FINANCIAL REPORT

EN

2021

BANQUE DE LUXEMBOURG

Contents

The English version of this Financial Report is for information purpose only, in case of dispute the French version will prevail.

Foreword

We have been in the private banking business since 1920 and are one of the foremost wealth managers in Luxembourg. We serve a local, European and international client base of private investors, providing advice and support at every stage of their life.
Our clients benefit from an independent investment policy which focuses on consistent performance over the long term and access to the best funds on the market.

Our advisory and management expertise, as well as the products, services and tools we have developed in the course of our private banking activities, are also available to professional asset managers. We offer a range of recognised expertise in the sphere of investment funds. In our day-to-day business, we are underpinned by the strengths of our shareholder, Crédit Mutuel Alliance Fédérale group.

At 31 December 2021, Banque de Luxembourg's book value was just above EUR 1 billion for overall assets of EUR 14.2 billion. Including its Belgian branch, Banque de Luxembourg generated a post-tax profit of EUR 65.1 million and has 956 employees.

Governance

EXECUTIVE COMMITTEE

Pierre Ahlborn,
Administrateur Délégué

Nicole Dochen,
Talents, Diversity & Collaborative Models

Etienne Planchard,
Risk Management and Compliance

Luc Rodesch,
Private Banking

Philippe Depoorter,
Businesses & Entrepreneurs

Benoit Elvinger,
Dealing Room & Financing

Fernand Reiners,
Professional Banking

Romain Weiler,
Organisation & IT,
Finance & Operations

DIRECTORS, HEADS OF DIVISION

Georges Heinrich,
Secrétaire Général

David Schmidt,
Head of Belgian branch

Guy Wagner,
BLI - Banque de Luxembourg Investments

BOARD OF DIRECTORS

Chairman
Philippe Vidal[1]**,**
Directeur Général Adjoint du CIC, Paris

Vice-Chairman
Daniel Baal,
Directeur Général du Crédit Mutuel, Paris

Administrateur Délégué
Pierre Ahlborn,
Luxembourg

Directors
Jacques Delvaux,
Lawyer, Luxembourg

Carine Feipel,
Lawyer, Luxembourg

Philippe Hoss,
Lawyer, Luxembourg

Georges M. Lentz Jr.,
Administrateur délégué,
Brasserie Nationale, Luxembourg

Thomas K. Müller,
CEO, CIC-Suisse

Philippe Neyrand[2],
Directeur du CIC Grands Comptes, Paris

Pit Reckinger,
Lawyer, Luxembourg

Charles Ruggieri,
President of Batipart Invest, Luxembourg

Secretary of the Board of Directors
Georges Heinrich, Luxembourg

Présidents honoraires
Robert Reckinger, Luxembourg
Jean Weber, Le Plan-de-la-Tour

(1) Tenure ended 31 December 2021
(2) Tenure ended 30 June 2021

Management report

Business review

Against the background of the health crisis, and amid historically low interest rates, Banque de Luxembourg ended 2021 with good results. Business continued to grow across the three client segments: private clients, professional clients and companies.

In addition, the Bank continued to expand the services it offers to take into account the new regulatory requirements arising from MiFID II and the SFDR. Given its stated CSR aims, the Board of Directors also decided over the course of 2021 to amend the Bank's Articles of Association by adding a passage recognising the interests of all stakeholders.

Merging two entities (BLI - Banque de Luxembourg Investments and Conventum Asset Management), and winding up the Compagnie Financière de Gestion, so as to incorporate services offered to large family clients directly into private banking, have enabled us to adapt our business model while simultaneously streamlining operations. The Bank's organisational structure now consists of one subsidiary, BLI, and one branch in Belgium.

For nearly two decades, Mr. Philippe Vidal served with great dedication as Vice-Chairman, then as Chairman of the Board of Directors of the Bank. His successor, Mr. Éric Charpentier, Directeur Général Adjoint du CIC, has taken over as Chairman of the Bank's Board of Directors.

Private clients

Private Banking continued to develop its client base and recorded a 12% increase in AUM, which reached EUR 26 billion at 31 December 2021. Thanks to good commercial momentum and a favourable stock market environment, the private client segment recorded higher revenues and its success was borne out by the increase in assets under management.

Businesses & Entrepreneurs

A catalyst for potential future growth, the Businesses division continued to develop in 2021. AUM grew by 8% to exceed EUR 2.9 billion at the end of 2021, and the team responsible for the Businesses & Entrepreneurs client base continues to build its expertise and reputation with family businesses and real estate professionals in Luxembourg.

Professional clients

It was also a good year for activities linked to Professional Clients from the asset management professions. Assets on deposit or administered grew by 13% over the course of 2021 to EUR 82.5 billion. The other business line, Independent Investor Services (services to independent asset managers), saw an increase in assets of 14% to EUR 9.6 billion.

Asset management

Assets under management recorded strong growth of 13% thanks to BLI's proprietary analysis and investment methodology and a buoyant stock market environment.

2021 began with the merger of BLI with its sister company Conventum Asset Management, which now operates as Conventum Third Party Services (Conventum TPS). On 31 December 2021, BLI thus had EUR 20.53 billion in assets under management.

Financing

Over the entire 2021 financial year, the total outstanding advances to clients increased to EUR 3.7 billion, representing a year-on-year increase of 8%. The Covid-19 pandemic had no impact on the Bank's cost of risk.

The Bank can now draw on strong fundamentals as well as its expertise to position its financing activity as a growth driver.

Risk management

To ensure prudent and sound investment management, risk management and minimal non-compliance risk, the Bank has set up an internal governance system based on the “three lines of defence” principle:

– The first line of defence is the operational units that take or assume risks within the framework of a predefined policy and limits, and which carry out controls;

– The second line of defence is the support functions, including the financial and accounting function, the IT function and the Compliance and Risk Management functions, which contribute to independent risk control;

– The third line of defence is the Internal Audit function, which performs an independent, objective and critical evaluation of the first two lines of defence.

These three lines of defence are complementary, with each one assuming its control responsibilities independently of the others.

The three internal control functions are Compliance, Risk Management and Internal Audit. The Internal Audit function is overseen by the Chief Executive Officer (Administrateur Délégué) whereas Risk Management and Compliance report to the Chief Risk Officer, who sits on the Executive Committee. All three report to the Board of Directors, mainly through the Audit and Risk Management Committee.

Risk management

The Risk Management function is responsible for anticipating, detecting, measuring, monitoring, controlling and reporting on all risks (excluding non-compliance risk) to which the institution is or could be exposed. The Risk Management department comprises the Financial Risk Management, Operational Risk Management, Permanent Control, and Information Security Management teams. The Operational Risk Management department is also tasked with implementing and coordinating the execution of the Bank’s continuity plans in collaboration with the various departments.

Compliance

The areas covered by the Compliance department include anti-money laundering and combating the financing of terrorism (AML/CFT), International Financial Sanctions, tax compliance including the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS), the prevention of market abuse and insider trading, the integrity of markets in financial instruments including protecting the interests of clients and investors (inter alia, MiFID II and the Markets in Financial Instruments Regulation (MiFIR)).

The fundamental principles, role and responsibilities of the Compliance function within the Bank, its branch and its subsidiary are contained in a charter. This charter also defines the Compliance function’s relationship with the Board of Directors, the Audit and Risk Management Committee and the Executive Committee.

Internal audit

As well as working under the Chief Executive Officer (Administrateur Délégué) and reporting to the Audit and Risk Management Committee and the Board of Directors, Internal Audit is functionally subordinate to Crédit Mutuel Alliance Fédérale’s Periodic Business Audit unit (Group Audit). The Internal Audit department acts in accordance with the rules of the Institute of Internal Auditors. The scope of the work and how it is carried out is specified in a general four-year audit plan updated to reflect the latest risks and changes taking place within the Bank. A matrix of risks enables all activities to be ranked by risk level.

Other statutory information

The Bank has a branch in Belgium, with offices in Brussels and Ghent.

The Bank was not involved in any research activities in 2021. Development work is described in note 12.

During 2021, the Bank did not acquire any of its own shares.

Distribution of profit

At the General Meeting of Shareholders, the Board of Directors made the following proposal for the distribution of profits:

	EUR
Allocation to free reserves earmarked for wealth tax	19.00 million
Allocation to free reserves	45.53 million
Allocation to the Board of Directors	0.61 million
Total	**65.14 million**

The Board of Directors proposed to the General Meeting of Shareholders to retain all available profit generated by the Belgium Branch, allocating it to the free reserves of that branch.

After allocating the available profit from 2021 to free reserves, the Board of Directors proposed to the General Meeting of Shareholders the payment of a dividend of EUR 58.64 million, i.e. EUR 2,209 per share, from free reserves.

After allocating the available profit from 2021 to free reserves, the Board of Directors proposed to the General Meeting of Shareholders the transfer of the special reserve held for 2016 wealth tax, i.e. EUR 18,000,000 into free reserves.

After these allocations and this transfer, the total amount of the special reserve created for financial years 2017 to 2022 was EUR 109,530,000.

After distribution of profits and payment of the dividend, total equity amounted to EUR 1,022.5 billion.

Annual accounts

Balance sheet and off-balance sheet items

ASSETS (EUR 000)	Notes [1]	2020	2021
Cash in hand, balances with central banks and post office banks	4	2,044,303	3,517,704
Loans and advances to credit institutions	4, 5, 14	6,259,421	4,967,644
a) repayable on demand		2,189,794	1,322,124
b) other loans and advances		4,069,627	3,645,520
Loans and advances to clients	4, 6, 14	3,444,186	3,731,613
Debt securities and other fixed income securities	4, 7, 8, 9, 12, 14, 15, 21	1,722,869	1,732,074
a) issued by public bodies		1,430,648	1,387,496
b) issued by other borrowers		292,221	344,578
Shares and other variable-yield securities	4, 7	39,075	36,172
Participating interests	7, 10, 12, 14, 22	4,287	4,291
Shares in affiliated undertakings	7, 10, 12, 14, 22	7,169	6,593
Intangible assets	12	11,540	8,293
Tangible assets	12, 13	93,988	88,608
Other assets	11	12,129	25,930
Accruals and deferred income		77,890	58,985
Total assets	16	13,716,857	14,177,907

(1) Notes refer to annexes which are an integral part of the annual accounts.

LIABILITIES (EUR 000)	Notes [1]	2020	2021
Amounts owed to credit institutions	4, 22	533,033	565,800
a) repayable on demand		242,366	551,340
b) with agreed maturity dates or periods of notice		290,667	14,460
Amounts owed to clients	4, 22	11,815,054	12,357,824
a) savings deposits		5,126,009	5,107,942
b) other debts		6,689,045	7,249,882
ba) repayable on demand		4,663,351	5,455,549
bb) with agreed maturity dates or periods of notice		2,025,694	1,794,333
Other liabilities	17, 31	54,905	45,863
Accruals and deferred income		173,725	54,010
Provisions for liabilities and charges		84,430	72,637
a) provisions for taxation		32,296	31,968
b) other provisions	33, 34	52,134	40,669
Special items with a reserve quota portion	18	17,752	15,937
Fund for general banking risks		263,700	278,700
Subscribed capital	19	104,784	104,784
Share premium		18,689	18,689
Reserves	20	591,514	598,518
Profit/(loss) brought forward	20	–	–
Profit/(loss) for the financial year		59,271	65,145
Total liabilities	23	13,716,857	14,177,907

OFF-BALANCE SHEET (EUR 000)	Notes [1]	2020	2021
Contingent liabilities	4, 24	377,469	366,428
of which:			
– guarantees and assets pledged as collateral security		168,626	163,966
Commitments	4, 25	916,216	979,139
Fiduciary operations	28	1,700,906	806,062

(1) Notes refer to annexes which are an integral part of the annual accounts.

Profit and loss account

EUR 000	Notes [1]	2020	2021
Interest receivable and similar income	28	194,047	142,586
of which:			
arising from fixed income securities		41,935	17,805
Interest payable and similar charges	28	(128,714)	(83,195)
Income from securities	28	62,570	64,762
a) income from shares, units and other variable-yield securities		2	2
b) income from participating interests		-	-
c) income from shares in affiliated undertakings		62,568	64,760
Commissions receivable	28	146,707	155,794
Commissions payable	28	(16,798)	(15,413)
Net profit/(loss) on financial operations	28	7,622	9,157
Other operating income	28, 29	7,609	10,225
General administrative expenses		(161,400)	(165,437)
a) staff costs	31	(106,986)	(111,180)
of which:			
– wages and salaries		(89,296)	(92,336)
– social security costs		(15,646)	(16,247)
of which:			
social security costs relating to pensions	31	(10,902)	(11,454)
b) other administrative expenses		(54,414)	(54,257)
Value adjustments in respect of tangible and intangible assets		(18,267)	(16,596)
Other operating expenses	30	(3,221)	(3,625)
Value adjustments in respect of loans and advances and provisions for contingent liabilities and commitments		(17,804)	(13,945)
Carried forward:		72,351	84,313

(1) Notes refer to annexes which are an integral part of the annual accounts.

EUR 000	Notes [1]	2020	2021
Brought forward:		**72,351**	**84,313**
Value re-adjustments in respect of loans and advances and provisions for contingent liabilities and commitments		3,901	9,551
Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings		(19,570)	(9,544)
Value re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings		1,295	3,267
Income from the write back of "Special items with a reserve quota portion"	18	137	137
Income from the write-back of amounts allocated to the fund for general banking risks		10,600	-
Transfers to the fund for general banking risks		-	(15,000)
Tax on profit/(loss) on ordinary activities		(8,202)	(6,195)
Profit/(loss) on ordinary activities after tax		60,512	66,529
Other taxes not shown in the preceding items		(1,241)	(1,384)
Profit/(loss) for the financial year		**59,271**	**65,145**

(1) Notes refer to annexes which are an integral part of the annual accounts.

Notes to the annual accounts

NOTE 1
GENERAL

1.1. Corporate matters

The Bank was founded in Luxembourg on 31 March 1937 under the name Banque Mathieu Frères. On 24 May 1977, the Bank, a société anonyme (public limited company) under Luxembourg law, changed its name to Banque de Luxembourg.

As at 31 December 2021, the capital of the Bank was fully held by Crédit Industriel et Commercial (CIC).

The Bank's business policy and valuation principles are determined and monitored by the Board of Directors in accordance with Luxembourg laws and regulations.

1.2. Nature of the Bank's business

The Bank's corporate object is to perform all types of banking and financial operations in the Grand Duchy of Luxembourg and abroad.

More generally, it may carry out any commercial, industrial or other transactions involving both moveable and immoveable assets that may contribute directly to the fulfilment of this object.

In 1991, the Bank took over the private banking activities of the branch of Crédit Industriel d'Alsace et de Lorraine which had been active in Luxembourg since 1920.

The Bank has a branch in Belgium with two offices in Brussels and Ghent, respectively.

1.3. Annual accounts

The Bank's financial year coincides with the calendar year.

The Bank prepares its annual accounts in euros (EUR), the currency in which the capital is expressed.

Pursuant to Article 80 of the Law of 17 June 1992 on the annual and consolidated accounts of credit institutions, as amended, the Bank is released from the obligation to draw up consolidated accounts.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank prepares its annual accounts using the historical cost principle, in accordance with applicable laws and regulations and generally accepted accounting principles in the banking sector in the Grand Duchy of Luxembourg, and with the going concern principle.

In observing these, the following significant accounting policies are applied:

2.1. Date transactions are booked to the balance sheet

Assets and liabilities are booked in the balance sheet on the transaction date.

2.2. Foreign currencies

The Bank maintains a multi-currency accounting system, which records all transactions in the currency or currencies of the transaction on a trade-date basis.

Revenues and expenses in foreign currencies are converted into EUR daily at the prevailing exchange rates.

Assets and liabilities are converted into EUR at the spot rates applicable at the balance sheet date.

Profit or loss on open forward exchange transactions and on swap transactions are recorded in the profit and loss account for the financial year.

Hedged and unhedged forward transactions are valued individually on the basis of the forward exchange rates applicable at the balance sheet date.

Currency futures and options are revalued at their market value at the balance sheet date. The revalued amount is converted into EUR at the spot foreign exchange rate.

2.3. Definition of the trading book

The Bank has classified the following items in its trading book, for the purposes of the prudential rules defining own funds, in accordance with Article 1 paragraph 26 bis of the Law of 5 April 1993 on the financial sector (as amended):

- the securities trading book as defined in accounting law;
- securities underwriting;
- open positions in financial derivatives.

The accounting and market values of the trading book are detailed in note 9.

The financial derivatives that are included in the trading book are analysed in note 26 b).

2.4. Financial derivatives

The Bank's commitments resulting from financial derivatives, such as currency and interest rate swaps, forward rate agreements, financial futures and options, are recorded on the transaction date as off-balance sheet items.

At year-end, where necessary, a provision is raised in respect of individual unrealised losses resulting from the revaluation of the Bank's commitments at market value. This provision is included on the liabilities side of the balance sheet under "Provisions: other provisions". The unrealised revaluation gains are not recognised, except for forward exchange transactions.

No provision is raised in those cases where a derivative financial instrument clearly hedges an asset or a liability and economic unity is established, or where a derivative financial instrument is hedged by a reverse transaction so that no open position exists.

2.5. Specific value adjustments in respect of doubtful and irrecoverable debts

Loans and advances to clients refer to all assets representing loans and advances to domestic and foreign clients, other than credit institutions, regardless of their designation in the present case.

It is the Bank's policy to establish specific value adjustments in respect of doubtful and irrecoverable debts. Value adjustments are determined by the management of the Bank and are approved by the Board of Directors.

Value adjustments, if any, are deducted from the asset items to which they relate.

2.6. Lump-sum provision for risk exposures

In accordance with Luxembourg tax legislation, the Bank establishes a lump-sum provision for risk exposures, as defined in the legislation governing prudential supervision of banks. The purpose of this provision is to take account of potential risks that have not yet been identified at the date of preparation of the annual accounts.

Pursuant to the instructions issued by the Directeur des Contributions on 16 December 1997, this provision is made before taxation and calculated as a maximum of 1.25% of the Bank's risk exposures.

The lump-sum provision for risk exposures is broken down in proportion to the weighting of the items, which form the basis for its calculation, between:

- a portion which is deemed to represent a value adjustment, and which is deducted from the asset items which constitute risk exposures; and
- a portion which is deemed to represent a provision for liabilities and charges attributable to credit risk associated with off-balance sheet items, foreign exchange risk and market risks, and which is shown on the liabilities side of the balance sheet under "Provisions: other provisions".

2.7. Fund for general banking risks

It is the Bank's policy to establish a fund for general banking risks, pursuant to Article 63 of the Law on the accounts of banks, as amended.

This is shown separately on the liabilities side of the balance sheet.

Transfers to the fund for general banking risks are not tax deductible.

2.8. Transferable securities

Transferable securities are recorded at the purchase price at which they were first recorded in the Bank's portfolio.

The average cost method is used for the calculation of proceeds realised on the sales.

2.9. Debt securities and other fixed income securities

The Bank has divided its portfolio of fixed income securities into three main categories:

- Bonds and other transferable securities included in the portfolio of financial fixed assets which are to be used on a continuing basis in the Bank's activities,
- Securities included in the trading book, purchased with the intention of resale in the short term, and
- Securities included in the investment portfolio which do not fall into either of the two other categories.

Fixed income securities are valued as follows:

Financial fixed assets
Fixed income securities included in the Bank's portfolio of financial fixed assets are stated at purchase price, provided that they fulfil the required conditions. Those which do not meet the criteria are stated at the lower of cost or market value. Long-term depreciations are subject to impairment, except when the securities are guaranteed.

Where the purchase price of fixed income securities that are included in the Bank's portfolio of financial fixed assets is greater or less than the amount repayable at maturity, the positive or negative difference is released to the profit and loss account in instalments over the remaining period until repayment.

Trading book
Fixed income securities included in the Bank's trading portfolio are stated at the lower of cost or market value at the balance sheet date.

Investment portfolio
Fixed income securities included in the Bank's investment portfolio are stated at the lower of cost or market value at the balance sheet date.

Securities issued on a discounted basis
The difference between the issue value and the par value of securities issued on a discounted basis represents their sole source of income. This discount is recognised as income over the period during which the security remains in the Bank's portfolio. The discount is spread on a linear basis and is added to the book value of the security.

Fair value
To ensure fair value and for the purposes of the notes to the annual accounts, the Bank refers to the quoted market prices on an active market, if these are available. These quoted market prices are used to determine the fair value of the financial assets or liabilities.

If not available, the fair value is obtained:
- by referring to recent similar arm's length market transactions;
- by using a valuation technique (discounted cash flow analysis). The valuation technique incorporates all market inputs that the stakeholders would take into consideration when determining a price and is in accordance with the valuation methods agreed upon for the pricing of financial instruments.

2.10. Shares and other variable-yield securities

Shares and other variable-yield securities are stated at the lower of cost or market value at the balance sheet date.

2.11. Participating interests and shares in affiliated undertakings

At the balance sheet date, participating interests and shares in affiliated undertakings held as financial fixed assets are stated at purchase price. Value adjustments are made in case of permanent depreciation.

2.12. The "Beibehaltungsprinzip"

It is the Bank's policy to retain value adjustments previously made in respect of certain categories of assets but which no longer correspond to a reduction in the value of the assets in question, in accordance with Articles 56(2)(f) and 58(2)(e) of the Law on the accounts of banks, as amended.

2.13. Repurchase agreements (or "repos")

In accordance with Luxembourg legislation, the securities subject to a sale or a repurchase agreement are maintained in the balance sheet.

2.14. Intangible assets

The value of other intangible assets with limited useful economic lives is reduced by value adjustments calculated to write off the value of such assets systematically over their estimated useful economic lives. The amortisation periods used are:
- Software and IT developments: 4 years;
- Clientele acquired for valuable consideration: 5 years.

2.15. Tangible assets

Tangible assets are valued at purchase price.

The value of tangible assets with limited useful economic lives is reduced by value adjustments calculated to write off the value of such assets systematically over their estimated useful economic lives. The amortisation periods used are:
- Hardware: 4 years;
- Buildings: 15-50 years;
- Fixtures and fittings: 10 years;
- Equipment: 5-20 years;
- Vehicles: 3 years;
- Furniture: 10 years.

2.16. Accruals and deferred income

Income and expenses received before the balance sheet date but attributable to a subsequent financial year must be shown under the assets item "prepayments and accrued income" or the liabilities item "accruals and deferred income".

2.17. Special items with a reserve quota portion

Special items with a reserve quota portion consist of those amounts which may be eligible for fiscal exemption. The exemption covers realised gains in accordance with Articles 53, 54 and 54bis of the Luxembourg income tax law, as amended.

2.18. Taxes

Taxes are accounted for on an accruals basis.

The Bank has opted for a consolidated tax regime.

As at 31 December 2021, three subsidiaries of the Bank were part of the consolidated tax group. Based on the consolidated tax agreement signed with the Bank, the integrated entities recognise a tax liability in their individual financial statements.

The Bank calculates the current income tax and the communal business tax payables based on the taxable profit of all the entities that are part of the consolidated tax group, including its own profit.

Tax advances are calculated on the same basis and paid by the Bank in its capacity as parent company of the consolidated tax group.

With regards to the wealth tax, no consolidated tax regime exists. However, in accordance with applicable tax regulations, and on behalf of integrated companies, the Bank has established a specific reserve to offset the wealth tax liability of each such integrated company. The reserve recognised for each of the integrated companies is equal to five times the amount of wealth tax payable and is made unavailable for a period of five years.

NOTE 3
RISK MANAGEMENT

3.1. Market risks related to Dealing Room activities

The primary market risk is exposure to interest rate risk of the banking book.

Market risk is defined as the impact of a change in interest rates on the value of financial assets and liabilities, both on- and off-balance sheet. Sensitivity analysis is used to measure interest rate risk. This analysis involves calculating the impact of a 2% upward or downward shift in interest rates on the current market value of positions. Correlations between the various currencies are not taken into account. In accordance with this method, the exposure to interest rate risk amounted to EUR -112.1 million as at 31 December 2021 (31 December 2020: EUR -119.4 million).

Foreign exchange risks and the risks associated with financial instruments, such as change in equity prices, are not significant. Limits are defined in terms of the maximum volume of positions. These are also subject to daily monitoring and stress tests are regularly applied to measure the impact of a 10% change in all currency prices and a 20% change in stock prices.

3.2. Credit risk

3.2.1 CREDIT RISK RELATED TO DEALING ROOM ACTIVITIES:

All credit facilities related to Dealing Room activities are approved by the Crédit Mutuel Alliance Fédérale Commitments Committee. All credit lines are granted according to the quality of the issuer, based on ratings and equity capital. Credit lines are managed by the Front Office and Risk Management tools, and all Dealing Room operators have real-time access to any credits outstanding. Breaches are automatically reported to the Risk Management department which is in charge of monitoring the compliance of credit lines.

With regard to investments in the interbank market, the Bank generally favours the Group or the Central Bank of Luxembourg over other counterparties where possible.

The Bank may also engage in secure longer-term operations:

- For repos and buy & sell back transactions, the Bank has concluded a Global Master Repurchase Agreement (GMRA) with its counterparties, as developed by the International Capital Market Association (ICMA) and the Bond Market Association (TBMA).
- Securities lending transactions are covered by the Global Master Securities Lending Agreement (GMSLA) developed by the International Securities Lending Association (ISLA).

- With all counterparties with which it enters into derivative transactions, the Bank concludes a Master Agreement as developed by the International Swaps and Derivatives Association (ISDA). The Bank also enters into a Credit Support Annex (CSA – annex to the ISDA Master Agreement) with its counterparties in order to establish a daily evaluation of net exposure offset and reduce the credit risk associated with derivative transactions.
- The Bank concludes a Continuous Linked Settlement (CLS) agreement with the majority of the counterparties with which it enters into foreign exchange transactions on the market. However, for foreign exchange transactions to hedge securities investments of clients in markets where the domestic currency is not freely convertible, Forex Desk operators deal directly with the Bank's securities depositaries in these countries.

3.2.2 CREDIT RISK RELATED TO CLIENT ACTIVITIES:

The Bank has a selective and prudent lending policy that focuses on long-term relations and takes account of the overall context of the relationship.

A dedicated Analysis unit within the Loans department reviews loan applications and its analyses are used as the basis for decision-making within the various loans committees in accordance with applicable competency thresholds.

The Credit Control unit within the Risk Management department is responsible for managing and monitoring outstanding loans. Risk monitoring covers the following types of breaches:

- Payment defaults;
- Absence of cover in relation to credit facilities granted and collateral received;
- Credit limits exceeded;
- Overdrawn accounts where no credit facility exists.

A detailed loans report is produced quarterly for the Executive Committee and the Board of Directors.

The Bank rarely participates in international loans.

3.3. Liquidity risk

According to the nature of its balance sheet, the Bank does not refinance its activities in the non-secured interbank lending market (apart from transactions with its parent company) and does not issue debt securities. Liabilities are mainly constituted by clients' deposits. Except for interbank deposits with its parent company, assets are essentially made up of a portfolio of investment grade debt securities, eligible for repo transactions with banking counterparties. Loans and advances to clients represented 26.1% (31 December 2020: 24.5%) of total assets at the end of 2021.

The Bank monitors its liquidity by identifying significant maturities of deposits and investments on a balance-sheet level and relies on a liquidity risk monitoring framework based on the follow-up of:

- the liquidity buffer;
- the securities available for refinancing operations;
- the LCR (Liquidity Coverage Ratio);
- the NSFR (Net Stable Funding Ratio);
- the ALMMs (Additional Liquidity Monitoring Metrics);
- the granularity of client deposits;
- liquidity stress test scenarios over a period of three months;
- the survival period in case of a financing problem;
- an intra-day liquidity stress test scenario over three days;
- the static liquidity gap on medium- and long-term basis;
- the dynamic liquidity gap based on projected cash flows from one to five years.

In case of a liquidity requirement, the quality of the Bank's securities portfolio enables it to refinance its activities via several sources:

- Bilateral and tripartite repo transactions with market counterparties;
- Repo transactions with the Central Bank of Luxembourg;
- Financing via its parent company, Crédit Mutuel Alliance Fédérale.

At the end of the 2021 financial year, the Bank's LCR was 125.8% (31 December 2020: 124.3%) compared with a regulatory minimum of 100%. As at 31 December 2021, the Bank's NSFR was 133.5%.

3.4. Operational risk

The Operational Risk Management (ORM) department is responsible for managing the operational risk of the Bank. As defined by the Basel Committee, operational risk is the risk of “direct or indirect losses resulting from inadequate or failed internal processes, people and systems or from external events”.

The Bank's operational risk management is consistent with the Advanced Measurement Approach (AMA) and has two main focuses:

- Risk prevention; and
- Risk analysis.

Risk prevention is achieved through the development of 45 risk maps covering all activities of the Bank. They are reviewed annually, or every two years in some cases, with business experts in the relevant field. They allow measures to be defined and implemented in order to reduce the risk in the most vulnerable processes.

The analysis of identified risks is first to identify all operational incidents within the Bank, regardless of the financial impact. Data on operational losses has been collected since 1996 and covers all departments and subsidiaries/branches of the Bank.

Communication channels and specific accounting procedures have been put in place to enable ORM to centralise these events. Each operational incident is then analysed to identify its causes, and develop action plans to strengthen the internal control system and to prevent further problems.

These data are included in the model calculation of equity capital according to the AMA.

The Risk Management department is involved in enhancing the quality of internal controls and its aim is to constantly improve the banking systems used as well as the processing procedures. The department also defines and controls the information systems security policy.

In accordance with CSSF Regulation 16-07, all client complaints are processed centrally by ORM, which ensures that they are handled with the necessary diligence, transparency and objectivity.

Each claim is analysed to identify possible improvements to the functioning of the Bank. This analysis is delegated to the Legal department if their expertise is sought for investigation of the case.

Defined action plans are documented and monitored semi-annually.

Quarterly reports are prepared and presented to the members of the Executive Committee, as well as the heads of the Legal & Compliance and Internal Audit departments.

Each department in the Bank has its own set of detailed procedures that are either stored in a dedicated database or in a procedures manual.

The Bank has insured a major part of property and business risks.

The continuity plan of the Bank, which is tested on a regular basis, covers the risks having an impact on the continuity of the Bank's activities and its information systems.

3.5. Permanent control

The business line permanent control system is an integral part of the Bank's risk management operations. It operates via an internal control portal in which the results of the main business lines' controls are documented. This IT application is provided by our parent company.

The Permanent Control unit aims to develop and oversee the control portal (excluding the compliance area, which is managed by the Compliance department).

Its role is to determine – in collaboration with the business lines – controls to cover their main risks, including those that have already been implemented and those that are still to be put in place, in order to regularly input the outcomes in the internal control portal. Operational risk management activities help it to cover the Bank's main risks using the controls in the portal.

The Permanent Control unit monitors these controls every quarter. This monitoring also helps to improve the reliability of control methods or broaden their objectives in order to improve overall risk coverage.

A report on these monitoring activities is subsequently prepared for the business line heads, the relevant management team and Permanent Control at Crédit Mutuel Alliance Fédérale.

A summary of changes to and results from the internal control portal is provided quarterly to the Risk Management Committee and half-yearly to the Board of Directors' Audit and Risk Management Committee.

The Bank's activities are covered by 22 business line control portals, which contain a total of 287 controls and account for 1,025 control deadlines over the course of the year (excluding compliance).

NOTE 4

BREAKDOWN OF PRIMARY FINANCIAL INSTRUMENTS BY RESIDUAL MATURITY

The primary financial assets and liabilities are presented according to their remaining maturity:

2020 EUR 000 (book value)	Less than 3 months or indefinite	3–12 months	1–5 years	More than 5 years	TOTAL 2020
Cash in hand, balances with central banks and post office banks	2,044,303	-	-	-	2,044,303
Loans and advances to credit institutions	2,189,794	1,471,703	2,278,926	318,998	6,259,421
Loans and advances to clients	1,237,617	144,264	504,202	1,558,103	3,444,186
Debt securities and other fixed income securities	54,791	149,645	896,265	622,168	1,722,869
Shares and other variable-yield securities	39,075	-	-	-	39,075
Total	**5,565,580**	**1,765,612**	**3,679,393**	**2,499,269**	**13,509,854**
Amounts owed to credit institutions	242,366	144,781	142,750	3,136	533,033
Amounts owed to clients	10,756,331	462,969	306,664	289,090	11,815,054
Debts evidenced by certificates	-	-	-	-	-
Total	**10,998,697**	**607,750**	**449,414**	**292,226**	**12,348,087**
Collateral granted	198,888	11,397	130,708	36,476	377,469
Commitments	347,063	19,766	419,232	130,155	916,216
Total	**545,951**	**31,163**	**549,940**	**166,631**	**1,293,685**

2021 EUR 000 (book value)	Less than 3 months or indefinite	3–12 months	1–5 years	More than 5 years	TOTAL 2021
Cash in hand, balances with central banks and post office banks	3,517,704	-	-	-	3,517,704
Loans and advances to credit institutions	1,322,123	1,356,863	2,029,372	259,286	4,967,644
Loans and advances to clients	1,352,418	94,942	542,907	1,741,346	3,731,613
Debt securities and other fixed income securities	54,644	151,825	850,553	675,052	1,732,074
Shares and other variable-yield securities	36,172	-	-	-	36,172
Total	**6,283,061**	**1,603,630**	**3,422,832**	**2,675,684**	**13,985,207**
Amounts owed to credit institutions	322,739	228,601	14,460	-	565,800
Amounts owed to clients	11,496,928	306,137	309,734	245,025	12,357,824
Debts evidenced by certificates	-	-	-	-	-
Total	**11,819,667**	**534,738**	**324,194**	**245,025**	**12,923,624**
Collateral granted	223,712	22,695	88,255	31,766	366,428
Commitments	383,592	102,372	337,938	155,237	979,139
Total	**607,304**	**125,067**	**426,193**	**187,003**	**1,345,567**

NOTE 5

LOANS AND ADVANCES TO CREDIT INSTITUTIONS

The geographical breakdown of loans and advances to credit institutions, including those repayable on demand, is shown in the table below:

EUR 000	2020	2021
European Union	5,955,605	4,619,604
United States	66,643	96,328
Other OECD countries	228,334	239,381
Other countries	8,839	12,331
Total	**6,259,421**	**4,967,644**

The maximum credit risk on loans and advances to credit institutions is represented by the notional amount of the loans and advances.

As at 31 December 2021, reverse repurchase agreement transactions with credit institutions amounted to EUR 460,848 thousand (31 December 2020: EUR 1,148,978 thousand).

At the Bank's request, the CSSF has approved the full exemption of the risk exposure to the Crédit Mutuel group, for the purpose of calculating large exposure limits, in accordance with part XVI, point 24 of circular 06/273, as amended and then replaced by Article 400.2 of Regulation EU 575/2013 on prudential requirements for credit institutions ("CRR"). As at 31 December 2021, loans and advances to credit institutions on affiliated undertakings amounted to EUR 4,258,348 thousand (31 December 2020: EUR 5,681,007 thousand), as described in note 14.

The portion of the lump-sum provision for risk exposures that relates to loans and advances to credit institutions amounted to EUR 13,269 thousand at 31 December 2021 (31 December 2020: EUR 21,701 thousand) and is deducted from "unsecured lending".

NOTE 6
LOANS AND ADVANCES TO CLIENTS

The geographical breakdown of loans and advances to clients is shown in the table below:

EUR 000	2020	2021
European Union	3,206,433	3,492,805
United States	1,462	563
Other OECD countries	98,497	97,355
Other countries	137,794	140,890
Total	**3,444,186**	**3,731,613**

The table below shows the breakdown of loans and advances to clients according to the type of security obtained by the Bank:

EUR 000	2020	2021
Secured lending	3,039,849	3,485,579
Unsecured lending	404,337	246,034
Total	**3,444,186**	**3,731,613**

Value adjustments deducted from loans and advances to clients amounted to EUR 51,714 thousand as at 31 December 2021 (31 December 2020: EUR 43,740 thousand).

The portion of the lump-sum provision for risk exposures that relates to loans and advances to clients amounted to EUR 36,457 thousand at 31 December 2021 (31 December 2020: EUR 18,529 thousand) and is deducted from “unsecured lending”.

Advances and credits granted to the Bank’s management

As at 31 December 2021, loans and advances (including any guarantees and sureties) granted to Board members amounted to EUR 7,846 thousand (31 December 2020: EUR 6,536 thousand) and those granted to senior managers amounted to EUR 23,676 thousand (31 December 2020: EUR 19,985 thousand).

NOTE 7
TRANSFERABLE SECURITIES

Transferable securities included under "Debt securities and other fixed income securities", "Shares and other variable-yield securities", "Participating interests" and "Shares in affiliated undertakings" are broken down as follows into listed and unlisted securities (on an active market):

2020 EUR 000	Listed securities	Unlisted securities	TOTAL
Debt securities and other fixed income securities	1,722,869	-	1,722,869
Shares and other variable-yield securities	-	39,075	39,075
Participating interests	-	4,287	4,287
Shares in affiliated undertakings	-	7,169	7,169
Total	**1,722,869**	**50,531**	**1,773,400**

2021 EUR 000	Listed securities	Unlisted securities	TOTAL
Debt securities and other fixed income securities	1,732,074	-	**1,732,074**
Shares and other variable-yield securities	-	36,172	**36,172**
Participating interests	-	4,291	**4,291**
Shares in affiliated undertakings	-	6,593	**6,593**
Total	**1,732,074**	**47,056**	**1,779,130**

As at 31 December 2021, debt securities and other fixed income securities linked to interest rate swaps amounted to EUR 1,175,577 thousand (31 December 2020: EUR 1,170,923 thousand).

As at 31 December 2021, value adjustments maintained in respect of financial fixed assets and current assets in accordance with the Beibehaltungsprinzip amounted to EUR 8,913 thousand (31 December 2020: EUR 9,313 thousand).

NOTE 8
DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES

Transferable securities included under “Debt securities and other fixed income securities” are broken down as follows according to their purpose:

EUR 000	2020	2021
Financial fixed assets	1,722,551	1,731,218
Trading book	318	856
Total	**1,722,869**	**1,732,074**

Transferable securities are included under financial fixed assets if they are to be used on a continuing basis in the Bank’s activities.

Transferable securities included under “Debt securities and other fixed income securities” are broken down as follows according to the type of issuer:

EUR 000	2020	2021
Public issuers	1,430,649	1,387,496
Credit institutions	239,566	303,994
Other issuers	52,654	40,584
Total	**1,722,869**	**1,732,074**

The geographical breakdown of transferable securities included under “Debt securities and other fixed income securities” is shown in the table below:

EUR 000	2020	2021
European Union	1,424,576	1,442,533
United States	208,886	211,107
Other OECD countries	76,109	78,434
Other countries	13,298	-
Total	**1,722,869**	**1,732,074**

For credit risk analysis purposes, the portfolio is broken down by asset class and by rating (Moody's rating).

EUR 000	2020	2021
Central administrations	**1,297,886**	**1,357,379**
Aaa	662,504	716,062
Aa1	163,132	154,139
Aa2	327,577	338,113
Aa3	144,673	149,065
A1	-	-
A2	-	-
Baa3	-	-
Regional and local administrations	**31,296**	**10,696**
Aaa	7,762	3,510
Aa1	23,534	7,186
Supranational	**312,476**	**306,891**
Aaa	182,973	177,698
Aa1	129,503	129,193
Banks	**41,607**	**27,602**
Aaa	21,665	6,574
Aa1	7,346	7,893
Baa3	12,279	12,279
NR	317	856
Securitisation	**39,604**	**29,506**
Aaa	5,393	4,479
Aa1	16,972	11,758
Aa2	2,625	6,941
Aa3	6,407	1,686
A1	3,711	930
A2	-	-
A3	-	2,866
Baa1	4,496	846
Baa2	-	-
Baa3	-	-
Ba2	-	-
Ba3	-	-
Total	**1,722,869**	**1,732,074**

The tables hereafter show the debt securities and other fixed income securities valued at historical cost and included in the portfolio of financial fixed assets. This part is composed of two subsets in accordance with note 2.9. to the accounts:

a) Portfolio of financial fixed assets, valued at the adjusted purchase price:

2020 EUR 000	Book value	Fair value
Bonds and other fixed income securities	45,705	50,626

2021 EUR 000	Book value	Fair value
Bonds and other fixed income securities	36,651	41,577

During the 2008 financial year, with the approval of the CSSF, the Bank reclassified its FRN (Floating Rate Note) portfolio corresponding to a reinvestment of client deposits as "financial fixed assets, valued at the adjusted purchase price".

As at 31 December 2021, the book value of this portfolio amounted to EUR 36,651 thousand (31 December 2020: EUR 45,705 thousand) and its fair value amounted to EUR 41,577 thousand (31 December 2020: EUR 50,626 thousand).

b) Portfolio of financial fixed assets linked to an interest rate swap:

2020 EUR 000	Book value	Fair value
Bonds and other fixed income securities	1,170,923	1,171,310

2021 EUR 000	Book value	Fair value
Bonds and other fixed income securities	1,175,577	1,176,440

As at 31 December 2021, the cumulative amortisation since the date of acquisition of premiums and discounts on debt securities and other fixed income securities held as financial fixed assets was as follows:

EUR 000	2020	2021
Premiums	(9,039)	(11,053)
Discounts	2,135	2,682
	(6,904)	**(8,371)**

The Bank has entered into transactions based on unconditional agreements to sell and repurchase assets. The value of these transactions as at 31 December 2021 was EUR 100,323 thousand (31 December 2020: EUR 94,470 thousand). In order to ensure compliance with FINREP prudential reporting requirements, the amounts shown in the annual accounts include interest accrued and not yet due.

The CIC has issued a guarantee in favour of the Bank to cover the risk of default for a major part of its portfolio. The securities concerned are those issued by credit institutions, securitisation companies and some sovereigns. The value of these securities as at 31 December 2021 was EUR 28,660 thousand (31 December 2020: EUR 38,615 thousand).

NOTE 9
TRANSFERABLE SECURITIES: TRADING BOOK

As at 31 December 2021 and 2020, the trading book (see also note 2.3.) was as follows:

2020 EUR 000	Book value	Fair value
Bonds and other fixed income securities	318	343

2021 EUR 000	Book value	Fair value
Bonds and other fixed income securities	856	857

NOTE 10
PARTICIPATING INTERESTS AND SHARES IN AFFILIATED UNDERTAKINGS

As at 31 December 2021 and 2020, the Bank had no participating interests in other credit institutions.

As at 31 December 2021, the Bank held a participating interest of at least 20% in the capital of the following companies:

Company name	Percentage of share capital held	Equity capital [1] as at 31 December 2020 EUR 000	Net profit/(loss) as at 31 December 2020 EUR 000
BL General Partner S.à r.l.	100.00%	1,392	310
BLI - Banque de Luxembourg Investments	100.00%	32,549	61,396
Cigogne Management S.A.	20.00%	31,096	15,297
European Fund Administration S.A.	31.51%	14,602	(3,709)
Fund Market S.A.	100.00%	96	(2)
Tradhold S.A.	50.00%	12,882	576

All these companies have their registered office in Luxembourg.

Compagnie Financière de Gestion Luxembourg S.A. ceased doing business in 2020. The figures presented above correspond to the audited financial statements for the period from 1 January 2020 to 15 December 2020 (date of winding-up). The winding-up was declared on 15 December 2021.

(1) Total equity capital including the net profit/loss as at 31 December 2020 because the audited annual accounts as at 31/12/2021 are not yet published, except for BLI – Banque de Luxembourg Investments which presents equity capital of EUR 51,415 thousand and a net profit/loss of EUR 80,258 thousand.

NOTE 11
OTHER ASSETS

EUR 000	2020	2021
Short-term receivables	1,529	21,665
Pension fund investments	7,420	-
Precious metals	2,167	2,873
Other	1,013	1,392
Total	**12,129**	**25,930**

NOTE 12
CHANGES IN FIXED ASSETS

The Bank's fixed assets changed as follows over the course of the financial year:

							Value adjustments at the end of the financial year		
EUR 000 ITEMS	Acquisition price at the beginning of the financial year	Additions	Disposals	Transfers	Foreign exchange difference	Acquisition price at the end of the financial year	Total reversals/ adjustments	Lump-sum provision for risk exposures	Net value at the end of the financial year
1. Participating interests	**8,894**	–	**(59)**	–	–	**8,835**	**(4,385)**	**(159)**	**4,291**
2. Shares in affiliated undertakings	**23,451**	–	**(14,863)**	–	–	**8,588**	–	**(1,995)**	**6,593**
3. Debt securities and other fixed income securities (1)	**1,735,841**	**225,733**	**(215,669)**	–	**(161)**	**1,745,744**	**(13,958)**	**(568)**	**1,731,218**
4. Intangible assets	**74,053**	**2,825**	–			**76,878**	**(68,585)**	–	**8,293**
of which:									
a) Development costs	49,192	2,540	-			51,732	(44,318)	-	7,414
b) Concessions, patents, licences, trademarks and similar rights and assets	24,861	285	-			25,146	(24,267)	-	879
c) Goodwill	-	-	-			-	-	-	-
5. Tangible assets	**240,623**	**4,277**	**(3,056)**	-	-	**241,844**	**(152,002)**	**(1,234)**	**88,608**
of which:									
a) Land and buildings	202,589	2,440	(1,744)			203,285	(120,449)	(1,138)	81,698
b) Plant and machinery	27,789	1,653	(601)			28,841	(23,659)	(71)	5,111
c) Other fixtures and fittings, tools and furniture	10,245	184	(712)			9,717	(7,893)	(25)	1,799

(1) This item contains only the debt securities considered as financial fixed assets held on a long-term basis.

NOTE 13
TANGIBLE ASSETS

As at 31 December 2021, tangible assets included a net amount of EUR 81,698 thousand (31 December 2020: EUR 85,189 thousand) which represents the land and buildings used by the Bank for its own activities.

NOTE 14
LOANS AND ADVANCES TO AFFILIATED UNDERTAKINGS AND ENTITIES IN WHICH THE BANK HAS A PARTICIPATING INTEREST

As at 31 December 2021, loans and advances to affiliated undertakings and entities in which the Bank has a participating interest were as follows:

2020 EUR 000	Affiliated undertakings	Participating interests
Loans and advances to credit institutions	5,681,007	-
Loans and advances to clients	3,874	3
Debt securities and other fixed income securities	12,566	-
Total	**5,697,447**	**3**

2021 EUR 000	Affiliated undertakings	Participating interests
Loans and advances to credit institutions	4,258,348	-
Loans and advances to clients	3,213	-
Debt securities and other fixed income securities	12,566	-
Total	**4,274,127**	**-**

Debt securities and bonds are shown net of value adjustments.

NOTE 15
SUBORDINATED ASSETS

Subordinated assets held by the Bank are mainly included under “Debt securities and other fixed income securities” and amounted to EUR 12,279 thousand as at 31 December 2021 (31 December 2020: EUR 12,279 thousand).

NOTE 16
FOREIGN CURRENCY ASSETS

As at 31 December 2021, the aggregate amount of the Bank's assets denominated in foreign currencies, translated into EUR, corresponds to EUR 1,140,190 thousand (31 December 2020: EUR 2,411,370 thousand).

NOTE 17
OTHER LIABILITIES

EUR 000	2020	2021
Short-term payables	23,239	14,146
Preferential creditors	10,230	9,282
Staff pension fund	5,039	4,383
Other	16,397	18,052
Total	**54,905**	**45,863**

The amount of EUR 4,383 thousand at 31 December 2021 relates only to current pension payments.

As part of the staff remuneration policy of the Bank, some of the "variable" compensation is paid over a period of four years: at 31 December 2021, this amount is included under "Other" for EUR 16,708 thousand (31 December 2020: EUR 15,146 thousand).

NOTE 18
SPECIAL ITEMS WITH A RESERVE QUOTA PORTION

The amount recorded under "Special items with a reserve quota portion" is mainly composed of the tax-exempt capital gains on the sale of buildings and on the sale of participating interests.

NOTE 19
SUBSCRIBED CAPITAL

The authorised, subscribed and paid-up share capital of the Bank amounted to EUR 104,784 thousand, represented by 26,546 no-par-value shares.

NOTE 20
CHANGES IN RESERVES AND PROFIT/(LOSS) BROUGHT FORWARD

EUR 000	Legal reserve	Other reserves	Profit/(loss) brought forward
Balance as at 1 January 2021	10,478	581,036	-
Profit/(loss) for the financial year ended 31 December 2020	-	-	59,271
Allocation of profit/(loss):			
Transfer to reserves	-	5,326	(5,326)
Determined amount of Belgian branch's statutory profit/(loss)	-	1,678	-
Dividend	-	-	(53,331)
Directors' fees	-	-	(614)
Balance as at 31 December 2021	**10,478**	**588,040**	**-**

Under Luxembourg law, the Bank must levy an amount equivalent to at least 5% of the annual net profit to a legal reserve until such reserve is equal to 10% of the share capital. This allocation is made the following year.

The distribution of the legal reserve is not allowed.

As at 31 December 2021, the specific reserve linked to the reduction in the wealth tax amount (see note 2.18), which appears under "Other reserves", was EUR 108,530 thousand (31 December 2020: EUR 112,230 thousand).

As at 31 December 2021, the rate of return on assets was 0.46% (31 December 2020: 0.43%).

EUR 000	2020	2021
Total assets	13,716,857	14,177,907
Net profit	59,271	65,145
Return on assets	0.43%	0.46%

NOTE 21

ASSETS PLEDGED BY THE BANK AS COLLATERAL FOR ITS OWN COMMITMENTS

As at 31 December 2021, the Bank had pledged assets as collateral for its own commitments in an amount of EUR 286,307 thousand (31 December 2020: EUR 437,374 thousand). The majority of these assets are included under "Debt securities and other fixed income securities". These assets are pledged in connection with refinancing and collateral management activities. In order to ensure compliance with FINREP prudential reporting requirements, the amounts shown in the annual accounts include interest accrued and not yet due.

2020 EUR 000	Book value of pledged assets	Fair value of pledged assets	Book value of unpledged assets	Fair value of unpledged assets
The Bank's assets	**437,374**	**N/A**	**13,279,483**	**N/A**
Own funds instruments	-	-	50,531	120,135
Debt securities	92,566	93,890	1,630,303	1,720,657
Other assets	344,808	N/A	11,598,649	N/A

2021 EUR 000	Book value of pledged assets	Fair value of pledged assets	Book value of unpledged assets	Fair value of unpledged assets
The Bank's assets	**286,307**	**N/A**	**13,891,600**	**N/A**
Own funds instruments	-	-	47,056	109,858
Debt securities	98,347	98,917	1,633,727	1,682,010
Other assets	187,960	N/A	12,210,817	N/A

NOTE 22

AMOUNTS OWED TO AFFILIATED UNDERTAKINGS AND COMPANIES IN WHICH THE BANK HAS A PARTICIPATING INTEREST

As at 31 December 2021, amounts owed to affiliated undertakings and companies in which the Bank has a participating interest were as follows:

2020 EUR 000	Affiliated undertakings	Participating interests
Amounts owed to credit institutions	201,291	-
Amounts owed to clients	23,904	75,645
Total	**225,195**	**75,645**

2021 EUR 000	Affiliated undertakings	Participating interests
Amounts owed to credit institutions	183,147	-
Amounts owed to clients	27,313	86,343
Total	**210,460**	**86,343**

NOTE 23
FOREIGN CURRENCY LIABILITIES

As at 31 December 2021, the aggregate amount of liabilities denominated in foreign currencies and converted into EUR was EUR 3,575,336 thousand (31 December 2020: EUR 3,748,965 thousand).

NOTE 24
CONTINGENT LIABILITIES

The Bank's contingent liabilities are as follows:

EUR 000	2020	2021
Guarantees and other direct substitutes for credit	377,469	366,295
Documentary credits	-	133
Total	**377,469**	**366,428**

As at 31 December 2021, the Bank had EUR 21,719 thousand of contingent liabilities towards affiliated undertakings (31 December 2020: EUR 20,831 thousand) and EUR 17 thousand of contingent liabilities towards entities in which the Bank has a participating interest (31 December 2020: EUR 17 thousand).

NOTE 25
COMMITMENTS

The Bank's commitments may be analysed as follows:

EUR 000	2020	2021
Confirmed credits, not used	861,588	941,700
Other commitments	54,628	37,439
Total	**916,216**	**979,139**

As at 31 December 2021, the Bank's commitments towards affiliated undertakings amounted to EUR 9,772 thousand (31 December 2020: EUR 51,5 thousand).

As at 31 December 2021, the Bank's commitments to entities in which it has a participating interest amounted to EUR 2,090 thousand (31 December 2020: EUR 2,277 thousand).

The Bank has entered into certain other commitments which are not disclosed either in the balance sheet or in the off-balance sheet items but which are significant for the purposes of assessing the Bank's financial situation. These commitments relate to 7 real estate rental contracts with a maximum remaining term of 8 years.

NOTE 26
FINANCIAL DERIVATIVES

a) Non-trading transactions – breakdown by type of instrument and residual maturity

The financial derivatives that are not included in the trading book (as defined in note 2.4), linked to exchange rates, interest rates and credit risk, are broken down by type of instrument, market and residual maturity.

2020 EUR 000	Nominal					Market value	
	–3 months	3–12 months	1–5 years	5+ years	Grand total	positive	(negative)
Transactions linked to currency exchange rates							
Over-the-counter (OTC) contracts	-	-	-	-	-	-	-
Forward exchange transactions and swaps	6,311,935	1,254,061	5,501	-	7,571,497	66,641	(58,714)
Options purchase	7,855	5,032	-	-	12,887	239	-
Options sale	10,087	5,245	-	-	15,332	-	(239)
Total	**6,329,877**	**1,264,338**	**5,501**	**-**	**7,599,716**	**66,880**	**(58,953)**
Transactions linked to interest rates							
Over-the-counter (OTC) contracts	-	-	-	-	-	-	-
Interest rate swaps	47,044	112,695	852,924	1,222,601	2,235,264	6,720	(128,716)
Cap floor purchase	-	-	-	-	-	-	-
Total	**47,044**	**112,695**	**852,924**	**1,222,601**	**2,235,264**	**6,720**	**(128,716)**
Transactions linked to own funds							
Transactions on a regulated market	-	-	-	-	-	-	-
Options purchase	-	-	-	-	-	-	-
Options sale	-	-	-	-	-	-	-
Equity futures purchase	-	-	-	-	-	-	-
Equity futures sale	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter (OTC) contracts	-	-	-	-	-	-	-
Accumulator swap purchase	-	-	-	-	-	-	-
Accumulator swap sale	-	-	-	-	-	-	-
Options purchase	30,422	162,228	-	-	192,650	-	(7,068)
Options sale	30,422	162,228	-	-	192,650	13,511	-
Warrant	-	-	-	169,622	169,622	-	(106,903)
Total	**60,844**	**324,456**	**-**	**169,622**	**554,922**	**13,511**	**(113,971)**

2021 EUR 000	Nominal –3 months	 3–12 months	 1–5 years	 5+ years	 Grand total	Market value positive	 (negative)
Transactions linked to currency exchange rates							
Over-the-counter (OTC) contracts	-	-	-	-	-	-	-
Forward exchange transactions and swaps	7,112,495	1,369,023	-	-	8,481,518	63,930	(59,476)
Options purchase	2,400	-	-	-	2,400	-	-
Options sale	2,603	-	-	-	2,603	-	-
Total	**7,117,498**	**1,369,023**	–	–	**8,486,521**	**63,930**	**(59,476)**
Transactions linked to interest rates							
Over-the-counter (OTC) contracts	-	-	-	-	-	-	-
Interest rate swaps	42,878	132,913	926,993	1,360,729	2,463,513	13,312	(70,163)
Cap floor purchase	-	-	-	-	-	-	-
Total	**42,878**	**132,913**	**926,993**	**1,360,729**	**2,463,513**	**13,312**	**(70,163)**
Transactions linked to own funds							
Transactions on a regulated market	-	-	-	-	-	-	-
Options purchase	-	-	-	-	-	-	-
Options sale	-	-	-	-	-	-	-
Equity futures purchase	-	-	-	-	-	-	-
Equity futures sale	-	-	-	-	-	-	-
Total	–	–	–	–	–	–	–
Over-the-counter (OTC) contracts	-	-	-	-	-	-	-
Accumulator swap purchase	-	-	-	-	-	-	-
Accumulator swap sale	-	-	-	-	-	-	-
Options purchase	-	-	-	-	-	-	-
Options sale	-	-	-	-	-	-	-
Warrant	-	-	-	-	-	-	-
Total	–	–	–	–	–	–	–

All outstanding foreign exchange and interest rate transactions as at 31 December 2021 and 2020 which are not included in the trading book have been entered into for hedging purposes.

Transactions linked to other market rates relate to listed derivative financial instruments and are traded on regulated markets on behalf of clients.

b) Trading book transactions

The Bank had no trading book positions on financial derivatives as at 31 December 2021 and 2020.

NOTE 27

CREDIT RISK INFORMATION RELATING TO FINANCIAL DERIVATIVES

a) Information on replacement cost

The following table provides the replacement cost of financial derivatives traded over-the-counter (OTC).

The current replacement cost, potential future risks, the global replacement cost and the net credit risk exposure are calculated in accordance with the requirements of Regulation (EU) No 575/2013 on the definition of capital ratios pursuant to Article 56 of the Law of 5 April 1993 on the financial sector (as amended).

2020 EUR 000	Notional amount	Positive replacement cost (1)	Potential future risk (2)	Global replacement cost (1+2)	Net credit risk (3)
Transactions linked to currency exchange rates					
Forward exchange transactions and swaps	343,808	1,461	3,462	4,923	98
Currency options	7,864	249	79	328	-
Total	**351,672**	**1,710**	**3,541**	**5,251**	**98**
Transactions linked to interest rates					
Interest rate swaps	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**
Transactions linked to own funds					
Equity Futures	-	-	-	-	-
Equity Options	355,555	11,936	21,333	33,269	12,251
Warrant	166,443	-	16,644	16,644	12,625
Total	**521,998**	**11,936**	**37,977**	**49,913**	**24,876**
Transactions with counterparties under a clearing agreement	**9,573,542**	**42,265**	**59,375**	**101,640**	**24,455**

(1) Contracts which have a positive value when marked to market.
(2) Potential future risk that may be incurred over the remaining life of the financial derivatives. It is calculated on the basis of the nominal amount depending on the time to maturity.
(3) Corresponds to the weighted global replacement cost depending on the type of counterparty.

2021 EUR 000	Notional amount	Positive replacement cost (1)	Potential future risk (2)	Global replacement cost (1+2)	Net credit risk (3)
Transactions linked to currency exchange rates					
Forward exchange transactions and swaps	662,182	9,472	15,408	24,880	24,868
Currency options	-	-	-	-	-
Total	**662,182**	**9,472**	**15,408**	**24,880**	**24,868**

Transactions linked to interest rates					
Interest rate swaps	-	-	-	-	-
Total	-	-	-	-	-

Transactions linked to own funds					
Equity Futures	-	-	-	-	-
Equity Options	-	-	-	-	-
Warrant	-	-	-	-	-
Total	-	-	-	-	-
Transactions with counterparties under a clearing agreement	**10,285,487**	**17,766**	**96,375**	**114,142**	**64,945**

(1) Contracts which have a positive value when marked to market.
(2) Potential future risk that may be incurred over the remaining life of the financial derivatives. It is calculated on the basis of the nominal amount depending on the time to maturity.
(3) Corresponds to the weighted global replacement cost depending on the type of counterparty.

b) Breakdown by counterparty rating

The following table provides a breakdown of the global replacement costs for financial derivatives traded over-the-counter (OTC), broken down by counterparty credit rating.

2020 EUR 000	Notional amount	Aaa	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Ba1	Unrated	**TOTAL**
Credit risk												
Transactions linked to currency exchange rates												
Forward exchange transactions and swaps	343,808	-	-	-	-	-	-	-	-	-	4,923	4,923
Currency options	7,864	-	-	-	-	-	-	-	-	-	328	328
Total	**351,672**	-	-	-	-	-	-	-	-	-	**5,251**	**5,251**
Transactions linked to own funds												
Equity Futures	-	-	-	-	-	-	-	-	-	-	-	-
Equity Options	355,555	-	-	-	-	-	-	-	-	-	33,269	33,269
Warrant	166,443	-	-	-	-	-	-	-	-	-	16,644	16,644
Total	**521,998**	-	-	-	-	-	-	-	-	-	**49,913**	**49,913**
Transactions linked to interest rates												
Interest rate swaps	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with counterparties under a clearing agreement	**9,573,542**	-	**19,066**	**12,535**	**9,748**	-	**40,042**	**20**	**3,771**	-	**16,458**	**101,640**

2021 EUR 000	Notional amount	Aaa	Aa2	Aa3	A1	A2	A3	Baa1	Baa3	Ba1	Unrated	**TOTAL**
Credit risk												
Transactions linked to currency exchange rates												
Forward exchange transactions and swaps	662,182	-	-	-	-	-	-	-	-	-	24,880	24,880
Currency options	-	-	-	-	-	-	-	-	-	-	-	-
Total	**662,182**	-	-	-	-	-	-	-	-	-	**24,880**	**24,880**
Transactions linked to own funds												
Equity Futures	-	-	-	-	-	-	-	-	-	-	-	-
Equity Options	-	-	-	-	-	-	-	-	-	-	-	-
Warrant	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-
Transactions linked to interest rates												
Interest rate swaps	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with counterparties under a clearing agreement	**10,285,487**	-	**4,446**	**41,281**	**15,213**	**9,910**	-	-	-	-	**43,292**	**114,142**

c) Geographical breakdown

The following table provides a geographical breakdown of the total replacement costs for financial derivatives traded over-the-counter (OTC).

2020 EUR 000	TOTAL
Credit risk	
European Union	133,208
United States	-
Other OECD countries	20,068
Other countries	3,528
Total	**156,804**

2021 EUR 000	TOTAL
Credit risk	
European Union	112,301
United States	1,206
Other OECD countries	10,790
Other countries	14,725
Total	**139,022**

d) Collateral exchange convention

In accordance with the European Market Infrastructure Regulation (EMIR), the Bank signed Variation Margin-Credit Support Annex (VM-CSA) contracts with its counterparties in 2021 governing collateral exchanges (variation margin) for OTC derivatives transactions. As at 31 December 2021, VM-CSA contracts had been signed with 45 counterparties (2020: 45). Any future transactions will now be entered into with one of these 45 eligible counterparties.

NOTE 28
THE BANK'S MAIN ITEMS OF INCOME

2020 EUR 000	Non-domestic	Domestic	TOTAL
Interest margin	1,477	63,856	65,333
Net commissions	12,917	116,992	129,909
Income from securities	-	62,570	62,570
Net profit/(loss) on financial operations	206	7,416	7,622
Other operating income	113	7,496	7,609

2021 EUR 000	Non-domestic	Domestic	TOTAL
Interest margin	1,763	57,628	59,391
Net commissions	14,304	126,077	140,381
Income from securities	-	64,762	64,762
Net profit/(loss) on financial operations	105	9,052	9,157
Other operating income	5	10,220	10,225

The Bank provides its clients with the following services:
– Portfolio management and investment advice;
– Custody and administration of securities;
– Safe deposit box hire;
– Fiduciary representation.

NOTE 29
OTHER OPERATING INCOME

Other operating income is broken down as follows:

EUR 000	2020	2021
Refund of VAT and taxes from previous years	4,220	5,767
State contribution to training expenses	345	208
Rental income	1,078	1,029
Gain on disposal of fixed assets	30	82
Other	1,936	3,139
Total	**7,609**	**10,225**

"Other" comprises services recharged to affiliated undertakings in the amount of EUR 1,124 thousand in 2021 (EUR 1,428 thousand in 2020).

NOTE 30
OTHER OPERATING EXPENSES

EUR 000	2020	2021
Disposal of fixed assets	21	3
Net loss on order transmission errors	1,659	53
Charges on structured credit transactions	1,541	3,569
Total	**(3,221)**	**(3,625)**

NOTE 31
STAFF

As at 31 December 2021 (2020), the Bank, including the branch in Belgium, employed 956 (952) staff, including 78 (77) senior managers, 878 (875) middle managers and employees.

Salaries paid to staff and amounts paid in respect of retirement schemes and other related costs amounted to EUR 111,180 thousand (31 December 2020: EUR 106,986 thousand).

Of this amount, EUR 17,106 thousand was paid to the 78 senior managers (31 December 2020: 77 senior managers, EUR 16,614 thousand). The amounts paid to the members of the Board of Directors are disclosed in note 20.

In 2021, the Bank paid a sum of EUR 18,400 thousand to the Luxembourg tax authorities (31 December 2020: EUR 17,500 thousand) in respect of taxes deducted from salaries.

There were no significant changes to report with regard to the company pension scheme in 2021. In addition to pension coverage (employer and personal contributions), the payment of a capital and income in case of death or invalidity was included.

Contributions to the pension scheme (Luxembourg Pension Fund), including future pension provisions for employees of the Bank and its subsidiaries, were calculated based on an actuarial method and a 0.5% predicted return on the fund's assets.

At 31 December 2021, the contribution transferred to the provision for pensions totalled EUR 4,513 thousand (31 December 2020: EUR 3,604 thousand).

NOTE 32
PARENT COMPANY

Banque de Luxembourg's financial statements are consolidated by:
- Crédit Industriel et Commercial (CIC);
- Banque Fédérative du Crédit Mutuel (BFCM) and which includes CIC;
- Crédit Mutuel Alliance Fédérale which includes BFCM;
- the Crédit Mutuel group whose central entity is the Confédération Nationale du Crédit Mutuel (CNCM) and which includes Crédit Mutuel Alliance Fédérale.

The consolidated financial statements of CIC can be obtained from the following address:
6, avenue de Provence
F-75009 Paris

The consolidated financial statements of BFCM and Crédit Mutuel Alliance Fédérale can be obtained from the following address:
4, rue Frédéric-Guillaume Raiffeisen
F-67000 Strasbourg

The financial statements of the Crédit Mutuel group can be obtained from the following address:
46 rue du Bastion
F-75017 Paris

NOTE 33
AGDL, FGDL AND FRL PROVISION

The Law of 18 December 2015 on the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes (the "Law"), which transposes Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and Directive 2014/49/EU on deposit guarantee schemes and investor compensation schemes into Luxembourg law was published in the Mémorial on 24 December 2015.

The previous deposit guarantee and investor compensation scheme implemented by the Association pour la Garantie des Dépôts Luxembourg (AGDL) has been replaced by a new contribution-based deposit guarantee and investor compensation scheme. The new scheme guarantees all eligible deposits from the same depositor for an amount of up to EUR 100,000, and investments for an amount of up to EUR 20,000. The Law also stipulates that deposits resulting from specific transactions or serving a social purpose, or that are linked to particular life events, are covered for an amount above EUR 100,000 for a period of 12 months.

The funded amount of the FRL shall reach by the end of 2024 at least 1% of covered deposits, as defined in Article 1 number 36 of the Law, of all credit institutions authorised by virtue of the Law of 5 April 1993 on the financial sector, as amended. This amount is collected from credit institutions through annual contributions during the 2015 to 2024 financial years.

The target level of funding of the FGDL is set at 0.8% of covered deposits, as defined in Article 163(8) of the Law, of the relevant credit institutions. The contributions were paid annually between 2016 and 2018.

Now that the initial level of 0.8% has been reached, Luxembourg credit institutions will continue to contribute for a further 8 years so as to create an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

The law of 23 December 2016 implementing the 2017 tax reform introduced neutral tax treatment of reversals of the AGDL provision in several successive tranches for a limited period from 2016 to 2026. The amount of the reversal for each tax year must be at least equal to the amount of contributions to the FGDL and FRL made in the tax year in question. The provision not yet reversed at the end of the limited period must be reversed and recognised under P&L for the 2026 tax year.

On 18 January 2017, the CSSF issued a circular on the repeal of the AGDL and accounting for the reversal of the AGDL provision to allow banks to apply accounting methods in line with the tax treatment stipulated by the law of 23 December 2016.

NOTE 34
OTHER PROVISIONS

The amount of "Other provisions" is mainly composed of the FGDL, FRL and AGDL provision (see note 33), provisions for litigation, compensation and bonuses.

NOTE 35
RELATED PARTIES

The Bank did not enter into any material transactions with related parties that were not carried out in accordance with the arm's length principle during the periods ending 31 December 2021 and 31 December 2020.

NOTE 36
APPROVED INDEPENDENT AUDITOR'S FEES

The following amounts of fees were paid to the approved independent auditor during 2021 and 2020:

EUR 000	2020	2021
Audit expenses	432	445
Other insurance services	143	159
Other fees	560	684
Total	**1,135**	**1,288**

NOTE 37
POST-BALANCE SHEET EVENTS

No event likely to have a material impact on the annual accounts as at 31 December 2021 occurred between the balance sheet date and the date of this report.

While it is difficult at this stage to predict the long-term economic and financial consequences of the health crisis of the last two years, or of the post-pandemic world that seems to be emerging, the Bank trusts that it will be able to draw on its considerable operational and financial resilience to come through this period of turmoil with no impact on its stability, liquidity or solvency. The size of its capital, the structure of its balance sheet and its rigorous risk management ensure that the Bank is able to absorb large shocks over a long period of time. Equity and liquidity ratios far above the minimum prudential levels are testament to this resilience.

Since March 2020, the Bank's Crisis Committee has taken the necessary operational measures to ensure continuity for its business activities and continues to monitor the crisis and the impacts thereof as they develop. Remote working was introduced on a wide scale and a number of measures were implemented to guarantee the integrity of information systems and mitigate the risks of cyber attacks and attempted fraud in particular.

Lastly, the Bank communicated extensively (internally and externally) on developments in the situation and the measures taken in response to COVID-19.

The end of the health crisis now seems to be in sight and should allow a return to a greater degree of normality, although we shall not forget the lessons learned and the agility demonstrated by the Bank over the past two years. Nor shall we ignore certain new challenges, such as the return of inflation or the integration of teleworking into everyday professional life.

The Bank is also closely following geopolitical developments in Ukraine, Belarus and Russia. The Bank is analysing the various international sanctions that are applicable and has adjusted its procedures immediately to comply with them. The Bank is monitoring the impact of this geopolitical situation on the stock, bond and money markets in order to best protect the assets of its clients. In the Bank's assets and liabilities, only a few negligible items have been identified that might be impacted by the geopolitical situation.

Report of the Réviseur d'Entreprises agréé

To the Board of Directors of
Banque de Luxembourg, société anonyme
14, boulevard Royal
L-2449 Luxembourg

Report on the audit of the annual accounts

Opinion

We have audited the annual accounts of Banque de Luxembourg S.A. (the "Bank"), which comprise the balance sheet as at 31 December 2021 and the profit and loss account for the financial year then ended, and notes to the annual accounts, including a summary of significant accounting policies.
In our opinion, the accompanying annual accounts give a true and fair view of the financial position of the Bank as at 31 December 2021, and of the results of its operations for the financial year then ended, in accordance with current Luxembourg legal and regulatory requirements relating to the preparation and presentation of annual accounts.

Basis for opinion

We conducted our audit in accordance with Regulation (EU) No 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and the International Standards on Auditing ("ISAs") as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF"). Our responsibilities under Regulation (EU) No 537/2014, the Law of 23 July 2016 and ISA standards as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF") are further described in the "Responsibilities of the Réviseur d'entreprises agréé for the audit of the annual accounts" section of our report. We are also independent of the Bank in accordance with the International Code of Ethics for Professional Accountants, including international standards of independence, published by the International Ethics Standards Board for Accountants (the "IESBA Code") as adopted for Luxembourg by the CSSF, as well as the ethical requirements that are relevant to our audit of the annual accounts, and have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Value adjustments in respect of the portfolio of residential mortgage-backed securities

DESCRIPTION:
The Bank holds financial fixed assets, which are valued at purchase price or the lower of the market value and purchase price (LOCOM), in the form of a portfolio of residential mortgage-backed securities. As at 31 December 2021, the book value of this portfolio amounted to EUR 30 million (31 December 2020: EUR 40 million), less impairment of EUR 4 million (31 December 2020: EUR 5 million).
As some of these securities are not listed on permanently liquid markets, the Bank's Risk Management department and the Dealing Room have developed internal valuation models in order to regularly perform impairment tests on these assets. These valuation models are mainly built around assumptions based on macroeconomic changes in certain markets, economic sectors and monetary policies.
Analysing whether value adjustments need to be made inherently involves a significant amount of judgement on the part of management.

AUDIT APPROACH:

We tested the implementation and effectiveness of these quarterly controls performed by Risk Management. This involved reviewing the Bank's securities valuation models, assessing the appropriateness of previously recognised impairments, and assessing whether further impairments need to be made.

We have inspected the documentation summarising the outcomes of these quarterly controls performed by Risk Management.

We revalued the main positions in the portfolio of residential mortgage-backed securities using internal KPMG models and on the basis of independent information in order to obtain sufficient reasonable assurance regarding the impairment amounts recognised by the Bank.

Recognition of private banking fees

DESCRIPTION:

As at 31 December 2021, private banking fees amounted to EUR 58 million (31 December 2020: EUR 55 million), thus representing one of the Bank's main sources of income. These fees mainly comprise brokerage, management and custody fees charged to private banking clients.

The Bank has standard fee schedules for its private banking services, but may grant special conditions to clients depending on the volume of transactions and assets held with the Bank.

Although fee calculation and accounting is in theory an automated process, such special conditions mean that manual interventions are necessary.

Due to the volume and amount of private banking fees, we consider the calculation and accounting of these transactions as a key audit matter.

AUDIT APPROACH:

We tested the design, implementation and effectiveness of the validation checks performed by the Bank when applying exemptions to the standard fee schedule or when making changes to these exemptions.

We tested the design, implementation and effectiveness of the validation checks performed by the Bank on client transaction orders.

We tested the design, implementation and effectiveness of the second validation level for all manual accounting entries.

We recalculated the brokerage fees on a sample of transactions based on the transaction details and the fee conditions agreed with clients.

We also recalculated the custody and management fees on a sample of income based on an extract of client assets and the related fee conditions.

Lastly, we performed analytical procedures on the different private banking fee categories.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report, but does not include the annual accounts and the report of the Réviseur d'Entreprises agréé thereon.

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

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

Responsibilities of the Board of Directors for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

When preparing the annual accounts, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, to communicate any doubts in relation thereto, and to apply the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the Réviseur d'Entreprises agréé that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance Regulation (EU) No 537/2014, the Law of 23 July 2016 and the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts.

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

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- We conclude regarding the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the disclosures in the annual accounts about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the annual accounts. Our conclusions are based on information available to us at the date of our report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We are also required to provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, measures adopted to eliminate threats or safeguard measures applied.
From the matters communicated with those charged with governance, we are required to determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We are required to describe these matters in our report unless law or regulation preclude public disclosure about the matter.

Report on other legal and regulatory requirements

We were appointed as Réviseur d'Entreprises agréé by the Board of Directors on 30 March 2021 for a total term of six years without interruption, including extensions and previous reappointments.
The management report is consistent with the annual accounts and has been prepared in accordance with the applicable legal requirements.
We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

Luxembourg, 29 March 2022

KPMG Luxembourg,
Société anonyme (public limited company)
Approved independent auditor

S. Chambourdon
Réviseur d'entreprises agréé

Our shareholder

Banque de Luxembourg is a wholly owned subsidiary of Crédit Mutuel Alliance Fédérale via Crédit Industriel et Commercial (CIC) which owns 100% of the Bank's capital. Crédit Mutuel Alliance Fédérale offers its clients a comprehensive and innovative multiservice range of diversified banking and insurance services.

Its strength stems from a combination of factors: a cooperative and mutualist structure, a policy of diversification of products and services, decentralisation of its networks to empower locally-based services, a strong and recognised brand, a growing international presence and highly-trained and skilled employees.

Crédit Mutuel Alliance Fédérale's strategic development plan focuses on four major themes:

1. Be the benchmark relationship bank in an omnichannel world
2. Be a bank that is committed and adapted to the new world
3. Be an innovative multi-service bank
4. Put solidity at the core of the development of the mutualist model

It is the leading mission-focused bank in France, with net income of €3.5 billion in 2021, representing annual growth of 39%.

In 2021, Crédit Mutuel's very good external ratings were confirmed by Moody's (Aa3) and Fitch Ratings (Senior Preferred: AA-) with a stable outlook, and improved by one category by Standard & Poor's (from A to A+) with outlook raised to stable. All three agencies highlight the strength of the bancassurance model and the good level of Crédit Mutuel's profitability, asset quality, capitalisation and liquidity indicators in the context of the pandemic.

Crédit Mutuel Alliance Fédérale is one of the 115 major European banks supervised directly by the ECB under the Single Supervisory Mechanism (SSM).

Outlook

Banque de Luxembourg has written respect for the interests of all stakeholders into its Articles of Association, and seeks to be a true company that cares. Caring is central to relationships, both among employees and with clients. This is a goal and a promise that require constant work, just like trust and a good reputation.

CSR and ESG now form mainstays supporting the Bank's development plan.

The current environment, characterised by severe regulatory and financial pressures (shrinking interest rates and margins), is leading the Bank to apply budgetary and operational discipline. The general framework to which the Bank is subject requires prudent management of financial and non-financial risks.

With its attractive ratios, its solid shareholder and its good reputation, Banque de Luxembourg is well prepared to face the challenges ahead and to develop its business.

Pierre Ahlborn
Administrateur Délégué

Luxembourg, 29 March 2022

Eric Charpentier
Chairman of the Board of Directors

Luxembourg, 29 March 2022

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