BANQUE DE LUXEMBOURG

EN

ANNUAL REPORT 2019

Banque de Luxembourg - 14, boulevard Royal
L-2449 Luxembourg

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CONTENTS

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 2019, Banque de Luxembourg's book value was just above EUR 1 billion for a balance sheet total of EUR 14.3 billion. Including its Belgian branch, Banque de Luxembourg generated a post-tax profit of EUR 58.5 million and has 962 employees.

GOVERNANCE

EXECUTIVE COMMITTEE

Pierre Ahlborn – Administrateur Délégué
Philippe Depoorter – Businesses & Entrepreneurs
Benoît Elvinger – Dealing Room and Financing
Etienne Planchard – Risk Management, Chief Risk Officer
Fernand Reiners – Professional Banking
Luc Rodesch – Private Banking & Estate Planning
Romain Weiler – Organisation and IT, Finance & Operations

DIRECTORS, HEADS OF DIVISION

Georges Heinrich – Secrétaire Général
David Schmidt – Belgian branch
Sam Reckinger – Compagnie Financière de Gestion (CFG)
Guy Wagner – BLI - Banque de Luxembourg Investments

BOARD OF DIRECTORS

Chairman

Philippe Vidal
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
Directeur du CIC Grands Comptes, Paris

Pit Reckinger
Lawyer, Luxembourg

Charles Ruggieri
Président, Batipart Invest, Luxembourg

Benoît Elvinger
Secrétaire, Conseil d'administration, Luxembourg

Présidents honoraires

Robert Reckinger
Luxembourg

Jean Weber
Le Plan-de-la-Tour

Administrateurs honoraires

Dr Ekkehard Storck
Vice-Président honoraire, Berlin

Camille Diederich
Luxembourg

Paul Leesch
Luxembourg

Marc Weinand
Luxembourg

MANAGEMENT REPORT

BUSINESS REVIEW

General

2019 was a year of historically low interest rates. The Bank worked tirelessly to adapt to this environment and paid even closer attention to its expenses, including those associated with its investments. Commercially, there were strong performances across all five of our business areas: Private Banking, Professional Banking, Asset Management, Financing and services for businesses (Businesses & Entrepreneurs).

At a regulatory level, the Bank's efforts were primarily focused on the *Market Abuse, Shareholder Rights II* and *Payment Services II* directives. The Bank quickly mobilised its teams to ensure strict compliance with its obligations.

The Bank also embarked on an in-depth review of its medium-term positioning and strategy. To that end, a series of preparatory projects were carried out by the various business lines and the economic, financial and regulatory environment was analysed.

Private Banking

The Private Banking division continued to pursue commercial development opportunities. As at 31 December 2019, assets stood at EUR 23.2 billion. AUM for *discretionary management mandates* now stands at EUR 5.7 billion. The Bank used the transition to the *Markets in Financial Instruments Directive II* (MiFID II) as an opportunity to rethink the services it offers target clients and devise a transparent range of investment services. It also developed a new *Personal Banking* service range. This package is intended to meet the needs of *mass affluent* clients, in particular through a simplified and digitised savings product.

Asset management

2019 was a good year for the stock markets. In general, volatility was fairly high as a result of factors such as rising protectionism and trade wars, as well as the thorny question of the UK's exit from the European Union. In this environment, our subsidiary BLI recorded an increase in assets under management of 16.5% to EUR 12.2 billion.

Another key development in 2019 was the introduction of a new commercial structure, as BLI funds will now be sold through Crédit Mutuel Investment Managers. This new structure showcases the broad range of sset management expertise within Crédit Mutuel Alliance Fédérale.

Professional Banking

The Professional Banking division had a good year in both services for investment funds and those aimed at independent asset managers and life insurance companies. Assets administered by the *Investment Fund Services* department grew by 12% during the year to EUR 63.6 billion. The *Independent Investor Services* department's assets grew by 8.6% to EUR 7.9 billion. This growth can be attributed to the extensive prospecting work carried out by the Bank's teams as well as the development of business with existing clients.

Businesses & Entrepreneurs

A catalyst for future growth, the Businesses & Entrepreneurs division saw significant expansion in 2019. At 31 December 2019, the department was advising over 800 groups of clients representing almost EUR 3.0 billion in assets. The Bank is holding fast to its medium-term aim of becoming a leading service provider for family businesses and real estate professionals in Luxembourg.

Financing

Significant demand for financing solutions throughout 2019 resulted in a total new loan amount of EUR 1.14 billion. At 31 December 2019, loan outstandings stood at EUR 3.37 billion. Despite operating in a fiercely competitive landscape, the Bank can now draw on strong fundamentals as well as the expertise and determination of its own teams and those of its shareholder to position its financing activity as a growth driver for the years to come.

Outlook

In 2020, the Bank set itself the objective of honing its strategy in order to adapt to the many challenges posed by the economic, financial, competitive, technological and regulatory environment.

This process of reflection, intended to be proactive and collaborative, should enable the Bank to devise a medium-term strategy for the period up to 2025. Digitisation continues to be a central theme as the Bank seeks to meet the ever-changing needs of professional and private clients. Aware of its responsibility to society at large, the Bank will redouble its efforts to build a more sustainable world.

The Bank has no cause for concern in relation to its financial and operational stability in the context of the recent developments in the public health sphere affecting people and markets around the world.

The size and structure of its capital and its rigorous risk management ensure that the Bank is able to absorb even the largest and longest of shocks.

While its equity and liquidity ratio are far above minimum prudential levels, the Internal Capital Adequacy Assessment Process (ICAAP), managed by the Risk Management teams, documents and confirms the resilience of our institution.

The Bank has implemented operational measures aimed at ensuring business continuity in any eventuality.

RISK MANAGEMENT

To ensure due diligence, 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 Compliance and Internal Audit functions are overseen by the Chief Executive Officer whereas Risk Management reports to the Chief Risk Officer, who sits on the Executive Committee. All three report to the Board of Directors' 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 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, Credit Control and Information Security & Access 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 teams.

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 (MiFID II, etc.) 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 subsidiaries are contained in a charter. This charter also defines the Compliance function's relationship with the Board of Directors and Executive Committee.

Internal audit

As well as working under the Chief Executive Officer 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 changes in risks and to the services. A matrix of risks for all the activities of the Bank and its subsidiaries/its branch enables these activities to be ranked by level of risk. This matrix is regularly reviewed.

OTHER STATUTORY INFORMATION

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

The Bank was not involved in any research activity in 2019. Development work is described in note 12.

During 2019, 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	18.27 million
Allocation to free reserves	39.74 million
Allocation to the Board of Directors	0.53 million
Total	**58.54 million**

After allocating the available profit from 2019 to free reserves, the Board of Directors proposed to the General Meeting of Shareholders the payment of a dividend of EUR 52.67 million, i.e. EUR 1,984 per share, from free reserves.

After distribution of profits and payment of the dividend, total equity amounted to EUR 1.007 billion.

BALANCE SHEET AND OFF-BALANCE SHEET ITEMS

ASSETS (EUR 000)	Notes[1]	2018	2019
Cash in hand, balances with central banks and post office banks	**4**	**2,109,484**	**2,068,407**
Loans and advances to credit institutions	**4, 5, 14**	**7,816,496**	**6,645,334**
a) repayable on demand		1,577,707	2,661,186
b) other loans and advances		6,238,789	3,984,148
Loans and advances to clients	**4, 6, 14**	**3,135,343**	**3,451,727**
Debt securities and other fixed income securities	**4, 7, 8, 9, 12, 14, 15, 21**	**1,956,332**	**1,818,230**
a) issued by public bodies		1,590,998	1,470,660
b) issued by other borrowers		365,333	347,570
Shares and other variable-yield securities	**4, 7**	**47,341**	**40,610**
Participating interests	**7, 10, 12, 14, 22**	**8,246**	**7,082**
Shares in affiliated undertakings	**7, 10, 12, 14, 22**	**21,124**	**11,948**
Intangible assets	**12**	**16,931**	**15,931**
Tangible assets	**12, 13**	**101,746**	**99,762**
Other assets	**11**	**21,547**	**21,953**
Accruals and deferred income		**52,293**	**73,607**
Total assets	**16**	**15,286,883**	**14,254,591**

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

LIABILITIES (EUR 000)	Notes[1]	2018	2019
Amounts owed to credit institutions	**4, 22**	**1,755,044**	**613,360**
a) repayable on demand		1,535,447	434,416
b) with agreed maturity dates or periods of notice		219,597	178,944
Amounts owed to clients	**4, 22**	**12,164,438**	**12,290,990**
a) savings deposits		4,030,856	4,553,996
b) other debts		8,133,582	7,736,993
ba) repayable on demand		5,181,315	5,198,724
bb) with agreed maturity dates or periods of notice		2,952,267	2,538,269
Other liabilities	**17, 31**	**70,051**	**52,274**
Accruals and deferred income		**133,587**	**139,523**
Provisions for liabilities and charges		**103,296**	**97,844**
a) provisions for taxation		31,949	43,962
b) other provisions	33, 34	71,347	53,882
Special items with a reserve quota portion	**18**	**16,349**	**17,890**
Fund for general banking risks		**274,300**	**274,300**
Subscribed capital	**19**	**104,784**	**104,784**
Share premium		**18,689**	**18,689**
Reserves	**20**	**582,268**	**586,400**
Profit brought forward	**20**	**10**	**18**
Profit/(loss) for the financial year		**64,067**	**58,519**
Total liabilities	**23**	**15,286,883**	**14,254,591**

OFF-BALANCE SHEET (EUR 000)	Notes[1]	2018	2019
Contingent liabilities	**4, 24**	**307,835**	**280,723**
of which:			
– guarantees and assets pledged as collateral security		152,357	165,922
Commitments	**4, 25**	**627,698**	**868,416**
Fiduciary operations	**28**	**1,694,873**	**1,700,326**

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

PROFIT AND LOSS ACCOUNT

EUR 000	Notes [1]	2018	2019
Interest receivable and similar income	**28**	**270,566**	**253,263**
of which:			
arising from fixed income securities		36,772	29,987
Interest payable and similar charges	**28**	**(195,068)**	**(186,008)**
Income from securities	**28**	**57,883**	**60,154**
a) income from shares, units and other variable-yield securities		1,085	86
b) income from participating interests		-	-
c) income from shares in affiliated undertakings		56,798	60,068
Commission receivable	**28**	**130,244**	**129,935**
Commission payable	**28**	**(14,686)**	**(15,890)**
Net profit/(loss) on financial operations	**28**	**5,755**	**5,030**
Other operating income	**28, 29**	**12,047**	**5,648**
General administrative expenses		**(153,053)**	**(170,161)**
a) staff costs	31	(95,234)	(103,602)
of which:			
– wages and salaries		(76,649)	(83,013)
– social security costs		(13,737)	(15,476)
of which:			
social security costs relating to pensions	31	(9,493)	(10,643)
b) other administrative expenses		(57,819)	(66,559)
Value adjustments in respect of tangible and intangible assets		**(18,361)**	**(18,654)**
Other operating expenses	**30**	**(1,659)**	**(3,244)**
Value adjustments in respect of loans and advances and provisions for contingent liabilities and commitments		**(21,455)**	**(8,248)**
Carried forward:		72,213	51,826

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

EUR 000	Notes[1]	2018	2019
Brought forward:		**72,213**	**51,826**
Value re-adjustments in respect of loans and advances and provisions for contingent liabilities and commitments		9,981	21,645
Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings		(2,360)	(12,853)
Value re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings		3,753	6,511
Income from the write back of “Special items with a reserve quota portion”	18	397	166
Transfers to the fund for general banking risks		(10,000)	-
Tax on profit/(loss) on ordinary activities		(9,108)	(7,862)
Profit/(loss) on ordinary activities after tax		64,876	59,433
Other taxes not shown in the preceding items		(809)	(914)
Profit/(loss) for the financial year		**64,067**	**58,519**

(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 2019, 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 Credit 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

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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 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(26bis) of the Law of 5 April 1993 on the financial sector (as amended):

- 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. 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 the following three 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,
- 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 book 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 (or purchase) value and the par (or disposal) 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 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.

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 depreciation 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 depreciation periods used are:

- Software and IT developments: 4 years
- Buildings: 15–50 years
- Fixtures and installations: 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.

2.18. Taxes
Taxes are accounted for on an accruals basis.

The Bank has opted for a consolidated tax regime.

As at 31 December 2019, five 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

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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 -117.4 million as at 31 December 2019 (31 December 2018: EUR -99.2 million). Exposure limits are also expressed in terms of sensitivity to a 1% change in interest rates and are monitored on a daily basis. Limits have been set for each currency and each portfolio, and the maximum limit for all currencies is EUR 75.0 million. The sensitivity calculation is carried out in real time by the front office and risk management systems, and global sensitivity stood at EUR 62.4 million on 31 December 2019 (versus EUR 58.1 million a year earlier).

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. The Board of Directors approves all credit lines which 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 gives priority to the Group or the Central Bank of Luxembourg over other counterparties.

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

- 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 Risk Control unit within the Loans 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

Several steps have been taken to optimise the management of the main risk factors in view of the Bank's risk policy.

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 24% of total assets at the end of 2019.

The Bank monitors 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 granularity of client deposits
- liquidity stress test scenarios over a period of three months
- the survival period in case of a financing problem
- the static liquidity gap on middle 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 central Bank of Luxembourg,
- Financing via the direct parent company, Crédit Mutuel Alliance Fédérale.

At the end of the 2019 financial year, the Bank's LCR was 159% (31 December 2018: 141%) compared with a regulatory minimum of 100%.

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
- 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 it 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 244 controls and account for 978 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 residual maturity:

2018 EUR 000 (BOOK VALUE)	Less than 3 months or indefinite	3–12 months	1–5 years	More than 5 years	TOTAL 2018
Cash in hand, balances with central banks and post office banks	2,109,484	-	-	-	2,109,484
Loans and advances to credit institutions	3,629,166	1,793,850	2,078,294	315,186	7,816,496
Loans and advances to clients	1,014,486	345,624	354,163	1,421,070	3,135,343
Debt securities and other fixed income securities	1,642	332,053	909,719	712,919	1,956,332
Shares and other variable-yield securities	47,341	-	-	-	47,341
Total	**6,802,119**	**2,471,528**	**3,342,176**	**2,449,175**	**15,064,996**
Amounts owed to credit institutions	1,409,681	125,765	205,293	14,304	1,755,044
Amounts owed to clients	11,027,816	625,092	234,314	277,216	12,164,438
Debts evidenced by certificates	-	-	-	-	-
Total	**12,437,497**	**750,857**	**439,607**	**291,520**	**13,919,482**
Collateral granted	3,748	20,770	101,193	182,124	307,835
Commitments	5,532	13,710	249,774	358,682	627,698
Total	**9,280**	**34,480**	**350,967**	**540,806**	**935,533**

2019 EUR 000 (BOOK VALUE)	Less than 3 months or indefinite	3–12 months	1–5 years	More than 5 years	TOTAL 2019
Cash in hand, balances with central banks and post office banks	2,068,407	-	-	-	2,068,407
Loans and advances to credit institutions	2,649,192	1,449,963	2,236,485	309,693	6,645,334
Loans and advances to clients	1,277,468	207,203	438,752	1,528,303	3,451,727
Debt securities and other fixed income securities	47,433	193,444	958,607	618,747	1,818,230
Shares and other variable-yield securities	40,610	-	-	-	40,610
Total	**6,083,109**	**1,850,610**	**3,633,844**	**2,456,743**	**14,024,307**
Amounts owed to credit institutions	307,965	126,451	173,148	5,796	613,360
Amounts owed to clients	11,505,194	282,335	226,984	276,476	12,290,990
Debts evidenced by certificates	-	-	-	-	-
Total	**11,813,159**	**408,786**	**400,132**	**282,273**	**12,904,350**
Collateral granted	132,566	36,139	85,840	26,178	280,723
Commitments	341,552	123,534	240,385	162,945	868,416
Total	**474,118**	**159,673**	**326,225**	**189,123**	**1,149,139**

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	2018	2019
European Union	6,946,880	6,289,228
United States	36,218	188,012
Other OECD countries	69,494	70,484
Other countries	763,904	97,610
Total	**7,816,496**	**6,645,334**

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 2019, reverse repurchase agreement transactions with credit institutions amounted to EUR 1,168,282 thousand (31 December 2018: EUR 1,601,911 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 2019, loans and advances to credit institutions on affiliated undertakings amounted to EUR 5,911,149 thousand (31 December 2018: EUR 6,642,071 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 16,294 thousand at 31 December 2019 (31 December 2018: EUR 21,299 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	2018	2019
European Union	2,812,895	3,173,357
United States	27,886	3,585
Other OECD countries	142,662	128,590
Other countries	151,900	146,194
Total	**3,135,343**	**3,451,727**

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

EUR 000	2018	2019
Secured lending	2,463,445	3,123,992
Unsecured lending	671,898	327,735
Total	**3,135,343**	**3,451,727**

Value adjustments deducted from loans and advances to clients amounted to EUR 34,711 thousand as at 31 December 2019 (31 December 2018: EUR 31,029 thousand).

The portion of the lump-sum provision for risk exposures that relates to loans and advances to clients amounted to EUR 12,473 thousand at 31 December 2019 (31 December 2018: EUR 13,393 thousand) and is deducted from unsecured lending.

Loans and advances granted to the Bank's management

As at 31 December 2019, loans and advances (including any guarantees and sureties) granted to Board members amounted to EUR 6,652 thousand (31 December 2018: EUR 8,146 thousand). Those granted to managers amounted to EUR 24,061 thousand (31 December 2018: EUR 21,707 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):

2018 EUR 000	Listed securities	Unlisted securities	TOTAL
Debt securities and other fixed income securities	1,956,332	-	1,956,332
Shares and other variable-yield securities	-	47,341	47,341
Participating interests	-	8,246	8,246
Shares in affiliated undertakings	-	21,124	21,124
Total	**1,956,332**	**76,711**	**2,033,043**

2019 EUR 000	Listed securities	Unlisted securities	TOTAL
Debt securities and other fixed income securities	1,818,230	-	1,818,230
Shares and other variable-yield securities	-	40,610	40,610
Participating interests	-	7,082	7,082
Shares in affiliated undertakings	-	11,948	11,948
Total	**1,818,230**	**59,640**	**1,877,870**

As at 31 December 2019, debt securities and other fixed income securities linked to interest rate swaps amounted to EUR 1,224,200 thousand (31 December 2018: EUR 1,341,055 thousand).

As at 31 December 2019, value adjustments maintained in respect of financial fixed assets and current assets in accordance with the Beibehaltungsprinzip amounted to EUR 9,165 thousand (31 December 2018: EUR 7,626 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	2018	2019
Financial fixed assets	1,953,278	1,817,234
Trading book	3,054	996
Total	**1,956,332**	**1,818,230**

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	2018	2019
Public issuers	1,590,999	1,470,660
Credit institutions	281,915	284,258
Other issuers	83,420	63,312
Total	**1,956,332**	**1,818,230**

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

EUR 000	2018	2019
European Union	1,700,725	1,523,251
United States	227,771	241,451
Other OECD countries	27,838	44,625
Other countries	-	8,902
Total	**1,956,332**	**1,818,230**

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

EUR 000	2018	2019
Central administrations	**1,529,979**	**1,359,625**
Aaa	745,227	753,674
Aa1	159,011	144,409
Aa2	347,970	329,446
Aa3	117,755	131,918
A1	174	178
A2	84,916	-
Baa3	74,926	-
Regional and local administrations	**45,290**	**40,213**
Aaa	12,656	12,917
Aa1	26,890	27,296
Aa3	5,744	-
Supranational	**287,734**	**320,480**
Aaa	169,953	177,881
Aa1	117,781	142,599
Banks	**27,563**	**49,344**
Aaa	8,748	28,061
Aa1	3,487	8,002
Baa3	12,274	12,285
NR	3,054	996
Securitisation	**65,766**	**48,568**
Aaa	7,328	6,376
Aa1	23,013	19,967
Aa2	6,885	3,588
Aa3	13,704	8,623
A1	1,817	2,830
A2	168	47
A3	2,532	2,029
Baa1	162	3,982
Baa2	4,307	-
Baa3	-	1,125
Ba2	153	-
Ba3	5,697	-
Total	**1,956,332**	**1,818,230**

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

2018 EUR 000	Book value	Fair value
Debt securities and other fixed income securities	68,409	70,466

2019 EUR 000	Book value	Fair value
Debt securities and other fixed income securities	53,858	59,026

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 2019, the book value of this portfolio amounted to EUR 53,858 thousand (31 December 2018: EUR 68,409 thousand) and its fair value amounted to EUR 59.026 thousand (31 December 2018: EUR 70,466 thousand).

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

2018 EUR 000	Book value	Fair value
Debt securities and other fixed income securities	1,341,055	1,402,756

2019 EUR 000	Book value	Fair value
Debt securities and other fixed income securities	1,224,200	1,225,041

As at 31 December 2019, 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	**2018**	**2019**
Premiums	(7,374)	(9,701)
Discounts	2,447	2,192
	(4,927)	**(7,509)**

The Bank has entered into transactions based on unconditional agreements to sell and repurchase assets. The value of these transactions as at 31 December 2019 was EUR 127,154 thousand (31 December 2018: EUR 621,463 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 2019 was EUR 47,360 thousand (31 December 2018: EUR 219,758 thousand).

NOTE 9
TRANSFERABLE SECURITIES: TRADING BOOK

As at 31 December 2019 and 2018, the trading book (see also note 2.3.) was as follows:

2018 EUR 000	Book value	Fair value
Debt securities and other fixed income securities	3,054	3,108

2019 EUR 000	Book value	Fair value
Debt securities and other fixed income securities	996	1,000

NOTE 10
PARTICIPATING INTERESTS AND SHARES IN AFFILIATED UNDERTAKINGS

As at 31 December 2019 and 2018, the Bank had no participating interests in other credit institutions.

As at 31 December 2019, the Bank held a participating interest of at least 20% in the capital of the following companies:

COMPANY NAME	Percentage of share capital held	Own funds[1] as at 31/12/2018	Net profit/(loss) as at 31/12/2018
BL General Partner S à r l	100.00%	864	196
BLI - Banque de Luxembourg Investments S A	100.00%	20,139	47,982
Cigogne Management S A	20.00%	33,780	15,923
Compagnie Financière de Gestion Luxembourg S A	100.00%	7,289	1,599
Conventum Asset Management S A	100.00%	5,360	1,532
European Fund Administration S A	31.66%	22,598	(2,183)
Fund-Market S A	100.00%	97	(3)
Tradhold S A	50.00%	12,822	577

In 2019, the Bank took part in an operation to rebalance the shareholder structure of European Fund Administration S.A. This entailed increasing its capital stake from 24.23% to 31.66%.

All these companies have their registered office in Luxembourg.

(1) Own funds including the net profit/(loss) as at 31 December 2018.

NOTE 11
OTHER ASSETS

EUR 000	2018	2019
Short-term receivables	12,136	11,140
Pension fund investments	7,265	7,509
Precious metals	1,707	2,366
Other	439	939
Total	**21,547**	**21,953**

NOTE 12
CHANGES IN FIXED ASSETS

The Bank's fixed assets changed as follows over the course 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	Value adjustments at the end of the financial year		Net value at the end of the financial year
							Total reversals/ adjustments	Lump-sum provision for risk exposures	
1. Participating interests	**9,105**	**1,120**	**(347)**	-	-	**9,879**	**(2,606)**	**(190)**	**7,082**
2. Shares in affiliated undertakings	**23,451**	-	-	-	-	**23,451**	**(9,563)**	**(1,939)**	**11,948**
3. Debt securities and other fixed income securities [1]	**1,972,417**	**218,926**	**(360,672)**	-	**(32)**	**1,830,638**	**(12,673)**	**(731)**	**1,817,234**
4. Intangible assets	**97,147**	**7,441**	**(1,355)**	-	-	**103,233**	**(87,302)**	-	**15,931**
of which:						-			
a) Development costs	40,381	7,050	(1,164)	-	-	46,267	(32,472)	-	13,795
b) Concessions, patents, licences, trademarks and similar rights and assets	24,276	391	(191)	-	-	24,476	(22,340)	-	2,136
c) Goodwill	32,490	-	-	-	-	32,490	(32,490)	-	-
5. Tangible assets	**238,179**	**10,180**	**(7,201)**	-	-	**241,158**	**(138,445)**	**(2,951)**	**99,762**
of which:				-	-				
a) Land and buildings	203,260	2,325	(2,762)	-	-	202,823	(111,303)	(2,482)	89,037
b) Plant and machinery	23,964	7,411	(3,029)	-	-	28,347	(19,260)	(347)	8,739
c) Other fixtures and fittings, tools and furniture	10,955	443	(1,410)	-	-	9,988	(7,881)	(122)	1,986

(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 2019, tangible assets included a net amount of EUR 89,037 thousand (31 December 2018: EUR 94,577 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 2019, loans and advances to affiliated undertakings and entities in which the Bank has a participating interest were as follows:

2018 EUR 000	Affiliated undertakings	Participating interests
Loans and advances to credit institutions	6,642,071	-
Loans and advances to clients	-	690
Debt securities and other fixed income securities	15,328	-
Total	**6,657,399**	**690**

2019 EUR 000	Affiliated undertakings	Participating interests
Loans and advances to credit institutions	5,911,149	-
Loans and advances to clients	6	625
Debt securities and other fixed income securities	13,280	-
Total	**5,924,435**	**625**

Debt securities and bonds are shown net of value adjustments.

NOTE 15
SUBORDINATED ASSETS

The Bank's subordinated assets are mainly included in "Debt securities and other fixed income securities" and amount to EUR 12,285 thousand at 31 December 2019 (31 December 2018: EUR 12,274 thousand).

NOTE 16
FOREIGN CURRENCY ASSETS

As at 31 December 2019, the aggregate amount of the Bank's assets denominated in foreign currencies, translated into EUR, corresponds to EUR 3,073,351 thousand (31 December 2018: EUR 4,140,795 thousand).

NOTE 17
OTHER LIABILITIES

EUR 000	2018	2019
Short-term payables	36,361	21,131
Preferential creditors	8,813	9,100
Staff pension fund	5,263	5,168
Other	19,614	16,875
Total	**70,051**	**52,274**

The amount of EUR 5,168 thousand at 31 December 2019 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 2019, this amount is included under "Other" for EUR 15,540 thousand (31 December 2018: EUR 15,401 thousand).

NOTE 18
SPECIAL ITEMS WITH A RESERVE QUOTA PORTION

The amount recorded under "Special items with a reserve quota portion" represents the tax-exempt capital gain 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 2019	10,478	571,790	10
Profit/(loss) for the financial year ended 31 December 2018	-	-	64,067
Appropriation of profit:			
Transfer to reserves	-	5,810	(5,810)
Transfer to special items with a reserve quota portion	-	(1,678)	-
Dividend	-	-	(57,738)
Directors' fees	-	-	(511)
Balance as at 31 December 2018	**10,478**	**575,922**	**18**

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.

Over the course of 2019, the Bank confirmed the transfer of EUR 1,678 thousand classed as tax-exempt capital gains to special items with a reserve quota portion.

As at 31 December 2019, the specific reserve linked to the reduction in the wealth tax amount (see note 2.18), which appears under "Other reserves", was EUR 93,960 thousand (31 December 2018: EUR 94,405 thousand).

As at 31 December 2019, the rate of return on assets was 0.41% (31 December 2018: 0.42%).

EUR 000	2018	2019
Total assets	15,286,883	14,254,591
Net profit	64,067	58,519
Return on assets	0.42%	0.41%

NOTE 21
ASSETS PLEDGED BY THE BANK AS COLLATERAL FOR ITS OWN COMMITMENTS

As at 31 December 2019, the Bank had pledged assets as collateral for its own commitments in an amount of EUR 476,464 thousand (31 December 2018: EUR 964,155 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.

2018 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	**964,155**	**N/A**	**14,322,728**	**N/A**
Own funds instruments	-	-	76,711	121,101
Debt securities	607,891	627,966	1,348,441	1,326,997
Other assets	356,264	N/A	12,897,576	N/A

2019 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	**476,464**	**N/A**	**13,778,126**	**N/A**
Own funds instruments	-	-	59,640	117,001
Debt securities	124,592	124,785	1,693,638	1,766,626
Other assets	351,872	N/A	12,024,849	N/A

NOTE 22
AMOUNTS OWED TO AFFILIATED UNDERTAKINGS AND COMPANIES IN WHICH THE BANK HAS A PARTICIPATING INTEREST

As at 31 December 2019, amounts owed to affiliated undertakings and companies in which the Bank has a participating interest were as follows:

2018 EUR 000	Affiliated undertakings	Participating interests
Amounts owed to credit institutions	817,281	-
Amounts owed to clients	24,739	75,731
Total	**842,020**	**75,731**

2019 EUR 000	Affiliated undertakings	Participating interests
Amounts owed to credit institutions	270,789	-
Amounts owed to clients	22,893	64,789
Total	**293,682**	**64,789**

NOTE 23
FOREIGN CURRENCY LIABILITIES

As at 31 December 2019, the aggregate amount of liabilities denominated in foreign currencies and converted into EUR was EUR 3,937,952 thousand (31 December 2018: EUR 4,844,301 thousand).

NOTE 24
CONTINGENT LIABILITIES

The Bank's contingent liabilities are broken down as follows:

EUR 000	2018	2019
Guarantees and other direct substitutes for credit	307,783	280,671
Documentary credits	52	52
Total	**307,835**	**280,723**

As at 31 December 2019, the Bank had EUR 31,290 thousand of contingent liabilities towards affiliated undertakings (31 December 2018: EUR 32,798 thousand) and EUR 17 thousand of contingent liabilities towards participating interests (31 December 2018: EUR 17 thousand).

NOTE 25
COMMITMENTS

The Bank's commitments are broken down as follows:

EUR 000	2018	2019
Confirmed credits, not used	627,698	868,416
Total	**627,698**	**868,416**

As at 31 December 2019, the Bank's commitments towards affiliated undertakings amounted to EUR 4,612 thousand (31 December 2018: EUR 3,109 thousand).

As at 31 December 2019, the Bank's commitments to entities in which it has a participating interest amounted to EUR 95 thousand (31 December 2018: EUR 500 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 9 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.

2018 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	7,732,530	1,017,887	23,802	-	8,774,219	45,876	(49,685)
Options purchase	4,466	24,464	-	-	28,930	5,459	-
Options sale	4,466	24,464	-	-	28,930	-	(5,459)
Total	**7,741,462**	**1,066,815**	**23,802**	-	**8,832,079**	**51,335**	**(55,144)**
Transactions linked to interest rates							
Over-the-counter (OTC) contracts	-	-	-	-	-	-	-
Interest rate swaps	-	358,094	731,477	1,172,618	2,262,189	7,267	(99,811)
Cap floor purchase	-	-	-	-	-	-	-
Total	-	**358,094**	**731,477**	**1,172,618**	**2,262,189**	**7,267**	**(99,811)**
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	35,456	176,455	-	454	212,365	-	(23,183)
Options sale	35,387	176,457	-	520	212,364	19,639	-
Warrant	-	-	-	130,963	130,963	-	(73,437)
Total	**70,843**	**352,912**	-	**131,937**	**555,692**	**19,639**	**(96,620)**

2019 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	5,856,314	700,105	6,021	-	6,562,440	41,181	(39,183)
Options purchase	11,489	490	-	-	12,049	97	-
Options sale	11,506	614	-	-	12,050	-	(97)
Total	**5,879,310**	**701,209**	**6,021**	-	**6,586,539**	**41,279**	**(39,281)**
Transactions linked to interest rates							
Over-the-counter (OTC) contracts	-	-	-	-	-	-	-
Interest rate swaps	17,815	135,815	860,880	1,192,325	2,206,835	4,721	(109,931)
Cap floor purchase	-	-	-	-	-	-	-
Total	**17,815**	**135,815**	**860,880**	**1,192,325**	**2,206,835**	**4,721**	**(109,931)**
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	30,437	123,614	-	-	154,059	-	(4,096)
Options sale	30,437	123,629	-	-	154,059	9,277	-
Warrant	-	-	-	107,908	107,908	-	(78,379)
Total	**60,875**	**247,243**	-	**107,908**	**416,026**	**9,277**	**(82,474)**

All outstanding foreign exchange and interest rate transactions as at 31 December 2019 and 2018 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 2019 and 2018.

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).

2018 * 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	439,942	2,581	4,418	6,999	5,903
Currency options	31,445	5,454	314	5,769	5,531
Total	**471,387**	**8,035**	**4,732**	**12,768**	**11,434**
Transactions linked to interest rates					
Interest rate swaps	-	-	-	-	-
Total	-	-	-	-	-
Transactions linked to own funds					
Equity futures	89	-	5	5	5
Equity options	424,642	19,639	25,517	45,156	45,157
Warrant	130,963	-	13,096	13,096	13,096
Total	**555,694**	**19,639**	**38,618**	**58,257**	**58,258**
Transactions with counterparties under a clearing agreement	**10,565,020**	**19,781**	**61,037**	**80,819**	**46,935**

* The presentation of comparative data from 31 December 2018 was amended to reflect all clearing agreements entered into by the Bank.
(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.

2019 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	359,764	2,697	3,752	6,449	128
Currency options	8,791	93	88	181	-
Total	**368,555**	**2,790**	**3,840**	**6,630**	**128**
Transactions linked to interest rates					
Interest rate swaps	-	-	-	-	-
Total	-	-	-	-	-
Transactions linked to own funds					
Equity futures	-	-	-	-	-
Equity options	261,864	7,294	15,712	23,006	9,213
Warrant	100,202	-	10,020	10,020	7,596
Total	**362,066**	**7,294**	**25,732**	**33,026**	**16,809**
Transactions with counterparties under a clearing agreement	**8,513,007**	**12,817**	**44,011**	**56,828**	**8,661**

(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. The presentation of comparative data from 31 December 2018 was amended to reflect all clearing agreements entered into by the Bank.

2018 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	439,942	-	-	-	-	-	-	-	-	-	6,999	6,999
Currency options	31,445	-	-	-	-	-	-	-	-	-	5,769	5,769
Total	**471,387**	-	-	-	-	-	-	-	-	-	**12,768**	**12,768**
Transactions linked to own funds												
Equity futures	89	-	-	-	-	-	-	-	-	-	5	5
Equity options	424,642	-	-	-	-	-	-	-	-	-	45,157	45,157
Warrant	130,963	-	-	-	-	-	-	-	-	-	13,096	13,096
Total	**555,694**	-	-	-	-	-	-	-	-	-	**58,258**	**58,258**
Transactions linked to interest rates												
Interest rate swaps	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with counterparties under a clearing agreement	**10,565,020**	**2,744**	-	**13,976**	**8,012**	**882**	**5,314**	**18**	**2,128**	-	**47,745**	**80,819**

2019 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	659,764	-	-	-	-	-	-	-	-	-	6,449	6,449
Currency options	8,791	-	-	-	-	-	-	-	-	-	181	181
Total	**668,555**	-	-	-	-	-	-	-	-	-	**6,630**	**6,630**
Transactions linked to own funds												
Equity futures	-	-	-	-	-	-	-	-	-	-	-	-
Equity options	261,864	-	-	-	-	-	-	-	-	-	23,006	23,006
Warrant	100,202	-	-	-	-	-	-	-	-	-	10,020	10,020
Total	**362,066**	-	-	-	-	-	-	-	-	-	**33,026**	**33,026**
Transactions linked to interest rates												
Interest rate swaps	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with counterparties under a clearing agreement	**8,513,007**	-	-	**12,234**	**2,677**	**1,812**	**24,688**	-	**1,676**	-	**13,742**	**56,828**

c) Geographical breakdown

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

2018 EUR 000	TOTAL
Credit risk	
European Union	136,491
United States	-
Other OECD countries	4,571
Other countries	10,780
Total	**151,842**

2019 EUR 000	TOTAL
Credit risk	
European Union	85,506
United States	200
Other OECD countries	5,487
Other countries	5,291
Total	**96,484**

d) Collateral exchange convention

In accordance with the European Market Infrastructure Regulation (EMIR), in 2019 the Bank increased the number of counterparties with which it has signed Credit Support Annex (CSA) contracts governing derivatives transactions. As at 31 December 2019, the number of eligible counterparties was 43, compared with 32 as at 31 December 2018. Any future transactions will now be entered into with one of these 43 eligible counterparties.

NOTE 28
THE BANK'S MAIN ITEMS OF INCOME

◆

2018 EUR 000	Non-domestic	Domestic	TOTAL
Interest margin	820	74,678	75,498
Net commissions	9,482	106,076	115,558
Income from securities	-	57,883	57,883
Net profit/(loss) on financial operations	394	5,361	5,755
Other operating income	300	11,747	12,047

2019 EUR 000	Non-domestic	Domestic	TOTAL
Interest margin	558	66,697	67,255
Net commissions	10,790	103,256	114,045
Income from securities	-	60,154	60,154
Net profit/(loss) on financial operations	326	4,704	5,030
Other operating income	146	5,501	5,648

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	2018	2019
Refund of VAT and taxes from previous years	2,019	130
State contribution to training expenses	645	317
Rental income	876	870
Reversal of litigation provisions	406	-
Gain on disposal of fixed assets	260	1,944
Gains made on assignment of receivables	5,497	-
Other	2,344	2,386
Total	**12,047**	**5,648**

"Other" mainly comprises services recharged to affiliated undertakings in the amount of EUR 1,776 thousand in 2019 (EUR 1.634 thousand in 2018).

NOTE 30
OTHER OPERATING EXPENSES

EUR 000	2018	2019
Disposal of fixed assets	34	294
Loss on order transmission errors	1,056	605
Accruals and deferred income from previous years	-	2,304
Other	569	40
Total	**1,659**	**3,244**

NOTE 31
STAFF

As at 31 December 2019 (2018), the Bank, including the subsidiary in Belgium, employed 962 (907) staff, including 71 (58) senior managers, 891 (849) middle managers and employees.

Salaries paid to staff and amounts paid in respect of retirement schemes and other related costs amounted to EUR 103,602 thousand (31 December 2018: EUR 95,234 thousand).

Of this amount, EUR 15,319 thousand was paid to the 71 senior managers (31 December 2018: 58 senior managers, EUR 13,336 thousand). The amounts paid to the members of the Board of Directors are disclosed in note 20.

In 2019, the Bank paid a sum of EUR 16,408 thousand to the Luxembourg tax authorities (31 December 2018: EUR 12,984 thousand) in respect of taxes deducted from salaries.

There were no significant changes to report with regard to the company pension scheme in 2019. 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 1.5% predicted return on the fund's assets.

At 31 December 2019, the contribution transferred to the provision for pensions totalled EUR 3,796 thousand (31 December 2018: EUR 3,144 thousand).

NOTE 32
PARENT COMPANY

Banque de Luxembourg's financial statements are consolidated by:

- the CIC group whose parent company is Crédit Industriel et Commercial (CIC);
- the BFCM group whose parent company is Banque Fédérative du Crédit Mutuel (BFCM) and which includes the CIC group;
- Crédit Mutuel Alliance Fédérale whose ultimate parent company is Caisse Fédérale de Crédit Mutuel (CFCM) and which includes the BFCM group; and
- the Crédit Mutuel group whose central entity is the Confédération Nationale du Crédit Mutuel (CNCM) and which includes Crédit Mutuel Alliance Fédérale.

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

The financial statements of the BFCM and Crédit Mutuel Alliance Fédérale groups 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:
88-90, rue Cardinet
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 200,000. 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, and the lump-sum provision.

NOTE 35
RELATED PARTIES

The Bank did not enter into any material transactions with related parties that did not conform to normal market conditions during the periods ending 31 December 2019 and 31 December 2018.

NOTE 36
APPROVED INDEPENDENT AUDITOR'S FEES

The following amounts of fees were paid to the approved independent auditor during 2019 and 2018:

EUR 000	2018	2019
Audit expenses	432	432
Other insurance services	228	143
Other fees	571	429
Total	**1,231**	**1,004**

NOTE 37
POST-BALANCE SHEET EVENTS

No event likely to have a material impact on the annual accounts as at 31 December 2019 occurred between the balance sheet date and the date of this report.

While it is difficult to predict the consequences of the current health crisis at this stage, 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 even the largest and longest of shocks. Equity and liquidity ratios far above the minimum prudential levels are testament to this resilience.

The Bank has taken the necessary operational measures to ensure continuity for its business activities and will continue to monitor the crisis and the impacts thereof as they develop.

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 OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ

Opinion

We have audited the annual accounts of Banque de Luxembourg S.A. (the 'Bank'), which comprise the balance sheet as at 31 December 2019 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 2019, 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 the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession ('Law of 23 July 2016') and with International Standards on Auditing ('ISAs') as adopted for Luxembourg by the 'Commission de Surveillance du Secteur Financier' ('CSSF'). Our responsibilities under the EU Regulation No 537/2014, the Law of 23 July 2016 and ISAs are further described in the 'Responsibilities of 'Réviseur d'Entreprises agréé' for the audit of the annual accounts' section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code') as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 the audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Description:

The Bank holds financial instruments, which are valued at historical cost 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 2019, the book value of this portfolio amounted to EUR 49 million (31 December 2018: EUR 66 million), less impairment of EUR 6 million (31 December 2018: EUR 11 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 design, implementation and effectiveness of these quarterly controls performed by Risk Management, including a review of 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 2019, private banking fees amounted to EUR 46 million (31 December 2018: EUR 45 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 our approved independent auditor's report thereon.

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

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

Responsibilities of the Board of Directors and those charged with governance 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.

In 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

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

We also:

- Identify and assess the risks of material misstatement of the 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;
- 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 communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements

We have been appointed as Réviseur d'Entreprises agréé by the General Meeting of the Board of Directors on 26 March 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 4 years.

The management report is consistent with the annual accounts and has been prepared in accordance with 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, 31 March 2020

KPMG Luxembourg
Cooperative company
Approved independent auditor
S. Chambourdon

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 as well as telephony, home automation and residential surveillance, vehicle sales and leasing, and estate 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.

Last year marked the first milestone in the implementation of 'ensemble#nouveaumonde', the new strategic plan that sets Crédit Mutuel Alliance Fédérale's course and goals for 2019-2023. The goals of this strategic plan lean on three pillars: customer relationship, employee engagement and technological innovation The three priorities of 'ensemble#nouveaumonde' are:

I. Be the benchmark for relationship banking in a digital world by transforming the client relationship and experience.

II. Be a bank committed and adapted to the new world by simplifying its organisation and supporting all its staff.

III. Be an innovative multi-services bank by diversifying and supporting ALL its customers' projects.

Crédit Mutuel
Alliance Fédérale

In 2019, Crédit Mutuel Alliance Fédérale produced a net profit of 3 145 million euros, an increase of 5.1%. The quality and robustness of its assets enable it to achieve equity capital of 47.1 billion euros and a solvency ratio of 17.3%. A pledge of security for clients and sustainable growth in jobs and profits, Crédit Mutuel Alliance Fédérale's financial strength is reflected in the ratings awarded to Banque Fédérative du Crédit Mutuel (BFCM). Rated 'A' by Standard & Poor's, 'Aa3' by Moody's and 'A+' by Fitch, with a stable outlook affirmed by all three agencies, Crédit Mutuel Alliance Fédérale remains one of the top rated banks in France and Europe.

Crédit Mutuel Alliance Fédérale is one of the 117 major European banks supervised directly by the ECB under the Single Supervisory Mechanism (SSM). Through its network and specialised subsidiaries in France and Europe, it offers an extensive range of wealth management advice and solutions for private banking clients, as well as asset management and depositary services for professional investors.

Banque de Luxembourg is a key player in this network of specialised businesses, principally alongside CIC Banque Privée, Banque CIC (Suisse) and Banque Transatlantique.

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