



ANNUAL REPORT 2011

156th FINANCIAL YEAR



BANQUE ET CAISSE D'ÉPARGNE DE L'ÉTAT
LUXEMBOURG

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Board of Directors



Executive Committee

1. GOVERNING BODIES OF THE BANK

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

As at December 31, 2011, the governing bodies are the following:

BOARD OF DIRECTORS

CHAIRMAN	Mr Victor ROD	Directeur du Commissariat aux Assurances
VICE-CHAIRMAN	Mr Patrick GILLEN	Directeur du Contrôle Financier, Ministère des Finances
MEMBERS	Mr Georges DENNEWALD	Représentant du Personnel
	Mr Paul ENSCH	Directeur, Chambre des Métiers
	Mrs Patrizia LUCHETTA	Attaché de Gouvernement, Ministère de l'Economie
	Mrs Elisabeth MANNES-KIEFFER	Premier Conseiller de Gouvernement, Ministère de l'Economie
	Mr Nico RAMPONI	Représentant du Personnel
	Mrs Betty SANDT	Attaché de Gouvernement 1er en rang, Ministère des Finances
	Mr Fernand SPELTZ	Conseiller de Direction à la Chambre des Salariés e.r.

SUPERVISORY COMMISSIONER

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

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

2. HIGHLIGHTS

1. Financial Highlights

	2010 in thousands of euros	2011	% change 2011/2010
TOTAL BALANCE SHEET	37,935,407	39,741,416	+4.8%
Deposits at amortised costs - Credit institutions	4,033,536	4,255,616	+5.5%
Deposits at amortised costs - Retail and public sector	22,930,719	24,324,264	+6.1%
Securities issued	7,262,253	7,277,048	+0.2%
Loans and advances at amortised costs - Credit institutions	6,072,632	5,858,242	-3.5%
Loans and advances at amortised costs - Customers	14,072,353	16,594,034	+17.9%
Available for sale securities - Fixed income securities	10,661,089	8,438,493	-20.8%
BANK EQUITY CORE CAPITAL (1) (tier 1 capital)	1,395,802	1,481,873	+6.2%
OPERATING INCOME (2)	517,939	469,987	-9.3%
Total general and administrative expenses (3)	262,014	272,479	+4.0%
NET PROFIT	218,198	127,344	-41.6%
CAPITAL ADEQUACY RATIO (1)	21.6%	23.0%	
CAPITAL ADEQUACY RATIO (1) (tier 1 capital)	13.1%	14.4%	
AVERAGE STAFF (number of contracts)	1,811	1,804	-0.4%

(1) Bank equity core capital (tier 1) and capital adequacy ratio in accordance with the CSSF Circulars 06/273, 10/450, 10/475 and 10/496.

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

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

2. Business developments in 2011:

- Increase of the balance sheet (+4.8%) due to growing customer deposits.
- Substantial increase of loans granted to the Luxembourg economy (+8.6%).
- Significant growth of customer deposits (+6.1%).
- Decline in net income (-41.6%).
- Solvency ratios kept at very high levels: capital adequacy ratio of 23.0% and tier 1 capital ratio of 14.4%.
- Confirmation of BCEE's financial soundness through its participation in:
 - a 2011 EU-wide stress testing exercise aimed at confirming the resilience of a sample of systemic European banks to an acute crisis;
 - a capital assessment exercise taking into account the sovereign debt exposures of systemic European banks to possibly enforce recapitalisation plans.
- BCEE ranks as the eighth soundest bank in the world; "Best Developed Market Bank 2011 - Luxembourg" award by "Global Finance" magazine assigned to BCEE for the third consecutive year.
- Confirmation of the excellent ratings Aaa and AA+ by the rating agencies Moody's and Standard & Poors in 2011, although in the wake of the rating reviews of European banks, assigned with a negative outlook.
- Inauguration of new premises for the Finance Centres Dudelange and Mamer. These are part of the bank's network modernization program.
- New product developments in the life-insurance and investment funds' businesses.
- Significant growth of the number of electronic banking customers, using the Bank's internet banking product S-net.
- Celebration of the 10th anniversary of ZEBRA, "the account that goes one step further", including a set of exclusive banking services and other non-banking benefits.

3. DECLARATION ON THE CONFORMITY OF THE ANNUAL ACCOUNTS

Luxembourg, March 14, 2012

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

Hereby, we declare that to the best of our knowledge, the consolidated annual accounts as at December 31, 2011 of the Banque et Caisse d'Epargne de l'Etat, Luxembourg have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, the financial position and the income statement and that the management report is an accurate description of the situation, including the main risks and uncertainties of the bank and the group of companies included in the consolidated annual accounts.

For and on behalf of the Executive Committee

Michel Birel
Deputy Chief Executive Officer

Jean-Claude Finck
Chief Executive Officer



4. BCEE GROUP CONSOLIDATED MANAGEMENT REPORT

The series of natural disasters and geopolitical and financial shocks that marked 2011, including the earthquake and tsunami in Japan, the Arab Spring and the euro-zone debt crisis, led to a slowdown in global economic activity.

In Europe, the recovery petered out in the second quarter amid the intensification of the sovereign debt crisis and weak aggregate demand linked to high unemployment and fiscal austerity measures.

The Luxembourg economy was not immune to the deterioration in the international financial environment. The government announced new tightening measures to maintain a balanced budget against a backdrop of weak economic growth.

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

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

Strong growth in the "Retail, Professional, Corporate and Public Sector Banking" segment

Retail and Professional

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

Firstly, the Bank opened the new offices of the Dudelange and Mamer Finance Centres. These projects are part of the branch network modernisation programme under its marketing strategy of opening finance centres in locations across the country and giving customers access to specialist advisors in each area of banking.

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. BCEE currently serves more than 160,000 S-net subscribers, confirming its position as the undisputed market leader in electronic banking services in Luxembourg.

The Bank saw dynamic growth in its lending book, particularly in the area of property loans with home-loan outstandings up by 10.7%. It enlarged the range of "EcoPrêts" ecological loans and held conferences to raise customers' awareness to the rational use of energy and to promote renewable energies.

Collections from customers increased sharply, as challenging conditions in financial markets are encouraging customers to seek security. Time-deposit outstandings also grew strongly, confirming their safe-haven status.

The Bank issued several guaranteed-capital structured products and continued to extend its range of investment funds with the launch of a new sub-fund within the LUX-PROTECT open-ended investment company, which aims to generate stable medium and long-term returns.

To enhance its visibility in the insurance market, BCEE, together with insurance company La Luxembourgeoise-Vie, launched "LALUX Safe Cover", a life insurance policy with no medical formalities and tax deductible premiums.

Corporate and Public Sector

The Bank achieved dynamic growth in the highly competitive area of corporate and public sector banking. The quality of its service and motivated staff led to a significant increase in outstandings.

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.

Revenue trends in "Financial Markets" and "Investment Funds"

Financial Markets

In a market climate characterised by a deepening of the European sovereign debt crisis, financial market revenues fell sharply. Losses on the sale of bonds issued by a sovereign government and the resulting reclassification of interest-rate hedging swaps took a heavy toll on revenues.

Allocations to impairment provisions rose significantly because of value adjustments recognised on Greek bonds.

Investment Fund Administration and Management

Net banking income declined relative to 2010 because of weaker revenues in the in-house fund administration and management activities resulting from a reduction in dividends received. In contrast, assets under management in third-party mutual funds increased sharply.

Thanks to a marked improvement in value adjustments, income in this activity was positive.

BCEE's exposure to sovereign risk

With the escalation of the sovereign debt crisis, the exposure of banks to a number of sovereign states was published following the European banking stress test and the assessment of bank recapitalisation needs conducted by the European Banking Authority (EBA) on the basis of figures at December 31, 2010 and September 30, 2011, respectively. The updated exposure of the Group's parent company to some European sovereign states at December 31, 2011 breaks down as follows:

Nominal amount by country and year of maturity:

Countries		2013	2014	2015	2016	2017	2018	2019
Spain	100,000,000	-	-	-	-	-	65,000,000	165,000,000
Greece	-	-	25,000,000	55,000,000	50,000,000	-	-	130,000,000
Italy	-	155,991,612	289,365,888	355,000,000	300,000,000	90,000,000	25,000,000	1,215,357,500
Portugal	-	65,000,000	100,000,000	-	-	-	25,000,000	190,000,000
Total	100,000,000	220,991,612	414,365,888	410,000,000	350,000,000	90,000,000	115,000,000	1,700,357,500

Carrying amount by asset class:

Countries	31/12/2010			31/12/2011		
	Available for sale assets	Held to maturity securities	Total	Available for sale assets	Held to maturity securities	Total
Spain	166,597,167	4,997,415	171,594,582	167,939,697	5,001,740	172,941,437
Greece	84,539,994	-	84,539,994	32,871,549	-	32,871,549
Italy*	1,967,511,090	383,814,314	2,351,325,404	1,134,927,509	-	1,134,927,509
Portugal	163,483,466	15,105,759	178,589,224	122,218,243	15,107,985	137,326,228
Total	2,382,131,717	403,917,488	2,786,049,205	1,457,956,998	20,109,725	1,478,066,723

Fair value by asset class:

Countries	31/12/2010			31/12/2011		
	Available for sale assets	Held to maturity securities	Total	Available for sale assets	Held to maturity securities	Total
Spain	166,597,167	4,685,271	171,282,438	167,939,697	4,924,921	172,864,618
Greece	84,539,994	-	84,539,994	32,871,549	-	32,871,549
Italy*	1,967,511,090	386,750,500	2,354,261,589	1,134,927,509	-	1,134,927,509
Portugal	163,483,466	14,259,347	177,742,813	122,218,243	11,204,132	133,422,375
Total	2,382,131,717	405,695,118	2,787,826,835	1,457,956,998	16,129,053	1,474,086,051

* At year-end 2010, the Bank had a CDS contract on its books whose underlying asset was the "Italian Republic". This contract expired in mid-2011 (nominal of EUR 37.4 million and fair value of EUR (0.3) million).

The Bank has no exposure to Irish sovereign debt.

To reduce its exposure to Italian sovereign risk, the Bank sold substantial positions in the available-for-sale asset class throughout the second half of 2011.

A specific treatment and approach were implemented for Greece.

Among countries that have sought funds from the European rescue system, Greece is the only one to have shown objective evidence of impairment under IFRS.

An impairment allocation of 74.7% was taken on Greek sovereign bond holdings.

All positions held by the Bank fall within the scope of the programme to reschedule a portion of Greek debt held by the private sector. This programme was launched in the summer of 2011 and its precise conditions were only approved at the marathon meeting of euro-zone Finance Ministers, which ended on February 21, 2012.

Declaration on corporate governance

In accordance with the constitutional law of March 24, 1989, Banque et Caisse d'Épargne de l'Etat, Luxembourg, as the Group's parent company, is an autonomous public institution with a legal personality, placed under the overall supervision of the government Minister with responsibility for the Treasury. That law also defines the different bodies of the Bank that comprise its corporate governance, namely the Board of Directors, the Executive Committee and the Supervisory Commissioner. The rules governing their appointment, replacement and powers are also defined in said law.

Risk management policy

Credit risk management is one of the Bank's key priorities. In the wake of the Basel Committee's agreement on strengthening banks' capital through the Basel III reform, BCEE has continued the preparatory work necessary for the implementation of this agreement in several stages until 2019.

In 2011, BCEE participated in the European bank stress test and the EBA's assessment of bank recapitalisation needs. The results revealed that the Bank has the necessary capital and robustness to absorb market shocks in case of an economic crisis, confirming the results of the test conducted in 2010.

Risk management is described in detail in note 6 to the consolidated financial statements at December 31, 2011. This chapter is divided into sub-sections covering four major risk categories: counterparty or credit risk, market risk, liquidity risk and operational risk.

Credit risk

Decisions on domestic market loans are made within the different credit committees, whose hierarchy is determined by each customer's overall outstanding amounts. Residential mortgages make up more than half of the portfolio for which credit risk is covered by the process of assessing customers' ability to repay loans and the existence of guarantees. For corporate loans and advances, the Bank follows suitable procedures for analysing loan applications and obtaining the related collateral. Particular attention is paid to compliance with sector and counterparty commitment limits. Thanks to its internal ratings system, the Bank is able to monitor the aggregate portfolio risk permanently.

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 extensively regulated through the use of standard ISDA (International Swaps and Derivatives Association Inc.) agreements, which include compensation clauses in case of default by either party. The Bank has introduced an additional risk mitigation technique by negotiating the CSA (Credit Support Annex) to ISDA agreements with its major counterparties in respect of off-balance sheet transactions. On the basis of a periodical revaluation of bilateral positions, this annex provides for guarantees in the form of cash or first-class securities when the net value of outstanding agreements exceeds a certain threshold. At year-end 2011, approximately 90% of the total volume of derivative transactions was covered by an ISDA/CSA agreement.

Market risk

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

Within its market risk management policy, the Bank draws a distinction between transformation 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.

Transformation risk falls under the responsibility of the ALM (Asset Liability Management) Committee. This committee ensures that the Bank's capital and invested funds are properly 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. The Risk Control department, which is independent of the trading room, is in charge of formal reporting of 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 to manage each market risk in an aggregate manner, the Bank uses other risk management tools depending on the characteristics of the different financial instruments. As such, interest rate risk is managed by simulating the impact of a parallel one basis point (0.01%) change in the interest rate 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 interest rate 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 at 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 generally has an excess liquidity position.

The Bank constantly monitors liquidity risk on the basis of expected maturities. This monitoring includes both very detailed reconciliation of cash inflows and outflows over a six month horizon and a medium- and long-term assessment of structural funding requirements. In each quarter of 2011, the Bank conducted the stress test required by CSSF circular 09/403. These confirmed that the Bank would have sufficient liquid assets to cope with unexpected large-scale withdrawals over an extended period.

In addition, the Bank has stable and diversified liabilities, notably in the form of a very solid customer deposit base and Euro Commercial Paper (ECP), US Commercial Paper (USCP) and Euro Medium Term Note (EMTN) refinancing programmes, which ensure a comfortable liquidity position. Furthermore, the high-quality fixed income securities' portfolio allows the Bank to obtain refinancing both with 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. For this purpose, the Bank keeps a portfolio of at least EUR 4 billion in fixed-income securities that can be used as collateral with the BCL. In 2011, the portfolio of assets eligible for refinancing with the BCL or usable on the interbank market permanently exceeded EUR 9.4 billion.

Since 2009, the Bank has been an indirect member of the CLS (Continuous-Linked Settlement) foreign exchange transaction settlement system. The overwhelming majority of foreign-exchange transactions are now handled by the CLS. 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, leading to a considerable reduction in 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.

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

To centralise its management of operational risk, the Bank uses a computer application to manage internal incidents in accordance with Basel II methodologies. For instance, 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 constantly improving its operating systems and organisational structures.

In retail banking, efforts are made to avoid unexpected incidents by rigorous activity monitoring, separating responsibilities at an operational level and tightening procedures. 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.

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

Regarding the security of IT systems, 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 itself against potential financial losses arising from the occurrence of an operational risk. These insurance policies cover the Bank's main areas of activities. Part 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). Interest-rate swaps (IRS) and cross-currency interest-rate swaps (CIRS) are commonly used in standard "plain vanilla" hedging activities. In addition to these standardised contracts, the Bank uses structured swaps to specifically hedge structured debt positions, as well as structured bonds included in its portfolio of available for sale assets and containing embedded derivatives.

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

The Bank mainly relies on fair value hedges.

Managing and monitoring risks inherent in compiling financial information

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

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.

To evaluate portfolio positions or to calculate value adjustments to assets showing evidence of impairment, the accounting and risk management departments work closely together.

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 different business lines. It also analyses and validates on a monthly basis the Bank's financial position and the follow-up of spending budgets.

Decrease in earnings in a very difficult economic context

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 over management and financial and operational policies.

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

The Group's financial results for the year ended December 31, 2011 were weaker than those in 2010.

Operating income came to EUR 469.9 million in 2011.

Net interest income rose by 10.1% thanks to the dynamism of lending activities and growth in the deposits of non-bank customers.

Fee and commission income increased by 2.8%, mainly thanks to strong growth in classic banking activities with non-bank customers in the area of loans and payments.

Revenues from variable-income securities climbed by 10.7% as a result of a higher level of dividends received from investments in strategic holdings classified as available-for-sale financial assets.

Net income from financial instruments fell from EUR 5.9 million in 2010 to a loss of EUR 97.4 million for the year ended December 31, 2011. This inherently unstable revenue item includes income from securities' and derivatives' trading, the disposal of available-for-sale financial assets, fair value hedging transactions and foreign-exchange transactions. The significant change in this income category 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 or impairment of assets that were originally hedged.

The subsequent measurement of fixed-income securities, which are classified as available-for-sale financial assets and whose prices have fallen amid the European

sovereign debt crisis, is recognised in equity under the heading "revaluation reserve". The same applies to the subsequent measurement of variable-income securities classified as available-for-sale financial assets. The revaluation reserve amounted to EUR 221.8 million at year-end 2011, down EUR 97.3 million or 30.5%.

Other operating income and expenses rose from EUR 7.3 million in 2010 to EUR 18.5 million in 2011.

Thanks to a rigorous cost control policy, BCEE group managed to limit the increase in its total general expenses, including impairment allocations on tangible and intangible non-current assets, to 4%. Productivity is constantly enhanced by major process engineering and automation projects. These factors were enough to offset the effect of structural increases in personnel expenses while preserving the quality of service.

Following the economic downturn, BCEE group had to recognise a net impairment allocation for individual and collective credit risk of EUR 87.6 million in 2011.

In light of the above, the Group was able to post a net profit for 2011 of EUR 126 million, compared with EUR 215.9 million a year earlier, a decrease of EUR 89.9 million or 41.7%.

After the distribution of a share of net profit to the Luxembourg state, the residual net profit will be used by BCEE group to strengthen its capital base, which is more than sufficient to comply with European Union capital adequacy standards. Core capital amounted to EUR 2,857 million as at December 31, 2011.

2012 outlook

In Europe, economic growth is set to remain lacklustre in 2012 amid concerns about the viability of sovereign debt. An improvement will only be possible if governments successfully restore confidence through a combination of decisive measures and institutional responses that allow sovereign debt to be financed at reasonable interest rates.

In Luxembourg, economic growth is forecast to slow in 2012, and the government will have to take additional economic and fiscal measures to avoid deepening the public deficit.

Given the Bank's very solid customer deposit base, its funding requirements through the bond markets will be very low in 2012.

In this context, BCEE group is confident of its ability to continue developing its activities successfully, in line with past developments.

Events subsequent to the reporting date

No significant events impacting on the normal course of the Group's business occurred after the end of the 2011 financial year.

Following the agreement of February 21, 2012 between European Monetary Union Finance Ministers on the new Greek rescue plan, the private sector's contribution was set at 53.5%. BCEE had already more than sufficiently anticipated this discount by adjusting the value of its Greek bond holdings to market prices at year-end 2011, taking the estimated loss ratio to 74.7%.

Luxembourg, March 14, 2012

On behalf of the Executive Committee

Michel Birel
Deputy Chief Executive Officer

Jean-Claude Finck
Chief Executive Officer



5. AUDITOR'S REPORT

Report on the consolidated annual accounts

Following our appointment by the Government of the Grand Duchy of Luxembourg, on proposal of the Board of Directors of Banque et Caisse d'Epargne de l'Etat, Luxembourg, and of its agencies ("the Group"), we have audited the accompanying consolidated annual accounts of Banque et Caisse d'Epargne de l'Etat, Luxembourg, which comprise the consolidated balance sheet as at December 31, 2011, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by Luxembourg's "Commission de Surveillance du Secteur Financier" (CSSF). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

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

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

Opinion

In our opinion, these annual accounts give a true and fair view of the financial position of Banque et Caisse d'Épargne de l'Etat, Luxembourg, as of December 31, 2011, and of the results of its operations and of its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

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

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

Luxembourg, March 14, 2012

Pierre Krier

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

6. CONSOLIDATED AUDITED ANNUAL ACCOUNTS

A. CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2011

ASSETS in euro	Notes	31.12.2010	31.12.2011
Cash and balances with central banks	4.1.	1,305,028,308	2,459,527,085
Loans and advances at amortised cost - Credit institutions	4.9.	6,072,632,058	5,858,242,107
Loans and advances at amortised cost - Customers	4.10.	14,072,353,104	16,594,034,238
Financial assets held for trading	4.2. 4.8.	112,640,654	235,341,022
Hedging derivatives	4.8.	53,414,065	149,193,054
Available for sale - Fixed income securities	4.2.	10,661,088,955	8,438,492,520
Available for sale - Variable income securities	4.2.	850,275,696	788,561,055
Held to maturity securities	4.4.	4,373,847,760	4,644,327,498
Investments in associates accounted for by using the equity method	4.3.	182,457,883	285,573,619
Property, plant and equipment	4.11.	173,658,779	175,648,350
Investment property	4.13.	15,082,810	17,942,535
Intangible assets	4.12.	12,935,551	12,492,193
Deferred tax assets	4.15.	-	43,335,631
Other assets	4.14.	49,991,632	38,704,895
TOTAL ASSETS		37,935,407,254	39,741,415,801
LIABILITIES in euro	Notes	31.12.2010	31.12.2011
Deposits at amortised cost - Credit institutions	4.17.	4,033,535,950	4,255,615,701
Deposits at amortised cost - Private customers and public sector	4.18.	22,930,718,886	24,324,263,715
Financial liabilities held for trading	4.2. 4.8.	129,467,863	150,587,688
Hedging derivatives	4.8.	597,643,299	713,548,684
Debt securities in issue	4.16.	7,262,252,814	7,277,048,463
Provisions	4.20.	4,321,642	4,813,364
Other liabilities	4.21.	61,221,137	63,747,017
Current tax liabilities	4.15.	54,523,463	75,779,375
Deferred tax liabilities	4.15.	51,215,067	-
Pension fund	4.19.	1,283,486	17,199,314
Sub-total LIABILITIES (before equity) to be carried forward		35,126,183,607	36,882,603,320

The notes on pages 32 to 122 are an integral part of these annual accounts.

A. CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2011

EQUITY <small>in euro</small>	31.12.2010	31.12.2011
Sub-total of LIABILITIES before equity, brought forward	35,126,183,607	36,882,603,320
Share capital	173,525,467	173,525,467
Revaluation reserve	319,087,633	221,836,111
° <i>Available for sale</i>	316,916,890	217,454,695
Consolidated reserves	2,098,152,173	2,335,655,411
° <i>Equity method adjustment</i>	131,861,348	206,718,030
Income from current year	215,935,763	125,972,275
Sub-total equity - attributable to the equity holders of the parent entity	2,806,701,036	2,856,989,264
Minority interest	2,522,612	1,823,217
Sub-total Equity	2,809,223,647	2,858,812,481
TOTAL LIABILITIES AND EQUITY	37,935,407,254	39,741,415,801

B. CONSOLIDATED INCOME STATEMENT AS AT DECEMBER 31, 2011

in euro	Notes	31.12.2010	31.12.2011
Interest and similar income	5.1.	377,922,928	416,238,619
Dividend income	5.2.	27,065,592	29,974,327
Fee and commission income	5.3.	99,831,040	102,630,213
INCOME FROM INTEREST, DIVIDENDS AND FEES AND COMMISSIONS		504,819,560	548,843,159
Net income from financial instruments not recognised at fair value through profit or loss	5.4.	2,027,029	-41,553,018
Trading income	5.5.	-1,951,949	-65,550,627
Net income from hedge accounting	5.6.	1,143,794	1,709,878
Foreign currency translation differences		4,633,797	8,024,415
Other operating income	5.7.	8,911,320	19,600,915
Other operating expense	5.7.	-1,644,747	-1,087,937
OPERATING INCOME		517,938,804	469,986,784
Personnel expenses	5.8.	-170,196,836	-176,795,334
General and administrative expenses	5.9.	-65,835,235	-68,941,339
Amortisation expenses on tangible and intangible assets	5.10. 5.11. 5.12.	-25,981,500	-26,742,213
INCOME AFTER GENERAL EXPENSES		255,925,233	197,507,898
Impairment on financial assets - individual and collective assessments	5.13.	8,490,270	-87,611,533
Provisions	5.14.	36,294	639,937
Share of profit of associates accounted for using the equity method		14,866,801	22,072,047
PROFIT BEFORE INCOME TAX AND NON-CURRENT ASSETS		279,318,598	132,608,349
Profit from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations		-	-3,860,866
Tax on income from continuing operations	5.15.	-41,990,721	-17,967,414
Deferred tax assets	5.15.	-19,129,988	16,563,624
PROFIT FOR THE YEAR		218,197,889	127,343,693
OF WHICH:			
PROFIT FOR THE YEAR ATTRIBUTABLE TO MINORITY INTEREST		2,262,126	1,371,418
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT ENTITY		215,935,763	125,972,275

The notes on pages 32 to 122 are an integral part of these annual accounts.

C. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS AT DECEMBER 31, 2011

in euro	31.12.2010	31.12.2011
PROFIT FOR THE YEAR	218,197,889	127,343,693
Net gains/(losses) on available for sale financial assets	-104,679,033	-138,397,186
° <i>Variation of the revaluation reserve</i>	-102,894,609	-162,141,179
° <i>Net reclassification to the income statement of realised net gains</i>	-1,784,424	23,743,993
Actuarial losses in defined benefit pension scheme	5,452,939	-24,119,281
Cash flow hedges	1,490,053	3,104,878
Impact of differed taxes	43,179,977	44,987,139
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	-54,556,064	-114,424,450
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	163,641,825	12,919,243



D. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT DECEMBER 31, 2011

in euro	Share capital	Consolidated reserves	Revaluation reserve	Net result	Total equity - equity holders of the parent entity	Minority interest	Total equity
As at January 1, 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 the result for the year 2010	-	215,935,764	-	-215,935,764	-	-	-
Net result for the year 2011	-	-	-	125,972,275	125,972,275	-	125,972,275
Distributions for the year 2010	-	-30,000,000	-	-	-30,000,000	-	-30,000,000
Actuarial losses in defined benefit pension plans	-	-17,172,928	-	-	-17,172,928	-	-17,172,928
Net evaluation results of operations on available for sale financial instruments	-	-	-99,462,195	-	-99,462,195	-	-99,462,195
Net evaluation results of cash flow hedges	-	-	2,210,673	-	2,210,673	-	2,210,673
Others	-	68,740,402	-	-	68,740,402	-699,395	68,041,007
As at December 31, 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

For the year 2011, the Bank has allocated a share of EUR 30,000,000 (2010: EUR 30,000,000) of net profit as distribution to the Luxembourg State.

in euro	Share capital	Consolidated reserves	Revaluation reserve	Net result	Total equity - equity holders of the parent entity	Minority interest	Total equity
As at January 1, 2010	173,525,467	1,902,677,607	373,634,559	222,142,580	2,671,980,213	2,874,291	2,674,854,504
Appropriation of the result for the year 2009	-	222,142,580	-	-222,142,580	-	-	-
Net result for the year 2010	-	-	-	215,935,764	215,935,764	-	215,935,764
Distributions for the year 2009	-	-30,000,000	-	-	-30,000,000	-	-30,000,000
Actuarial losses in defined benefit pension plans	-	3,890,861	-	-	3,890,861	-	3,890,861
Net evaluation results of operations on available for sale financial instruments	-	-	-55,604,571	-	-55,604,571	-	-55,604,571
Net evaluation results of cash flow hedges	-	-	1,057,645	-	1,057,645	-	1,057,645
Others	-	-558,875	-	-	-558,875	-351,679	-910,554
As at December 31, 2010	173,525,467	2,098,152,173	319,087,633	215,935,764	2,806,701,037	2,522,612	2,809,223,647

The notes on pages 32 to 122 are an integral part of these annual accounts.

E. CONSOLIDATED STATEMENT OF CASH FLOWS AS AT DECEMBER 31, 2011

in euro	31.12.2010	31.12.2011
Cash and cash equivalents		
Cash and cash balances with central banks	1,305,028,589	2,459,527,248
Loans and advances at amortised cost - Credit institutions	4,096,400,667	3,157,940,835
Loans and advances at amortised cost - Customers	491,433,161	1,807,758,544
Financial instruments held for trading	790,752	1,106,441
Available for sale financial instruments - Variable income securities	703,357,648	728,588,229
Held to maturity securities	441,613,705	708,527,220
Total	7,038,624,523	8,863,448,518

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

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

Cash flow from operating activities

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

in euro	31.12.2010	31.12.2011
Interest received	1,006,890,162	1,133,172,527
Interest paid	-640,472,741	-712,781,843
Income from securities	27,065,592	29,974,327
Commissions received	123,581,627	128,206,707
Commissions paid	-23,750,587	-25,576,494
Other operating income	8,911,320	19,600,915
Income taxes	-41,990,721	-17,967,414
Other administrative charges	-229,460,494	-237,038,614
Other operating charges	-1,644,747	-1,087,937
Sub-total	229,129,411	316,502,174

- Cash flow from changes in operating assets

Net variations in euro	31.12.2010	31.12.2011
Financial assets held for trading	-1,322,351	-268,768
Available for sale - Fixed income securities	355,377,235	2,005,315,309
Available for sale - Variable income securities	13,434,006	22,731,330
Loans and advances at amortised cost - Credit institutions	227,966,875	-744,095,817
Loans and advances at amortised cost - Customers	-1,206,215,983	-1,090,036,194
Derivative instruments used for hedging	7,457,156	6,302,989
Other assets	-4,659,689	11,261,184
Sub-total	-607,962,752	211,210,033

- Cash flow from changes in operating liabilities

Net variations in euro	31.12.2010	31.12.2011
Securities held for trading - Short sales	-122,776	840,785
Deposits at amortised cost - Credit institutions	-809,783,135	-64,900,146
Deposits at amortised cost - Customers	1,460,211,748	259,412,506
Hedging derivatives	9,162,362	1,398,388,218
Other liabilities	-5,939,134	-15,886,391
Debt securities in issue	-433,477,427	-2,903,329
Sub-total	220,051,638	1,574,951,643
Cash flow from operating activities	-158,781,703	2,102,663,850

Cash flow from investing activities

in euro	31.12.2010	31.12.2011
Purchase of available for sale securities - Variable income securities	-1,134,949	-3,827,553
Sale of available for sale securities - Variable income securities	-	26,993,236
Purchase of variable income securities - Subsidiaries	-	-3,903,786
Sale of variable income securities - Subsidiaries	-	4,880,206
Purchase of variable income securities - Affiliates accounted for under the equity method	-5,103,587	-
Sale of variable income securities - Affiliates accounted for under the equity method	-	-
Acquisition of held to maturity securities	-1,336,137,308	-1,551,731,198
Sale / repayment of held to maturity securities	-	1,510,632,101
Acquisitions / proceeds of intangible and tangible assets	-7,297,246	-9,243,672
Cash flow from investing activities	-1,349,673,088	-26,200,667

Cash flow from financing activities

in euro	31.12.2010	31.12.2011
Proceeds from subordinated liabilities	8,771,425	-616,639
Income distribution	-30,000,000	-30,000,000
Cash flow from financing activities	-21,228,575	-30,616,639
Net change	-1,529,683,368	2,045,846,544

Change in cash and cash equivalents

in euro	2010	2011
Situation as at January 1	8,496,288,223	7,038,624,523
Net change in cash flow	-1,529,683,368	2,045,846,544
Effect of exchange rates on cash and cash equivalents	72,019,668	-221,022,549
Situation as at December 31	7,038,624,523	8,863,448,518



7. NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

1. General information

Banque et Caisse d'Epargne de l'Etat, Luxembourg (hereinafter "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 who heads the Treasury.

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

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

The consolidated annual accounts are those of the Group, of which Banque et Caisse d'Epargne de l'Etat is the parent company. The Group's average staff headcount for the financial year 2011 was 1,804 (1,811 in 2010).

The financial year is in line with the calendar year.

The consolidated annual accounts were approved for issue by the Board of Directors on March 14, 2012.

2. Basis of preparation of the consolidated annual accounts

2.1 COMPLIANCE WITH GENERAL ACCOUNTING PRINCIPLES

The consolidated annual accounts of the Group for the year 2011 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

a. New standards or revised standards adopted by the Bank

The following standards, compulsory as of January 1, 2011, have been implemented by the Bank but were of no material impact on the annual accounts:

- IFRS 1: Amendments to IFRS1 on First-Time Adoption of IFRS,
- IAS 24: Related party disclosures,
- IAS 32: Classification of rights' issues,
- IFRIC 14: IAS19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction,
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments.

b. New standards, revised standards or interpretations which are not yet effective and which have not been early adopted by the Bank:

- IFRS 7: Clarification of Disclosures,
- IFRS 9: Financial instruments: Classification and measurement (not yet endorsed by European Union),
- IFRS 13: Fair Value Measurement (not yet endorsed by European Union),
- IAS 1: Presentation of Financial Statements, clarifying the presentation of the analysis of other comprehensive income by item in the statement of changes in equity or in the notes (not yet endorsed by European Union),
- IAS 12: Deferred tax: recovery of underlying assets (not yet endorsed by European Union),
- IAS 19: Amendments to Employee Benefits (not yet endorsed by European Union),
- IAS 27: Amendments to Consolidated and Separate Financial Statements (not yet endorsed by European Union),
- IAS 28: Amendments to Investments in Associates (not yet endorsed by European Union).

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

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

2.2 CONSOLIDATION

2.2.1 Consolidation scope

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

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

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

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

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

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

2.2.1.1 Fully consolidated subsidiaries

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

List of subsidiaries included in the consolidation scope:

Name	% of voting rights
Lux-Index US Advisory S.A.	77.25
Lux-Pension Advisory S.A.	83.00
Lux-Garantie Advisory S.A.	83.57
Lux-Croissance Advisory S.A.	87.37
Luxcash Advisory S.A.	86.67
Lux-World Fund Advisory S.A.	86.70
Lux-Protect Fund Advisory S.A.	90.50
BCEE Asset Management S.A.	90.00
Luxbond Advisory S.A.	90.13
Bourbon Immobilière S.A.	99.90
Luxembourg State and Savings Bank Trust Company S.A.	99.90
Spuerkeess Ré S.A.	100.00

In December 2011, the Group's decision to sell its holding in BCEE-Ré S.A. removed the latter from the Group's portfolio and hence from the scope of full consolidation. This disposal was coupled with the creation of a new reinsurance company, Spuerkeess Ré S.A., which is included in the scope of consolidation.

BCEE Asset Management S.A. is not a new fully-consolidated subsidiary but results from the corporate name change of Lux-Investment Advisors S.A. as from January 1, 2011.

2.2.1.2 Investments in associates

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

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

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

As at December 31, 2011, the scope of associated companies using the equity method changed with the incorporation of Luxair S.A..

Investments in associates of the Group:

Associates	% of capital held
Direct holdings	
Société Nationale de Contrôle Technique S.à r.l.	20.00
Luxair S.A.	21.81
Société de la Bourse de Luxembourg S.A.	22.74
Société du Parking du Théâtre S.A.	26.23
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 holdings	
Pecoma International S.A.	33.33
EFA Partners S.A.	29.05

As at December 31, 2011, the fractions of capital held by the Group in the licence companies VISALUX and EUROPAY Luxembourg have not changed. However, there is an intention to transfer the acquiring and issuing activities to CETREL S.A., respectively to the local banks, which will result in the dissolution of the two companies in the medium term.

2.2.2 Foreign currency translation

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

2.3 FOREIGN CURRENCY TRANSACTIONS

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

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

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

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

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

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

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

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

	31.12.2010	31.12.2011
CHF	1.2518	1.2160
GBP	0.8642	0.8378
JPY	108.7800	100.1400
SEK	8.9774	8.9294
USD	1.3378	1.2936

2.4 BANKING TRANSACTIONS

2.4.1 Initial measurement and recognition

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

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

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

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

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

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

2.4.2 Subsequent measurement

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

2.4.2.1 Historical cost

For financial assets or liabilities recognised at historical cost, their valuation is equal to the initial 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 (difference between the initial amount and the repayment amount on maturity) over the life of the asset less impairment recognised whenever there is objective evidence that the asset is impaired.

2.4.2.3 Fair value

The fair value of a financial instrument is usually determined by reference to an active market or using valuation techniques based on observable market data. To deliver a consistent valuation of the different financial instruments, the Bank uses the following methods and models:

- Derivative financial instruments held for trading or hedging: the Bank values these instruments by using the discounted cash flow method for plain vanilla contracts and the “Black-Karasinski” model for structured contracts.
- Financial assets:
 - Fixed income assets:
 - for assets quoted on an active market, the bid price published by an official quotation agent is used;
 - for assets quoted on a market considered inactive, the valuation price is calculated by the Bank’s internal valuation model.
 - Variable income assets:
 - 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 valuation price by analysing the last available annual accounts as well as recent transaction prices.
- Financial liabilities: At inception, debt issued by the Bank is recognised at amortised cost. However, to avoid an accounting mismatch in the income statement due to hedging effects, the Bank designates these instruments as fair value hedges. The fair value valuation methods used for hedged and hedging instrument are identical: discounted cash flow method or “Black-Karasinski” model.

2.4.3 Judgements and accounting estimates

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

The most significant judgements or estimates relate to:

2.4.3.1 The fair value of financial instruments

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

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

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

2.4.3.2 Impairment of financial assets at amortised cost

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

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

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

The Group also recognises collective impairments on loans and advances not identified individually as being in default in order to take into account the progressive credit risk after the date on which the loan was granted.

To calculate this impairment, the Group uses historical data of losses that materialised on the loan portfolio to determine the probability of default per loan type and by elapsed time from granting a loan to the date of default.

The collective impairment, also known as IBNR (Incurred But Not Reported) depreciation, is calculated on the portfolio of "Loans and advances at amortised cost – customers" and only on loans not already depreciated by an individual impairment.

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

As defined by the IFRS framework, the Group takes into account the impact of economical evolution by using best-estimate LGD's, i.e. by over-weighting recent LGD historical data sets to older ones.

2.4.3.3 Impairment of available for sale securities

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

Non-exhaustive list of objective impairment evidence:

- cash problems due to a delay in payment or reimbursement,
- downgrade of the rating below a threshold deemed critical,
- worsening of solvency.

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

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

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

2.5 STATEMENT OF CASH FLOWS

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

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

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

Operational activities

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

Investing activities

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

Financing activities

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

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

3.1 CASH AND CASH BALANCES WITH CENTRAL BANKS

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

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

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

3.2 FINANCIAL INSTRUMENTS

3.2.1 Assets and liabilities held for trading

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

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

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

3.2.2 Fixed income securities held to maturity

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

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

In compliance with IAS 39 AG 22 (a), the Group adopted a procedure which specifies that sales before maturity may respect the conditions set out in paragraph 9 of the standard, and consequently will not raise doubts about the entity's intention to hold other investments until maturity, if these sales occur after a sharp deterioration in the issuer's credit quality.

3.2.3 Available for sale financial assets

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

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

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

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

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

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

3.2.4 Derivative instruments used for hedging purposes

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

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

The Group classifies hedging instruments in the following categories:

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

The Group mainly uses fair value hedges.

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

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

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

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

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

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

3.2.5 Sale and repurchase agreements – lending and borrowing of securities

3.2.5.1 Sale and repurchase agreements

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

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

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

The Group carries out triparty-repo and triparty-reverse repo transactions with counterparties whose ratings are higher than or equal to the grading “A”. An intermediary intervenes as a third party during the whole lifespan of the triparty repo in order to manage delivery versus payment, control securities’ eligibility criteria, calculate and manage margin calls and securities’ substitutions. Maturity dates of these contracts vary between overnight and six months.

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

3.2.5.2 Lending and borrowing of securities

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

3.2.6 Loans and advances at amortised cost

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

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

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

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

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

3.2.7 Interbank activity

3.2.7.1 Borrowings

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

3.2.7.2 Issuance of debt securities

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

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

3.2.8 Impairment of financial assets

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

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

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

Two categories of impairment can be distinguished:

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

Impairment relating to collective value adjustments: In case no individual value adjustments can be made, IFRS standards provide for the setting up of collective value adjustments to cover the risk of potential loss, if there is an objective indication of probable loss in certain portfolio segments or in other loan commitments existing on the balance sheet date. Currently the Group only applies this principle to retail customers for the "Loans and advances at amortised cost" portfolio.

Calculating the collective value adjustments, the Group uses its experience and historical data for incurred losses. The probability of default for the different types of loans is calculated by taking into account the period between the time the loan was granted and the time it defaulted.

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

3.2.9 Other financial assets and liabilities

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

3.2.10 Income and expenses relating to financial assets and liabilities

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

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

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

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

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

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

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

3.3 TANGIBLE ASSETS

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

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

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

Estimated useful life of main types of tangible assets:

- buildings:	50 years,
- computer equipment:	4 years,
- office fixtures, furniture and other equipment:	between 2 and 10 years,
- vehicles:	4 years.

Investments on leased buildings are amortised over the remaining term of the lease. If the duration of the lease is not fixed, amortisation is done over ten years.

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

If the recoverable value of an asset drops below its carrying amount, the carrying amount in the balance sheet must be adjusted to the estimated recoverable value through the recognition of an impairment.

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

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

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

3.4 INTANGIBLE ASSETS

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

3.5 LEASE AGREEMENTS

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

3.5.1 A company of the Group is a lessee

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

3.5.2 A company of the Group is a lessor

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

3.6 EMPLOYEE BENEFITS

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

3.6.1 Short-term benefits

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

3.6.2 Long-term benefits

Long-term benefits are benefits that generally relate to the length of service, paid to employees still in activity and paid more than twelve months after year-end. A provision is recorded corresponding to the outstanding commitments at year-end. These commitments are valued using the same actuarial method as that applied to post-employment benefits.

3.6.3 Post-employment benefits

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

- old-age pension,
- invalidity pension,
- surviving spouse/partner pension,
- surviving orphan pension,
- three-months additional pension.

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

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

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

Due to the externalisation of the pension fund to the BCEE subfund of the "Compagnie Luxembourgeoise de Pension (CLP)", established as a pension saving association "ASSEP" on December 1, 2009, the amount recorded in the balance sheet is the present value of the defined benefit obligation as at the closing date, net of plan assets and of adjustments due to unrecognised actuarial gains and losses and past services costs.

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

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

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

These expenses are recorded net of the expected return of plan assets.

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

The Group uses the STATEC mortality tables adjusted by five years to take into account longer life expectancy of the beneficiaries.

3.7 PROVISIONS

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

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

3.8 DEFERRED TAXES

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

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

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

4. Notes to the balance sheet ² (in euro)

4.1 CASH AND CASH BALANCES WITH CENTRAL BANKS

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

4.2 FINANCIAL INSTRUMENTS

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

4.2.1 Assets and liabilities held for trading

Assets	31.12.2010			31.12.2011		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Non-derivative instruments	1,141,189	5,808,908	6,950,097	1,402,975	5,607,079	7,010,054
Derivative instruments (note 4.8.)	87,635,826	18,054,730	105,690,556	204,749,598	23,581,370	228,330,968
Total	88,777,015	23,863,638	112,640,654	206,152,573	29,188,449	235,341,022
Liabilities	31.12.2010			31.12.2011		
Non-derivative instruments	192	171,757	171,949	150	1,010,380	1,010,530
Derivative instruments (note 4.8.)	100,982,794	28,313,118	129,295,912	37,277,319	112,299,839	149,577,158
Total	100,982,987	28,484,875	129,467,863	37,277,469	113,310,219	150,587,688
Assets - Non-derivative instruments	31.12.2010			31.12.2011		
Debt instruments	1,126,480	5,808,907	6,935,387	1,402,474	5,607,079	7,009,553
<i>Public sector</i>	41,088	1,850,611	1,891,699	-	1,817,368	1,817,368
<i>Credit institutions</i>	874,650	2,908,780	3,783,430	1,166,539	3,469,535	4,636,073
<i>Corporate</i>	210,742	1,049,516	1,260,258	235,936	320,177	556,112
Equity instruments	14,710	-	14,710	501	-	501
Total	1,141,190	5,808,907	6,950,097	1,402,975	5,607,079	7,010,054
Unrealised result at year-end	13,114	232,162	245,276	7,529	154,832	162,361
Liabilities - Non-derivative instruments	31.12.2010			31.12.2011		
Short sales						
<i>Bonds</i>	-	171,757	171,757	150	1,010,380	1,010,530
<i>Shares</i>	192	-	192	-	-	-
Total	192	171,757	171,950	150	1,010,380	1,010,530

² Minor differences between the figures in the notes to the balance sheet and the figures in the different consolidated statements are rounding differences.

4.2.2 Assets available for sale

Categories	31.12.2010			31.12.2011		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Debt instruments	2,284,450,468	8,376,638,488	10,661,088,955	1,833,205,083	6,605,287,437	8,438,492,520
Public sector	62,989,852	2,948,670,350	3,011,660,201	49,627,968	2,021,149,166	2,070,777,134
Credit institutions	1,485,859,056	3,374,425,232	4,860,284,288	1,186,632,130	2,871,122,658	4,057,754,788
Corporate	735,601,560	2,053,542,906	2,789,144,466	596,944,985	1,713,015,613	2,309,960,598
Equity instruments	850,275,696	-	850,275,696	788,561,055	-	788,561,055
Credit institutions	20,133,113	-	20,133,113	2,367,021	-	2,367,021
Corporate	802,329,261	-	802,329,261	785,895,320	-	785,895,320
Other	27,813,322	-	27,813,322	298,714	-	298,714
Total	3,134,726,164	8,376,638,488	11,511,364,651	2,621,766,138	6,605,287,437	9,227,053,575
Impairment of financial assets	-10,185,603	-67,119,570	-77,305,173	-19,008,587	-148,909,936	-167,918,523
Unrealised result at year-end	594,871,363	-116,947,696	477,923,667	561,141,947	-213,948,863	347,193,084

Impairment of financial assets available for sale:

	Corporate		Credit institutions	Public Sector	Total
	ABS/MBS	Other			
Situation as at January 1, 2010	67,132,789	5,972,701	52,709,096	-	125,814,586
Additions	3,719,783	3,350,157	-	-	7,069,940
Reversal	-10,273,997	-	-9,830,967	-	-20,104,964
Write-off	-4,961,486	-	-30,512,903	-	-35,474,390
Situation as at December 31, 2010	55,617,089	9,322,858	12,365,226	-	77,305,173
Situation as at January 1, 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
Reversal	-9,780,102	-682,418	-	-	-10,462,520
Write-off	-7,787,876	-	-	-	-7,787,876
Foreign exchange difference	711,997	166,014	-	-	878,011
Situation as at December 31, 2011	41,570,952	11,024,737	15,933,850	99,388,984	167,918,523

Unrealised result on assets available for sale

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

Debt instruments

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

31.12.2011	Fair value adjustments of debt instruments		Value adjustment of the swap leg hedging the asset	
	Changes in unhedged risks (credit and liquidity spread)	Changes in hedged risks (interest rate and price)	Changes in hedged risk	Retrospective efficiency rate
Fixed rate bonds and structured bonds	373,153,950	-261,893,197	263,118,454	100.47%
Variable rate bonds	119,159,300			

31.12.2010	Fair value adjustments of debt instruments		Value adjustment of the swap leg hedging the asset	
	Changes in unhedged risks (credit and liquidity spread)	Changes in hedged risks (interest rate and price)	Changes in hedged risk	Retrospective efficiency rate
Fixed rate bonds and structured bonds	267,777,929	-248,639,924	248,356,939	99.89%
Variable rate bonds	98,705,167			

Following the partial sale of hedged positions held in a European sovereign state, reclassifications were made from the "Derivate instruments used for hedging purposes" category to the "Financial assets held for trading" category. In addition, following the impairment recorded on positions held in another European sovereign state and the resulting ineffectiveness of the hedge, additional reclassifications were made from the "Derivate instruments used for hedging purposes" category to the "Financial assets held for trading" category. Please refer to the information provided in note 4.8 for further details.

Table detailing the changes in the carrying amount:

Debt instruments	2010	2011
Situation as at January 1	11,283,043,418	10,661,088,955
Acquisitions	2,591,778,038	1,218,947,796
Sales	-123,661,195	-954,547,519
Reimbursements	-3,023,971,249	-2,269,196,487
Realised results	41,209	-24,812,742
Accrued Interest	-20,350,063	-16,162,092
Fair value revaluation	-142,859,464	-112,576,387
Impairment	51,859,568	-89,447,336
Foreign exchange difference	45,208,692	25,198,332
Situation as at December 31	10,661,088,955	8,438,492,520

Equity instruments

Fair value adjustments of equity instruments		
	31.12.2010	31.12.2011
Equity instruments	595,766,839	577,613,137
Impairment of financial assets	-9,858,724	-11,024,737

4.3 INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

	31.12.2010	31.12.2011
Book value as at January 1	30,191,327	35,294,914
Establishment	5,142,499	-
Sales	-38,912	-
Integration of Luxair S.A.	-	14,830,609
Total	35,294,914	50,125,523

List of associates:

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

Associates	Percentage of capital held (in %)	Acquisition cost 2010	Value accounted for using the equity method 2010
Société Nationale de Contr. Tech. S.à r. l.	20.00	24,789	2,086,763
Bourse de Luxembourg	22.74	112,166	16,344,181
Parking Théâtre	26.23	8,733	187,584
Europay Luxembourg	27.90	129,283	1,018,466
Visalux	35.46	393,657	1,379,586
La Luxembourgeoise	40.00	16,856,760	94,721,097
La Luxembourgeoise-Vie	40.00	12,047,625	60,844,852
Biotechcube (BTC) Luxembourg	50.00	5,000,000	4,809,296
Sub-total direct associates		34,573,014	181,391,825
Pecoma International	33.33	170,000	229,783
EFA Partners	29.05	551,900	836,275
Sub-total indirect associates		721,900	1,066,058
Total		35,294,914	182,457,883

4.4 HELD TO MATURITY SECURITIES

Categories	31.12.2010			31.12.2011		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Debt instruments						
Public sector	25,165,776	645,357,947	670,523,723	-	356,757,757	356,757,757
Credit institutions	1,272,767,049	1,800,613,858	3,073,380,907	1,781,845,365	1,911,554,916	3,693,400,281
Corporate	316,668,342	313,274,788	629,943,130	186,350,472	407,818,988	594,169,460
Total	1,614,601,166	2,759,246,593	4,373,847,760	1,968,195,837	2,676,131,661	4,644,327,498

The Group has not recognised any impairment loss at year-end on held-to-maturity securities.

The significant increase of the value of this portfolio is in line with the Group's ALM policy.

In the second half of 2011, the Group sold its entire positions held in Italian sovereign debt under this category. The total value of securities sold represented approximately 8% of the value of all held-to-maturity securities as at January 1, 2011. Please refer to the information provided in note 4.7 for further details.

Table detailing the variation of the book value:

Investment held to maturity	2010	2011
Situation as at January 1	2,845,872,095	4,373,847,759
Acquisitions	2,145,320,932	2,264,859,482
Sales	-	-354,958,334
Reimbursements	-625,225,832	-1,613,248,851
Realised results	-	-18,055,572
Accrued interest	7,880,565	-10,658,189
Foreign exchange difference	-	2,541,203
Situation as at December 31	4,373,847,759	4,644,327,498

4.5 COLLATERALISED SECURITIES IN THE CONTEXT OF REPURCHASE AGREEMENTS

Categories	31.12.2010	31.12.2011
Debt instruments issued - Others	18,618,077	55,132,527
Equity instruments	-	5,380,800
Total	18,618,077	60,513,327

Debt instruments are primarily available for sale and held to maturity assets, whereas equity instruments are trading assets.

The decrease in the different categories is due to a non-renewal of matured contracts.

4.6 CONVERTIBLE BONDS INCLUDED IN THE DIFFERENT PORTFOLIOS

Categories	31.12.2010	31.12.2011
Convertible bonds	95,420,347	22,730,365

Convertible bonds in which the Group has invested are available-for-sale assets and are hedged by swaps against the fluctuations of interest rates. No new investment in convertible bonds has been made during 2011.

4.7 SOVEREIGN BONDS INCLUDED IN THE DIFFERENT PORTFOLIOS

With the escalation of the sovereign debt crisis, the exposures of banks to a number of sovereign states was published following the European banking stress test and the assessment of bank recapitalisation needs conducted by the European Banking Authority (EBA) on the basis of figures at December 31, 2010 and September 30, 2011, respectively. The updated exposure of the Group's parent company to some European sovereign states at December 31, 2011 breaks down as follows:

Nominal amount by country and year of maturity:

	2013	2014	2015	2016	2017	2018	2019	Total
Spain	100,000,000	-	-	-	-	-	65,000,000	165,000,000
Greece	-	-	25,000,000	55,000,000	50,000,000	-	-	130,000,000
Italy	-	155,991,612	289,365,888	355,000,000	300,000,000	90,000,000	25,000,000	1,215,357,500
Portugal	-	65,000,000	100,000,000	-	-	-	25,000,000	190,000,000
Total	100,000,000	220,991,612	414,365,888	410,000,000	350,000,000	90,000,000	115,000,000	1,700,357,500

Carrying amount by asset class:

Country	31.12.2010			31.12.2011		
	Available for sale assets	Held to maturity assets	Total	Available for sale assets	Held to maturity assets	Total
Spain	166,597,167	4,997,415	171,594,582	167,939,697	5,001,740	172,941,437
Greece	84,539,994	-	84,539,994	32,871,549	-	32,871,549
Italy*	1,967,511,090	383,814,314	2,351,325,404	1,134,927,509	-	1,134,927,509
Portugal	163,483,466	15,105,759	178,589,224	122,218,243	15,107,985	137,326,228
Total	2,382,131,717	403,917,488	2,786,049,205	1,457,956,998	20,109,725	1,478,066,723

Fair value by asset class:

Country	31.12.2010			31.12.2011		
	Available for sale assets	Held to maturity assets	Total	Available for sale assets	Held to maturity assets	Total
Spain	166,597,167	4,685,271	171,282,438	167,939,697	4,924,921	172,864,618
Greece	84,539,994	-	84,539,994	32,871,549	-	32,871,549
Italy*	1,967,511,090	386,750,500	2,354,261,590	1,134,927,509	-	1,134,927,509
Portugal	163,483,466	14,259,347	177,742,813	122,218,243	11,204,132	133,422,375
Total	2,382,131,717	405,695,118	2,787,826,835	1,457,956,998	16,129,053	1,474,086,051

* At year-end 2010, the Bank had a CDS contract on its books whose underlying asset was the "Italian Republic". This contract expired in mid-2011 (nominal of EUR 37.4 million and fair value of EUR -0.3 million).

The Bank has no exposure to Irish sovereign debt.

To reduce its exposure to Italian sovereign risk, the Bank sold substantial positions from the available-for-sale assets' category throughout the second half of 2011. These sales, for a nominal amount of EUR 735 million, generated a loss of EUR 24.9 million with respect to 2011.

In addition, following the downgrade of Italy's sovereign rating by the rating agencies and in its internal rating model, the Bank sold all its Italian sovereign debt positions in the held-to-maturity securities' category. These positions, bought well ahead of the start of the sovereign debt crisis, no longer met the conditions valid at recognition in terms of cost of risk and in compliance with the Bank's procedure mentioned in note 3.2.2.

The Bank therefore applied the provisions set out in IAS 39, paragraph AG 22 (a) to justify these sales, which do not call into question either its intention to hold or its capacity to finance other positions classified as held-to-maturity securities. Sales from this portfolio generated a loss of EUR 18.1 million that was recorded in the income statement under the heading "Income from financial instruments not recognised at fair value through profit or loss" for the year 2011.

Specific treatment for Greece and approach implemented:

Among countries that have sought funds from the European rescue system, Greece is the only one to have shown objective evidence of impairment under IFRS, specifically IAS 39, paragraph 9iii.

The judgements and accounting estimates taken to translate this paragraph of the standard into management rules are explained in section 2.3.3.3 "Impairment of available-for-sale assets". With a view to measure fair value in an active Greek sovereign debt market at year-end 2011, an average impairment allocation of 74.71% was recognised on Greek sovereign debt holdings.

All positions held by the Bank fall within the scope of the programme to reschedule a portion of Greek debt held by the private sector. This programme was launched in the summer of 2011 and its precise conditions had yet to be finalised when the Bank's 2011 financial statements were prepared.



4.8 DERIVATIVE INSTRUMENTS

Categories 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
- <i>Foreign exchange swaps and forward foreign exchange contracts</i>	191,427,549	27,917,707	8,776,975,002
- <i>Others</i>	9,725,519	9,593,356	773,127,072
Operations linked to interest rates	27,176,612	110,687,687	2,272,546,036
- <i>IRS</i>	27,176,612	110,687,687	2,272,546,036
Operations linked to credit risk	1,287	1,378,408	80,191,095
- <i>Credit derivatives (CDS)</i>	1,287	1,378,408	80,191,095
Fair value hedge	143,037,885	713,548,684	8,664,555,752
Operations linked to exchange rates	51,396,419	107,069,616	796,482,791
- <i>CCIS</i>	51,396,419	107,069,616	796,482,791
Operations linked to interest rates	12,837,981	575,636,619	5,880,709,826
- <i>IRS (interest rate)</i>	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
- <i>IRS (other indices)</i>	78,803,484	30,842,449	1,987,363,135
Cash flow hedge	6,155,169	-	67,800,000
Operations linked to interest rates	6,155,169	-	67,800,000
- <i>IRS</i>	6,155,169	-	67,800,000

Categories as at 31/12/2010	Assets	Liabilities	Notional
Derivative instruments used for trading purposes	105,690,556	129,295,912	11,230,449,175
Operations linked to exchange rates	85,260,831	100,168,918	10,154,226,767
- <i>Foreign exchange swaps and forward foreign exchange contracts</i>	85,260,357	97,673,666	10,129,966,843
- <i>Others</i>	474	2,495,252	24,259,924
Operations linked to interest rates	20,424,625	22,435,145	914,422,737
- <i>IRS</i>	20,424,625	22,435,145	914,422,737
Operations linked to credit rates	5,100	6,691,850	161,799,671
- <i>Credit derivatives (CDS)</i>	5,100	6,691,850	161,799,671
Fair value hedge	51,348,758	597,643,298	10,084,599,049
Operations linked to exchange rates	6,649,592	46,700,133	769,273,657
- <i>CCIS</i>	6,649,592	46,700,133	769,273,657
Operations linked to interest rates	36,575,339	484,758,453	6,842,893,618
- <i>IRS (interest rate)</i>	36,575,339	484,758,453	6,842,893,618
Operations linked to other indices	8,123,827	66,184,712	2,472,431,774
- <i>IRS (other indices)</i>	8,123,827	66,184,712	2,472,431,774
Cash flow hedge	2,065,308	-	73,800,000
Operations linked to exchange rates	2,065,308	-	73,800,000
- <i>IRS</i>	2,065,308	-	73,800,000

Significant changes in notional amounts under the headings "Operations linked to interest rates – IRS" in the "Derivative instruments held for trading" and "Fair value hedge" categories are explained as follows:

- the partial sale of hedged positions held in a European sovereign state and a EUR 735 million reduction in the notional amount in the "Fair value hedge" category, with an offsetting EUR 920 million increase in the notional amount in the "Derivate instruments held for trading" category. The difference in the reclassified notional amount is due in part to interest-rate swaps (IRS) with a notional amount of EUR 275 million that were unwound following the sale of hedged positions, and in part to IRS with a notional amount of EUR 460 million that were reclassified and whose interest flows were hedged by offsetting contracts with an identical notional amount;
- an impairment allocation applied to the total hedged position held in another European sovereign state, which led to a EUR 130 million reduction in the "Fair value hedge" category and a parallel increase in the "Derivate instruments held for trading" category of the same notional amount.

4.9 LOANS AND ADVANCES AT AMORTISED COST - CREDIT INSTITUTIONS

Categories	31.12.2010			31.12.2011		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Interbank loans	3,837,642,136	130,696,009	3,968,338,145	2,560,068,331	350,964,056	2,911,032,387
Reverse repurchase agreements	2,007,177,084	-	2,007,177,084	2,906,154,703	-	2,906,154,703
Roll-over credits	94,079,038	2,503,224	96,582,263	40,690,112	-	40,690,112
Finance lease	32,711	501,856	534,567	70,237	294,669	364,906
Sub-total	5,938,930,969	133,701,089	6,072,632,058	5,506,983,382	351,258,725	5,858,242,107
Unused confirmed credit lines			54,753,138			52,679,412
Impairment of financial assets			-			-

In the event of reverse repurchase transactions, the Group becomes the legal owner of the securities received as a collateral and has the right to sell or collateralise these securities. As of December 31, 2011, no such security had been sold or collateralised.

4.10 LOANS AND ADVANCES AT AMORTISED COST - CUSTOMERS

Categories	31.12.2010			31.12.2011		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Retail customers	257,952,115	8,193,892,843	8,451,844,958	1,542,479,904	7,744,813,801	9,287,293,705
Corporate customers	1,730,104,422	1,954,933,524	3,685,037,945	3,313,676,309	2,022,321,863	5,335,998,172
Public sector	191,365,805	1,744,104,395	1,935,470,200	238,798,828	1,731,943,532	1,970,742,361
Sub-total	2,179,422,342	11,892,930,761	14,072,353,104	5,094,955,041	11,499,079,197	16,594,034,238
Unused confirmed credit lines			3,066,135,238			2,940,651,273
Impairment of financial assets			-83,624,118			-59,702,421

Of which finance leases:

Categories	31.12.2010			31.12.2011		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Finance leases	9,426,103	88,986,065	98,412,168	2,869,115	100,767,654	103,636,770
Sub-total	9,426,103	88,986,065	98,412,168	2,869,115	100,767,654	103,636,770

Impairment of loans and advances

	Retail customers	Corporate	Public sector	Total
Situation as at January 1, 2010	18,114,431	63,020,280	-	81,134,711
Additions	11,279,773	9,991,740	-	21,271,513
Reversals	-5,823,252	-6,882,615	-	-12,705,867
Write-off (*)	-1,330,581	-4,439,008	-	-5,769,589
Reclassification from guarantees to other provisions	-34,900	-271,749	-	-306,649
Situation as at December 31, 2010	22,205,471	61,418,648	-	83,624,118
Impairment of financial assets - individual assessment	15,593,847	61,418,648	-	77,012,494
Impairment of financial assets - collective assessment	6,611,624	-	-	6,611,624
Total	22,205,471	61,418,648	-	83,624,118
Situation as at January 1, 2011	22,205,471	61,418,648	-	83,624,118
Customers 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 (*)	-450,050	-13,776,259	-	-14,226,309
Foreign exchange difference	-	216,295	-	216,295
Situation as at December 31, 2011	18,941,859	40,760,561	-	59,702,421
Impairment of financial assets - individual assessment	11,661,294	40,760,561	-	52,421,856
Impairment of financial assets - collective assessment	7,280,565	-	-	7,280,565
Total	18,941,859	40,760,561	-	59,702,421

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

Outstanding amounts on impaired loans: EUR 182,374,230 as at December 31, 2011 against EUR 216,358,142 a year earlier.

Impairment losses cover the principal amount and interest.

4.11 TANGIBLE ASSETS FOR OWN USE

	Land and buildings	Other furnitures and fittings	TOTAL
Situation as at January 1, 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
Situation as at December 31, 2011	238,358,405	55,419,302	293,777,707
Accumulated depreciation			
Situation as at January 1, 2011	80,338,530	37,342,723	117,681,252
Increase	-905,148	-12,908,062	-13,813,210
Decrease	5,384,621	8,876,694	14,261,315
Situation as at December 31, 2011	84,818,003	33,311,354	118,129,357
Net book value			
Situation as at January 1, 2011	153,098,655	20,560,124	173,658,779
Situation as at December 31, 2011	153,540,402	22,107,948	175,648,350

	Land and buildings	Other furnitures and fittings	TOTAL
Situation as at January 1, 2010	229,422,998	62,361,596	291,784,594
Increase	4,014,187	6,628,985	10,643,172
Decrease	-	-11,087,735	-11,087,735
Situation as at December 31, 2010	233,437,185	57,902,846	291,340,031
Accumulated depreciation			
Situation as at January 1, 2010	75,216,302	39,368,153	114,584,455
Increases	-	-11,087,735	-11,087,735
Decreases	5,122,228	9,062,305	14,184,533
Situation as at December 31, 2010	80,338,530	37,342,723	117,681,252
Net book value			
Situation as at January 1, 2010	154,206,696	22,993,443	177,200,140
Situation as at December 31, 2010	153,098,655	20,560,124	173,658,779

4.12 INTANGIBLE ASSETS

Situation as at January 1, 2011	32,959,571
Increase	11,676,717
Decrease	-8,276,063
Situation as at December 31, 2011	36,360,225

Accumulated depreciation

Situation as at January 1, 2011	20,024,020
Reversals	-8,276,063
Additions	12,120,075
Situation as at December 31, 2011	23,868,033

Net book value

Situation as at January 1, 2011	12,935,550
Situation as at December 31, 2011	12,492,192

Situation as at January 1, 2010	25,210,714
Increase	15,618,361
Decrease	-7,869,505
Situation as at December 31, 2010	32,959,571

Accumulated depreciation

Situation as at January 1, 2010	14,913,379
Adjustment	1,495,217
Reversals	-7,869,505
Additions	11,484,929
Situation as at December 31, 2010	20,024,020

Net book value

Situation as at January 1, 2010	10,297,335
Situation as at December 31, 2010	12,935,550

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

4.13 INVESTMENT PROPERTY

Situation as at January 1, 2011	26,432,731
Increase (acquisitions)	-
Increase (investment expenditure)	3,408,547
Decrease	-
Situation as at December 31, 2011	29,841,278

Accumulated depreciation

Situation as at January 1, 2011	11,349,921
Reversals	-
Additions	548,822
Situation as at December 31, 2011	11,898,744

Net book value

Situation as at January 1, 2011	15,082,810
Situation as at December 31, 2011	17,942,535

Situation as at January 1, 2010	26,250,697
Increase (acquisitions)	-
Increase (investment expenditure)	182,034
Decrease	-
Situation as at December 31, 2010	26,432,731

Accumulated depreciation

Situation as at January 1, 2010	10,848,802
Reversals	-
Additions	501,119
Situation as at December 31, 2010	11,349,921

Net book value

Situation as at January 1, 2010	15,401,895
Situation as at December 31, 2010	15,082,810

The rental income from rented out investment property amounts to EUR 2,408,112 for the year 2011, against EUR 2,365,366 a year earlier. Maintenance costs in relation to investment property amount to EUR 779,866 as at December 31, 2011, compared to EUR 583,821 in 2010.

The fair value of investment property amounts to EUR 58,832,536 as at December 31, 2011, compared to EUR 46,668,512 as at December 31, 2008, which was the last evaluation date.

4.14 OTHER ASSETS

Categories	31.12.2010	31.12.2011
Miscellaneous debtors ⁽¹⁾	7,770,458	16,436,603
Other short-term receivables ⁽²⁾	36,989,396	12,729,305
Others	3,275,713	9,538,987
Total	48,035,566	38,704,895

(1) Mainly operations on securities and coupons.

(2) Mainly operations on credit cards and cheques.

4.15 TAX ASSETS AND LIABILITIES

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

As at December 31, 2011, the Group records a current tax liability of EUR 75,779,375.

For transparency reasons, the Group changed the presentation of deferred tax assets and liabilities in 2010. All deferred tax assets and liabilities accounted for through the income statement in 2008 and 2009 have been added to current tax provision. Amounts reclassified are EUR -920,805 and EUR 19,673,457 for the year 2011.

For 2010 and 2011, all valuation results processed through the income statement have been considered in the current tax calculation.

As no new tax law incorporating IFRS standards has been passed until the end of the year 2011, and in agreement with tax authorities, the Group evaluates current tax liability through the increase in net assets of the balance sheet items resulting from postings through the income statement.

As at December 31, 2011, the Group records a deferred tax asset of EUR 161,912,281 and a deferred tax liability of EUR 121,576,650.

4.15.1 Tax assets

Categories	31.12.2010	31.12.2011
Current tax assets	71,597	-
Deferred tax assets	121,655,251	164,912,281
Tax assets	121,726,848	164,912,281

Breakdown of deferred tax assets according to their origin:

Categories	31.12.2010	31.12.2011
Debt instruments - application of fair value	106,219,548	142,282,346
Capital instruments - application of fair value	3,495,670	3,743,549
Pension funds - actuarial difference	11,940,033	18,886,386
Deferred tax assets	121,655,251	164,912,281

4.15.2 Tax liabilities

Categories	31.12.2010	31.12.2011
Current tax liabilities	54,595,060	75,779,375
<i>Income tax</i>	45,246,769	64,068,845
<i>Commercial tax</i>	9,348,291	11,710,530
Deferred tax liabilities	172,870,318	121,576,650
Tax liabilities	227,465,378	197,356,025

Breakdown of deferred tax liabilities according to their origin:

Categories	31.12.2010	31.12.2011
Derivatives - application of fair value	878,053	1,772,258
Debt instruments - application of fair value	20,345,874	496,129
Capital instruments - application of fair value	17,088,314	13,383,504
Regulatory and other provisions	134,558,077	105,924,759
Deferred tax liabilities	172,870,318	121,576,650

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

Deferred tax assets / liabilities	01.01.2011	Equity movements	Income statement movements	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

Deferred tax assets / liabilities	01.01.2010	Equity movements	Income statement movements	31.12.2010
Deferred tax assets	200,944,591	-79,466,084	176,744	121,655,251
Deferred tax liabilities	-279,584,847	126,021,261	-19,306,732	-172,870,318
Net deferred tax assets / liabilities	-78,640,256	46,555,177	-19,129,988	-51,215,067

4.16 DEBT CERTIFICATES ISSUED

Categories	31.12.2010			31.12.2011		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Cash certificates	430,699,547	326,690,216	757,389,762	466,147,189	393,902,441	860,049,630
Commercial paper	4,664,515,796	-	4,664,515,796	4,730,980,856	-	4,730,980,856
Medium Term Notes and other securities issued	140,626,769	1,699,720,486	1,840,347,255	321,800,512	1,364,217,465	1,686,017,977
Total	5,235,842,112	2,026,410,702	7,262,252,814	5,518,928,557	1,758,119,906	7,277,048,463

of which:

- Subordinated notes	-	262,535,727	262,535,727	21,160,545	240,758,543	261,919,088
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For 2011, the Group issued EMTNs for an amount of EUR 591,882,999 (EUR 865,652,825 for 2010).

New issues in	2010	2011
With a maturity of < 2 years	38,250,000	85,558,069
With a maturity between 2 and 5 years	704,707,479	465,159,000
With a maturity of more than 5 years	122,695,345	41,165,930
Total	865,652,825	591,882,999
<i>of which:</i>		
- Subordinated notes (at issuance value)	-	-
- Structured notes (at issuance value)	780,652,825	591,882,999

The main category of structured notes issued in 2011 are interest linked notes.

Securities issued which have either come to maturity or have been reimbursed prior to maturity during the year 2011 or 2010:

	2010	2011
Maturities / reimbursements	1,088,773,837	861,419,223
Total	1,088,773,837	861,419,223
<i>Of which:</i>		
- Subordinated notes (at issuance value)	-	-
- Structured notes (at issuance value)	1,088,773,837	861,419,223

For 2011, the Group repurchased own debt issued for an amount of EUR 35,602,656 (EUR 33,175,663 for 2010).

Breakdown as at December 31, 2011 of subordinated notes

Description	Rate	Currency	Balance upon issuance	Assimilated part	Non-assimilated part
Loan 1999 - 2014	1.910	EUR	20,000,000	12,000,000	8,000,000
Loan 2000 - 2012	6.720	GBP	11,936,023	2,387,205	9,548,818
Loan 2000 - 2015	1.837	EUR	25,000,000	20,000,000	5,000,000
Loan 2000 - 2020	1.827	EUR	23,100,000	23,100,000	-
Loan 2001 - 2016	2.700	EUR	25,000,000	25,000,000	-
Loan 2001 - 2021	2.167	EUR	20,000,000	20,000,000	-
Loan 2001 - 2021	2.167	EUR	30,000,000	30,000,000	-
Loan 2002 - 2012	3.310	EUR	3,760,000	752,000	3,008,000
Loan 2002 - 2012	1.922	EUR	5,500,000	1,100,000	4,400,000
Loan 2002 - 2022	2.090	EUR	50,000,000	50,000,000	-
Loan 2003 - 2013	0.883	JPY	49,930,098	19,972,039	29,958,059
Total			264,226,121	204,311,244	59,914,877

The interest expense on subordinated notes amounts to EUR 7,706,843 as at December 31, 2011, against EUR 6,396,307 as at December 31, 2010.

4.17 DEPOSITS AT AMORTISED COST – CREDIT INSTITUTIONS

Categories	31.12.2010			31.12.2011		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Interbank deposits	4,013,528,950	-	4,013,528,950	4,188,130,023	11,035,519	4,199,165,542
Repurchase agreements	20,007,000	-	20,007,000	56,450,159	-	56,450,159
Total	4,033,535,950	-	4,033,535,950	4,244,580,182	11,035,519	4,255,615,701

4.18 DEPOSITS AT AMORTISED COST – PRIVATE CUSTOMERS AND PUBLIC SECTOR

Categories	31.12.2010			31.12.2011		
	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year	Total
Private customers	18,848,466,202	158,023,030	19,006,489,233	20,329,534,765	153,518,189	20,483,052,954
- Repayable on demand	3,733,158,609	-	3,733,158,609	4,354,749,170	-	4,354,749,170
- Time-deposit account	5,188,921,268	158,023,030	5,346,944,299	6,444,838,951	153,518,189	6,598,357,140
- Savings	9,926,386,325	-	9,926,386,325	9,524,664,291	-	9,524,664,291
- Repurchase agreements	-	-	-	5,282,353	-	5,282,353
Public Sector	3,923,577,526	652,129	3,924,229,655	3,833,740,144	7,470,617	3,841,210,761
Total	22,772,043,728	158,675,159	22,930,718,886	24,163,274,909	160,988,806	24,324,263,715

4.19 PENSION FUND – DEFINED BENEFIT PENSION PLAN

Main estimates used in determining pension commitments:

Variables	31.12.2010	31.12.2011
Discount rate for staff (active)	4.80%	4.60%
Discount rate for retired staff	4.50%	3.60%
Future salary increases (indexation included)	3.50%	3.50%
Future pension increases (indexation included)	2.50%	2.50%
Expected return	3.00%	3.00%

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

Components	31.12.2010	31.12.2011
Current service cost	3,494,188	3,989,178
Interest cost	11,718,524	13,391,409
Expected return	-8,641,138	-8,682,527
Total	6,571,574	8,698,060

2010 is the first full year since the pension fund's outsourcing on December 1, 2009.

Pension commitments:

	2010	2011
Commitments as at January 1	296,053,782	290,701,061
Current service cost	3,494,188	3,989,178
Interest cost	11,718,524	13,391,409
Paid benefits	-9,867,805	-10,529,495
Actuarial gains / losses	-10,697,629	24,835,351
Commitments as at December 31	290,701,061	322,387,504

The Bank does not record civil servants' pension payments until reimbursement to the Luxembourg State which directly pays the pensions of the civil-servants employed by the Bank prior to their retirement. Therefore, paid benefits amounting to EUR 10,529,495 in 2011 include reimbursements to the Luxembourg State for the pensions paid to its civil servants in the course of the year 2010.

Pension plan assets:

	2010	2011
Situation as at January 1	288,037,842	289,417,575
Pension payments	-9,924,956	-10,529,495
Contribution	7,908,239	16,901,513
Expected return	8,641,138	8,682,527
Actuarial gains / losses	-5,244,688	716,070
Situation as at December 31	289,417,575	305,188,189

On top of the 2011 annual contribution of EUR 8,947,978, the Bank made a special contribution of EUR 7,953,535. This special contribution absorbs the difference between the pension fund's assets measured at fair value and the pension fund's commitments discounted at a rate of 4.50%.

Pension plan investments:

	2010	2011
Fixed income securities	81.46%	90.12%
Variable income securities	0.69%	3.35%
Other assets (deposits)	17.85%	6.53%
Total	100.00%	100.00%

Net pension commitments:

	2009	2010	2011
Pension commitments	296,053,782	290,701,061	322,387,504
Fair value of the assets of the pension plan	-288,037,842	-289,417,575	-305,188,190
Unfinanced commitments	8,015,940	1,283,486	17,199,314

Stock of actuarial gap:

Stock as at January 1, 2010	-17,311,900
net variation 2010	-5,452,943
Stock as at December 31, 2010	-22,764,843
Stock as at January 1, 2011	-22,764,843
net variation 2011	24,119,281
Stock as at December 31, 2011	1,354,438

The 2012 annual contribution to the pension fund is estimated at EUR 8,553,500.

4.20 PROVISIONS

Movements of the financial year:

	31.12.2010	31.12.2011
Situation as at January 1	4,620,893	4,321,642
Allowance	264,506	755,081
Reversal	-45,453	-142,078
Write-off	-518,305	-121,281
Situation as at December 31	4,321,642	4,813,364

4.21 OTHER LIABILITIES

Categories	31.12.2010	31.12.2011
Short term payables ⁽¹⁾	33,767,110	28,774,809
Preferential or secured creditors	27,454,027	34,972,208
Total	61,221,137	63,747,017

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

4.22 TRANSACTIONS WITH RELATED PARTIES

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

4.22.1 Governmental institutions

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

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

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

in euro	31.12.2010	31.12.2011
ASSETS (principally loans at amortised cost)	2,748,463,925	2,774,917,333

in euro	31.12.2010	31.12.2011
LIABILITIES (Deposits at amortised cost)	3,700,231,664	2,881,892,315

4.22.2 Allowances to the Bank's management and administrative bodies

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

	31.12.2010	31.12.2011
Board of Directors (9 members)	113,000	111,850
Executive Committee (5 members)	904,815	922,939
Total	1,017,815	1,034,789

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

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

	31.12.2010	31.12.2011
Board of Directors (9 members)	920,597	1,127,263
Executive Committee (5 members)	1,485,759	1,431,791
Total	2,406,356	2,559,054

4.23 INDEPENDENT AUDITOR'S FEES

	2010	2011
Audit	470,000	482,000
Other audit services	72,000	91,000
Tax services	6,700	30,000
Others	140,689	132,942
Total	689,389	735,942

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

	31.12.2010	31.12.2011
Completion guarantees	394,973,633	483,517,832
Credit letters	44,849,753	46,382,189
Counter-guarantees	314,130,787	397,008,018
Documentary credits	25,984,056	28,699,076
Others	92,668,597	90,032,148
Total	872,606,827	1,045,639,263

Commitments

	31.12.2010	31.12.2011
Amounts subscribed and unpaid on securities, participating interests and shares in affiliated undertakings	5,416,350	3,934,507
Loan commitments	3,120,888,376	2,993,330,685
Others	3,934,507	10,265,861
Total	3,130,239,233	3,007,531,053

Management of third-party assets

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



5. Notes to the income statement³ (in euro)**5.1 INTEREST INCOME**

Interest received and similar income	2010	2011
Assets repayable on demand	5,289,763	6,860,763
Financial assets held for trading	23,613,253	27,441,638
Available for sale financial assets	321,777,812	314,476,540
Loans and advances - Debt instruments	30,961,184	39,960,253
Loans and advances - Loans and advances	358,797,885	436,221,949
Held to maturity investments valued at amortised cost	98,258,849	114,199,360
Derivatives used for hedging purposes, interest rate risk	205,280,244	203,156,300
Other assets	962,639	869,444
Total	1,044,941,629	1,143,186,247
Interest paid and similar expense	2010	2011
Financial liabilities held for trading	-14,096,687	-37,208,695
Liabilities measured at amortised cost - Deposits	-173,230,984	-239,649,918
Liabilities measured at amortised cost - Debt certificates	-55,289,249	-61,772,257
Liabilities measured at amortised cost - Subordinated debts	-4,737,086	-5,937,109
Derivatives used for hedging purposes, interest rate risk	-418,512,767	-380,926,974
Other liabilities	-1,151,928	-1,452,675
Total	-667,018,701	-726,947,628
Net interest income	377,922,928	416,238,619
Total of interest received and similar income on financial instruments not recognised at fair value through profit or loss	1,021,328,376	1,115,744,609
Total of paid interest and similar expense on financial instruments not recognised at fair value through profit or loss	-652,922,014	-689,738,933

5.2 DIVIDEND INCOME

	2010	2011
Financial assets held for trading	477	29
Available for sale financial assets	27,065,115	29,974,298
Dividend income	27,065,592	29,974,327

³ Minor differences between the figures in the notes to the income statement and the figures in the different consolidated statements are rounding differences.

5.3 COMMISSIONS

Categories	2010	2011
Loan activities	27,288,676	30,429,526
Asset management	17,643,063	17,100,418
Undertakings for collective investment activities	28,780,496	26,506,845
Repayable on demand and related activities	16,522,393	17,701,171
Insurance premium	3,788,255	3,811,172
Others	5,808,157	7,081,081
Commissions received and paid	99,831,040	102,630,213

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

Categories	2010	2011
Available for sale financial assets	1,784,424	-23,743,993
Loans and advances measured at amortised cost	242,605	255,981
Held to maturity investments	-	-18,055,571
Financial liabilities measured at amortised cost	-	-9,435
Total	2,027,029	-41,553,018

Significant changes within this income category stem in part from sales of positions held in a European sovereign state under the heading "Available-for-sale financial assets", and in part from sales of all positions held in the same European sovereign state under the heading "Held-to-maturity investments". Please refer to the information provided in note 4.7 for further details.

5.5 TRADING INCOME

Categories	2010	2011
Equity instruments and related derivatives	2,302,761	1,720,686
Currency exchange instruments and related derivatives	1,818,991	3,557,176
Interest rate instruments and related derivatives	-4,782,924	-73,757,601
Credit derivatives	-2,776,334	1,002,048
Commodities and related derivatives	1,485,558	1,927,065
Total	-1,951,949	-65,550,627

The significant change in this income category is due to the reclassification of interest rate swaps from the "Net income from hedge accounting" category to the "Income from financial instruments held for trading" category following the sale or impairment of assets that were originally hedged. Indeed, under 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 2011 sale or impairment of hedged assets. Interest rate swaps linked to asset sales were unwound to limit the Group's exposure to fluctuations in yield curves used in the calculation of fair value.

5.6 NET INCOME FROM HEDGE ACCOUNTING

Market risk hedging transactions are highly effective.

	2010	2011
Fair-value hedge		
Debt instruments (assets) hedged by derivatives	-68,646	-703,781
Debt issuances hedged by derivatives	179,733	-114,384
Loans hedged by derivatives	1,027,204	2,483,073
Deposits hedged by derivatives	5,504	44,970
Total	1,143,794	1,709,878
Value adjustment on hedged instruments	112,747,646	24,986,143
Value adjustment on hedging instruments	-111,603,852	-23,276,265
Total	1,143,794	1,709,878

5.7 OTHER NET OPERATING INCOME

	2010	2011
Other operating income	8,911,320	19,600,916
Other operating charges	-1,644,747	-1,087,937
Other net operating income	7,266,573	18,512,978

“Other operating income and expenses” include mainly:

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

5.8 STAFF EXPENSES

Categories	2010	2011
Wages	139,864,944	143,664,821
Social security costs	7,800,219	8,337,992
Pensions and similar expenses	11,100,149	11,360,752
Transfer to the pension fund	6,571,574	8,698,060
Other staff expenses	4,859,950	4,733,709
Total	170,196,836	176,795,334

5.9 OTHER ADMINISTRATIVE EXPENSES

Categories	2010	2011
Expenses linked to property and furnishing	16,077,754	17,718,283
Rents and maintenance of software	13,987,925	15,215,872
Operating costs linked to the banking business	22,737,031	22,428,120
Other	13,032,525	13,579,064
Total	65,835,235	68,941,339

5.10 VALUE ADJUSTMENTS ON TANGIBLE ASSETS**5.10.1 Depreciations**

Categories	2010	2011
Depreciation - buildings	5,122,228	5,196,622
Depreciation - equipment and furnishing	9,062,305	8,876,694
Depreciation of tangible assets	14,184,533	14,073,316

5.10.2 Impairments

In 2010 and 2011, the Group did not recognise any impairment on tangible assets under IAS 36.

5.11 VALUE ADJUSTMENTS ON INTANGIBLE ASSETS**5.11.1 Depreciations**

Categories	2010	2011
Depreciations	11,484,929	12,120,075
Depreciation of intangible assets	11,484,929	12,120,075

5.11.2 Impairments

In 2010 and 2011, the Group did not recognise any impairment on intangible assets under IAS 36.

5.12 VALUE ADJUSTMENTS ON INVESTMENT PROPERTY

5.12.1 Depreciation

Categories	2010	2011
Depreciations	501,119	548,822
Depreciation of tangible assets investment	501,119	548,822

5.12.2 Impairments

In 2010 and 2011, the Group did not recognise any impairment on investment property under IAS 36.

5.13 IMPAIRMENT OF FINANCIAL ASSETS - INDIVIDUAL AND COLLECTIVE ASSESSMENTS

5.13.1 Collective impairment

Collective impairment	2010			2011		
	Additions	Reversals	Total	Additions	Reversals	Total
Loans and advances	-2,684,754	1,215,252	-1,469,502	-717,460	48,519	-668,941
Total	-2,684,754	1,215,252	-1,469,502	-717,460	48,519	-668,941

5.13.2 Individual impairment

Individual impairment	2010			2011		
	Additions	Reversals	Total	Additions	Reversals	Total
Available for sale financial assets	-7,069,940	22,873,469	15,803,529	-107,985,735	10,462,520	-97,523,216
Loans and advances	-19,802,011	13,996,853	-5,805,158	-11,127,329	21,707,954	10,580,624
Total	-26,871,951	36,870,322	9,998,372	-119,113,065	32,170,473	-86,942,592

	2010	2011
Interest on depreciated financial assets available for sale	762,568	6,907,426
Interest on depreciated loans and advances	5,601,271	5,898,579
Total	6,363,839	12,806,005

5.14 PROVISIONS

	2010	2011
Provision allowance	36,294	639,937
Total	36,294	639,937

5.15 TAX EXPENSE

	2010	2011
Tax on income from ordinary operations	41,990,721	17,967,414
Deferred tax	19,129,988	-16,563,624
Tax on profit for the financial year	61,120,709	1,403,790

The standard tax rate applicable in Luxembourg was 28.80% as at December 31, 2011 and 28.59% as at December 31, 2010. The Group's effective tax rate was 1.09% and 21.88% for 2011 and 2010 respectively, given the differences between the Luxembourg tax base and the accounting principles for consolidated annual accounts in accordance with IFRS.

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

	2010	2011
Net income before tax	279,318,598	128,747,483
Tax rate	28.59%	28.80%
Theoretical tax at standard rate	79,857,187	37,079,275
Tax impact of non-deductible expenses	986,654	144,480
Tax impact of non-taxable income	-14,351,690	-12,914,624
Share of profit of associates	-3,266,500	-7,538,423
Tax rebate and relief	-1,749,528	-12,150,392
Tax refund from previous years	-1,747,750	-4,406,363
Others	1,392,336	1,189,837
Tax on profit for the financial year	61,120,709	1,403,790

For 2011, the Group took advantage of a unique investment tax allowance. This special allowance is deducted at the line "Tax rebate and relief".

Considering only current taxes for 2011, the Group's displayed effective tax rate is 13.96%.



6. Management of financial risks ⁴

6.1 GENERAL SET OF RULES FOR THE MANAGEMENT OF FINANCIAL RISKS

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

6.1.1 Organisation of Risk Management

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

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

6.1.2 Executive Committee

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

6.1.3 Responsibilities of the Risk Management department

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

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

The department consists of two units:

- **Analysis and Risk Monitoring:** The Analysis and Risk Monitoring unit is responsible for analysing and monitoring credit risk, either at individual exposure level or at the Group's various portfolios' level.

⁴ Minor differences between the figures in "Management of financial risks" and the figures in the different consolidated statements are rounding differences.

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

6.1.4 Compliance

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

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

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

6.1.5 Internal Audit

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

6.1.6 Systems measuring and tracking limits

6.1.6.1 Market risk

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

Within the framework of market risk measurement and monitoring, the Bank applies a set of indicators, including:

- Permanent calculation of the Basis Point Value (BPV) indicator for positions subject to interest rate risk. BPV is a simple and efficient method allowing to quantify market risk originating from small interest rate fluctuations for held positions. Traders are permanently operating within BPV limits set by the Executive Committee. Adherence to these limits is monitored by the Risk Control unit.

- Calculation of Value-at-risk (VaR), both for the trading book and the banking book, in order to measure amounts at risk with respect to positions held by the Bank. Risk amounts are subject to limits set by the Executive Committee and supervised by the Risk Control unit. VaR represents an improvement from less sophisticated indicators such as BPV, allowing to:
 - integrate correlations of changes in risk factors for held positions,
 - show potential loss in a single amount that can be compared to the Bank's equity,
 - quantify the probability of this loss occurring,
 - stress-test held positions in order to value the impact of unexpected market movements which may otherwise not be accurately captured by VaR.

6.1.6.2 Credit risk

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

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

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

6.1.6.3 Counterparty risk resulting from transactions on derivatives

The Bank has negotiated ISDA (International Swaps and Derivatives Association Inc.) framework agreements including CSA (Credit Support Annex) appendices in order to limit the counterparty risk resulting from transactions on derivatives where these transactions show a positive market valuation. By the end of 2011, approximately 90% of the volume of transactions on derivatives took place within the framework of these agreements.

6.1.6.4 Liquidity risk

Liquidity risk results from a mismatch between inflows and outflows at a specific date. The risk for a financial institution is that it may not, at a given point in time, be able to meet its payment obligations as a result of having insufficient liquid assets relative to its maturing liabilities. By virtue of its capital structure, the Bank generally is in an excess liquidity position.

The Bank continually monitors liquidity risk in line with maturities. This monitoring includes both very detailed reconciliation of cash inflows and outflows over a six month horizon and a medium- and long-term view of structural funding requirements.

In 2011, the Bank carried out the stress test required by CSSF circular 09/403. The stress test confirmed that the Bank would, by virtue of its liquid assets, be able to cope with unexpected large-scale withdrawals over an extended period.

Beyond that, the Bank has stable and diversified liabilities, whereof a very solid customer deposit base, Euro Commercial Paper (ECP), US Commercial Paper (USCP) and Euro Medium Term Note (EMTN) refinancing programmes, which add to its comfortable liquidity position. Furthermore, the Bank's high-quality fixed income securities' portfolio (with an average rating of AA-) ensures refinancing of its liabilities both with the "Banque centrale du Luxembourg" (BCL) and on the repo market.

In the event of an urgent call for large amounts of liquidity, the Bank has intraday and overnight credit lines with the BCL, secured by bonds issued by the public sector or other fixed-income securities. The Bank keeps a portfolio of at least EUR 4 billion in fixed-income securities which could be used as collateral for the BCL. In 2011, the portfolio of assets eligible for refinancing with the BCL or usable on the interbank market permanently exceeded EUR 9,4 billion.

CSSF Circular 07/301 explicitly mentions in § II.1. "Identification of risks" the risk linked to operations of securitisation that a credit institution sponsors or initiates. Securitisation can be considered as a technique of liquidity management since it enables assets to be removed from the balance sheet and thus allows a bank to raise funds. The Bank has not initiated or sponsored such an operation and it is not likely to do so in the future.

Since 2009, the Bank has been a member of the CLS⁵ foreign exchange transaction settlement system. Most transactions are handled by CLS. Membership of this system virtually eliminates settlement risk arising from foreign exchange transactions by way of the payment-versus-payment principle, and reduces the Bank's liquidity risk by netting transactions, leading to a considerable reduction in volumes settled.

6.2 EXPOSURE TO CREDIT RISKS

6.2.1 Objectives and management of credit risk

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

⁵ *Continuous-Linked Settlement*

With regard to loans granted to the domestic economy recognised in the balance sheet under the caption "Loans and advances at amortised cost - Customers", the decision-making structure is organised into a hierarchy with different credit committees, depending on the customer's overall outstanding amount. Starting at a defined threshold, files must be analysed and agreed to by the Bank's Executive Committee. The portfolio's structure is made up of residential mortgage loans for over half of the outstanding amount. Credit risk relating to residential mortgage loans is assessed by the process of evaluating customers' ability to pay and by the existence of guarantees. As far as loans and advances to companies are concerned, the Bank applies rigorous procedures to analyse files and to take sufficient guarantees. Particular attention is paid to the respect of limits per sector and per counterparty. Basel II methodology allows for a continuous monitoring of aggregate portfolios in respect of risk trends.

The Bank did not change its policy regarding risk management during the financial year 2011.

For interbank markets and international loans, contracts are recognised in the balance sheet under the captions "Loans and advances at amortised cost - Credit institutions", "Loans and advances at amortised cost - Customers" and "Available for sale financial assets - Fixed income securities". In these captions, a large majority of counterparties are made up of banking and financial institutions and a set of quantitative and qualitative analyses is used to allocate an internal rating to a counterparty. The quantitative element is based on the ratios that best describe the counterparty's profitability, capital strength, liquidity and the quality of its assets, while the qualitative analysis is done by the analyst, taking into account non-financial aspects such as market share, management quality and external rating. As in prior years, BCEE continuously applied a prudent investment policy in 2011, resulting in:

- a high degree of secured investments in covered bonds, rather than in senior bonds;
- a concentration in investments guaranteed by the European Union or some of its member States;
- consideration of the purchased bonds' refinancing capacities, either through collateralisation at "Banque centrale du Luxembourg" or on the repo and reverse repo markets.

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

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

Investments in derivatives are largely regulated using ISDA (International Swaps and Derivatives Association Inc.) type contracts, including compensation clauses in the event of bankruptcy of one of the counterparties. The Bank has introduced an additional risk mitigation technique by negotiating the CSA (Credit Support Annex) appendix to the ISDA contracts with its major counterparties in respect of off-balance sheet transactions.

On the basis of a periodical revaluation of bilateral positions, this annex provides for guarantees in the form of cash or first-class securities when the net value of outstanding agreements exceeds a certain threshold. At year-end 2011, approximately 90% of the total volume of derivative transactions was covered by an ISDA/CSA agreement.

6.2.2 Credit and concentration risk

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

Biannual reviews of limits impacting concentration risk components are the norm. Additional reviews may be added.

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

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

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

Maximum exposure to credit risk in euro	31.12.2010	31.12.2011
Cash and cash balances with central banks	1,305,028,308	2,459,527,085
Loans and advances at amortised cost - Credit institutions	6,072,632,058	5,858,242,107
Loans and advances at amortised cost - Customers	14,072,353,104	16,594,034,238
Financial assets held for trading	112,640,654	235,341,022
Derivative instruments used for hedging purposes	53,414,065	149,193,054
Available for sale financial assets - Fixed income securities	10,661,088,955	8,438,492,520
Held to maturity investments	4,373,847,760	4,644,327,498
Exposures relating to on-balance sheet commitments	36,651,004,903	38,379,157,524
Completion guarantees	394,973,633	483,517,832
Credit letters	44,849,753	46,382,189
Counter-guarantees	314,130,787	397,008,018
Documentary credits	25,984,056	28,699,076
Other	92,668,597	90,032,148
Loan commitments	3,120,888,376	2,993,330,685
Exposures relating to off-balance sheet commitments	3,993,495,203	4,038,969,948
Total exposure	40,644,500,106	42,418,127,472

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

- Collateral

Breakdown by type of collateral	2010	2011
Mortgages	7,550,606,245	9,343,055,020
Repurchase agreements	2,397,683,428	4,622,600,066
Pledge for cash deposits or security deposits	264,743,091	590,996,807

- Personal guarantees

Personal guarantees amounted to EUR 240,866,566 at the end of 2011, compared with EUR 372,361,224 in 2010.

- ISDA – CSA contracts.

- Global Master Repurchase Agreement (GMRA) contracts.

6.2.3 Analysis of credit risk on financial assets

The Group considers the carrying amount of financial assets to represent its credit risk exposure.

In order to meet the requirements of IFRS 7 “Financial Instruments: Disclosures”, credit risk exposure as at December 31, 2011 is detailed according to internal ratings.

The following tables relating to credit risk and concentration risk disclosures list exposures at their carrying amount, prior to risk mitigation. The calculation of a collateralisation rate has a risk mitigating effect.

Credit risk is shown according to the following segments:

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



Exposures by geographical sector:

Geographical sector as at December 31, 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 assets held for trading and derivatives used for hedging purposes	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 investments	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

Geographical sector as at December 31, 2010 (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	1,304,941	-	87	-	-	-	1,305,028
Loans and advances at amortised cost	20,039,006	10,676	35,893	20,822	-	38,588	20,144,985
Financial assets held for trading and derivatives used for hedging purposes	161,958	-	4,020	15	63	-	166,055
Available for sale securities	9,684,245	81,005	1,054,724	550,851	239,987	83,010	11,693,823
Held to maturity investments	3,900,499	-	246,566	152,080	74,703	-	4,373,848
Other	251,603	-	66	-	-	-	251,669
Total	35,342,251	91,681	1,341,356	723,768	314,753	121,598	37,935,407

Exposures by counterparty category and by risk classification:

	2010			2011		
	Outstanding amount	Outstanding amount including impairment	Average collateralisation rate	Outstanding amount	Outstanding amount including impairment	Average collateralisation rate
Cash and cash balances with central banks						
High grade	1,305,028,308	1,305,028,308	-	2,459,527,085	2,459,527,085	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total Categories		1,305,028,308			2,459,527,085	
Loans and advances at amortised cost						
Banks						
High grade	4,588,886,908	4,588,886,908	41.63%	4,316,468,525	4,316,468,525	39.70%
Standard grade	2,002,179,402	2,002,179,402	45.03%	734,230,760	734,230,760	53.23%
Sub-standard grade	5,006,415	5,006,415	-	2,924,376	2,924,376	-
Past due but not impaired	-	-	-	-	-	-
Impaired	10,166,667	-	-	466,381	-	-
Not rated	4,227,581	4,227,581	-	7,874	7,874	-
Corporates						
High grade	506,444,691	506,444,691	-	1,352,657,437	1,352,657,437	68.30%
Standard grade	622,410,030	622,410,030	3.50%	1,816,470,651	1,816,470,651	70.85%
Sub-standard grade	452,498,979	452,498,979	9.95%	640,154,618	640,154,618	37.66%
Past due but not impaired	5,222,158	5,222,158	9.95%	8,321,168	8,321,168	37.66%
Impaired	79,712,321	31,885,121	15.19%	61,248,348	24,637,424	32.52%
Not rated	163,353,325	163,353,325	1.06%	92,320,520	92,320,520	21.25%
Sovereigns						
High grade	2,763,534,015	2,763,534,015	0.27%	3,614,947,816	3,614,947,816	26.30%
Standard grade	-	-	-	-	-	-
Sub-standard grade	8,918	8,918	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	5	5	-

	2010			2011		
	Outstanding amount	Outstanding amount including impairment	Average collateralisation rate	Outstanding amount	Outstanding amount including impairment	Average collateralisation rate
Retail						
High grade	4,526,410,399	4,526,410,399	81.22%	4,769,966,269	4,769,966,269	89.18%
Standard grade	3,725,924,833	3,725,924,833	91.67%	4,208,844,527	4,208,844,527	94.97%
Sub-standard grade	630,233,807	630,233,807	88.31%	724,441,242	724,441,242	93.38%
Past due but not impaired	4,794,896	4,794,896	88.31%	7,520,447	7,520,447	93.38%
Impaired	128,879,546	109,860,919	73.99%	120,659,500	105,314,950	89.48%
Not rated	-	-	-	-	-	-
Others						
High grade	-	-	-	-	-	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	2,102,765	2,102,765	-	33,047,736	33,047,736	-
Total Categories		20,144,985,162			22,452,276,345	
Financial instruments held for trading and derivatives used for hedging purposes						
Banks						
High grade	134,803,620	134,803,620	19.86%	274,946,056	274,946,056	41.00%
Standard grade	22,622,828	22,622,828	45.69%	27,308,338	27,308,338	20.09%
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
not rated	113,086	113,086	-	10,882	10,882	-
Corporates						
High grade	-	-	-	45,291,235	45,291,235	-
Standard grade	4,360,177	4,360,177	-	23,904,354	23,904,354	-
Sub-standard grade	373,229	373,229	-	1,666,730	1,666,730	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	299,154	299,154	-
not rated	1,890,080	1,890,080	-	9,030,584	9,030,584	-

	2010			2011		
	Outstanding amount	Outstanding amount including impairment	Average collateralisation rate	Outstanding amount	Outstanding amount including impairment	Average collateralisation rate
Sovereigns						
High grade	1,891,699	1,891,699	-	1,816,022	1,816,022	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	1,347	1,347	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
not rated	-	-	-	-	-	-
Retail						
High grade	-	-	-	152,646	152,646	-
Standard grade	-	-	-	106,728	106,728	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
not rated	-	-	-	-	-	-
Total Categories		166,054,719			384,534,075	
Available for sale securities						
Banks						
High grade	4,080,983,244	4,080,983,244	-	3,493,832,048	3,493,832,048	-
Standard grade	1,372,175,182	1,372,175,182	-	867,647,712	867,647,712	-
Sub-standard grade	29,093,609	29,093,609	-	71,092,406	71,092,406	-
Past due but not impaired	-	-	-	-	-	-
Impaired	13,170,326	1,205,646	-	24,140,825	6,259,530	-
Not rated	-	-	-	-	-	-
Corporate						
High grade	407,259,784	407,259,784	-	266,808,942	266,808,942	-
Standard grade	1,518,373,083	1,518,373,083	-	1,581,262,246	1,581,262,246	-
Sub-standard grade	47,515,927	47,515,927	-	32,993,736	32,993,736	-
Past due but not impaired	-	-	-	-	-	-
Impaired	10,360,916	502,193	-	11,882,128	857,391	-
Not rated	106,006,508	106,006,508	-	120,450,989	120,450,989	-

	2010			2011		
	Outstanding amount	Outstanding amount including impairment	Average collateralisation rate	Outstanding amount	Outstanding amount including impairment	Average collateralisation rate
Sovereigns						
High grade	3,114,366,766	3,114,366,766	-	1,145,357,869	1,145,357,869	-
Standard grade	278,522,237	278,522,237	-	1,215,637,665	1,215,637,665	-
Sub-standard grade	89,696,916	89,696,916	-	169,451,430	169,451,430	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	132,260,533	32,871,549	-
Not rated	-	-	-	-	-	-
Retail						
High grade	598,075,817	598,075,817	-	413,543,502	413,543,502	-
Standard grade	25,675,062	25,675,062	-	63,966,567	63,966,567	-
Sub-standard grade	7,699,666	7,699,666	-	10,949,541	10,949,541	-
Past due but not impaired	-	-	-	-	-	-
Impaired	70,381,487	14,899,715	-	54,388,510	14,765,003	-
Not rated	-	-	-	-	-	-
Others						
High grade	1,771,179	1,771,179	-	4,879,065	4,879,065	-
Standard grade	-	-	-	-	-	-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
not rated	-	-	-	-	-	-
Total Categories		11,693,822,534			9,512,627,193	
Held to maturity securities						
Banks						
High grade	2,510,772,939	2,510,772,939	-	3,312,155,662	3,312,155,662	-
Standard grade	1,018,965,475	1,018,965,475	-	574,042,201	574,042,201	-
Sub-standard grade	-	-	-	64,803,558	64,803,558	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-

	2010			2011		
	Outstanding amount	Outstanding amount including impairment	Average collateralisation rate	Outstanding amount	Outstanding amount including impairment	Average collateralisation rate
Corporates						
High grade	80,649,566	80,649,566	-	4,358,613	4,358,613	-
Standard grade	5,287,453	5,287,453	-			-
Sub-standard grade	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Sovereigns						
High grade	715,869,881	715,869,881	-	639,274,988	639,274,988	-
Standard grade	42,302,444	42,302,444	-	-	-	-
Sub-standard grade	-	-	-	49,692,476	49,692,476	-
Past due but not impaired	-	-	-	-	-	-
Impaired	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total Categories		4,373,847,759			4,644,327,498	
Non-financial assets (*)	251,668,772	251,668,772	-	288,123,603	288,123,603	-
Total Categories		251,668,772	-		288,123,603	-
Total		37,935,407,254	-		39,741,415,801	-

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

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

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

Banks, Corporates and Sovereigns:

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

High grade: from AAA to A+

Standard grade: from A to BBB-

Sub-standard grade: from BB+ to BB-

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

Securitisations:

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

High grade: from AAA to A+

Standard grade: from A to BBB-

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

6.3 MARKET RISK**6.3.1 Determination of risk exposure**

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

6.3.2 Risk objectives and management

Within its market risk management policy, the Bank draws a distinction between transformation 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 risk associated with cash management and trading activities.

Transformation risk falls under the responsibility of the ALM (Asset Liability Management) committee. This committee ensures that the Bank's capital and invested funds are properly 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 department heads.

All components of market risk, such as interest rate risk and share price risk affecting the ALM, treasury or trading positions of on- and off-balance sheet instruments, 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. The Risk Control department, which is independent from the trading room, is in charge of formal reporting on compliance with limits and on levels of risk incurred to the Executive Committee.

Over the course of 2011, the Bank did not change its market risk management policy.

Risk levels are mainly monitored using a "Value at Risk" (VaR) model. Trading and treasury activities are each subject to their own VaR limits. The table below summarises the different key parameters in millions of euros:

Scope	Average daily VaR in 2011	Maximum daily VaR in 2011	VaR limit for the scope in question in 2011
ALM	6.611	7.861	12.5
Treasury	0.599	0.890	3
Trading	0.086	0.219	No limit

In addition to VaR, which is used to manage each market risk in an aggregate manner, the Bank uses other risk management tools depending on the characteristics of the different financial instruments. As such, interest rate risk is managed by simulating the impact of a parallel one basis point (0.01%) change in the interest rate 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 interest rate 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 fair value of financial instruments

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

Categories as at December 31, 2011	Carrying amount	Fair value	Unrealised result
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 assets held for trading	235,341,022	235,341,022	-
Hedging derivatives	149,193,054	149,193,054	-
Available for sale financial assets - Fixed income securities	8,438,492,520	8,438,492,520	-
Available for sale financial assets - Variable income securities	788,561,055	788,561,055	-
Held to maturity investments	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 - Customers and public sector	24,324,263,715	24,336,532,613	12,268,898
Financial liabilities held for trading	150,587,688	150,587,688	-
Derivative instruments used for hedging purposes	713,548,684	713,548,684	-
Debt certificates issued	7,277,048,463	7,277,048,463	-
TOTAL	36,721,064,251	36,733,333,149	12,268,898

Categories as at December 31, 2010	Carrying amount	Fair value	Unrealised result
Financial assets			
Cash and cash balances with central banks	1,305,028,308	1,305,028,308	-
Loans and advances at amortised cost - Credit institutions	6,072,632,058	6,072,632,058	-
Loans and advances at amortised cost - Customers	14,072,353,104	14,382,898,125	310,545,021
Financial assets held for trading	112,640,654	112,640,654	-
Hedging derivatives	53,414,065	53,414,065	-
Available for sale financial assets - Fixed income securities	10,661,088,955	10,661,088,955	-
Available for sale financial assets - Variable income securities	850,275,696	850,275,696	-
Held to maturity investments	4,373,847,760	4,345,183,892	-28,663,868
TOTAL	37,501,280,600	37,783,161,753	281,881,153
Financial liabilities			
Deposits at amortised cost - Credit institutions	4,033,535,950	4,033,535,950	-
Deposits at amortised cost - Customers and public sector	22,930,718,886	22,999,628,197	68,909,311
Financial liabilities held for trading	129,467,863	129,467,863	-
Derivative instruments used for hedging purposes	597,643,299	597,643,299	-
Debt certificates issued	7,262,252,814	7,262,252,814	-
TOTAL	34,953,618,812	35,022,528,123	68,909,311

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

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

In respect of financial assets and liabilities with a maturity date of 6 months or less, the Group estimates their value as being very close to their carrying amount. Credit risk is considered to be immaterial owing to the Group's prudent policy and the short residual duration. Moreover, this short residual duration makes for an insignificant interest rate risk.

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

Financial assets measured at amortised cost in the balance sheet and having a 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 that are part of the held to maturity portfolio are sovereign bonds or supranational bonds quoted on an active market.

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

- a. credit risk data such as the customer's risk classification, probability of default and loss given default. These criteria were developed using historical observations of defaults and they are used to fix credit risk premiums (credit spreads) by risk classification, duration and type of financial instrument.
- b. a reference rate curve.

Fair value hierarchy

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

- observable data reflect market variations collected from independent sources and reflecting real transactions (e.g. a swap rate of 3 years);
- 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).

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

- **Level 1 fair value:** Mostly quotations in active markets for identical financial instruments. This level aggregates listed equity securities and debt instruments on stock exchanges, as well as derivative instruments traded on a regulated market.
- **Level 2 fair value:** Inputs, other than quoted prices included in level 1, observable for financial instruments, either directly (such as prices) or indirectly (derived from observable prices, e.g. the implicit volatility of an equity security derived from the observable price of option contracts of the same security). This level includes the majority of over-the-counter derivative instruments and structured debt securities issued. These inputs, such as "EURIBOR" yield curves or credit spreads, are provided by specialised financial data providers.
- **Level 3 fair value:** Inputs for fair value determination models are mainly inputs not directly observable 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 with regard to the importance of observable data (directly or indirectly) on the markets.

The following items are included in the observable market data:

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

Financial assets and liabilities at fair value:

Categories as at December 31, 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	6,601,020,029	2,771,146,069	524,995,171	9,897,161,270
Financial liabilities				
Financial liabilities held for trading	1,010,530	-	-	1,010,530
Derivative instruments held for trading	-	149,577,157	-	149,577,157
Debt securities issued	-	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

Financial assets and liabilities at fair value:

Categories as at December 31, 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
- Debt instruments	4,402,094	1,076,401	1,456,892	6,935,387
- Equity instruments	14,710	-	-	14,710
- Derivative instruments	-	105,690,556	-	105,690,556
Available for sale financial assets				
- Debt instruments	7,722,628,137	2,575,149,749	363,311,069	10,661,088,955
- Equity instruments	642,211,041	114,585,899	275,936,639	1,032,733,579
Hedging derivatives	2,266,030	50,025,193	1,122,841	53,414,064
TOTAL	8,371,522,012	2,846,527,798	641,827,441	11,859,877,251
Financial liabilities				
Financial liabilities held for trading	171,950	-	-	171,950
Derivative instruments held for trading	-	129,295,912	-	129,295,912
Debt securities issued	-	1,479,663,087	360,684,168	1,840,347,255
Hedging derivatives	334,019,356	263,419,386	204,557	597,643,299
TOTAL	334,191,306	1,872,378,385	360,888,725	2,567,458,416

The biggest changes in financial assets between the different levels of the table above are due to a reduction in the carrying amount and volume of portfolios recognised at fair value rather than by a steady recovery of financial markets over the course of 2011. Indeed, a comparison of the breakdown of financial assets across the different levels at year-end 2011 and year-end 2010 does not reveal any significant changes: 66.7% of financial assets were classified at level 1 (70.6% in 2010), 28.0% at level 2 (24.0% in 2010) and 5.3% at level 3 (5.4% in 2010).

In contrast, the situation differs for financial liabilities following the implementation of a new measurement tool for the Bank's own debt issues. The use of this tool led to an increase in the percentage of level 2 financial liabilities, from 72.9% in 2010 to 83.7% in 2011, and a corresponding decrease in the percentage of level 3 financial liabilities, from 14.1% in 2010 to 3.0% in 2011.

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. Regarding the Bank's own debt issues recognised at fair value, the percentage classified at level 3 fell from 19.6% in 2010 to 4.6% in 2011.

Details of level 3 positions:

	Financial assets available for sale			Total financial assets	Financial liabilities		Total financial liabilities
	Dept instruments	Equity instruments	Hedging derivatives		Dept securities issued	Hedging derivatives	
Total as at January 1, 2011	364,767,961	275,936,639	1,122,841	641,827,441	360,684,168	204,557	360,888,725
Total profit / (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	-	-	-
Acquisitions	19,655,280	7,737,894	-	27,393,174	-	-	-
Issuances	-	-	-	-	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 December 31, 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 the financial assets and liabilities held on December 31, 2011	3,994,365	-1,166,014	979,712	3,808,063	-733,941	-30,145	-764,086

Details of level 3 positions:

	Financial assets available for sale			Total financial assets	Financial liabilities		Total financial liabilities
	Dept instruments	Equity instruments	Hedging derivatives		Dept securities issued	Hedging derivatives	
Total as at January 1, 2010	496,884,708	259,055,054	1,080,681	757,020,443	185,299,120	251,593	185,550,713
Total profit / (losses)	8,106,007	22,021,284	42,160	30,169,451	-55,995	-47,036	-103,031
- Income statement	35,976	12,345,318	42,160	12,423,454	-21,753	-47,036	-68,789
- Revaluation reserve	8,070,031	9,675,966	-	17,745,997	-34,242	-	-34,242
Acquisitions	16,531,352	8,256,861	-	24,788,213	-	-	-
Issuances	-	-	-	-	73,885,286	-	73,885,286
Reimbursements / sales	-82,000,102	-17,541,077	-	-99,541,179	-54,324,020	-	-54,324,020
Transfers from or to level 3	-74,754,004	4,144,516	-	-70,609,488	155,879,777	-	155,879,777
Total as at December 31, 2010	364,767,961	275,936,639	1,122,841	641,827,440	360,684,168	204,557	360,888,725
Total gains / (losses) for the period included in the income statement for the financial assets and liabilities held on December 31, 2010	35,976	12,345,318	42,160	12,423,454	-21,753	-47,036	-68,789

The financial markets' structural adjustments and a deepening sovereign debt crisis in 2011 revealed the good resilience of the Group to financial instruments' fair value shifts. The Group regularly performs "stress tests" on the different types of financial instruments, though without specifically focusing on instruments classified in level 3. These "stress tests" are reported on a monthly basis to the Executive Committee of the parent company. A sensitivity analysis of the assumptions used for the valuation of financial instruments classified in level 3 would have a significant impact on the fair value of level 3 financial instruments, which however do only make up 5.3% of the total volume of financial assets and 3.0% of the total volume of financial liabilities measured at fair value. Considering the small volume of level 3 financial assets and liabilities and the fact that a change in straight line assumptions for instruments with heterogeneous characteristics does not make economic sense, the Group did not make a specific sensitivity analysis for level 3 financial instruments.

6.3.4 Analysis of exchange risk: Net currency positions

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

As at December 31, 2010	USD	GBP	ZAR	CAD	CHF	Others	Total
Net position in the balance sheet	27,299,039	-11,728,504	-14,352,587	-	-	-10,698	1,207,250

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

6.4 LIQUIDITY RISK

6.4.1 Maturity analysis of liabilities

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

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

Categories	On sight - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2011
Debt certificates issued	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

Categories	On sight - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2010
Debt certificates issued	4,278,840,598	1,011,295,344	5,290,135,941	1,541,640,939	576,152,854	2,117,793,793	7,407,929,734
Deposits at amortised cost - Credit institutions	3,653,120,972	377,651,999	4,030,772,971	4,400,075	-	4,400,075	4,035,173,046
Deposits at amortised cost - Customers and public sector	21,103,773,483	1,565,189,154	22,668,962,637	240,697,527	35,292,367	275,989,894	22,944,952,530
Total	29,035,735,052	2,954,136,496	31,989,871,549	1,786,738,541	611,445,221	2,398,183,762	34,388,055,311

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

Categories	On sight - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 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

Categories	On sight - 3 months	3 months - 1 year	Sub-total < 1 year	1 - 5 years	> 5 years	Sub-total > 1 year	Total 2010
Deposits at amortised cost - Customers and public sector	10,217,629,133	3,290,556,744	13,508,185,877	5,390,545,521	4,022,281,337	9,412,826,858	22,921,012,735

6.4.2 Maturity analysis of derivatives

Tables showing derivatives with gross cash flow payment

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

Amounts are shown in EUR using the exchange rate on December 31, 2011.

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

Categories	On sight - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2010
Derivative instruments held for trading					
<u>Currency swaps and foreign exchange</u>					
Inflow	9,381,788,872	691,175,678	41,954,817	-	10,114,919,367
Outflow	-9,396,351,742	-691,495,220	-42,119,879	-	-10,129,966,841
Derivative instruments held for hedging purposes					
<u>CCIS</u>					
Inflow	42,321,540	62,922,743	330,869,757	104,244,255	540,358,294
Outflow	-47,297,213	-98,037,706	-478,157,056	-91,977,951	-715,469,926
Total inflow	9,424,110,412	754,098,421	372,824,574	104,244,255	10,655,277,662
Total outflow	-9,443,648,955	-789,532,926	-520,276,935	-91,977,951	-10,845,436,767

Tables showing derivatives with net cash flow payment

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

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

Categories	On sight - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total 2011
Derivative instruments held for trading					
IRS	344,584	2,348,759	10,013,938	19,803,961	32,511,242
Derivative instruments held for hedging purposes					
IRS	67,006,056	107,839,409	560,089,892	229,527,976	964,463,333
Total outflow	67,350,640	110,188,168	570,103,830	249,331,937	996,974,575

The significant increase in cash flows from derivative instruments held for trading was mainly due to the reclassification of IRS initially classified as derivative instruments held for hedging purposes and directly linked to sales of positions held in a European sovereign state, as well as the impairment of positions held in another European sovereign state, as detailed in note 4.8.

6.5 ECONOMIC CAPITAL

The Group is in an ongoing process of measuring economic risk and of planning its equity resources allocation to the different business lines.

This methodology is updated in the Bank's yearly ICAAP report to the CSSF. CSSF Circular 07/301 ICAAP (Internal Capital Adequacy Assessment Process) foresees to set up "healthy, efficient and exhaustive strategies and processes, allowing institutions to assess and keep at any time the amount, type and allocation of internal equity capital they deem appropriate to cover the type and level of risks which they are or could be exposed to".

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

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

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

6.5.1 Capital management

6.5.1.1 Determination of capital

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

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

6.5.1.2 Process for implementing the internal capital adequacy policy

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

- development of an internal risk valuation model (Pillar 1 risks of Basel II as well as risks not covered by Pillar 1);
- definition of an important safety margin between available capital and risk hedging, materialised through a high Tier 1 target ratio. In the course of the year 2011, the Bank fulfilled the Pillar 1 Basel II capital requirements at all times;
- allocation of capital in accordance with the Group's internal organisation and the forecasts of its results;
- forecasting on risk exposures by activity (maximum economic risk, regulatory risk);
- calculation of the provisional amount of equity necessary to contain risks;
- after compliance with the minimum ratio requirements, allocation of the surplus of capital according to the Group's strategic orientations.

Regarding the internal control system, the ICAAP report 2011 was presented to the Group's Board of Directors, which has validated the guidelines concerning ICAAP. The Board of Directors will be informed at least yearly, according to the ICAAP circular, or more often if deemed advisable or in the event of a major change or methodological development.

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

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

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

Future profits are deemed to reduce profitability risks.

With regard to the above, the Group considers that its economic capital encompasses its entire regulatory capital, including the revaluation reserve. During the financial year ended December 31, 2011, the Bank has complied with the minimum capital requirements as stipulated in CSSF Circular 06/273.

7. Segment reporting

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

7.1 BUSINESS SEGMENTS

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

- Retail, Professional, Corporate and Public Sector banking: the business includes deposits, loans, advisory and transactions' linked activities, excluding activities directly handled by the Financial Markets unit. From an organisational point of view, these activities are within the responsibilities of the Retail and Private Banking and Corporate Banking departments.

- **Financial Markets and Investment Funds:** this includes activities relating to treasury, trading, Asset and Liability Management (ALM), customer desk, mutual fund administration and management. From an organisational point of view, these activities are handled by the Financial Markets and Investment Funds departments.
- **Others:** includes all back-office and support activities, revenues from investments and costs not allocated to a specific business on a reasonable basis.

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

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

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

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

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

In 2011, the margin difference was below the Group's materiality level.

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

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

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

7.2 GEOGRAPHICAL INFORMATION

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

7.3 INFORMATION ON PRODUCTS AND SERVICES

Breakdown of the Group's Net Banking Income (NBI) is made into the following main categories:

- deposits from individual clients, professional clients, corporates and the public sector,
- loans and advances to individual clients, professional clients, corporates and the public sector,
- other products to individual clients, professional clients, corporates and public sector,
- other products.

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

7.4 INFORMATION ON IMPORTANT CUSTOMERS

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

Thousands of euros December 31, 2011	Retail, Professional, Corporate and Public Sector Banking	Financial Markets and Investment Funds	Others	Reconciliation	Total
Net interest margin	233,243	166,410	34,838	-18,253	416,239
Dividend income	-	11,608	18,367	-	29,974
Commissions	31,206	13,752	57,672	-	102,630
<i>External commissions</i>	64,759	30,342	7,530	-	102,630
<i>Internal commissions</i>	-33,552	-16,590	50,143	-	-
Income on financial instruments and on 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 expenses	-	414	18,099	-	18,513
Operating Income	268,060	89,613	130,567	-18,253	469,987
General administrative expenses and value adjustments on tangible and intangible assets	-155,923	-26,446	-90,110	1	-272,478
Net value adjustments and impairment	-1,047	-87,177	1,253	1	-86,971
Others	-	-	-3,861	-	-3,861
Income before tax	111,090	-24,010	37,849	-18,251	106,677
Tax on profit and deferred taxes	-	-	-1,404	-	-1,404
Minority interest and 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

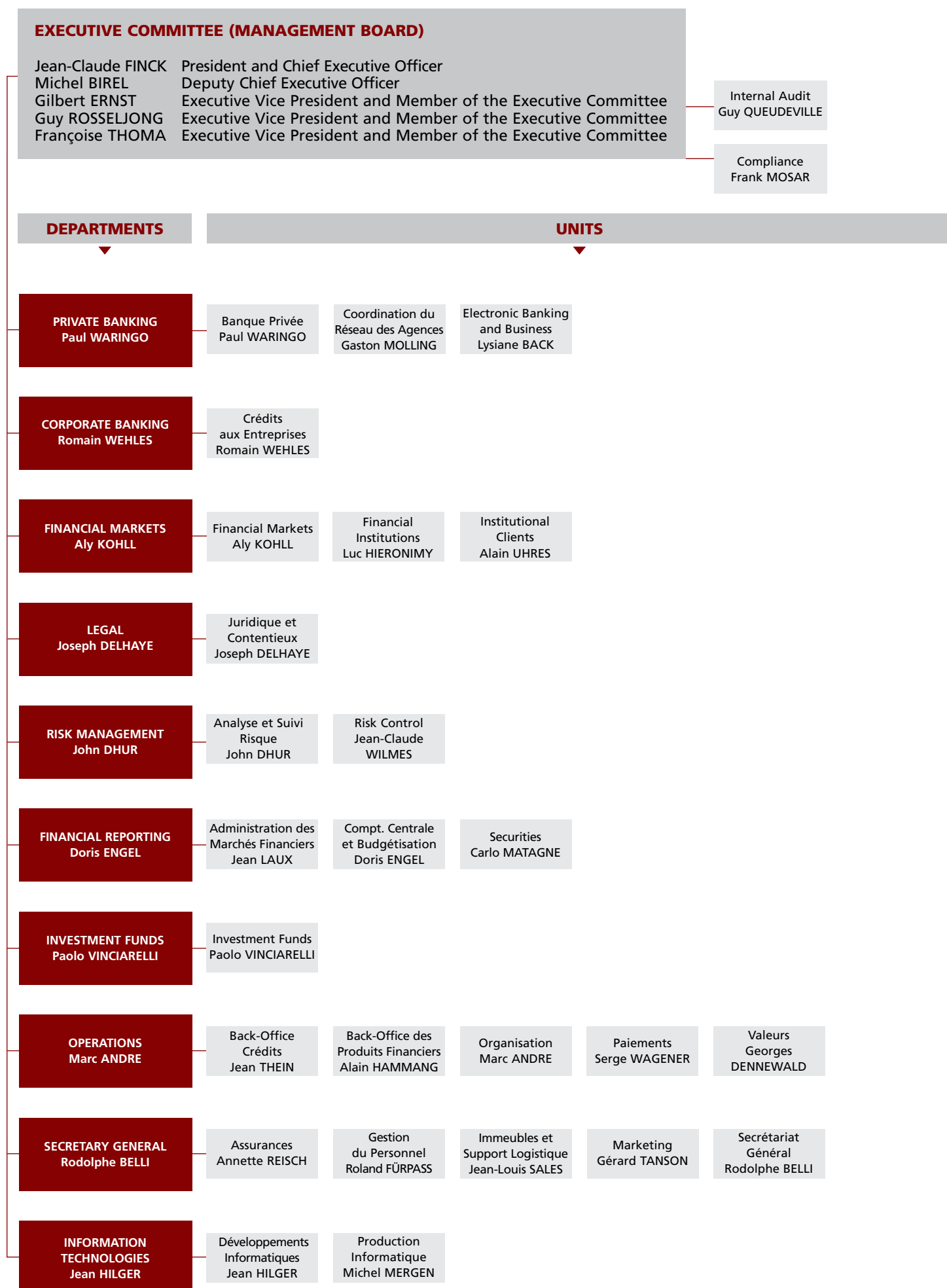
Thousands of euros December 31, 2010	Retail, Professional, Corporate and Public Sector Banking	Financial Markets and Investment Funds	Others	Reconciliation	Total
Net interest margin	229,845	179,949	6,637	-38,507	377,923
Dividend income	-	10,235	16,830	-	27,066
Commissions	28,381	13,802	57,648	-	99,831
<i>External commissions</i>	59,766	32,114	7,951	-	99,831
<i>Internal commissions</i>	-31,385	-18,313	49,697	-	-
Income on financial instruments and on foreign exchange	4,533	-849	2,169	-	5,853
Net Banking Income	262,759	203,137	83,284	-38,507	510,672
Other operating income and expenses	-	-464	7,731	-	7,267
Operating Income	262,759	202,673	91,015	-38,507	517,939
General administrative expenses and value adjustments on tangible and intangible assets	-147,585	-24,421	-90,009	1	-262,014
Net value adjustments and impairment	-6,917	15,443	-	1	8,527
Income before tax	108,257	193,695	1,006	-38,506	264,452
Tax on profit and deferred taxes	-	-	-61,121	-	-61,121
Minority interest and income from associates	-	-1,996	14,601	-	12,605
Net Income	108,257	191,699	-45,514	-38,506	215,936
Assets	17,183,057	19,098,495	2,307,463	-653,536	37,935,479
Liabilities	20,419,331	12,757,379	4,246,880	511,889	37,935,479

Net banking income	Thousands of euros December 31, 2010	Thousands of euros December 31, 2011
Deposits from individual clients, professional clients, corporates and public sector	95,807	107,741
Loans and advances to individual clients, professional clients, corporates and public sector	115,582	99,392
Other products to individual clients, professional clients, corporates and public sector	51,370	47,427
Other products	247,914	215,428





8. ORGANISATION CHART (as at March 1, 2012)





The illustrations in this annual report reproduce the art works carried out by students from the Luxembourg secondary classic and technical education (classes "7th" to "4th" and "7th" to "10th") within the framework of the exhibition "Ma passion, ma vision", held at BCEE's Gallery of Contemporary Art "Am Tunnel" in 2011.

Photos : Claudine Bosseler, page 21
Service Marketing, page 4,
as well as all the photos of the students' art works
Christof Weber, page 9

Layout : Service Marketing

Printed by : Imprimerie Saint-Paul,
Luxembourg

Editor : Banque et Caisse d'Epargne de l'Etat,
Luxembourg
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