

Annual report 2018







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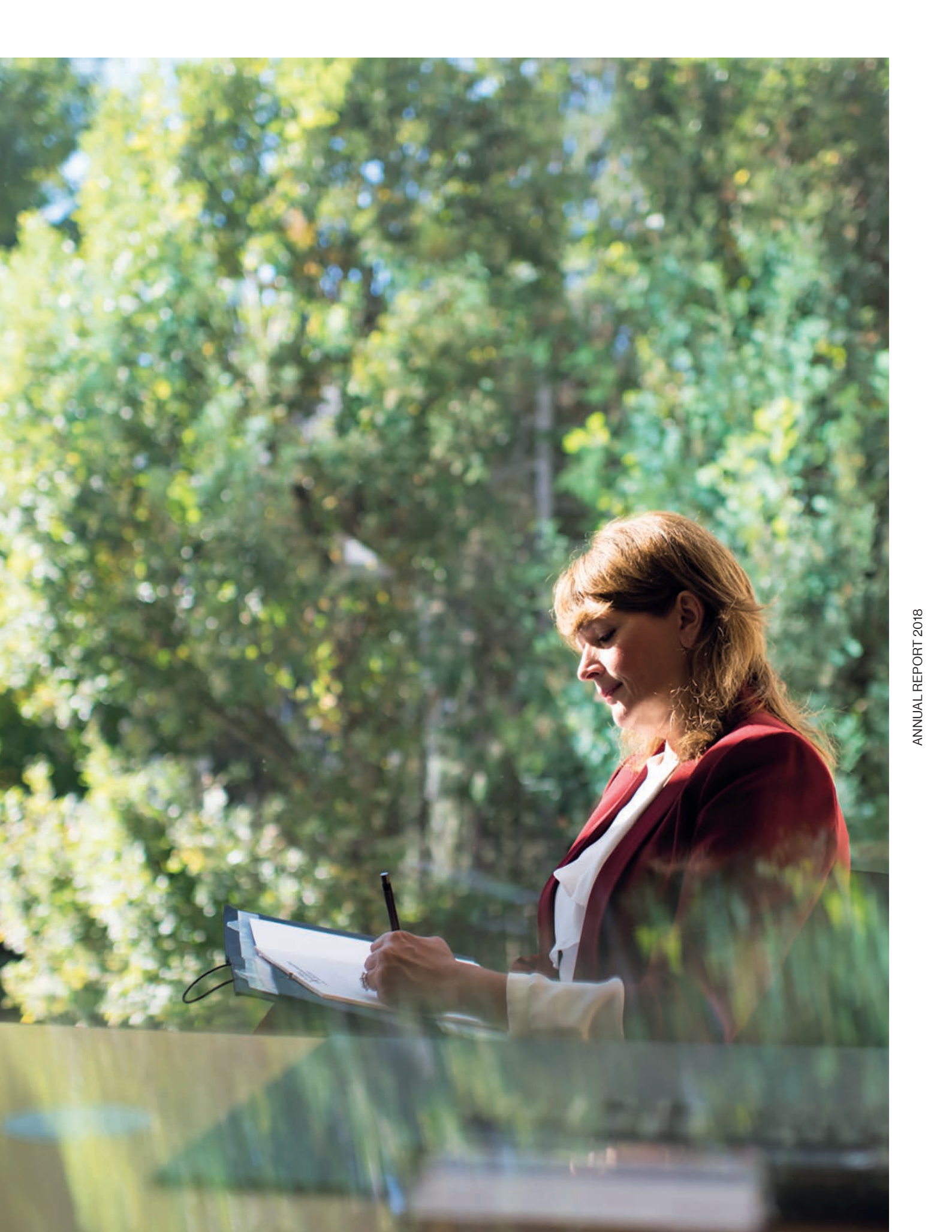
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FOREWORD

We have been in private banking since 1920 and are one of the largest asset 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.

With book value of EUR 1,060.5 billion before allocation of profit at 31 December 2018, Banque de Luxembourg (including the Belgian branch) had 907 employees and generated after-tax income of EUR 64.1 million in 2018 for a balance sheet total of EUR 15.3 billion.



Viviane Feiereisen, Private Banking teams Luxembourg

GOVERNANCE

EXECUTIVE COMMITTEE

Pierre Ahlborn – Administrateur Délégué
Philippe Depoorter – Businesses & Entrepreneurs
Benoît Elvinger – Dealing Room
Etienne Planchard – Loans & Credits
Fernand Reiners – Professional Banking
Luc Rodesch – Private Banking & Estate Planning
Romain Weiler – Organisation & 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

Président

Philippe Vidal
 Directeur Général Adjoint du CIC, Paris

Vice-Président

Daniel Baal
 Directeur Général du Crédit Mutuel, Paris

Administrateur Délégué

Pierre Ahlborn
 Luxembourg

Administrateurs

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, CIC Grands Comptes, Paris

Pit Reckinger

Lawyer, Luxembourg

Charles Ruggieri

Président, Batipart Invest, Luxembourg

Benoît Elvinger

Secrétaire du 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

The start of 2018 saw the launch of a new range of services following the entry into force of MiFID II and the PRIIPs Regulation. The Bank has therefore complied with the new regulatory requirements within the specified timeframe by adapting its organisational structure and bringing out a new range of products and services with a modified price structure. All these changes were well received by clients.

In light of national and European regulatory changes, the Bank has considerably strengthened its risk management department and extended the scope of its compliance programme. There were also further investments in digital transformation, with the aim of enhancing the client experience and improving operational efficiency.

Commercially, there were positive changes across all five business areas, namely Private Banking, Professional Banking, Asset Management, Loans and Credits, and Business and Entrepreneurs services.

PRIVATE BANKING

Private banking income rose as a result of price changes and an increase in assets under management. Assets remained stable at EUR 21.5 billion despite stock markets falling in the final quarter.

ASSET MANAGEMENT

Equity markets had a difficult year in 2018, with a sharp correction at the end of the year. The downturn on the equity markets and concerns over the strength of global growth also weighed on the bond market, with credit spreads widening. In this complex stock market environment, most of the Bank's investment funds confirmed their resilient nature with performances that were generally better than those of other asset managers. At 31 December 2018, BLI - Banque de Luxembourg Investments managed EUR 10.5 billion in assets, down slightly (-4%) on a year earlier.

PROFESSIONAL BANKING

Professional Banking, which offers support to institutional clients in the investment business areas, progressed well, both in terms of services to investment funds and services to independent asset managers and life insurance companies. Commercial efforts continued and were often rewarded with success. The considerable increase in volume confirms that the market sees the Bank as a leading player and specialist in services for investment professionals. Assets administered by the IFS (Investment Fund Services) department grew by 8% during the year to EUR 56.7 billion. There were net inflows during the year for the IIS (Independent Investor Services) department.

BUSINESSES & ENTREPRENEURS

AS AT the end of 2018, the Businesses & Entrepreneurs team advised nearly a thousand client groups with combined assets of EUR 2.4 billion. Increasingly active on the credit market, the Businesses & Entrepreneurs department aims to become the go-to operator for family-run businesses in Luxembourg and the Greater Region.

LOANS & CREDITS

Throughout 2018, the significant demand from private clients and businesses for financing solutions resulted in new loans of more than EUR 1 billion. At 31 December 2018, client receiv-

ables totalled EUR 3.13 billion, an increase of 13.4% on a year earlier. The risks associated with this business are well managed and the cost of risk is falling.

OUTLOOK

The Bank intends to use 2019 to refine its medium-term strategy and strengthen its position in its primary markets. With a view to responding to changing demands from its clients, the Bank will continue to innovate and review the way in which it interacts with its retail and professional clients.

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 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 internal control functions are Compliance, Risk Management and Audit. They work under the auspices of the Chief Executive Officer and report to the Board of Directors' Audit and Risk Management Committee.

RISK MANAGEMENT

The Risk Management department comprises the Financial Risk Management, Operational Risk Management and Information Security & Access Management teams.

COMPLIANCE

The areas covered by the Compliance department include anti-money laundering and combating the financing of terrorism (AML/CFT), tax compliance, preventing market abuse and ensuring compliance with procedures resulting from MiFID II, MiFIR and the GDPR.

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, its special committees, the Executive Committee and all of the organisation's commercial and operational functions.

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 2018. Development work is described in note 12.

During 2018, 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
Dividend distribution	57.74m (or EUR 2,148 per share)
Allocation to the Board of Directors	0.51m
Allocation to free reserves	5.81m
Total	64.07m

After distribution of profits, total equity would amount to EUR 1.002 billion.

ANNUAL ACCOUNTS

{ BALANCE SHEET }

ASSETS (EUR 000)	Notes ⁽¹⁾	2017	2018
Cash in hand, balances with central banks and post office banks	4	2,071,924	2,109,484
Loans and advances to credit institutions	4, 5, 14	5,904,877	7,816,496
a) repayable on demand		869,202	1,577,707
b) other loans and advances		5,035,675	6,238,789
Loans and advances to clients	4, 6, 14	2,765,794	3,135,343
Debt securities and other fixed income securities	4, 7, 8, 9, 12, 14, 15, 21	2,056,922	1,956,332
a) issued by public bodies		1,730,054	1,590,998
b) issued by other borrowers		326,868	365,333
Shares and other variable-yield securities	4, 7	39,810	47,341
Participating interests	7, 10, 12, 14, 22	6,704	8,246
Shares in affiliated undertakings	7, 10, 12, 14, 22	33,716	21,124
Intangible assets	12	17,261	16,931
Tangible assets	12, 13	95,653	101,746
Other assets	11	33,016	21,547
Accruals and deferred income		59,941	52,293
Total assets	16	13,085,618	15,286,883

(1) The notes are an integral part of the annual accounts.

LIABILITIES (EUR 000)	Notes ⁽¹⁾	2017	2018
Amounts owed to credit institutions	4, 22	1,182,024	1,755,044
a) repayable on demand		332,548	1,535,447
b) with agreed maturity dates or periods of notice		849,476	219,597
Amounts owed to clients	4, 22	10,541,210	12,164,438
a) savings deposits		1,328,007	4,030,856
b) other debts		9,213,203	8,133,582
ba) repayable on demand		7,774,716	5,181,315
bb) with agreed maturity dates or periods of notice		1,438,487	2,952,267
Debts evidenced by certificates		30,231	-
a) warrants and bonds outstanding	4	30,231	-
Other liabilities	17, 31	52,426	70,051
Accruals and deferred income		129,416	133,587
Provisions for liabilities and charges		106,211	103,296
a) provisions for taxation		33,084	31,949
b) other provisions	33, 34	73,127	71,347
Special items with a reserve quota portion	18	16,516	16,349
Fund for general banking risks		264,300	274,300
Subscribed capital	19	104,784	104,784
Share premium		18,689	18,689
Reserves	20	576,328	582,268
Profit/(loss) brought forward	20	45	10
Profit/(loss) for the financial year		63,438	64,067
Total liabilities	23	13,085,618	15,286,883

OFF-BALANCE SHEET (EUR 000)	Notes	2017	2018
Contingent liabilities	4, 24	296,995	307,835
of which:			
– guarantees and assets pledged as collateral security		121,348	152,357
Commitments	4, 25	470,046	627,698
Fiduciary operations	28	1,699,611	1,694,873

(1) The notes are an integral part of the annual accounts.

PROFIT AND LOSS ACCOUNT

EUR 000	Notes ⁽¹⁾	2017	2018
Interest receivable and similar income	28	225,938	270,566
of which:			
Arising from fixed income securities		44,565	36,772
Interest payable and similar charges	28	(157,770)	(195,068)
Income from securities	28	94,543	57,883
a) income from shares, units and other variable-yield securities		59,884	1,085
b) income from participating interests		445	-
c) income from shares in affiliated undertakings		34,214	56,798
Commission receivable	28	153,130	130,244
Commission payable	28	(15,891)	(14,686)
Net profit/(loss) on financial operations	28	(52,515)	5,755
Other operating income	28, 29	8,888	12,047
General administrative expenses		(146,969)	(153,053)
a) staff costs	31	(89,928)	(95,234)
of which:			
– wages and salaries		(72,607)	(76,649)
– social security costs		(13,354)	(13,737)
of which:			
social security costs relating to pensions	31	(8,927)	(9,493)
b) other administrative expenses		(57,041)	(57,819)
Value adjustments in respect of tangible and intangible assets		(19,937)	(18,361)
Other operating expenses	30	(1,766)	(1,659)
Value adjustments in respect of loans and advances and provisions for contingent liabilities and commitments		(10,986)	(21,455)
Carried forward:		76,665	72,213

(1) The notes are an integral part of the annual accounts.

EUR 000	Notes ⁽¹⁾	2017	2018
Brought forward:		76,665	72,213
Value re-adjustments in respect of loans and advances and provisions for contingent liabilities and commitments		15,249	9,981
Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings		(2,075)	(2,360)
Value re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings		2,229	3,753
Transfers to "special items with a reserve quota portion"		-	-
Income from the write back of "Special items with a reserve quota portion"	18	105	397
Transfers to the fund for general banking risks		(23,000)	(10,000)
Tax on profit/(loss) on ordinary activities		(14,151)	(9,108)
Profit/(loss) on ordinary activities after tax		55,022	64,876
Extraordinary income	37	12,744	-
Tax on extraordinary income	37	(3,451)	-
Extraordinary income after tax		9,293	-
Other taxes not shown in the preceding items		(877)	(809)
Profit/(loss) for the financial year		63,438	64,067

(1) The notes 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 2018, the capital of the Bank was wholly owned by Crédit Industriel et Commercial (CIC).

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

1.2. Nature of the Bank's business

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

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

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

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

1.3. Annual accounts

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

2.1. Date transactions are booked to the balance sheet

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

2.2. Foreign currencies

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

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

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

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

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

Currency futures and options are revalued at their market value at the balance sheet date. The revalued amount is converted into EUR at the spot 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 to take account of 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 three categories, with the following principal characteristics:

- 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 2018, four subsidiaries of the Bank were part of the consolidated tax group. Based on the consolidated tax agreement signed with the Bank, the integrated entities recognise a tax liability in their individual financial statements.

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

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

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

NOTE 3

RISK MANAGEMENT

3.1. Market risks related to Dealing Room activities

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

Market risk is defined as the impact of a change in interest rates on the value of financial assets and liabilities, both on- and off-balance sheet. Sensitivity analysis is used to measure interest rate risk. This analysis involves calculating the impact of a 2% upward or downward shift in interest rates on the current market value of positions. Correlations between the various currencies are not taken into account. In accordance with this method, the exposure to interest rate risk amounted to EUR 99.2 million as at 31 December 2018 (31 December 2017: EUR 99.5 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 58.1 million on 31 December 2018 (versus EUR 64.0 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 endeavours, insofar as is possible, to give 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 depositories in these countries.

3.2.2 Credit risk related to client activities:

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

A dedicated Analysis unit within the Loans and Credits 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 and Credits 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 (except 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 20% of total assets at the end of 2018.

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

- the liquidity buffer
- the securities available for refinancing operations
- the LCR (Liquidity Coverage Ratio)
- the NSFR (Net Stable Funding Ratio)
- the 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, CIC

At the end of the 2018 financial year, the Bank's LCR was 141% (31 December 2017: 117%) 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 priorities:

- 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 insurance cover for most of its 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 line controls are documented. This 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 checks quarterly that these controls are implemented. This ensures that control methods are reliable and helps to 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:

2017 EUR 000 (BOOK VALUE)	Less than 3 months or indefinite	3–12 months	1–5 years	More than 5 years	TOTAL 2017
Cash in hand, balances with central banks and post office banks	2,071,924	-	-	-	2,071,924
Loans and advances to credit institutions	1,735,898	1,153,860	2,689,950	325,169	5,904,877
Loans and advances to clients	788,145	247,363	404,838	1,325,448	2,765,794
Debt securities and other fixed income securities	52,675	334,773	894,985	774,489	2,056,922
Shares and other variable-yield securities	39,810	-	-	-	39,810
Total	4,688,452	1,735,996	3,989,773	2,425,106	12,839,327
Amounts owed to credit institutions	848,704	66,014	251,051	16,255	1,182,024
Amounts owed to clients	9,860,932	139,089	287,209	253,980	10,541,210
Debts evidenced by certificates	10,231	20,000	-	-	30,231
Total	10,719,867	225,103	538,260	270,235	11,753,465
Collateral granted	16,097	5,617	45,929	229,352	296,995
Commitments	42,884	159,200	182,013	85,949	470,046
Total	58,981	164,817	227,942	315,301	767,041

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

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	2017	2018
European Union	5,539,591	6,946,880
United States	3,379	36,218
Other OECD countries	58,696	69,494
Other countries	303,211	763,904
Total	5,904,877	7,816,496

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 2018, reverse repurchase agreement transactions with credit institutions amounted to EUR 1,601,911 thousand (31 December 2017: EUR 759,332 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 2018, loans and advances to credit institutions on affiliated undertakings amounted to EUR 6,642,071 thousand (31 December 2017: EUR 5,427,230 thousand), as described in note 14.



NOTE 6**LOANS AND ADVANCES TO CLIENTS**

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

EUR 000	2017	2018
European Union	2,459,177	2,812,895
United States	56,173	27,886
Other OECD countries	89,076	142,662
Other countries	161,368	151,900
Total	2,765,794	3,135,343

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

EUR 000	2017	2018
Secured lending	2,411,756	2,463,445
Unsecured lending	354,038	671,898
Total	2,765,794	3,135,343

Value adjustments deducted from loans and advances to clients amounted to EUR 31,029 thousand as at 31 December 2018 (31 December 2017: EUR 36,215 thousand).

The portion of the lump-sum provision for risk exposures that relates to loans and advances to clients amounted to EUR 13,393 thousand at 31 December 2018 (31 December 2017: EUR 12,698 thousand) and is deducted from unsecured lending.

Loans and advances granted to the Bank's management

As at 31 December 2018, loans and advances (including any guarantees and sureties) granted to Board members amounted to EUR 8,146 thousand (31 December 2017: EUR 11,421 thousand). Those granted to managers amounted to EUR 21,707 thousand (31 December 2017: EUR 21,179 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):

2017 EUR 000	Listed securities	Unlisted securities	TOTAL
Debt securities and other fixed income securities	2,056,922	-	2,056,922
Shares and other variable-yield securities	-	39,810	39,810
Participating interests	-	6,704	6,704
Shares in affiliated undertakings	-	33,716	33,716
Total	2,056,922	80,230	2,137,152

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

As at 31 December 2018, debt securities and other fixed income securities linked to interest rate swaps amounted to EUR 1,341,055 thousand (31 December 2017: EUR 1,483,474 thousand).

As at 31 December 2018, value adjustments maintained in respect of financial fixed assets and current assets in accordance with the *Beibehaltungsprinzip* amounted to EUR 7,626 thousand (31 December 2017: EUR 6,799 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	2017	2018
Financial fixed assets	2,052,762	1,953,278
Trading book	4,160	3,054
Total	2,056,922	1,956,332

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	2017	2018
Public issuers	1,730,054	1,590,999
Credit institutions	245,444	281,915
Other issuers	81,424	83,420
Total	2,056,922	1,956,332

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

EUR 000	2017	2018
European Union	1,840,709	1,700,725
United States	172,710	227,771
Other OECD countries	43,503	27,838
Other countries	-	-
Total	2,056,922	1,956,332

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

EUR 000	2017	2018
Central administrations	1,679,646	1,529,979
Aaa	695,673	745,227
Aa1	169,057	159,011
Aa2	340,730	347,970
Aa3	114,312	117,755
A1	85,097	174
A2	-	84,916
Baa2	224,818	-
Ba1	49,959	-
Baa3	-	74,926
Regional and local administrations	83,121	45,290
Aaa	6,651	12,656
Aa1	20,765	26,890
Aa3	30,725	5,744
Ba3	24,980	-
Supranational	168,415	287,734
Aaa	103,231	169,953
Aa1	39,053	117,781
Aa2	26,131	-
Covered bonds	24,972	-
Aaa	24,972	-
Banks	24,917	27,563
Aaa	8,332	8,748
Aa1	-	3,487
Baa2	12,425	-
Baa3	-	12,274
NR	4,160	3,054
Corporate	-	-
NR	-	-

EUR 000	2017	2018
Securitisation	75,851	65,766
Aaa	-	7,328
Aa1	-	23,013
Aa2	24,280	6,885
Aa3	9,139	13,704
A1	10,128	1,817
A2	13,986	168
A3	7,023	2,532
Baa1	188	162
Baa2	-	4,307
Ba1	4,652	-
Ba2	-	153
Ba3	-	5,697
B3	1,618	-
Caa1	-	-
Caa2	4,837	-
Total	2,056,922	1,956,332

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

2017 EUR 000	Book value	Fair value
Bonds and other fixed income securities	77,737	86,444

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

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 2018, the book value of this portfolio

amounted to EUR 68,409 thousand (31 December 2017: EUR 77,737 thousand) and its fair value amounted to EUR 70,466 thousand (31 December 2017: EUR 86,444 thousand).

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

2017 EUR 000	Book value	Fair value
Bonds and other fixed income securities	1,483,474	1,563,582

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

As at 31 December, 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	2017	2018
Premiums	(5,378)	(7,374)
Discounts	39	2,447
	(5,339)	(4,927)

The Bank has entered into transactions based on unconditional agreements to sell and repurchase assets. The value of these transactions as at 31 December 2018 was EUR 621,463 thousand (31 December 2017: EUR 582,589 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 2018 was EUR 219,758 thousand (31 December 2017: EUR 504,036 thousand).

NOTE 9**TRANSFERABLE SECURITIES: TRADING BOOK**

As at 31 December 2018 and 2017, the trading book (see also note 2.3.) was as follows:

2017 EUR 000	Book value	Market value
Bonds and other fixed income securities	4,160	4,282

2018 EUR 000	Book value	Market value
Bonds and other fixed income securities	3,054	3,108

NOTE 10**PARTICIPATING INTERESTS AND SHARES IN AFFILIATED UNDERTAKINGS**

As at 31 December 2018 and 2017, the Bank had no participating interests in other credit institutions.

As at 31 December 2018, 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 31/12/2017	Net profit/(loss) as at 31/12/2017
BL General Partner S à r l	100.00%	668	45
BLI - Banque de Luxembourg Investments S A	100.00%	22,307	28,654
Cigogne Management S A	20.00%	35,382	16,350
Compagnie Financière de Gestion Luxembourg S A	100.00%	7,300	3,931
Conventum Asset Management S A	100.00%	5,255	1,669
European Fund Administration S A	24.23%	24,866	185
Fund-Market S A	100.00%	100	10
Tradhold S A	50.00%	12,798	578

During 2018, the Bank sold its stake in Kennedy 41 S.à.r.l. and Aigle Aviation S.à.r.l. was put into liquidation. All these companies have their registered office in Luxembourg.

(1) Own funds including the net profit/(loss) as at 31 December 2017.



NOTE 11 OTHER ASSETS

EUR 000	2017	2018
Short-term receivables	23,640	12,136
Pension fund investments	7,506	7,265
Premiums on options purchased	76	-
Precious metals	1,426	1,707
Other	368	439
Total	33,016	21,547

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	7,675	1,647	(74)	-	(143)	9,105	(606)	(253)	8,246
2. Shares in affiliated undertakings	36,226	-	(12,775)	-	-	23,451	-	(2,327)	21,124
3. Debt securities and other fixed income securities ⁽¹⁾	2,075,281	309,774	(412,569)	-	(69)	1,972,417	(16,299)	(2,840)	1,953,278
4. Intangible assets	89,536	7,618	(7)	-	-	97,147	(80,217)	-	16,931
of which:									
a) Development costs	34,002	6,379	-	-	-	40,381	(26,410)	-	13,971
b) Concessions, patents, licences, trademarks and similar rights and assets	23,044	1,239	(7)	-	-	24,276	(21,316)	-	2,960
c) Goodwill	32,490	-	-	-	-	32,490	(32,490)	-	-
5. Tangible assets	223,377	16,704	(1,902)	-	-	238,179	(135,034)	(1,399)	101,746
of which:									
a) Land and buildings	189,204	14,545	(489)	-	-	203,260	(107,383)	(1,300)	94,577
b) Plant and machinery	23,916	1,361	(1,313)	-	-	23,964	(18,828)	(70)	5,066
c) Other fixtures and fittings, tools and furniture	10,257	798	(100)	-	-	10,955	(8,823)	(29)	2,103

(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 2018, tangible assets included a net amount of EUR 94,577 thousand (31 December 2017: EUR 86,831 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 2018, loans and advances to affiliated undertakings and entities in which the Bank has a participating interest were as follows:

2017 EUR 000	Affiliated undertakings	Participating interests
Loans and advances to credit institutions	5,427,230	-
Loans and advances to clients	-	1,291
Debt securities and other fixed income securities	16,585	-
Total	5,443,815	1,291

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

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 12,274 thousand at 31 December 2018 (31 December 2017: EUR 12,432 thousand).

NOTE 16 FOREIGN CURRENCY ASSETS

As at 31 December 2018, the aggregate amount of the Bank's assets denominated in foreign currencies, translated into EUR, corresponds to EUR 4,140,795 thousand (31 December 2017: EUR 2,530,920 thousand).

NOTE 17 OTHER LIABILITIES

EUR 000	2017	2018
Short-term payables	22,443	36,361
Preferential creditors	7,518	8,813
Staff pension fund	5,312	5,263
Other	17,153	19,614
Total	52,426	70,051

The amount of EUR 5,263 thousand as at 31 December 2018 relates only to current pension payments.

As part of the remuneration policy of the Bank, some of the "variable" compensation is paid over a period of four years: at 31 December 2018, this amount is included under "Other" for EUR 15,401 thousand (31 December 2017: EUR 16,397 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 2018	10,478	565,850	45
Profit/(loss) for the financial year ended 31 December 2017	-	-	63,438
Appropriation of profit:			
Transfer to reserves	-	5,940	(5,940)
Dividend	-	-	(57,021)
Directors' fees	-	-	(512)
Balance as at 31 December 2018	10,478	571,790	10

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

The distribution of the legal reserve is not allowed.

As at 31 December 2018, the rate of return on assets was 0.42% (31 December 2017: 0.48%).

EUR 000	2017	2018
Total assets	13,085,618	15,286,883
Net profit	63,438	64,067
Return on assets	0.48%	0.42%

NOTE 21

ASSETS PLEDGED BY THE BANK AS COLLATERAL FOR ITS OWN COMMITMENTS

As at 31 December 2018, the Bank had pledged assets as collateral for its own commitments in an amount of EUR 964,155 thousand (31 December 2017: EUR 930,568 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.

2017 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	930,568	N/A	12,155,050	N/A
Own funds instruments	-	-	80,230	132,920
Debt securities	656,712	605,791	1,400,210	1,568,091
Other assets	273,856	N/A	10,674,610	N/A

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

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

As at 31 December 2018, amounts owed to affiliated undertakings and companies in which the Bank has a participating interest were as follows:

2017 EUR 000	Affiliated undertakings	Participating interests
Amounts owed to credit institutions	855,186	-
Amounts owed to clients	17,803	96,061
Total	872,989	96,061

2017 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



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NOTE 23 FOREIGN CURRENCY LIABILITIES

As at 31 December 2018, the aggregate amount of liabilities denominated in foreign currencies and converted into EUR was EUR 4,844,301 thousand (31 December 2017: EUR 3,736,589 thousand).

NOTE 24 CONTINGENT LIABILITIES

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

EUR 000	2017	2018
Guarantees and other direct substitutes for credit	296,850	307,783
Documentary credits	145	52
Total	296,995	307,835

As at 31 December 2018, the Bank had EUR 32,798 thousand of contingent liabilities towards affiliated undertakings (31 December 2017: nil) and EUR 17 thousand of contingent liabilities towards participating interests (31 December 2017: EUR 17 thousand).

NOTE 25 COMMITMENTS

The Bank's commitments are broken down as follows:

EUR 000	2017	2018
Confirmed credits, not used	470,046	627,698
Total	470,046	627,698

As at 31 December 2018, the Bank's commitments towards affiliated undertakings amounted to EUR 3,109 thousand (31 December 2017: EUR 1,000 thousand).

As at 31 December 2018, the Bank's commitments to entities in which it has a participating interest amounted to EUR 500 thousand (31 December 2017: 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 rental contracts with a remaining term of between 1 and 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.

2017 EUR 000	Nominal					Market value	
	3 months	3–12 months	1–5 years	+5 years	Grand total	positive	(negative)
Transactions linked to currency exchange rates							
Over-the-counter (OTC) contracts							
Forward exchange transactions and swaps	7,362,676	740,928	13,605	-	8,117,209	49,035	(73,189)
Options purchase	17,879	55,134	-	-	73,013	6,194	-
Options sale	17,879	55,134	-	-	73,013	-	(6,194)
Total	7,398,434	851,196	13,605	-	8,263,235	55,229	(79,383)
Transactions linked to interest rates							
Over-the-counter (OTC) contracts							
Interest rate swaps	50,750	321,332	789,566	1,114,918	2,276,566	6,964	(120,323)
Cap floor purchase	-	-	-	-	-	-	-
Total	50,750	321,332	789,566	1,114,918	2,276,566	6,964	(120,323)
Transactions linked to own funds							
Transactions on a regulated market							
Options purchase	4,025	-	-	-	4,025	774	-
Options sale	3,675	-	-	-	3,675	-	(23)
Equity futures purchase	-	-	-	-	-	-	-
Equity futures sale	175	-	-	-	175	1	-
Total	7,875	-	-	-	7,875	775	(23)
Over-the-counter (OTC) contracts							
Accumulator swap purchase	-	1,320	-	-	1,320	21	-
Accumulator swap sale	-	1,320	-	-	1,320	-	(21)
Options purchase	47,239	130,861	-	-	178,100	18,947	-
Options sale	47,589	130,861	-	-	178,450	-	(18,773)
Warrant	-	-	-	87,375	87,375	-	(51,869)
Total	94,828	264,362	-	87,375	446,565	18,968	(70,663)

2018 EUR 000	Nominal					Market value	
	3 months	3–12 months	1–5 years	+5 years	Grand total	positive	(negative)
Transactions linked to currency exchange rates							
Over-the-counter (OTC) contracts	-	-	-	-	-	-	-
Forward exchange transactions and swaps	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)

All outstanding foreign exchange and interest rate transactions as at 31 December 2018 and 2017 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 2018 and 2017.

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).

2017 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	3,267,565	12,354	32,930	45,284	42,205
Currency options	72,578	5,654	426	6,080	6,063
Total	3,340,143	18,008	33,356	51,364	48,268
Transactions linked to interest rates					
Interest rate swaps	1,320	4	-	4	4
Total	1,320	4	-	4	4
Transactions linked to own funds					
Equity futures	175	1	10	11	11
Equity options	364,252	19,721	21,855	41,576	41,576
Warrant	87,375	-	8,738	8,738	8,738
Total	451,802	19,722	30,603	50,325	50,325
Transactions with counterparties under a clearing agreement	7,094,775	1,490	28,292	29,782	5,985

(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.

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	3,441,057	20,186	34,558	54,744	46,169
Currency options	31,445	5,454	314	5,769	5,531
Total	3,472,502	25,640	34,872	60,513	51,700
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	7,563,905	2,176	30,897	33,074	6,669

(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.

2017 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	3,267,565	-	-	-	-	-	-	-	-	-	45,284	45,284
Currency options	72,578	-	-	-	-	-	-	-	-	-	6,080	6,080
Total	3,340,143	-	-	-	-	-	-	-	-	-	51,364	51,364
Transactions linked to own funds												
Equity futures	175	-	-	-	-	-	-	-	-	-	11	11
Equity options	364,252	-	-	-	-	-	-	-	-	-	41,576	41,576
Warrant	87,375	-	-	-	-	-	-	-	-	-	8,738	8,738
Total	451,802	-	-	-	-	-	-	-	-	-	50,325	50,325
Transactions linked to interest rates												
Interest rate swaps	1,320	-	-	-	-	-	-	-	-	-	4	4
Total	1,320	-	-	-	-	-	-	-	-	-	4	4
Transactions with counterparties under a clearing agreement												
	7,094,775	434	2,734	2,253	6,837	6,023	6,179	1,936	3,386	-	-	29,782

2018 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	3,441,057	-	-	-	-	-	-	-	-	-	54,744	54,744
Currency options	31,445	-	-	-	-	-	-	-	-	-	5,769	5,769
Total	3,472,502	-	-	-	-	-	-	-	-	-	60,513	60,513
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												
	7,563,905	2,744	-	13,976	8,012	882	5,314	18	2,128	-	-	33,074

c) Geographical breakdown

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

2017 EUR 000	TOTAL	2018 EUR 000	TOTAL
Credit risk		Credit risk	
European Union	119,941	European Union	136,491
United States	12	United States	-
Other OECD countries	8,223	Other OECD countries	4,571
Other countries	3,299	Other countries	10,780
Total	131,475	Total	151,842

d) Collateral exchange convention

In accordance with the European Market Infrastructure Regulation (EMIR), in 2018 the Bank increased the number of counterparties with which it has signed Credit Support Annex (CSA) contracts governing derivatives transactions. As at 31 December 2018, the number of eligible counterparties was 32, compared with 30 as at 31 December 2017. Any future transactions will now be entered into with one of these 32 eligible counterparties.



Bruno Ferreira, Loans and credits

NOTE 28**THE BANK'S MAIN ITEMS OF INCOME**

2017 EUR 000	Non-domestic	Domestic	TOTAL
Interest margin	1,421	66,747	68,168
Net commissions	14,168	123,071	137,239
Income from securities	-	94,543	94,543
Net profit/(loss) on financial operations	489	(53,004)	(52,515)
Other operating income	8	8,880	8,888

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

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	2017	2018
Refund of VAT and taxes from previous years	3,531	2,019
State contribution to training expenses	535	645
Rental income	1,122	876
Reversal of litigation provisions	200	406
Reimbursement by AGDL	102	87
Gain on disposal of fixed assets	225	260
Gains made on assignment of receivables	1,504	5,497
Other	1,669	2,257
Total	8,888	12,047

"Others" mainly comprises services recharged to affiliated undertakings in the amount of EUR 1,634 thousand in 2018 (EUR 726 thousand in 2017).

NOTE 30 OTHER OPERATING EXPENSES

EUR 000	2017	2018
Non-recoverable debts	45	-
Disposal of fixed assets	26	34
Loss on order transmission errors	652	1,056
Accruals and deferred income from previous years	471	-
Other	572	569
Total	1,766	1,659

NOTE 31 STAFF

As at 31 December 2018 (2017), the Bank, including the subsidiary in Belgium, employed 907 (844) staff, including 58 (55) senior managers and 849 (789) middle managers and employees.

Salaries paid to staff and amounts paid in respect of retirement schemes and other related costs amounted to EUR 95,234 thousand (31 December 2017: EUR 89,928 thousand).

Of this amount, EUR 13,336 thousand was paid to the 58 senior managers (31 December 2017: 55 senior managers, EUR 12,539 thousand). The amounts paid to the members of the Board of Directors are disclosed in note 20.

In 2018, the Bank paid a sum of EUR 12,984 thousand to the Luxembourg tax authorities (31 December 2017: EUR 13,395 thousand) in respect of taxes deducted from salaries.

There were no significant changes to report with regard to the company pension scheme in 2018. 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 2018, the contribution transferred to the provision for pensions totalled EUR 3,144 thousand (31 December 2017: EUR 2,852 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.

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

The annual account provisions which have been created in the past by credit institutions to fulfil their obligations towards the AGDL will be used/released according to their contributions to the new Luxembourg banking resolution fund, Fonds de résolution Luxembourg (FRL), respectively to the new Luxembourg deposit guarantee fund, Fonds de Garantie des Dépôts Luxembourg (FGDL), which is still to be established.

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 will be 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 and is to be reached by the end of 2018 through annual contributions. The contributions are to be paid annually between 2016 and 2018.

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 2018 and 31 December 2017.

NOTE 36**FEES PAID TO THE APPROVED INDEPENDENT AUDITOR**

The following amounts of fees were paid to the approved independent auditor during 2018 and 2017:

EUR 000	2017	2018
Audit expenses	401	432
Other insurance services	86	228
Other fees	581	571
Total	1,068	1,231

NOTE 37**EXTRAORDINARY INCOME AND TAX ON EXTRAORDINARY INCOME**

The Bank reviewed its income on derivatives in 2017. This review revealed that earnings before tax amounting to a total of EUR 12,744 thousand relating to previous years (2009–2015) had been recorded on the balance sheet as accruals and deferred income rather than profit. The Bank has decided to recognise this income from previous years as extraordinary income in 2017.

NOTE 38**POST-BALANCE SHEET EVENTS**

No event likely to have a material impact on the annual accounts as at 31 December 2018 occurred between the balance sheet date and the date of this report.



Jean-Louis Schmit, Businesses & Entrepreneurs team

REPORT OF THE RÉVISEUR
D'ENTREPRISES AGRÉÉ

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

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS

OPINION

We have audited the annual accounts of Banque de Luxembourg S.A. (the "Bank"), which comprise the balance sheet as at 31 December 2018 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 2018, and of the results of its operations for the financial year then ended, in accordance with current Luxembourg legal and regulatory requirements relating to the preparation and presentation of annual accounts.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

VALUE ADJUSTMENTS IN RESPECT OF THE PORTFOLIO OF RESIDENTIAL MORTGAGE-BACKED SECURITIES

Description:

The Bank holds financial fixed assets, which are valued at purchase price or the lower of the market value and purchase price (LOCOM), in the form of a portfolio of residential mortgage-backed securities. As at 31 December 2018, the book value of this portfolio amounted to EUR 66 million (31 December 2017: EUR 78 million), less impairment of EUR 11 million (31 December 2017: EUR 14 million).

As some of these securities are not listed on permanently liquid markets, the Bank's Risk Management department and the Dealing Room have developed internal valuation models in order to regularly perform impairment tests on these assets. These valuation models are mainly built around assumptions based on macroeconomic changes in certain markets, economic sectors and monetary policies.

Analysing whether value adjustments need to be made inherently involves a significant amount of judgement on the part of management.

Audit approach:

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

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

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

CALCULATION AND ACCOUNTING OF PRIVATE BANKING FEES

Description:

As at 31 December 2018, private banking fees amounted to EUR 45 million (31 December 2017: EUR 39 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 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 implementation and effectiveness of the validation checks performed by the Bank on client transaction orders.

We tested the 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 annual report together with 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 that 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.

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

The Board of Directors is also responsible for overseeing the Bank's financial reporting process.

RESPONSIBILITIES OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ FOR THE AUDIT OF THE ANNUAL ACCOUNTS

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We were appointed as Réviseur d'Entreprises agréé by the Board of Directors on 6 February 2018 for a total term of three years without interruption, including extensions and previous reappointments.

The management report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We confirm that we did not provide any prohibited non-audit services as defined in Regulation (EU) No 537/2014 on the audit profession and that we remained independent of the Bank throughout the audit.

Luxembourg, 26 March 2019

KPMG Luxembourg
Cooperative company
Approved independent auditor

S. Chambourdon

OUR SHAREHOLDER

Banque de Luxembourg is a wholly owned subsidiary of Crédit Mutuel Alliance Fédérale via Crédit Industriel et Commercial (CIC), which owns 100% of the Bank's capital.

Crédit Mutuel Alliance Fédérale offers its clients a comprehensive and innovative range of diversified banking and insurance services as well as telephony, home automation and residential surveillance, vehicle sales and leasing, and real estate services.

The Group's 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, skilled employees.

In 2018, Crédit Mutuel Alliance Fédérale posted a net profit of EUR 2,993 million, an increase of 23.3%. The quality and robustness of its assets give it equity of EUR 43.6 billion and a solvency ratio of 16.6%. This financial strength guarantees clients security and continued growth, a prerequisite for tomorrow's jobs and profits. It is reflected in the ratings awarded to Banque Fédérative du Crédit Mutuel (BFCM). Indeed, with ratings of A from Standard & Poor's, Aa3 from Moody's and A+ from Fitch, and a stable outlook from all three agencies, Crédit Mutuel Alliance Fédérale remains one of the best-rated banks in France and Europe.



Crédit Mutuel Alliance Fédérale is one of 119 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, asset management and depositary services for professional investors.

Banque de Luxembourg is a leading player in this network of specialised businesses, alongside other key banks such as CIC Banque Privée, Banque CIC (Suisse) and Banque Transatlantique.

OUR BRANCHES



LUXEMBOURG

14, Boulevard Royal
L-2449 Luxembourg

55, rue des Scillas
L-2529 Luxembourg-Howald

Tel.: (+352) 49 924 1
Fax: (+352) 49 924 55 99
www.banquedeluxembourg.com

COMPAGNIE FINANCIÈRE DE GESTION LUXEMBOURG S.A.

40, Boulevard Joseph II
L-1840 Luxembourg
Tel.: (+352) 45 31 31
Fax: (+352) 45 31 33
www.banquedeluxembourg.com





BELGIUM - BRUSSELS

Chaussée de La Hulpe, 120
B-1000 Brussels
Tel.: +32 (0) 2 663 45 40
Fax: +32 (0) 2 663 45 41
www.banquedeluxembourg.be

BELGIUM - GHENT

3 Square Village
Rijvisschestraat, 124
B-9052 Ghent
Tel.: +32 (0) 9 244 00 40
Fax: +32 (0) 9 244 00 49
www.banquedeluxembourg.be



