. Concentration risk can be measured either from the commitment point of view or from the point of view of the Bank's resources. In the latter case, the risk is correlated with liquidity risk.

The Bank reviews the limits that impact on the components of concentration risk at least once every six months.

It has therefore invested in appropriate risk management tools in line with the range of risk profiles and different financing techniques.

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

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

Maximum exposure to credit risk	31/12/2011	31/12/2012
Cash and cash balances with central banks	2,459,527,085	1,291,679,360
Loans and advances at amortised cost – Credit institutions	5,858,242,107	7,094,564,634
Loans and advances at amortised cost – Customers	16,594,034,238	16,716,489,554
Financial instruments held for trading	235,341,022	85,646,698
Hedging derivatives	149,193,054	67,139,194
Available-for-sale securities – Fixed-income securities	8,438,492,520	8,443,341,261
Held-to-maturity securities	4,644,327,498	5,315,888,143
Exposure of balance sheet commitments	**38,379,157,524**	**39,014,748,844**
Completion bonds	483,517,832	329,532,103
Letters of credit	46,382,189	45,471,770
Counter-guarantees	397,008,018	367,457,509
Documentary credits	28,699,076	21,133,731
Other	90,032,148	20,073,373
Undrawn confirmed credits	2,993,330,685	3,490,670,921
Exposure of off-balance sheet commitments	**4,038,969,948**	**4,274,339,406**
Total exposure	**42,418,127,472**	**43,289,088,250**

The Bank uses the following standard techniques to mitigate credit risk:

- collateral

Breakdown by type of collateral	2011	2012
Mortgages	9,343,055,020	10,112,632,300
Reverse repurchase agreements	4,622,600,066	3,510,732,430
Pledge through cash or securities deposits	590,996,807	574,591,963

- personal guarantees: these stood at EUR 140,544,946 at year-end 2012, compared with EUR 240,866,566 one year earlier,
- ISDA – CSA contracts,
- Global Master Repurchase Agreements (GMRA).

6.2.3 Analysis of credit risk relating to financial assets

Pursuant to IFRS, the Group assess its exposure to financial asset credit risk as the carrying amount.

To meet the requirements of IFRS 7 "Financial instruments: Disclosures", exposure to credit risk as at 31 December 2012 is presented according to internal ratings.

In the section "Quantitative disclosures of exposure and concentration", credit risk exposure is entered as the carrying amount before collateralisation. The application of a collateralisation ratio is a technique to reduce the risk of the underlying asset.

Credit risk is shown according to the following exposures:

- geography,
- counterparty category,
- risk class (internal ratings).

Maryse MARTIN

Exposures by geographical area:

Geographical area as at 31/12/2012 (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	1,289,280	24	2,066	278	-	31	1,291,679
Loans and advances at amortised cost	23,488,074	108,469	36,955	172,522	6	5,029	23,811,054
Financial instruments held for trading and hedging derivative instruments	144,214	40	4,855	3,580	-	97	152,786
Available-for-sale securities	7,880,405	57,031	697,020	657,037	341,805	569	9,633,865
Held-to-maturity securities	4,793,431	2,105	262,543	98,330	159,480	-	5,315,888
Other	288,038	-	67	-	-	-	288,105
Total	**37,883,442**	**167,668**	**1,003,504**	**931,746**	**501,291**	**5,726**	**40,493,378**

Geographical area as at 31/12/2011 (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	2,459,527	-	-	-	-	-	2,459,527
Loans and advances at amortised cost	22,273,913	7,065	24,907	106,409	11	39,969	22,452,276
Financial instruments held for trading and hedging derivative instruments	373,103	-	9,834	1,451	-	145	384,534
Available-for-sale securities	8,008,453	47,624	697,504	523,321	218,299	17,426	9,512,627
Held-to-maturity securities	4,216,372	-	107,947	193,072	126,934	-	4,644,328
Other	288,042	-	82	-	-	-	288,124
Total	**37,619,411**	**54,690**	**840,275**	**824,255**	**345,244**	**57,541**	**39,741,416**

Exposures by counterparty category and by risk classification:

	2011			2012		
	Outstanding amount excluding impairment	Outstanding amount including impairment	Average collateralisation ratio	Outstanding amount excluding impairment	Outstanding amount including impairment	Average collateralisation ratio
Cash and cash balances with central banks						
High grade	2,459,527,085	2,459,527,085	-	896,441,592	896,441,592	-
Standard grade	-	-	-	395,237,768	395,237,768	99.73%
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories		**2,459,527,085**			**1,291,679,360**	
Loans and advances at amortised cost						
Banks						
High grade	4,316,468,525	4,316,468,525	39.70%	5,399,689,250	5,399,689,250	23.40%
Standard grade	734,230,760	734,230,760	53.23%	1,658,242,897	1,658,242,897	54.59%
Sub-standard grade	2,924,376	2,924,376	-	3,751,697	3,751,697	-
Past due but not impaired	-	-	-	-	-	-
Impaired	466,381	-	-	566,107	49,917	-
Not rated	7,874	7,874	-	224,295	224,295	-
Corporates						
High grade	1,352,657,437	1,352,657,437	68.30%	1,720,765,795	1,720,765,795	54.77%
Standard grade	1,816,470,651	1,816,470,651	70.85%	1,729,494,656	1,729,494,656	71.11%
Sub-standard grade	640,154,618	640,154,618	37.66%	750,383,373	750,383,373	40.11%
Past due but not impaired	8,321,168	8,321,168	37.66%	4,247,821	4,247,821	-
Impaired	61,248,348	24,637,424	32.52%	96,569,317	44,315,959	55.92%
Not rated	92,320,520	92,320,520	21.25%	279,450,405	279,450,405	50.97%
Sovereigns						
High grade	3,614,947,816	3,614,947,816	26.30%	2,171,461,815	2,171,461,815	0.03%
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	4,420,549	4,420,549	-
Impaired	-	-	-	2,065,640	748,241	-
Not rated	5	5	-	8,544	8,544	-

	2011			2012		
	Outstanding amount excluding impairment	Outstanding amount including impairment	Average collateralisation ratio	Outstanding amount excluding impairment	Outstanding amount including impairment	Average collateralisation ratio
Retail						
High grade	4,769,966,269	4,769,966,269	89.18%	4,736,494,221	4,736,494,221	88.29%
Standard grade	4,208,844,527	4,208,844,527	94.97%	4,561,110,371	4,561,110,371	93.95%
Sub-standard grade	724,441,242	724,441,242	93.38%	610,302,883	610,302,883	91.77%
Past due but not impaired	7,520,447	7,520,447	93.38%	4,426,694	4,426,694	-
Impaired	120,659,500	105,314,950	89.48%	138,631,135	122,972,000	86.05%
Not rated	-	-	-	8,492,803	8,492,803	15.95%
Other						
High grade	-	-	-	-	-	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	33,047,736	33,047,736	-	-	-	-
Total of categories		**22,452,276,345**			**23,811,054,185**	
Financial instruments held for trading and derivative hedging instruments						
Banks						
High grade	274,946,056	274,946,056	41.00%	85,942,824	85,942,824	-
Standard grade	27,308,338	27,308,338	20.09%	37,927,179	37,927,179	39.88%
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	10,882	10,882	-	-	-	-
Corporates						
High grade	45,291,235	45,291,235	-	265,450	265,450	-
Standard grade	23,904,354	23,904,354	-	22,285,066	22,285,066	-
Sub-standard grade	1,666,730	1,666,730	-	2,089,349	2,089,349	-
Past due but not impaired	-	-	-	-	-	-
Impaired	299,154	299,154	-	348,661	348,661	-
Not rated	9,030,584	9,030,584	-	2,027,161	2,027,161	-

	2011			2012		
	Outstanding amount excluding impairment	Outstanding amount including impairment	Average collateralisation ratio	Outstanding amount excluding impairment	Outstanding amount including impairment	Average collateralisation ratio
Sovereigns						
High grade	1,816,022	1,816,022	-	1,750,547	1,750,547	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	1,347	1,347	-	1,347	1,347	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Retail						
High grade	152,646	152,646	-	132,914	132,914	-
Standard grade	106,728	106,728	-	15,390	15,390	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories		**384,534,075**			**152,785,888**	
Available-for-sale securities						
Banks						
High grade	3,493,832,048	3,493,832,048	-	3,466,841,875	3,466,841,875	-
Standard grade	867,647,712	867,647,712	-	801,395,634	801,395,634	-
Sub-standard grade	71,092,406	71,092,406	-	32,392,240	32,392,240	-
Past due but not impaired	-	-	-	-	-	-
Impaired	24,140,825	6,259,530	-	12,513,695	1,313,695	-
Not rated	-	-	-	-	-	-
Corporates						
High grade	266,808,942	266,808,942	-	679,224,024	679,224,024	-
Standard grade	1,581,262,246	1,581,262,246	-	2,030,600,544	2,030,600,544	-
Sub-standard grade	32,993,736	32,993,736	-	26,909,536	26,909,536	-
Past due but not impaired	-	-	-	-	-	-
Impaired	11,882,128	857,391	-	12,048,222	200,534	-
Not rated	120,450,989	120,450,989	-	134,419,846	134,419,846	-

	2011			2012		
	Outstanding amount excluding impairment	Outstanding amount including impairment	Average collateralisation ratio	Outstanding amount excluding impairment	Outstanding amount including impairment	Average collateralisation ratio
Sovereigns						
High grade	1,145,357,869	1,145,357,869	-	621,155,310	621,155,310	-
Standard grade	1,215,637,665	1,215,637,665	-	1,221,442,256	1,221,442,256	-
Sub-standard grade	169,451,430	169,451,430	-	192,459,551	192,459,551	-
Past due but not impaired	-	-	-	-	-	-
Impaired	132,260,533	32,871,549	-	-	-	-
Not rated	-	-	-	-	-	-
Securitisation						
High grade	413,543,502	413,543,502	-	255,267,996	255,267,996	-
Standard grade	63,966,567	63,966,567	-	133,759,649	133,759,649	-
Sub-standard grade	10,949,541	10,949,541	-	65,502,957	65,502,957	-
Past due but not impaired	-	-	-	-	-	-
Impaired	54,388,510	14,765,003	-	9,838,599	-34,335,941	-
Not rated	-	-	-	5,000,803	5,000,803	-
Other						
High grade	4,879,065	4,879,065	-	314,859	314,859	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories		**9,512,627,193**			**9,633,865,370**	
Held-to-maturity securities						
Banks						
High grade	3,312,155,662	3,312,155,662	-	2,833,671,371	2,833,671,371	-
Standard grade	574,042,201	574,042,201	-	1,044,284,308	1,044,284,308	-
Sub-standard grade	64,803,558	64,803,558	-	41,137,055	41,137,055	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-

	2011			2012		
	Outstanding amount excluding impairment	Outstanding amount including impairment	Average collateralisation ratio	Outstanding amount excluding impairment	Outstanding amount including impairment	Average collateralisation ratio
Corporates						
High grade	4,358,613	4,358,613	-	665,757,835	665,757,835	-
Standard grade	-	-	-	320,682,756	320,682,756	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Sovereigns						
High grade	639,274,988	639,274,988	-	390,237,695	390,237,695	-
Standard grade	-	-	-	5,006,276	5,006,276	-
Sub-standard grade	49,692,476	49,692,476	-	15,110,850	15,110,850	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total of categories		**4,644,327,498**			**5,315,888,145**	
Non-financial assets (*)	**288,123,603**	**288,123,603**	**-**	**288,104,677**	**288,104,677**	**-**
Total of categories		**288,123,603**			**288,104,677**	
Total		**39,741,415,801**			**40,493,377,632**	

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

The Group enters the amortised cost items where the contractual payment maturity is past due by 1 to 90 days on the line "Past due but not impaired" under "Loans and advances at amortised cost" for Retail and Corporate customers. Beyond this limit, an impairment is recognised if the Bank considers 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 individual impairments.

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

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

Banks, Corporates and Sovereigns:

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

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

Securitisation:

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

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

6.3 MARKET RISK

6.3.1 Determination of risk exposure

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

6.3.2 Objectives and management of risk

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

Mismatch risk is handled by the ALM (Asset Liability Management) Committee. The Committee ensures that the Bank's equity capital and invested funds are appropriately managed, and that its national and international loan portfolios and proprietary bond and equity portfolios are refinanced in such a way as to minimise the negative impact of yield curve movements on the Bank's performance. The ALM Committee comprises the members of the Bank's Executive Committee and a number of senior vice presidents.

All components of market risk, such as interest rate risk, foreign exchange risk and share price risk affecting the ALM positions, treasury positions or trading positions in on- and off-balance sheet instruments, are centralised in real time in the trading room's front-office system and are managed within the limits set by the Bank's Executive Committee. The Risk Control unit, which operates independently of the trading room, is responsible for regular reporting on compliance with the limits and the levels of risk incurred to the Executive Committee.

The Bank did not change its market risk management policy in the 2012 financial year.

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

Scope	Average daily VaR in 2012	Maximum daily VaR in 2012	VaR limit for the scope in question in 2012
ALM	6.26	7.40	12.50
Treasury	0.53	0.88	3.00
Trading	0.10	0.50	No limit

In addition to VaR, which is used for the aggregate management of the different types of market risk, the Bank uses other risk management tools depending on the characteristics of the financial instruments concerned. Accordingly, interest rate risk is managed by simulating the impact of a parallel one basis point (0.01%) change in the yield curve on the net present value (NPV) of each position. Daily reports show the change arising from a parallel one basis point shift in all yield curves, also known as basis point value (BPV), which must stay within pre-set limits. Likewise, foreign exchange risk and equity risk are managed by placing limits on individual positions and stop-loss orders.

6.3.3 Analysis of the value of financial instruments

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

Categories as at 31/12/2012	Carrying amount	Fair value	Unrealised valuation
Financial assets			
Cash and cash balances with central banks	1,291,679,360	1,291,679,360	-
Loans and advances at amortised cost – Credit institutions	7,094,564,634	7,094,564,634	-
Loans and advances at amortised cost – Customers	16,716,489,554	18,158,090,651	1,441,601,097
Financial instruments held for trading	85,646,698	85,646,698	-
Hedging derivatives	67,139,194	67,139,194	-
Available-for-sale securities – Fixed-income securities	8,443,341,261	8,443,341,261	-
Available-for-sale securities – Variable-income securities	910,278,050	910,278,050	-
Held-to-maturity securities	5,315,888,143	5,432,318,760	116,430,617
TOTAL	**39,925,026,894**	**41,483,058,608**	**1,558,031,714**
Financial liabilities			
Deposits at amortised cost – Credit institutions	3,786,193,933	3,786,193,933	-
Deposits at amortised cost – Private customers and public sector	24,473,545,033	24,324,629,518	-148,915,515
Financial instruments held for trading	324,581,083	324,581,083	-
Hedging derivatives	822,908,804	822,908,804	-
Debt securities in issue	7,385,930,607	7,385,930,607	-
TOTAL	**36,793,159,460**	**36,644,243,945**	**-148,915,515**

Categories as at 31/12/2011	Carrying amount	Fair value	Unrealised valuation
Financial assets			
Cash and cash balances with central banks	2,459,527,085	2,459,527,085	-
Loans and advances at amortised cost – Credit institutions	5,858,242,107	5,858,242,107	-
Loans and advances at amortised cost – Customers	16,594,034,238	17,156,430,350	562,396,112
Financial instruments held for trading	235,341,022	235,341,022	-
Hedging derivatives	149,193,054	149,193,054	-
Available-for-sale securities – Fixed-income securities	8,438,492,520	8,438,492,520	-
Available-for-sale securities – Variable-income securities	788,561,055	788,561,055	-
Held-to-maturity securities	4,644,327,498	4,697,333,729	53,006,231
TOTAL	**39,167,718,579**	**39,783,120,922**	**615,402,343**
Financial liabilities			
Deposits at amortised cost – Credit institutions	4,255,615,701	4,255,615,701	-
Deposits at amortised cost – Private customers and public sector	24,324,263,715	24,336,532,613	12,268,898
Financial instruments held for trading	150,587,688	150,587,688	-
Hedging derivatives	713,548,684	713,548,684	-
Debt securities in issue	7,277,048,463	7,277,048,463	-
TOTAL	**36,721,064,251**	**36,733,333,149**	**12,268,898**

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

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

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

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

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

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

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

The fixed-income securities included in the held-to-maturity portfolio are sovereign bonds or supranational bonds quoted on an active market.

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

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

Hierarchy of assets and liabilities at fair value

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

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

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

- Level 1 fair value: Level 1 inputs are essentially quoted prices in active markets for identical financial instruments. This level includes equity securities and debt instruments listed on stock exchanges, as well as derivative instruments traded on a regulated market.
- Level 2 fair value: Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the financial instruments, either directly or indirectly, i.e. derived from observable prices, such as implied volatilities of a share derived from observable prices of option contracts on this share. This level includes the majority of over-the-counter derivative instruments and structured debt securities issued. These inputs, such as “EURIBOR” yield curves or credit spreads, are initially provided by specialised financial data providers.
- Level 3 fair value: Level 3 inputs are mainly unobservable inputs for the asset or liability on a market. This level includes equity instruments or debt securities for which significant parameters used in the valuation models are based on internal estimations and assumptions.

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

Observable market data include:

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

Assets and liabilities at fair value:

Categories as at 31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
- Debt instruments	2,618,237	-	-	2,618,237
- Equity instruments	186,718	-	-	186,718
- Derivative instruments	-	82,841,740	-	82,841,740
Available-for-sale financial assets				
- Debt instruments	6,221,483,900	2,047,752,419	174,104,938	8,443,341,257
- Equity instruments	794,578,921	39,545,163	356,400,028	1,190,524,112
Hedging derivatives	195,007	66,944,187	-	67,139,194
TOTAL	**7,019,062,783**	**2,237,083,509**	**530,504,966**	**9,786,651,258**
Financial liabilities				
Financial instruments held for trading	5,212	-	-	5,212
Derivative financial instruments held for trading	-	324,575,871	-	324,575,871
Debt securities in issue	-	1,212,810,645	-	1,212,810,645
Hedging derivatives	413,391,215	409,517,590	-	822,908,805
TOTAL	**413,396,427**	**1,946,904,105**	**-**	**2,360,300,532**

Categories as at 31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
- Debt instruments	7,009,553	-	-	7,009,553
- Equity instruments	501	-	-	501
- Derivative instruments	-	228,330,968	-	228,330,968
Available-for-sale financial assets				
- Debt instruments	5,932,831,987	2,211,343,640	294,316,893	8,438,492,520
- Equity instruments	658,417,691	187,141,258	228,575,725	1,074,134,674
Hedging derivatives	2,760,297	144,330,204	2,102,553	149,193,054
TOTAL	**6,601,020,030**	**2,771,146,069**	**524,995,171**	**9,897,161,270**
Financial liabilities				
Financial instruments held for trading	1,010,530	-	-	1,010,530
Derivative financial instruments held for trading	-	149,577,157	-	149,577,157
Debt securities in issue	-	1,608,611,926	77,406,051	1,686,017,977
Hedging derivatives	337,461,932	375,852,051	234,702	713,548,684
TOTAL	**338,472,462**	**2,134,041,134**	**77,640,753**	**2,550,154,349**

The changes between the levels of financial assets in the table above stem in the main from an increase in carrying amount following the recovery in the financial markets during 2012. A comparison of the breakdown of financial assets across the various levels between end-2012 and end-2011 reveals no significant change: 71.7% of financial assets are classed as Level 1 (versus 66.7% in 2011), 22.9% as Level 2 (vs. 24.0% in 2011) and 5.4% as Level 3 (vs. 5.3% in 2011).

The situation for financial liabilities contrasts with financial assets however, following the introduction of a new measurement tool for the Bank's own issues in 2011. Indeed, the use of this tool led to an increase in the percentage of financial liabilities classified as Levels 1 and 2, from 97.0% in 2011 to 100.0% in 2012. The fair value of all the Bank's issues is determined through this measurement tool.

The Bank used measurement models based on market data to calculate the fair value of Level 2 positions and measurement models based on estimates and market data to calculate the value of Level 3 positions. The most significant derecognitions from Levels 2 and 3 were recorded on debt instruments such as asset backed securities (ABS) and mortgage backed securities (MBS) following their repayment and markets becoming active once again. On the other hand, the most significant reclassifications of equity instruments from Level 2 to Level 3 related to unlisted equity interests for which the absence of transactions during 2012 meant that it was not possible to determine a reliable Level 1 or 2 fair value measurement.

Level 3 breakdown:

	Available-for-sale financial assets			Total financial assets	Financial liabilities		Total financial liabilities
	Dept instruments	Equity instruments	Hedging derivatives		Dept securities in issue	Hedging derivatives	
Total as at 1 January 2012	**294,316,893**	**228,575,725**	**2,102,553**	**524,995,170**	**77,406,051**	**234,702**	**77,640,753**
Total gains / losses	37,032,270	96,094,849	-2,102,553	**131,024,566**	16,053	-234,702	**-218,649**
- Income statement	*-7,638,186*	*948,525*	*-2,102,553*	***-8,792,214***	*16,053*	*-234,702*	***-218,649***
- Revaluation reserve	*44,670,456*	*95,146,324*	-	***139,816,780***	-	-	**-**
Purchases	20,632,844	-	-	**20,632,844**	-	-	**-**
Issues	-	-	-	**-**	-	-	**-**
Reimbursements/sales	-62,646,946	-191,536	-	**-62,838,482**	-65,438,880	-	**-65,438,880**
Transfers from or to Level 3	-115,230,123	31,920,990	-	**-83,309,133**	-11,983,223	-	**-11,983,223**
Total as at 31 December 2012	**174,104,938**	**356,400,028**	**-**	**530,504,965**	**-**	**-**	**-**
Total gains / losses for the period included in the income statement for financial assets and liabilities held as at 31 December 2012	-7,638,186	948,525	-2,102,553	**-8,792,214**	16,053	-234,702	**-218,649**

	Available-for-sale financial assets			Total financial assets	Financial liabilities		Total financial liabilities
	Dept instruments	Equity instruments	Hedging derivatives		Dept securities in issue	Hedging derivatives	
Total as at 1 January 2011	**364,767,961**	**275,936,639**	**1,122,841**	**641,827,441**	**360,684,168**	**204,557**	**360,888,725**
Total gains / losses	-72,534,641	-11,490,458	979,712	**-83,045,387**	-1,210,787	30,145	**-1,180,642**
- Income statement	*-49,941,127*	*-11,024,737*	*979,712*	***-59,986,152***	*-1,210,787*	*30,145*	***-1,180,642***
- Revaluation reserve	*-22,593,514*	*-465,721*	-	***-23,059,235***	-	-	**-**
Purchases	19,655,280	7,737,894	-	**27,393,174**	-	-	**-**
Issues	-	-	-	**-**	5,043,750	-	**5,043,750**
Reimbursements/sales	-64,936,765	-21,234,767	-	**-86,171,533**	-103,553,594	-	**-103,553,594**
Transfers from or to Level 3	47,365,058	-22,373,583	-	**24,991,475**	-183,557,486	-	**-183,557,486**
Total as at 31 December 2011	**294,316,893**	**228,575,725**	**2,102,553**	**524,995,170**	**77,406,051**	**234,702**	**77,640,753**
Total gains / losses for the period included in the income statement for financial assets and liabilities held as at 31 December 2011	3,994,365	-1,166,014	979,712	**3,808,063**	-733,941	-30,145	**-764,086**

The Bank performs stress tests for the different categories of financial instruments, although without specifically focusing on Level 3 instruments. The results of these stress tests are reported monthly to the Bank's senior management. A sensitivity analysis of the assumptions used for the measurement of financial instruments classified in Level 3 would have a significant impact on the fair value of these Level 3 financial instruments; however they represent only 5.3% of the total volume of financial assets. Note that the total volume of Level 3 financial liabilities measured at fair value fell from 3% in 2011 to 0% in 2012.

In view of these low percentages of the total volume of financial assets and considering that it does not make sense to effect a change in the straight-line assumptions for instruments with heterogeneous characteristics, the Bank did not conduct such a specific sensitivity analysis for Level 3 instruments

6.3.4 Analysis of foreign exchange risk: Net currency positions

As at 31/12/2012	USD	GBP	ZAR	CAD	AUD	NZD	Other	Total
Net balance sheet position	36,122,114	-13,350,051	-13,734,815	3,664,439	2,921,923	-2,797,758	-3,190,859	**9,634,993**

As at 31/12/2011	USD	GBP	ZAR	CAD	CHF	Other	Total
Net balance sheet position	25,628,232	-8,093,760	-12,325,582	-2,083,415	9,270,093	3,399,302	**15,794,869**

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

6.4 LIQUIDITY RISK

6.4.1 Schedule of liabilities

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

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

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2012
Debt securities in issue	4,010,418,881	2,251,333,274	**6,261,752,155**	859,099,606	360,396,092	**1,219,495,698**	**7,481,247,853**
Deposits at amortised cost - Credit institutions	3,763,329,291	23,200,678	**3,786,529,969**	-	-	**-**	**3,786,529,969**
Deposits at amortised cost - Customers and Public Sector	21,737,506,049	1,917,085,900	**23,654,591,948**	858,941,612	717,457	**859,659,069**	**24,514,251,017**
Total	**29,511,254,221**	**4,191,619,852**	**33,702,874,072**	**1,718,041,218**	**361,113,549**	**2,079,154,767**	**35,782,028,839**

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2011
Debt securities in issue	4,686,330,198	759,056,502	**5,445,386,700**	1,367,348,047	502,142,573	**1,869,490,620**	**7,314,877,320**
Deposits at amortised cost - Credit institutions	3,699,509,935	463,608,916	**4,163,118,851**	95,074,739	-	**95,074,739**	**4,258,193,590**
Deposits at amortised cost - Customers and Public Sector	21,320,806,035	2,591,983,964	**23,912,789,999**	386,851,210	37,613,593	424,464,803	**24,337,254,802**
Total	**29,706,646,168**	**3,814,649,382**	**33,521,295,550**	**1,849,273,996**	**539,756,166**	**2,389,030,162**	**35,910,325,712**

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

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2012
Deposits at amortised cost - Customers and Public Sector	9,461,470,342	4,540,094,176	**14,001,564,518**	6,430,534,885	4,152,547,746	**10,583,082,630**	**24,584,647,148**

Headings	On demand - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2011
Deposits at amortised cost - Customers and Public Sector	9,749,071,237	4,570,284,735	**14,319,355,972**	5,724,851,379	4,291,456,737	**10,016,308,116**	**24,335,664,088**

6.4.2 Schedule of derivative instruments

Table showing derivative instruments settled in gross cash flows

In view of the fact that residual life is calculated on the basis of contractual data, the optional feature of some contracts has not been taken into account.

Amounts are shown in euros at the exchange rates on 31 December 2012 and 31 December 2011.

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2012
Derivative instruments held for trading					
Foreign exchange swaps and forward exchange contracts					
Inflows	6,439,938,815	1,944,941,900	1,305,236	-	**8,386,185,951**
Outflows	-6,509,563,406	-1,949,846,077	-1,300,000	-	**-8,460,709,483**
Hedging derivatives					
CCIS					
Inflows	32,744,769	818,225,163	440,621,914	116,639,867	**1,408,231,713**
Outflows	-36,606,395	-828,116,030	-468,659,016	-97,118,000	**-1,430,499,442**
Total inflows	**6,472,683,584**	**2,763,167,063**	**441,927,150**	**116,639,867**	**9,794,417,665**
Total outflows	**-6,546,169,801**	**-2,777,962,107**	**-469,959,016**	**-97,118,000**	**-9,891,208,925**

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2011
Derivative instruments held for trading					
Foreign exchange swaps and forward exchange contracts					
Inflows	7,990,433,640	845,875,106	102,080,341	-	**8,938,389,087**
Outflows	-7,849,203,726	-829,598,763	-98,172,512	-	**-8,776,975,001**
Hedging derivatives					
CCIS					
Inflows	15,750,004	185,323,657	400,044,366	194,117,697	**795,235,724**
Outflows	-20,696,754	-215,245,671	-477,753,658	-174,983,426	**-888,679,509**
Total inflows	**8,006,183,644**	**1,031,198,763**	**502,124,707**	**194,117,697**	**9,733,624,811**
Total outflows	**-7,869,900,480**	**-1,044,844,434**	**-575,926,170**	**-174,983,426**	**-9,665,654,510**

Table showing derivative instruments settled in net cash flows

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

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2012
Derivative instruments held for trading					
IRS	11,264,938	20,793,048	100,351,847	102,294,303	**234,704,137**
Hedging derivatives					
IRS	77,811,804	120,927,321	501,593,006	180,418,238	**880,750,369**
Total outflows	**89,076,742**	**141,720,369**	**601,944,853**	**282,712,542**	**1,115,454,505**

Headings	On demand - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2011
Derivative instruments held for trading					
IRS	9,251,803	27,885,541	210,396,312	140,684,066	**388,217,721**
Hedging derivatives					
IRS	50,297,870	51,107,755	251,806,125	45,302,382	**398,514,132**
Total outflows	**59,549,673**	**78,993,296**	**462,202,437**	**185,986,448**	**786,731,853**

The significant increase in cash flows from derivative instruments held for trading stems primarily from a return to normal levels of activity after the reclassification of IRS initially classified as hedging derivatives to the held-for-trading category, following the sale of positions held in a European sovereign state and the impairment of positions held in another sovereign.

6.5 ECONOMIC CAPITAL

The Group has embarked on a process of measuring economic risk and planning and assigning its equity resources to its business lines.

This process and associated work is formally drawn up and reported to the CSSF in the Bank's ICAAP report. CSSF Circular 07/301 (as amended), "Implementation of the Internal Capital Adequacy Assessment Process (ICAAP)" provides for "a system of sound, effective and complete strategies and processes allowing credit institutions to assess and maintain, on an ongoing basis, the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of risks to which they are or might be exposed".

The ICAAP document describes the identification of and framework for managing the risks to which the Group is exposed, either under Basel Pillar 1 or other risks (liquidity, profitability, etc.).

The methods used for the economic quantification of the risks are based on adjustments and supplements to regulatory methods, as well as on measuring non-Pillar 1 risks.

The Group's capital management policy meets the objectives of the mission defined in the Bank's constitutional law, namely "to contribute to the development of the Luxembourg economy". Accordingly, the Group aims to retain moderate leverage, which is reflected in a high target capitalisation ratio. Moreover, business within the domestic market is given priority in the allocation of capital resources.

6.5.1 Capital management policy

6.5.1.1 Determining equity capital

The Group’s objective is to contribute to the development of Luxembourg’s economy and to generate enough profit to strengthen its financial position.

In the framework of its economic capital model, the Group determines capital according to an economic capital approach, as opposed to its regulatory capital requirement. The Bank's basic principle for economic capital is based on a very prudent approach which consists of considering only the funds immediately available to the Group without restriction as economic capital to cover potential losses or to grow its business.

6.5.1.2 Implementation of internal capital adequacy policy process

The Group has adopted the following methodology to implement its internal capital adequacy policy:

- Development of an internal risk assessment model (Basel II Pillar1 risks plus non-Pillar 1 risks);
- Determination of a substantial safety margin between available capital and risk hedging, reflected in a high target capitalisation ratio. Note that throughout 2012, the Bank complied with the regulatory capital requirements of Basel II Pillar 1;
- Distribution of capital according to the Group's internal organisation and its projected results;
- Risk exposure forecasts by business;
- Calculation of the projected capital requirements to cover the Bank's risks;
- When the minimum ratio requirements are fulfilled, allocation of the surplus capital according to the Group’s strategic guidelines.

In terms of internal governance, the 2012 ICAAP report was submitted to the Board of Directors of the parent company, which approved the Group's ICAAP guidelines. In accordance with the ICAAP circular, authorised management will report to the Board of Directors at least annually, and more frequently as needed or in the case of a major change in methodology.

The parent company views economic capital as constituting non-redeemable funds in the medium or long term covering the parent's overall risk profile and thus it remains consistent, even if all risks are measured over a one-year horizon.

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

The volatility of the revaluation reserve is related to the materialisation of risks included in ICAAP measures: credit risk on debt instruments and market risk on the equity banking book.

Future income is already considered to reduce profitability risks.

The Group therefore considers that its economic capital encompasses its entire regulatory capital, including the revaluation reserve. The parent complied with the minimum capital requirements set out in CSSF circular 06/273 as amended throughout the period ended on 31 December 2012.

Olivier LUDIG

7. Segment reporting

In accordance with IFRS 8, segment reporting is presented in line with the Group's internal organisation and its internal reporting system (management approach).

7.1 BUSINESS SEGMENTS

The Group's operations are organised into significant segments with similar profitability and risk characteristics, representing coherent product groups aimed at the same type of customers and counterparties. The businesses defined in this way are managed separately and are grouped into specific business lines in the Group's organisational chart. The segments are:

- Retail, Professional, Corporate and Public Sector Banking: business line including deposits, loans, advisory and transactions activities for this customer base, excluding activities directly handled by the trading room. From an organisational point of view, these activities fall within the remit of the Retail and Private Banking and Corporate Banking departments.

- Financial Markets and Investment Funds: activities relating to Treasury, Trading, Asset and Liability Management, Customer Desk, Mutual fund administration and management. From an organisational point of view, these activities fall within the remit of the Financial Markets and Investment Funds departments.

- Other: includes all back-office and support activities, revenues from investments and costs not allocated to a specific business on a reasonable basis.

The results of these business segments include inter-entity transactions, which are valued by reference to a market price for transactions relating to financing and lending between businesses. Back-office services are also valued according to a market price, where available.

The difference between the sum of the figures for the segments and the Group’s overall consolidated financial statements stems from the following items:

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

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

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

In 2012, the margin difference was below the Group’s materiality limit.

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

- Assets and liabilities are valued according to IFRS rules which are valid for global reporting.

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

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

7.2 GEOGRAPHICAL SEGMENTS

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

7.3 INFORMATION ON PRODUCTS AND SERVICES

The Group's Net Banking Income breaks down between the following main products:

- deposits from private customers, business customers, corporates and the public sector;
- loans and advances to private customers, business customers, corporates and the public sector;
- other products for private customers, business customers, corporates and the public sector;
- other products.

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

7.4 INFORMATION ON MAJOR CUSTOMERS

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

Thousands of euros 31/12/2012	Retail, Professional, Corporate and Public Sector Banking	Financial Markets and Investment Funds	Others	Reconciliation	Total
Interest income	225,910	183,167	32,077	-1,815	439,339
Income from variable-income securities	-	12,503	20,094	-	32,597
Fee and commission income	30,760	18,813	54,807	-	104,380
External commission	*65,243*	*34,946*	*4,191*	-	*104,380*
Internal commission	*-34,483*	*-16,133*	*50,616*	-	-
Income from financial instruments and foreign exchange	3,362	-24,585	1,074	-	-20,150
Net Banking Income	**260,033**	**189,897**	**108,053**	**-1,816**	**556,167**
Other operating income and expenditure	-	437	5,384	-	5,822
Banking income	**260,033**	**190,335**	**113,437**	**-1,816**	**561,989**
General administrative expenses and depreciation allowances for intangible and tangible assets	-158,108	-27,791	-93,096	-	-278,996
Net allowances for impairment	-20,952	-5,591	3,474		-23,069
Other	-	-	1,069	-	1,069
Income before taxes	**80,973**	**156,952**	**24,884**	**-1,816**	**260,993**
Taxes on income for the period and deferred taxes	-	-	-43,698	-	-43,698
Minority interests / income from associates	-	-1,161	11,366	-	10,205
Net income	**80,973**	**155,791**	**-7,447**	**-1,816**	**227,499**
Assets	**14,107,857**	**25,110,954**	**1,274,567**	**-**	**40,493,378**
Liabilities	**20,460,205**	**16,853,948**	**3,179,225**	**-**	**40,493,378**

Thousands of euros 31/12/2011	Retail, Professional, Corporate and Public Sector Banking	Financial Markets and Investment Funds	Others	Reconciliation	Total
Interest income	233,243	166,410	34,838	-18,253	416,239
Income from variable-income securities	-	11,608	18,367	-	29,974
Fee and commission income	31,206	13,752	57,672	-	102,630
External commission	*64,759*	*30,342*	*7,530*	-	*102,630*
Internal commission	*-33,552*	*-16,590*	*50,143*	-	-
Income from financial instruments and foreign exchange	3,610	-102,571	1,591	-	-97,369
Net Banking Income	**268,060**	**89,199**	**112,468**	**-18,253**	**451,474**
Other operating income and expenditure	-	414	18,099	-	18,513
Banking income	**268,060**	**89,613**	**130,567**	**-18,253**	**469,987**
General administrative expenses and depreciation allowances for intangible and tangible assets	-155,923	-26,446	-90,110	1	-272,478
Net allowances for impairment	-1,047	-87,177	1,253	1	-86,971
Other	-	-	-3,861	-	-3,861
Income before taxes	**111,090**	**-24,010**	**37,849**	**-18,251**	**106,677**
Tax on income for the period and deferred taxes	-	-	-1,404	-	-1,404
Minority interests / income from associates	-	-661	-21,359	-	20,699
Net income	**111,090**	**-24,671**	**57,804**	**-18,251**	**125,972**
Assets	**13,529,575**	**25,650,077**	**820,898**	**-259,134**	**39,741,416**
Liabilities	**22,640,268**	**14,875,051**	**2,147,963**	**78,134**	**39,741,416**

Net Banking Income	Thousands of euros 31/12/2011	Thousands of euros 31/12/2012
Deposits from private customers, business customers, corporates and the public sector	107,741	54,231
Loans and advances to private customers, business customers, corporates and the public sector	99,392	151,462
Other products for private customers, business customers, corporates and the public sector	47,427	54,340
Other products	215,428	296,134

Arnold MEHLINGER

Sonja KLEIN

8. ORGANISATION CHART (as at March 31, 2013)

EXECUTIVE COMMITTEE (MANAGEMENT BOARD)

Jean-Claude FINCK	President and Chief Executive Officer
Michel BIREL	Deputy Chief Executive Officer
Gilbert ERNST	Executive Vice President and Member of the Executive Committee
Guy ROSSELJONG	Executive Vice President and Member of the Executive Committee
Françoise THOMA	Executive Vice President and Member of the Executive Committee

Internal Audit
Guy QUEUDEVILLE

Compliance
Frank MOSAR

DEPARTMENTS	UNITS				
PRIVATE BANKING Paul WARINGO	Banque Privée Paul WARINGO	Coordination du Réseau des Agences Gaston MOLLING	Electronic Banking and Business Lysiane BACK		
CORPORATE BANKING Romain WEHLES	Crédits aux Entreprises Romain WEHLES				
FINANCIAL MARKETS Aly KOHLL	Financial Markets Aly KOHLL	Financial Institutions Luc HIERONIMY	Institutional Clients Alain UHRES		
LEGAL Joseph DELHAYE	Juridique et Contentieux Joseph DELHAYE				
RISK MANAGEMENT Christian SCHOTT	Analyse et Suivi Risque Christian SCHOTT	Risk Control Jean-Claude WILMES			
FINANCIAL REPORTING Doris ENGEL	Compt. Centrale et Budgétisation Doris ENGEL	Administration des Marchés Financiers Jean LAUX	Securities Carlo MATAGNE		
INVESTMENT FUNDS Paolo VINCIARELLI	Investment Funds Paolo VINCIARELLI				
OPERATIONS Marc ANDRE	Organisation Marc ANDRE	Back-Office Crédits Jean THEIN	Back-Office des Produits Financiers Alain HAMMANG	Paiements Serge WAGENER	Valeurs Georges DENNEWALD
SECRETARY GENERAL Rodolphe BELLI	Secrétariat Général Rodolphe BELLI	Assurances Annette REISCH	Gestion du Personnel Roland FÜRPASS	Immeubles et Support Logistique Jean-Louis SALES	Marketing Gérard TANSON
INFORMATION TECHNOLOGIES Jean HILGER	Développements Informatiques Jean HILGER	Production Informatique Michel MERGEN			

The illustrations in this annual report reflect paintings, sculptures and photographs by active or retired employees of the Bank, within the framework of the exhibition "Konscht als Hobby" held in 2012 at BCEE's Gallery of Contemporary Art "Am Tunnel".

Photos : Claudine Bosseler, page 9
Service Marketing, page 4
as well as all the photos of the art works
Christof Weber, cover

Layout : Service Marketing

Printed by : Imprimerie Polyprint
Luxembourg

Editor : Banque et Caisse d'Epargne de l'Etat,
Luxembourg
Etablissement Public Autonome
Head office : 1, Place de Metz
L-2954 Luxembourg
Tél. : 4015-1, Fax : 4015-2099
BIC : BCEELULL
R.C.S. Luxembourg B 30775
www.bcee.lu