

STATEMENT OF
FINANCIAL POSITION
INCOME STATEMENT
ANNUAL REPORT



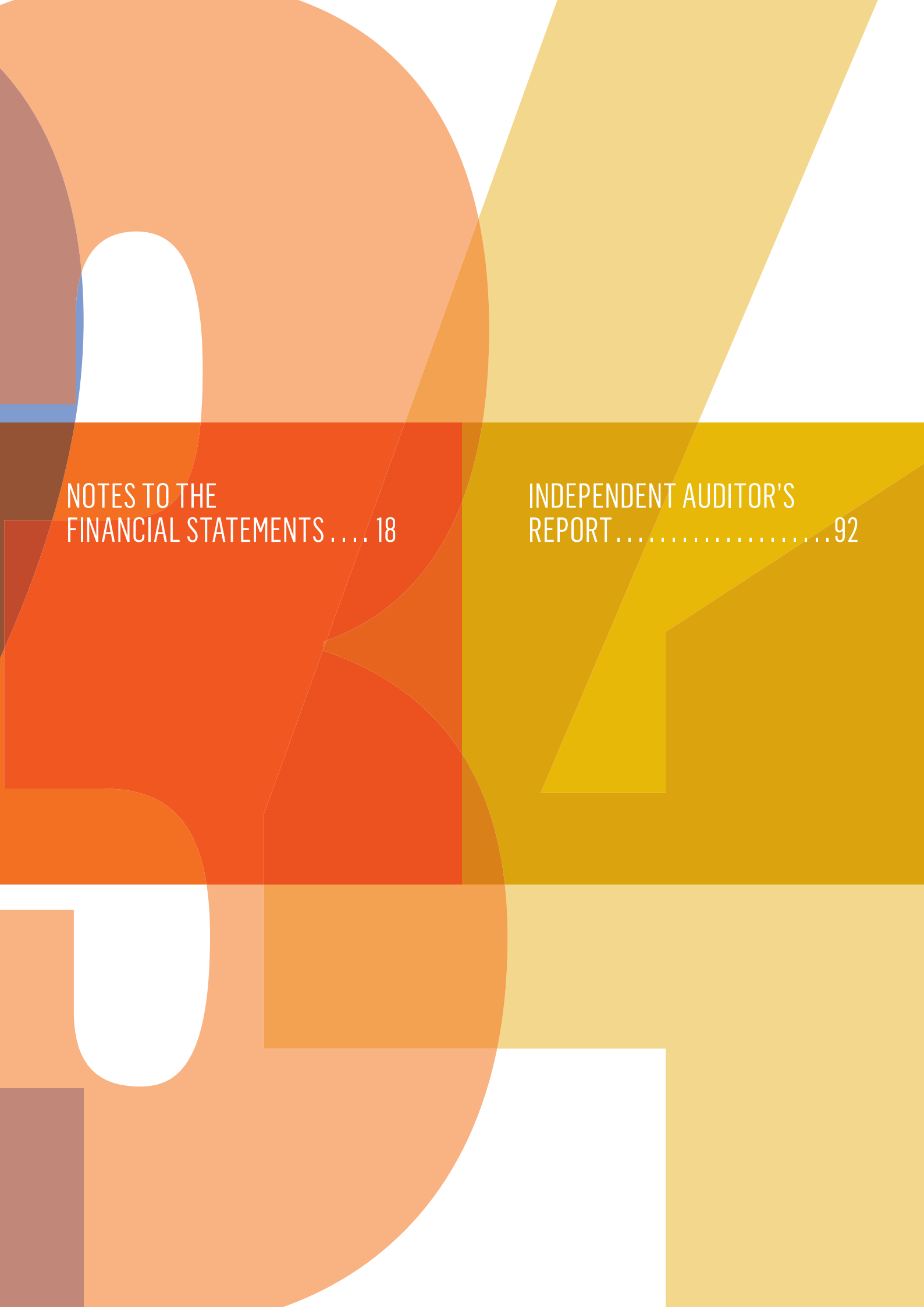
INTESA SANPAOLO
BANK LUXEMBOURG

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INTESA SAN PAOLO
BANK LUXEMBOURG

BOARD OF DIRECTORS

CHAIRMAN OF THE BOARD

Mr Frédéric GENET

VICE-CHAIRMAN

Mr Walter AMBROGI

DIRECTORS

Mr Ferdinando ANGELETTI

Mr Massimo TORCHIANA

Mr Marco BERTOTTI

Mr Andrea FARAGALLI ZENOBI

Mr Paul HELMINGER

Mr Francesco INTROZZI

Mr Arthur PHILIPPE

Mr Christian SCHAACK

EXTERNAL AUDITOR

KPMG, Luxembourg

AUTHORIZED MANAGEMENT-MANAGEMENT BOARD

MANAGING DIRECTOR & CEO

Mr Massimo TORCHIANA

CHIEF FINANCIAL OFFICER

Mr Paolo Enrico PERNICE

CHIEF RISK & COMPLIANCE OFFICER & CORPORATE AFFAIRS

Mr Cristiano PATALOCCHI

EXECUTIVE COMMITTEE

CHAIRMAN

Mr Massimo TORCHIANA

MEMBERS

Mr Ferdinando ANGELETTI

Mr Francesco INTROZZI

PERMANENT INVITEES

Mr Cristiano PATALOCCHI

Mr Paolo Enrico PERNICE

AUDIT COMMITTEE

CHAIRMAN

Mr Arthur PHILIPPE

MEMBERS

Mr Dario BERTONCINI

Mr Marco BERTOTTI

Mr Francesco CICCARELLI

Mr Christian SCHAACK

PERMANENT INVITEES

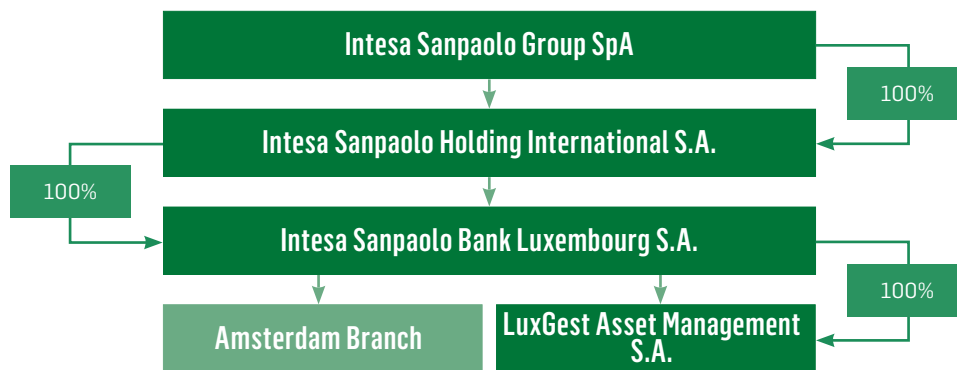
Mr Stefano BUSCAGLIA

Ms Silvia RUMI

as of 31st December 2018

OWNERSHIP STRUCTURE

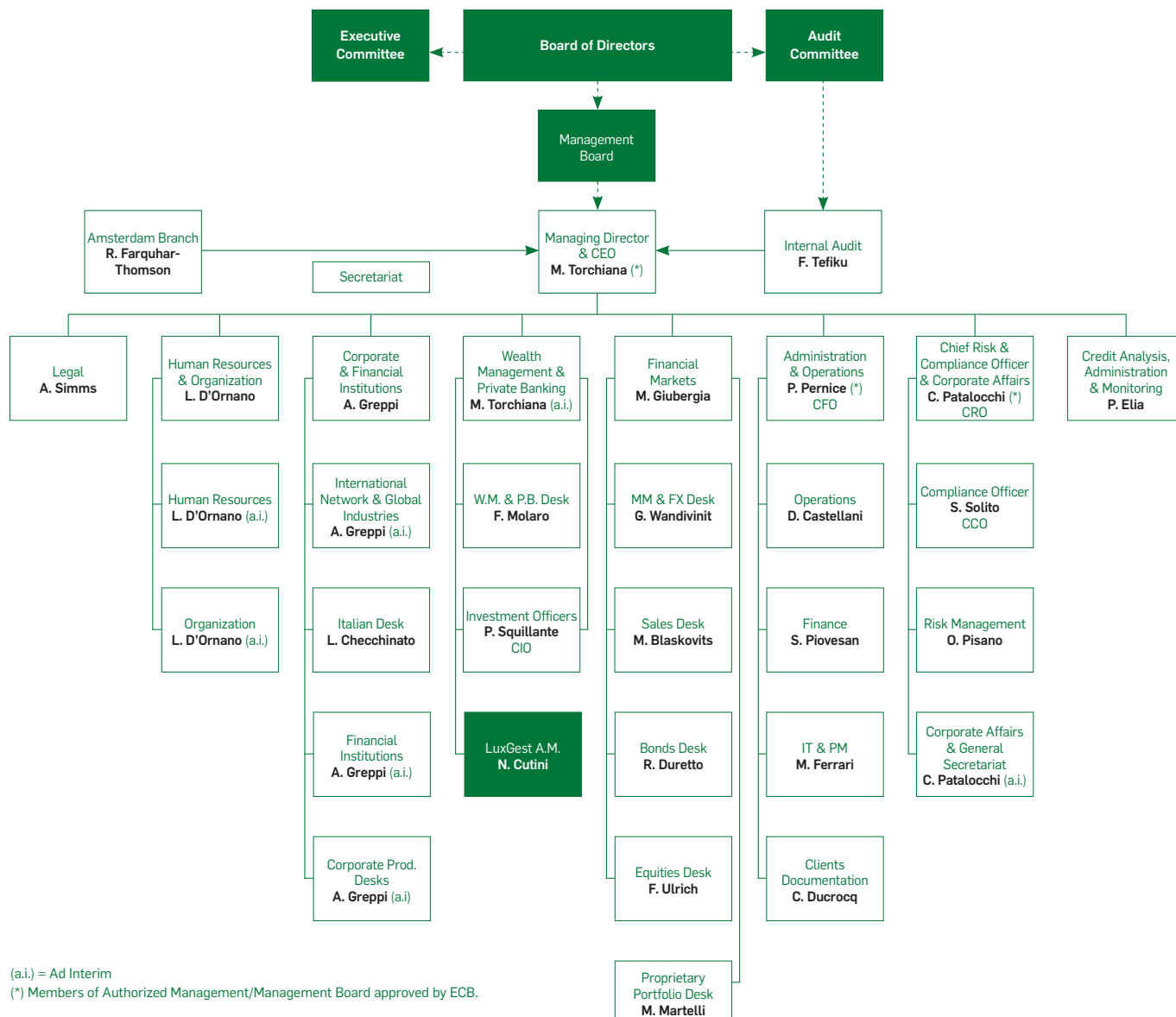
(as of 31st December 2017)



Legal Entity Branch

ORGANISATIONAL CHART

(as of 31st December 2018)



(a.i.) = Ad Interim

(*) Members of Authorized Management/Management Board approved by ECB.

BOARD OF DIRECTORS' REPORT

(as at 31st December 2018)

DEVELOPMENT OF THE ACTIVITY

The year 2018 started with a sharp correction. Equity valuations fell, rebounded and fell again, with unusual levels of intraday volatility. This correction coincided with higher volatility in government bond markets. Long-term Treasury yields had been gradually rising since mid-December 2017, since investors were concerned about inflation risks as well as the macroeconomic impact of US tax reform. A sudden increase in yields during the end of January anticipated the stock market drop in the United States and subsequently in other advanced economies (AEs). Government bond yields also increased in several other AEs, as the synchronized upswing in global growth led investors to price in a less gradual than previously expected exit from unconventional policies.

Throughout the period under review, market participants kept remaining sensitive to any changes in central banks' messages. As expected, the Federal Reserve (Fed) raised the federal funds target range by 25 basis points in December 2017, and its balance sheet reduction moved forward largely as planned. In Europe, the European Central Bank (ECB) maintained its forward guidance unchanged, including an open-ended date for the termination of its asset purchase programme (APP). The Bank of Japan (BoJ) responded to an uptick in long-term yields, which appeared to test its yield curve control policy, with an offer to buy an unlimited amount of long-term government bonds.

In February, a stronger than expected US labour market report – stating that non-farm payrolls had risen 200,000 in January, while wages had increased 2.9% year on year – was widely perceived as increasing the chances of a faster pace of monetary policy tightening by the Federal Reserve. The long-term US bond yields increased, anticipating the stock market stress. Bond yields, which had steadily increased by about 35 basis points from mid-December, rose sharply over the first two days of February.

Government bond yields also increased elsewhere, even if mostly in the longer tenors. The synchronized strengthening of the global economy was seen as supportive of higher rates, especially at the long end, as investors seemed to anticipate a quicker exit from unconventional policies. Ten-year German bund yields rose to almost 0.80%, double the levels prevailing in mid-December. Most of that increase occurred before the stock market turbulence, after which German long yields flattened. Short-term yields increased less, with the result that the German term structure steepened over the period as a whole. The term structure remained roughly constant in Japan, where long yields barely moved at all, due in part to the forceful response of the Bank of Japan to upward pressure on yields in February.

In early March, Germany's Social Democratic Party (SPD) members agreed to cooperate, forming a coalition government with the Christian Democratic Union (CDU)/ Christian Social Union (CSU), with Angela Merkel beginning her fourth term as German Chancellor. The coalition agreement resolved several months of political uncertainty and set the groundwork for strong German-French collaboration on solidifying the Eurozone's fiscal and monetary institutions.

There was also a progress regarding Brexit, since a deal was reached in mid-March, allowing negotiators to continue to discuss a final trade agreement. The Brexit was predicted to end on 29 March 2019.

In Italy, during the elections on March 4th, the populist M5S and the (ex-Northern) League parties got the majority of the votes, with the more mainstream left-of-centre Democratic Party (PD) and right-of-centre Forza Italia (Silvio Berlusconi's party) relegated to third and fourth place. On May 18th, M5S and the League agreed to form a coalition after lengthy negotiations.

Despite both M5S and the League abandoned earlier promises to hold a referendum on leaving the Eurozone, the new Italian Government was considered to bring instability. That was the point of view of rating agencies and international investors, since their program talked about a significant rise in government spending without higher taxes, leading to much higher government deficits. As consequence of the political instability, the Italian Government Bonds rates rose, and the spread Italy/Germany 10-year tenor reached its maximum on a 5 year basis close to 340 basis points.

Across the Atlantic, the US President Trump imposed tariffs on EU steel and aluminum imports in June. Nevertheless, the impact on Eurozone GDP of these tariffs is supposed to be modest at 0-0.2% over 2018-2019. Sentiment turned sharply in financial markets as 2018 moved into its second half.

Conditions tightened slightly in the credit markets of some advanced economies (AEs) while in emerging market economies (EMEs) the tightening was steep.

A renewed US dollar rally and escalating trade tensions resulted in an uneven tightening of global financial conditions. The US economy gathered speed again, in part boosted by last year's fiscal stimulus, so the Federal Reserve continued the gradual and predictable removal of its monetary stimulus while the ECB and the BoJ maintained accommodation, in part due to the result of political tensions. Credit spreads widened more in the euro area than in the United States.

The divergence between US and other markets was most visible in equity prices. The outperformance of US stock markets was explained by solid corporate earnings and buybacks, boosted by the recent tax reform, and the exceptional returns of its technology sector.

While the ECB announced that it expected to terminate its asset purchase program by end-2018, it indicated that interest rates would stay low for a prolonged period. Keeping to its policy of yield curve control, the BoJ reaffirmed its target for the benchmark 10-year government bond yield at 0%.

In the meanwhile, the United States and China continued to impose tariffs each other. A further round of turbulence hit markets during the last quarter of 2018.

In October, US 10-year government bond yields consistently traded above the 3% threshold that had capped this benchmark during the past 12 months. US equity valuations dived in October, despite good quarterly earnings announcements. Stock prices were volatile in November and fell again in December.

The US economy closes 2018 with growth at around 3% year-over-year and inflation at around 2%. In Europe, corporate spreads also increased materially, especially for financial firms. In particular, bank valuations came under renewed pressure as political uncertainties

grew, notably concerning the Italian budget and, to a lesser extent, Brexit. The adjustment reflected major central banks' gradual moves towards policy normalization. Central banks in large advanced economies (AEs) maintained the course they had outlined earlier in the year. The ECB ended the Quantitative Easing in December while the FED increased, during the same month and for the fourth time during 2018, its Funds rate to 2.25%- 2.50%.

In this difficult scenario Intesa Sanpaolo Bank Luxembourg S.A. (the Bank) achieved positive results supported by the new business model implemented in 2017. According to the new strategy, during 2018 the Bank raised significantly the lending activity supporting Companies and International Projects as well. The Bank presented a balance sheet structure more focused on Corporate loans, which, in term of revenues have been compensating for the last three years the ongoing reduction of intra-group transactions. The Profit and loss presented a wide range of revenues origin: all the Bank divisions (Corporate & Financial Institutions, Private & Wealth, Financial Markets) contributed to the final result. As at 31 August 2018, the Bank has sold its functional property for a proceeds amounting to EUR 38,166,789 realizing a net capital gain of EUR 3,564,203.

CORPORATE GOVERNANCE

The Bank is 100% owned by Intesa Sanpaolo Holding International S.A., Luxembourg is itself fully owned by Intesa Sanpaolo S.p.A. ("the Parent Company").

As Parent Company of the Intesa Sanpaolo Banking Group, the Parent Company is responsible, pursuant to the Italian Consolidated Law on Banking, for the management and coordination of the companies belonging to the Banking Group and issues rules as required for the implementation of Bank of Italy instructions in the interest of the Group's stability. The Group's subsidiaries must comply with such rules.

For the purpose of application of such rules, the Parent Company has designed reporting procedures between it and its subsidiaries, through which the latter refer.

Intesa Sanpaolo Bank Luxembourg S.A. duly complies with the requirements and provisions set forth by its Parent Company, especially in terms of assessing effective and transparent financial reporting.

The Bank is an issuer under a EUR 70 billion medium term note issuance programme on the Luxembourg Stock Exchange under the guarantee of the Parent Company. The notes issued under this programme by the Bank are of a minimum quota of EUR 100,000.

Information on corporate governance and ownership structures in Italy is required under art. 123-bis of the Italian Consolidated Law on Banking. In compliance with this law, the Parent Company produces a separate report on this matter which can be viewed in the Governance section of the Intesa Sanpaolo website, at www.group.intesasanpaolo.com. The Intesa Sanpaolo Banking Group has also adopted a Corporate Governance Code available on the Borsa Italiana website (under Borsa Italiana/Rules/Corporate Governance).

In Luxembourg, the Bank has chosen Luxembourg as its origin member country and therefore applies CSSF circular 12/552 as subsequently amended.

The Bank has drawn up a Corporate Governance Policy in accordance with the CSSF Circular 12/552 (as amended), which requires institutions to set out in writing governance central administration arrangements and the internal controls framework.

RISK CONTROL

The risk management process, developed in connection with local requirements and Parent Company guidelines, consists in the identification, analysis and mitigation of major risks of the Bank (compliance and reputational risk, market risks, liquidity risk, credit risk and operational risk). It includes different mitigating controls and structures.

The Assets/Liabilities Committee monitors the financial risks incurred by the Bank. The Committee performs the supervision of the Bank's investment strategies, assets/liabilities mismatching, interest rate risk, liquidity risk and the liquidity policy. Its main purpose is to ensure that the risk profiles remain at the sustainable limit fixed for the Bank.

The work of the Assets/Liabilities Committee is directly supported by the Risk Control Function.

The Compliance function identifies, assesses and controls the compliance risks by ensuring adherence to legal and regulatory requirements and ethical principles including AML.

Credit risk is mainly monitored by the Credit Department on a daily basis. A monthly report on Credit Risk is prepared by the Risk Control Function with periodical reporting of the risks to the governance bodies of the Bank.

The Legal Department monitors constantly the legal risks of the Bank and coordinates and monitors activities with external lawyers.

The Internal Audit function evaluates the effectiveness of the Bank's risk management process and the Internal Control System. It performs various audit missions with relevant reporting of the results and residual risks of the different processes to the Bank's Management and Corporate bodies.

SUBSIDIARIES AND BRANCHES

The Bank holds only one fully owned subsidiary, Lux Gest Asset Management S.A., Luxembourg, which is active as a management company for investment funds.

The Bank purchased the Intesa Sanpaolo S.p.A. Amsterdam Branch from the Group through a contribution in kind on 1 February 2016.

As a consequence, the Bank operates through its head-office located in Luxembourg-city and through its Branch located in Amsterdam at 31 December 2018.

PERSPECTIVES

As a subsidiary of Intesa Sanpaolo S.p.A., the Bank operates within the worldwide business strategy of the Intesa Sanpaolo Banking Group.

In 2017 the Bank set the base for a further strengthening of its capital base, as follows

- approval of the capital increase (TIER 1 capital) of EUR 399,999,835.08 by issuing new shares (1,285,254) without nominal value, having the same rights and privileges of the existing ones;
- acceptance of the subscription of the new shares by the shareholder Intesa Sanpaolo Holding International and acceptance of the full payment by a contribution in cash for such new shares;
- approval of the raising of a Subordinated Loan (TIER 2 capital) of EUR 400,000,000 to be granted by the sole shareholder Intesa Sanpaolo Holding International S.A.

In 2018 the Bank issued the above mentioned Subordinated loan for an amount of EUR 200,000,000, subscribed by Intesa Sanpaolo Holding International S.A.

DEPOSIT GUARANTEE SCHEME AND RESOLUTION MECHANISM

The Luxembourg Government has transposed in national law the following two European directives on 18 December 2015:

- 2014/59
- 2014/49

which respectively established:

- a framework for the recovery and resolution of credit institutions and investment firms;
- a deposit guarantee scheme.

The introduction of the two above mentioned directives had a direct impact on the Bank, which was called to contribute to the Resolution Fund paying an amount of EUR 2,988,590 and to contribute to the Fonds de garantie des dépôts (FGDL) paying an amount of EUR 35,403.

FINANCIAL ELEMENTS FOR 2018

Total assets as at 31 December 2018 stood at EUR 21.0 billion (31 December 2017: EUR 22.2 billion).

Loans and advances to credit institutions (including balances with central banks) amounted to EUR 8.1 billion as at 31 December 2018, showing a slight decrease when compared to 31 December 2017 (EUR 10.1 billion). Loans and advances granted to customers other than credit institutions amounted to EUR 10.4 billion.

Financial assets held for trading are mainly composed of derivative financial instruments measured at their fair value and amounted to EUR 48 million at 31 December 2018 (31 December 2017: EUR 134 million). Those are mainly composed of interest rate swaps and foreign exchange derivative contracts.

Financial assets designated at fair value through profit or loss, which amounted to EUR 10.4 million as at 31 December 2018 (31 December 2017: EUR 12.3 million), are composed of a financial debt instrument purchased to be kept in the Bank's portfolio but measured at fair value.

Financial instruments measured at Fair Value through Other Comprehensive Income (FVTOCI), which amounted to EUR 2.4 billion (31 December 2017 available-for-sale financial assets amounted to EUR 3.2 billion), are composed of sovereign debt securities (Italian, Spanish, French and Luxembourgish Government) for an amount of EUR 1.8 billion, debt securities issued by the European Investment Bank for an amount of EUR 0.2 billion and other bonds for an amount of EUR 0.4 billion.

Concerning liabilities, during 2016 Intesa Sanpaolo Bank Luxembourg S.A. participated in the Long Term Refinancing Operation (LTRO) mechanism with the Luxembourg Central Bank ("BCL") for an amount of EUR 0.8 billion. To enter into such program, the Bank pledged in favour of the BCL part of its debt instruments kept in its financial assets at fair value through other comprehensive income portfolio, which were eligible for such purpose.

Deposits from customers amounted to EUR 6.3 billion at end of the year (31 December 2017: EUR 6.6 billion). The Bank also issued debt certificates for an amount of EUR 10.2 billion (31 December 2017: EUR 11.0 billion) composed as follows:

- certificates of deposit: EUR 4.8 billion (mainly subscribed by Intesa Sanpaolo Holding International S.A., the Bank's local parent company);
- non-convertible bonds: EUR 5.4 billion, which are part of a European Commercial Paper program and of the European Medium Term Notes program described herein.

The net profit for the year amounts to EUR 104.0 million (2017: EUR 135.5 million), with a ROE equal to 4.56%. Net interest income amounts to EUR 143.0 million at the end of 2018 (end 2017: EUR 135.7 million).

Interest income and expense reflect the corporate lending activity development.

Net fee and commission income is positive and amounts to EUR 42.5 million, showing a decrease when compared to 2017 (EUR 51.0 million).

Net (un)realised losses on financial assets and liabilities held for trading amount to EUR 60.3 million as at 31 December 2018 (31 December 2017: loss of EUR -84.8 million). The lower loss compared to last year is mainly due to derivatives contracts unwinded during 2017.

Net realised gains on financial assets and liabilities not at fair value through profit or loss amount to EUR 25.2 million as at 31 December 2018 (31 December 2017: gain of EUR 81.0 million) mainly thanks to gains of EUR 25.9 million realised on the sale of several securities measured at FVTOCI.

Total administrative expenses amounted to EUR 38.8 million, in line with 2017 administrative expenses caption.

Due to the implementation of IFRS 9 principle, which came into force starting from 1 January 2018, the Bank booked a net impairment loss on financial assets for EUR 2.6 million in 2018. Detailed information are presented in Note 3 and 26.

Provisions booked in relation to current income taxes are linked to the Amsterdam branch; the Luxembourg Head Quarter has not booked any provision in relation to current income taxes due to the fact that the Bank can neutralise its current income taxes by virtue of the application of local rules on the consolidation of taxable results with the ones generated by its direct shareholder in Luxembourg.

However, deferred tax assets and deferred tax liabilities generated by temporary differences have been booked as at 31 December 2018.

The net profit of the year available for distribution, including retained earnings (but excluding First Time Adoption "FTA") amounts to EUR 104,011,676. Retained earnings amount includes also functional property revaluation of EUR 24,513,535, which has been reclassified from revaluation reserve to retained earnings following the functional property disposal concluded in 2018.

The Board of Directors will propose the following allocation of the profit to the Annual General Meeting, which will be held to approve the financial statements as at 31 December 2018:

Net profit of 2018 financial year	EUR 103,997,153
Retained profit from previous year (excluding first time adoption)	EUR 14,523
Amount attributable to shareholders	EUR 104,011,676
Allocation to legal reserve (5% net profit)	EUR 5,199,858
Dividend for the financial year (95% rounded up)	EUR 98,800,000
Total	EUR 103,999,858
<i>Retained profit carried forward to the next financial year (excluding first time adoption)</i>	<i>EUR 11,818</i>

SUBSEQUENT EVENTS

The Bank is not aware of any adjusting or non-adjusting event that would have occurred between 31 December 2018 and the date when the present financial statements were authorised for submission by the Board of Directors to the Annual General Meeting of Shareholders.

MISCELLANEOUS

The Bank did not purchase own shares during the year 2018. No research and development costs have been sustained during the year 2018.

CONCLUSION

The Board of Directors is satisfied concerning the profits generated. It thanks the Authorised Management of the Bank for its activity and all the employees for their professional behaviour and the quality of the services provided to the Bank's clients.

Luxembourg, 21 March 2019

FINANCIAL
STATEMENTS

STATEMENT OF FINANCIAL POSITION

(As at 31st December 2018)

(In €)

ASSETS	NOTES	2018	2017
Cash and cash balances with central banks	3, 4	109,032,333	128,851,839
Financial assets measured at fair value through profit or loss ("FVTPL")	3, 5	59,600,639	145,957,754
Financial assets held for trading		48,445,482	133,702,824
Financial assets designated at fair value		10,365,456	12,254,930
Financial assets mandatorily measured at fair value		789,701	---
Financial assets measured at fair value through other comprehensive income ("FVTOCI")	3, 6	2,351,170,517	3,170,452,611
Loans and advances	3, 4, 7		
a) Loans and advances to credit institutions		7,991,992,641	9,950,509,001
b) Loans and advances to customers		10,390,345,939	8,737,389,483
		18,382,338,580	18,687,898,484
Derivatives held for hedging	3, 15	210,014	4,986,123
Tangible fixed assets	8	782,391	32,814,141
Intangible assets	9	1,593	2,718
Current tax assets	10	6,201,905	1,821,250
Deferred tax assets	10	22,975,999	7,514,893
Other assets	3, 11	25,473,149	22,372,433
TOTAL ASSETS		20,957,787,120	22,202,672,246

The accompanying notes form an integral part of the financial statements.

(In €)

LIABILITIES AND EQUITY	NOTES	2018	2017
Deposits from central banks	3, 12	812,487,716	1,314,049,823
Financial liabilities measured at fair value through profit or loss ("FVTPL")		77,584,301	40,193,400
Financial liabilities held for trading	3	67,343,507	28,069,191
Financial liabilities designated at fair value	3, 13	10,240,794	12,124,209
Financial liabilities measured at amortised cost ("AC")	3, 14		
a) Deposits from credit institutions		1,072,688,424	708,297,280
b) Deposits from customers		6,295,783,310	6,584,036,715
c) Debts evidenced by certificates		10,183,437,695	11,011,773,964
		17,551,909,429	18,304,107,959
Derivatives held for hedging	3, 15	69,043,776	47,694,259
Provisions	16	3,059,512	1,679,138
Current tax liabilities	10	9,174,660	4,530,721
Deferred tax liabilities	10	3,176,749	15,605,772
Other liabilities	11	49,128,944	44,655,627
TOTAL LIABILITIES		18,575,565,087	19,772,516,699
Equity	6, 17		
Share capital		1,389,370,555	1,389,370,555
Share premium		7,720,692	7,720,692
Revaluation reserve		(40,545,366)	20,555,826
Other reserves and retained earnings		921,678,999	877,034,156
Net profit for the year		103,997,153	135,474,318
TOTAL EQUITY		2,382,222,033	2,430,155,547
TOTAL LIABILITIES AND EQUITY		20,957,787,120	22,202,672,246

The accompanying notes form an integral part of the financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31st December 2018

(In €)

(In €)	NOTES	2018	2017
CONTINUING OPERATIONS:			
a) Interest income		274,873,684	246,397,102
b) Interest expenses		(131,862,197)	(110,670,458)
Net interest income	18	143,011,487	135,726,644
a) Fee and commission income		74,599,552	73,878,196
b) Fee and commission expenses		(32,063,819)	(22,871,097)
Net fee and commission income	19	42,535,733	51,007,099
Dividend income	20	672,427	585,971
Net (un)realised losses on financial assets and liabilities held for trading	21	(60,292,897)	(84,816,007)
Net unrealised gains on financial assets and liabilities held for hedging	15	148,117	---
Net (un)realised gains/(losses) on financial assets and liabilities at fair value through profit or loss	22	98,102	(469,232)
Net realised gains on financial assets and liabilities not at fair value through profit or loss	23	25,205,201	81,042,559
a) Other income		7,563,784	3,548,244
b) Other expenses		(10,420,388)	(9,474,208)
Net other expenses	24	(2,856,604)	(5,925,964)
Administrative expenses	25, 31	(38,841,193)	(38,270,724)
Depreciation and amortisation	8, 9	(960,820)	(458,547)
Provisions	16	178,688	---
Net impairment result on financial assets	26	(2,616,536)	99,316
Tax (expense) income related to profit from continuing operations	10	(2,284,552)	(3,046,797)
NET PROFIT FOR THE YEAR		103,997,153	135,474,318

The accompanying notes form an integral part of the financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31st December 2018

(In €)

(In €)	2018	2017
NET PROFIT FOR THE YEAR	103,997,153	135,474,318
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss		
Tangible assets	(24,513,535)	24,513,535
Income tax relating to items that will not be reclassified	6,638,265	(6,638,265)
Items that are or may be reclassified to profit or loss		
Net change in fair value on financial assets at fair value through other comprehensive income and expected credit losses	(58,424,220)	(2,950,475)
Deferred tax relating to the components of other comprehensive income	15,198,298	940,796
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(61,101,192)	15,865,591
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	42,895,961	151,339,909

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2018

(In €)

	RESERVES								Total
	Issued share capital	Share premium	Revaluation reserves	Legal reserve	Other reserves	Retained earnings	Reserve and retained earnings	Profit of the year before appropriation	
Note	17		6, 17	17	17	17		17	
BALANCE AS AT 1ST DECEMBER 2017	989,370,720	7,720,692	4,690,235	53,550,000	797,333,308	4,819,541	855,702,849	121,831,307	1,979,315,803
Total comprehensive income	---	---	15,865,591	---	---	---	---	135,474,318	151,339,909
Transfers and appropriation of prior year's profit	---	---	---	6,091,565	15,208,435	31,307	21,331,307	(21,331,307)	---
Dividend for the financial year	---	---	---	---	---	---	---	(100,500,000)	(100,500,000)
Capital decrease	---	---	---	---	---	---	---	---	---
Capital increase	399,999,835	---	---	---	---	---	---	---	399,999,835
BALANCE AS AT 31ST DECEMBER 2017	1,389,370,555	7,720,692	20,555,826	59,641,565	812,541,743	4,850,848	877,034,156	135,474,318	2,430,155,547
IFRS 9 – First Time Adoption	---	---	(715,031)	---	---	(14,627,979)	(14,627,979)	---	(15,343,010)
RESTATE BALANCES AS AT 1ST JANUARY 2018	1,389,370,555	7,720,692	19,840,795	59,641,565	812,541,743	(9,777,131)	862,406,177	135,474,318	2,414,812,537
Total comprehensive income	---	---	(60,386,161)	---	---	(715,031)	(715,031)	103,997,153	42,895,961
Transfers and appropriation of prior year's profit	---	---	---	6,773,716	28,726,284	(25,682)	35,474,318	(35,474,318)	---
Dividend for the financial year	---	---	---	---	---	---	---	(100,000,000)	(100,000,000)
Recycling from OCI	---	---	---	---	---	24,513,535	24,513,535	---	24,513,535
Capital decrease	---	---	---	---	---	---	---	---	---
Capital increase	---	---	---	---	---	---	---	---	---
BALANCE AS AT 31ST DECEMBER 2018	1,389,370,555	7,720,692	(40,545,366)	66,415,281	841,268,027	13,995,691	921,678,999	103,997,153	2,382,222,033

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31st December 2018

(In €)

(In €)	NOTES	2018	2017
PROFIT BEFORE TAX		106,281,705	138,521,115
Adjustments:			
a) Depreciation / amortisation	8, 9	960,820	458,547
b) Impairment for credit losses	26	18,747,448	47,811
c) Reversal of loan impairment	26	(16,130,912)	(147,127)
d) Provisions and other income/expenses	16	1,380,374	(864,937)
e) Fair value adjustments		50,102,102	(56,505,745)
CASH FLOWS FROM OPERATING PROFITS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		161,341,537	81,509,664
Net (Increase)/decrease in trading assets		13,249,423	(103,154,924)
Net (Increase)/decrease in loans and advances to credit institutions		2,390,680,668	(207,872,318)
Net (Increase)/decrease in loans and advances to customers		(1,672,449,676)	(2,200,689,242)
Net (Increase)/decrease in financial assets FVTOCI		793,041,817	(233,539,287)
Net (Increase)/decrease in financial assets designated at fair value through profit and loss		1,693,304	3,590,953
Net (Increase)/decrease in other assets		(3,100,716)	(5,082,247)
Net Increase/(decrease) in trading financial liabilities		54,312,778	(58,867,050)
Net Increase/(decrease) in deposits from credit institutions		364,352,626	123,994,645
Net Increase/(decrease) in deposits from central banks		(501,562,107)	(2,921,433)
Net Increase/(decrease) in deposits from customers		(288,214,886)	1,241,375,791
Net Increase/(decrease) in financial liabilities at FVtPL & in other liabilities		(5,482,192)	(9,231,762)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		1,307,862,576	(1,370,887,210)
Dividends received	20	672,427	585,971
Acquisition and disposal of property and equipment	8	31,072,055	(565,699)
NET CASH FLOWS/(USED IN) FROM INVESTING ACTIVITIES		31,744,482	20,272
Dividends paid	17	(100,000,000)	(100,500,000)
Net increase/(decrease) in debts evidenced by certificates	14	(828,336,269)	2,506,207,964
Increase in share capital	17	---	399,999,835
NET CASH FLOWS/(USED IN) FROM FINANCING ACTIVITIES		(928,336,269)	2,805,707,799
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		411,270,789	1,434,840,861
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		3,747,401,805	2,312,560,944
Net increase/decrease in cash and cash equivalents		411,270,789	1,434,840,861
Cash and cash equivalents: exchange rate fluctuations		---	---
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	4,158,672,594	3,747,401,805

The accompanying notes form an integral part of the financial statements.

The background features a large, stylized orange shape resembling a stylized 'S' or a series of overlapping curves. A central rectangular area is a darker shade of orange, creating a layered effect. The text is positioned within this darker area.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS AS AT 31ST DECEMBER 2017

NOTE 1 – GENERAL INFORMATION

Intesa Sanpaolo Bank Luxembourg S.A. (hereafter the “Bank” or “ISPBL”) was incorporated in Luxembourg on 2 June 1976 as a limited company under Luxembourg Law.

The Extraordinary General Meeting held on 5 October 2015 has changed the name of the Bank from “Société Européenne de Banque S.A.” to “Intesa Sanpaolo Bank Luxembourg S.A.”.

The main activities of the Bank are focused on corporate business, private banking and financial markets activities. Until 6 July 2008, the Bank provided services to investment funds such as central administration, transfer agent and custodian. On 7 July 2008, following a decision of the Extraordinary Shareholders' Meeting held on 25 June 2008, these activities were transferred for no consideration to another Luxembourg entity of the Intesa Sanpaolo Group. At the same date, private banking and corporate activities were transferred for no consideration from another Luxembourg entity of Intesa Sanpaolo Group to the Bank.

Since 31 December 2012, the Bank prepares consolidated financial statements according to the Transparency Law, as the Bank issues European Medium Term Notes on the Luxembourg stock market and fully controls the company Lux Gest Asset Management S.A. and until 31 March 2013 Intesa Sanpaolo Private Bank (Suisse) S.A.

On 1 February 2016, the Bank purchased the Intesa Sanpaolo S.p.A. Amsterdam Branch (the “Branch”) from the Group through a contribution in kind. For that purpose, 13,750 shares have been issued to Intesa Sanpaolo S.p.A. consisting of EUR 4,279,308.01 to share capital and EUR 7,720,691.99 to share premium in exchange of the Branch.

On 22 September 2016, the Bank performed a capital increase of EUR 449,999,892.27 through the issuance of 1,445,911 shares integrally subscribed by Intesa Sanpaolo Holding International S.A. The subscribed capital of the Bank as at 31 December 2016 was therefore of EUR 989,370,720.28, composed of 3,178,983 shares (integrally subscribed).

On 25 October 2017, the Bank performed a capital increase of EUR 399,999,835.08 through the issuance of 1,285,254 shares integrally subscribed by Intesa Sanpaolo Holding International S.A. The subscribed capital of the Bank as at 31 December 2017 was therefore of EUR 1,389,370,555.36 composed of 4,464,237 shares (integrally subscribed).

On 1 October 2018, the Bank issued a subordinated loan of EUR 200,000,000 subscribed by Intesa Sanpaolo Holding International S.A. The subordinated loan matures on 2 October 2028.

As at 31 December 2018, 100% of the Bank share capital is owned by Intesa Sanpaolo Holding International S.A.

Intesa Sanpaolo Holding International S.A. is fully consolidated in the consolidated financial statements of Intesa Sanpaolo S.p.A. (hereafter the “Group”). Intesa Sanpaolo S.p.A. produces consolidated financial statements available for public use that comply with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The Bank co-operates to a significant extent with its ultimate Parent Company and other entities of the Intesa Sanpaolo Group.

These financial statements were authorised for submission to the Shareholders' Annual General Meeting by the Bank's Board of Directors on 21 March 2019.

The registered office of the Bank is: 19-21, boulevard Prince Henri in Luxembourg.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

2.1.1. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted for use in the European Union (“IFRS”) and with the going concern principle.

It is the first set of annual financial statements in which IFRS 9 “Financial Instruments” and IFRS 15 “Contracts with Customers” have been applied. Changes to significant accounting policies are described in the following paragraphs.

2.2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the financial statements, the Board of Directors is required to make accounting judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The most significant use of judgements and estimates are as follows:

2.2.1. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is not quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs

and minimise the use of unobservable inputs. The chosen valuation techniques incorporate all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor is based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis but no later than when the valuation is wholly supported by observable data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short position at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market risk or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities based on the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

2.2.2. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

— POLICY APPLICABLE BEFORE 1 JANUARY 2018

The Bank reviews its non-performing loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of profit or loss. In particular, judgement by the Board of Directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

— POLICY APPLICABLE FROM 1 JANUARY 2018

Since IFRS 9 implementation, judgements are made in establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit losses ("ECL") and selection and approval of models used to measure ECL.

2.2.3. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITY

Assessments are made for every financial asset and liability of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payments of principal and interests ("SPPI") on the principal amount outstanding.

2.2.4. VALUATION OF UNQUOTED EQUITY INVESTMENTS

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length transactions;
- current fair value of another instrument that is substantially the same;
- expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Bank calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions in the same instrument or from other available observable market data.

2.2.5. FUNCTIONAL PROPERTY VALUATION

The Bank started evaluating its functional property at fair value as of 31 December 2017.

Estimating the fair value is a process involving a number of judgements and estimates regarding various inputs: the valuation technique, in fact, is based on a model that uses unobservable inputs such as the estimated rental value, the hard-core yield, the rental period.

2.3. CHANGES IN ACCOUNTING POLICIES

The Bank has initially adopted IFRS 9 (see A) and IFRS 15 (see B) from 1 January 2018.

A number of new standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Notes 3, 6 and 7);
- additional disclosures related to IFRS 9 (see Notes 3, 6 and 7);
- additional disclosures related to IFRS 15 (see Note 19).

Except for the changes below, the Bank has consistently applied the accounting policies as set out in this Note to all periods presented in these financial statements.

A. IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below. The full impact of adopting the standard is set out in Notes 3, 5, 6 and 7.

— CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

IFRS 9 contains three principal classification categories for financial assets:

- measured at amortised cost ("AC");
- fair value through other comprehensive income ("FVTOCI"); and
- fair value through profit or loss ("FVTPL").

IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated for the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income ("OCI"); and
- the remaining amount of change in the fair value is presented in profit or loss.

— IMPAIRMENT OF FINANCIAL ASSETS

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, loss allowances will be measured on either of the following basis:

- *12-month ECLs*: these are ECLs that result from a possible default events within the 12 months after the reporting date;
- *Lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Default definition:

The Bank considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Bank, without recourse by the Bank to actions such as realizing security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached and advised limit or been advised of a limit smaller than the current amount outstanding; or
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative, e.g. breaches of covenants;
- Quantitative, e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.

Lifetime ECL measurement applies if the credit risk of financial assets at the reporting date has increased significantly since the initial recognition and 12-month ECL measurement applies if it has not.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3.

— TRANSITION

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. The Bank used the exemption not to restate comparative periods.
- The following assessments have been made based on the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held;
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL;
  - The designation of certain investments in equity instruments not held for trading as at FVTOCI;
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss;
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 3.

B. IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements (see Note 19).

C. STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and earlier application is permitted; however, the Bank has not

yet early adopted the following new or amended standards in preparing these financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have an impact on the Bank's financial statements in the period of initial recognition.

— IFRS 16 LEASES

The Bank is required to adopt IFRS 16 Leases from 1 January 2019 and it has assessed the estimated impact that the initial recognition of IFRS 16 will have on its financial statements, as described below.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognise a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the substance of Transactions Involving the Legal Form of a Lease*.

Leases in which the Bank is a lessee

The Bank has completed an assessment of the potential impact on its financial statements.

The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Bank's lease portfolio, the Bank's assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

The Bank will recognise new assets and liabilities for its operating leases of the branch and its office premises. The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expenses recognised.

As at 31 December 2018, the Bank's future minimum lease payments under non-cancellable operating leases amounted to EUR 5,560,383, on an undiscounted basis, which the Bank estimates it will recognise as additional lease liabilities.

No significant impact is expected for the Bank's finance leases.

Transition

The Bank plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

— OTHER STANDARDS

The following amended standards are not expected to have a significant impact on the Bank's financial statements.

- *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;*
- *Long-term interests in Associates and Joint Ventures (Amendments to IAS 28);*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);*
- *IFRIC 23 Uncertainty over Income Tax Treatments;*
- *Amendments to References to Conceptual Framework in IFRS Standards;*
- *IFRS 17 Insurance Contracts.*

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in (c) Changes in accounting policies, the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

2.4.1. FOREIGN CURRENCY TRANSLATION

The financial statements are presented in euro (EUR), which is the Bank's functional and presentation currency.

Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in currencies other than in euro are translated into euro at the exchange rates prevailing at the statement of financial position date. The gain or loss arising from such translation is recorded in the statement of profit or loss.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rates at the dates of the initial transactions. Non-monetary items in a foreign currency measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences on non-monetary financial assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are recognised either in the statement of profit or loss or in other comprehensive income.

The elements of the statement of profit or loss are translated into euro on a daily basis using the prevailing exchange rates.

2.4.2. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(i) **Recognition and initial measurement**

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on their value date. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on their value date, which is the date on which the Bank becomes part to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are attributable to its acquisition or issue.

(ii) Classification

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVTOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminated or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an all-overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual terms nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considered contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet the condition. In making the assessment, the Bank considers:

- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial assets – Policy applicable before 1 January 2018

The Bank classified its financial assets in the following categories:

- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets; and
- at FVTPL, and within this category as:
  - held for trading; or
  - designated as at FVTPL.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL depending on the business model allocation and the SPPI test result.

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Before 1 January 2018, on derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVTOCI is not recognised in profit or loss on derecognition of such securities. Any

interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The implementation of IFRS 9 had no significant impact on the derecognition of the Bank's financial liabilities.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis or realise the asset and settle the liability simultaneously.

2.4.3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Assets and liabilities held for trading

Assets and liabilities held for trading are assets and liabilities acquired by the Bank for the purpose of selling or repurchasing in the near term, or held as part of a portfolio that is managed together for the short-term profit or position taking.

Assets and liabilities held for trading are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of the net trading income in profit or loss.

Designation at fair value through profit or loss

— FINANCIAL ASSETS

At initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

— FINANCIAL LIABILITIES

The Bank has designated certain financial liabilities as at FVTPL because the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2.4.4. LOANS AND ADVANCES

Policy applicable from 1 January 2018

Loans and advances captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- finance lease receivables.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Policy applicable before 1 January 2018

Loans and advances were non-derivative financial assets with fixed or determinable payments that were non quoted in an active market and that the Bank did not intend to sell immediately or in the near term.

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Bank purchased a financial asset and simultaneously entered into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement was accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

2.4.5. INVESTMENT SECURITIES

Policy applicable from 1 January 2018

The investment securities in the statement of financial position includes:

- Debt investment securities measured at amortised cost: these are initially measured at fair value plus incremental transaction costs, and subsequently at their amortised cost using the effective interest rate;
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL: these are at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVTOCI; and
- Equity investment securities designated at FVTOCI.

For the debt securities measured at FVTOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interests revenue using the effective interest method; and
- Foreign exchange gains and losses.

When debt securities measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never re-classified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the impairment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

— AVAILABLE-FOR-SALE

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

(i) Initial recognition and subsequent measurement

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale are recognised on value date. Loans and advances are recognised when cash is advanced to the borrowers.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. However, if the transaction price of a financial instrument differs from the fair value and if such fair value is evidenced by a quoted price in an active market for an identical asset or liability, the Bank will recognize the instrument at fair value. The difference between the fair value at initial recognition and the transaction price will be accounted as a gain or loss in the statement of profit or loss.

Available-for-sale financial assets except for non-listed investments in subsidiaries and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and advances investments are carried at amortised cost using the effective interest method less impairment. Non quoted investments in subsidiaries that are not classified as held for sale are classified in the available-for-sale portfolio and are accounted for at cost less impairment. Gains and losses arising from changes in the fair value of the financial assets measured at fair value through profit or loss are included in the statement of profit and loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss.

However, interest calculated using the effective interest method is recognised in the statement of profit or loss.

(ii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lowest of the fair value of the transferred asset and the option exercise price.

2.4.6. FINANCIAL LIABILITIES OTHER THAN HELD FOR TRADING AND HEDGING

(i) Classification

The Bank classifies its financial liabilities other than derivatives in the following categories: financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss. The Bank uses the fair value option either when:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring liabilities or recognise the gains and losses on them on different bases; or
- a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to the entity's key management personnel.

(ii) Initial recognition and subsequent measurement

Interest-bearing liabilities – other than financial liabilities at fair value through profit or loss – are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss are measured at fair value through the statement of profit or loss.

(iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.4.7. DERIVATIVE FINANCIAL INSTRUMENTS

(i) Classification

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains and losses on investments held for trading are recognised in the statement of profit or loss.

(ii) Initial recognition and subsequent measurement

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are restated at fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivatives are designated as a hedging instrument, and if so, the nature of the risk being hedged.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

(iii) Embedded derivatives

Policy applicable from 1 January 2018

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- The host contract is not in the scope of IFRS 9;
- The host contract is not itself carried at FVTPL;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form a part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Policy applicable before 1 January 2018

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounted for an embedded derivative separately from the host contract when:

- The host contract was not itself carried at FVTPL;
- The terms of the embedded derivative would have met the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives were measured at fair value, with all changes in fair value recognised in profit or loss unless they formed part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives were presented in the statement of financial position together with the host contract.

(iv) Trading

Derivatives that do not qualify for hedge accounting are accounted for as trading instruments. The gain or loss on remeasurement to fair value of trading derivatives is recognised immediately in the statement of profit and loss.

(v) Hedge accounting

The Bank may use derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Where there is a hedging relationship between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value. The treatment of any resulting gains and losses is set out below.

As permitted by IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

On initial designation of the hedge, the Bank formally documents:

- the relationship between the hedging instruments and the hedged items;
- the risk management objectives and strategies in undertaking the hedge;
- the method that will be used to assess the effectiveness of the hedging relationship.

The Bank makes an assessment, both at inception of the hedge relationship and on an on-going basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80%-125%.

For the purpose of hedge accounting, the Bank has classified hedges as fair value hedges.

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss. The change in the fair value of the hedged item attributable to the hedged risk is recorded as a part of the carrying value of the hedged item and is also recognised in the statement of profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest rate method is used, is amortised through the statement of profit or loss.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative changes in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

(vi) Derecognition

Derivatives are derecognised when the rights and obligations under the instrument are discharged, cancelled or expired.

2.4.8. FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENT

Financial guarantee contracts issued by the Bank are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance;
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Banks are firm commitments to provide loans or advances under pre-specified terms and conditions and are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate.

Financial guarantee contracts and loan commitments are recognised in off balance sheet.

The Bank recognises loan commitments when it has fulfilled all its obligations and related contracts have been duly signed by all the counterparties involved.

From 1 January 2018, the Bank recognises a loss allowance in compliance with IFRS 9.

Before 1 January 2018, the Bank recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

2.4.9. REPURCHASE AGREEMENTS AND REVERSE REPURCHASE AGREEMENTS

The Bank enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The advances are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy of the category to which they relate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest.

2.4.10. IMPAIRMENT OF FINANCIAL ASSETS

Policy applicable from 1 January 2018

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and

- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1 financial instruments".

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments".

— MEASUREMENT OF ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

— RESTRUCTURED FINANCIAL ASSETS

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

— CREDIT-IMPAIRED FINANCIAL ASSETS

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVTOCI are credit impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness;
- The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

— PRESENTATION OF ALLOWANCE FOR ECL IN THE STATEMENT OF FINANCIAL POSITION

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

— WRITE-OFF

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or

sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "Net impairment result" in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

— NON-INTEGRAL FINANCIAL GUARANTEE CONTRACTS

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in "other assets". The Bank presents gains or losses on a compensation right in profit or loss in the line item "Net impairment result".

Policy applicable before 1 January 2018

The Bank assesses at each reporting date whether a financial asset or group of financial assets is impaired. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss.

Indicators of impairment include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank has granted to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties.

In addition, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market,

economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

The recoverable amount of the Bank's investments in held-to-maturity securities and loans and advances carried at amortised cost is estimated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Advances with a short duration are not discounted.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the statement of profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in the statement of profit or loss.

In addition, the Bank proceeds with an estimation of a potential collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

When financial instruments are grouped if expected credit losses is measured on a collective basis, parameters are modelled taking into consideration four options based on the information available:

- An ECL percentage is calculated on each contract the Bank has with a customer. It represents the most precise calculation it is possible to perform because it means that the Bank is able to define a specific PD and LGD for that specific transactions with a customer.
- An ECL percentage is calculated on a specific customer. It represents a less accurate calculation, because the Bank has the information to perform a PD and an LGD for that customer and the ECL% out-coming from the procedure is applied to each transaction with that customer.
- An ECL percentage might also be calculated on a specific product. When it is not possible to calculate a proper PD and LGD for a client, the Bank identifies an ECL based on the type of product concluded with that client.
- A residual ECL percentage. It represents the last and most conservative category where a specific ECL% has been identified to be applied to all transactions which cannot be classified in one of the previous categories.

2.4.11. TANGIBLE AND INTANGIBLE FIXED ASSETS

Functional property is stated at fair value less accumulated depreciation and accumulated impairment losses since 31 December 2017 and was accounted at cost less accumulated depreciation and accumulated impairment losses until that date.

Items of plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Intangible assets are included at purchase price or production cost, less accumulated amortisation.

Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows (on a straight-line basis):

- buildings	40 years
- transformation costs	5-10 years
- fixtures and fittings	5 years
- softwares	1-5 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of profit or loss in the year the asset is derecognised. The asset's residual value, if not insignificant, and useful lives and methods of depreciation are reviewed and adjusted, if appropriate, at each financial year-end.

The Bank recognises the cost of replacing part of a property, plant and equipment item at incurrence in the carrying amount of this item if that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the statement of profit or loss as an expense as incurred.

2.4.12. OTHER ASSETS

This caption includes assets such as prepaid charges, accrued income or unearned income.

Other assets are stated at cost less impairment.

2.4.13. IMPAIRMENT OF NON-FINANCIAL ASSETS

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset, except, if any, for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

2.4.14. CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

Cash and cash equivalents include the following reserves:

- Credit institutions established in Luxembourg are required to hold minimum reserves with the Luxembourg Central Bank. These deposits represent 2% of some of their liabilities and are considered as not available. Compliance with the reserve requirement is determined on the basis of the institutions' average daily reserve holdings over the maintenance period, thus reserves of credit institutions can vary from one day to another following their treasury management, the money market or their expectations in interest rates.
- Concerning the branch of the Bank located in Amsterdam, a minimum reserves has also to be held at De Nederlandsche Bank (DNB). The amount of minimum reserves to be held by each institution is determined in relation to its reserve base, which is defined in relation to elements of its balance sheet. The balance sheet data are calculated by the institutions themselves and reported to DNB within the general framework of the ECB's money and banking statistics.

2.4.15. EMPLOYEE BENEFITS

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. They include:

- wages, salaries and social security contributions;
- paid annual leave and paid sick leave;
- profit-sharing and bonus; and
- non-monetary benefits (such as medical care, housing or cars) for current employees.

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment. The Bank contributes to a defined

contribution retirement plan located with an external insurance company. The Bank does not grant any other employee benefits.

2.4.16. PROVISIONS

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

2.4.17. OTHER LIABILITIES

This caption includes liabilities such as income perceived in advance, accrued expenses and expenses due but not yet paid. Other liabilities are stated at cost.

2.4.18. DISCONTINUED OPERATIONS

A discontinued operation is a component of the Bank's business, the operations and the cash flows of which can be clearly distinguished from the rest of the Bank and which:

- represents a separate major line of business or geographical area of operations;
- is a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.

When an operation is classified as a discontinued operation, the statement of comprehensive income is re-presented as of the operation has been discontinued from the start of the comparative year.

2.4.19. INTEREST INCOME AND EXPENSE

Policy applicable from 1 January 2018

— EFFECTIVE INTEREST RATE

Interest income and expense are recognised in profit or loss using the effective interest method.

The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instruments, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using the estimated future cash flows including ECL.

The calculation of effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or a financial liability.

— AMORTISED COST AND GROSS CARRYING AMOUNT

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

— CALCULATION OF INTEREST INCOME AND EXPENSE

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

— PRESENTATION

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVTOCI; and
- interest in relation with derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost; and
- interest in relation with hedging derivatives designated in fair value hedges of interest rate risk.

Policy applicable before 1 January 2018

— EFFECTIVE INTEREST RATE

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part

of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

— PRESENTATION

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVTOCI; and
- interest in relation with qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost; and
- interest in relation with qualifying hedging derivatives designated in fair value hedges of interest rate risk.

2.4.20. FEE AND COMMISSION INCOME

Fee and commission income arises on financial services provided by the Bank including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, and asset management services. Fee and commission income is recognised when the corresponding service is provided.

The Bank recognises the whole amount of fees and commissions income into the statement of profit or loss when their purpose is to reimburse specific or general costs incurred by the Bank in preparing and completing a transaction and they do not represent additional return on a loan or receivable.

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

For more details on fee and commission income see Note 19.

2.4.21. NET (UN) REALISED GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Net trading income comprises gains and losses related to trading assets and liabilities, and includes all fair value changes, interests and foreign exchange differences.

2.4.22. NET REALISED GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT AT FAIR VALUE THROUGH PROFIT AND LOSS

Gains and losses on financial assets and liabilities are recognised in the statement of profit or loss at the date of sale, based on difference between the consideration paid or collected and the carrying amount of such instruments.

Policy applicable from 1 January 2018

In case of financial assets measured at FVTOCI, gains and losses are adjusted to take into consideration premiums and discounts accrued as at the date of sale.

Policy applicable before 1 January 2018

In case of available for sale assets, gains and losses are adjusted to take into consideration premiums and discounts accrued as at the date of sale.

2.4.23. DIVIDEND INCOME

Dividend income is recognised in the statement of profit or loss when the Bank's right to receive the payment is established.

2.4.24. INCOME TAX

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

— CURRENT INCOME TAX

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the statement of financial position date.

In accordance to the local law (article 164 LIR) a company can neutralise its current income taxes thanks to the consolidation of taxable results with the taxable losses generated by its Parent Company located in Luxembourg.

— DEFERRED INCOME TAX

Deferred income tax is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward and unused tax credits and unused tax losses, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current

tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4.25. SEGMENT REPORTING

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Bank's other components, whose operating results are regularly reviewed by the Bank's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

2.4.26. OPERATING LEASES

Assets held under operating leases are not recognised in the Bank's statement of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

NOTE 3 – FINANCIAL RISK MANAGEMENT

3.1. INTRODUCTION AND OVERVIEW

The Parent Company governing body (Board of Directors), supported by specific Committees, define the "risk profile" at Group level for all the Group entities. The Group risk profile definition considers risk management and control as key factors to guarantee a solid and sustainable creation of value in a risk controlled environment in order to assure financial stability and reputation of the Group and to provide a transparent portfolio risk representation. The risk policy is consequently aimed to achieve an appropriate balance between risk and return.

The local Risk Management unit operates under the direction of the Chief Risk Officer and applies the Group business strategies and objectives, defines scopes and methods to manage risks:

- assures different types of risk measurement and control i.e. market, interest rate, liquidity and operational risks following specific policies;
- reevaluates the Bank assets according to mark-to-market and fair value principle defined in a "Fair Value Policy" issued at Group level;
- measures financial risks in the banking book and assures that the local limits stated by the Parent Company are respected. A periodic reporting is made to the Parent Company;
- provides the relevant reports to the Parent Company, the Audit Committee, the Board of Directors, the General Management and to the Asset/Liabilities Committee.

The Risk Management function supports the risk identification and measurement processes by providing details and own assessments, proposes risk management policies and approaches compliant with regulatory and the ultimate Parent Company requirements.

The Credit function provides details, own assessments and complies with regulatory and ultimate Parent Company requirements with regards to credit risk, and coordinates the decisions taken by the Credit and Asset Quality Committee.

The Accounting department provides the capital data details and supports the reconciliation with the supervisory capital.

The Compliance function encompasses all measures aiming to avoid that the Bank incurs any loss, financial or not, due to the fact it does not comply with applicable laws and regulations. It is an independent function that identifies, assesses, advises, monitors and reports on the Bank's compliance risk.

The Organization & Human Resources Division assures adequate organizational framework and clear lines of responsibilities, with relevant documentation.

The Internal Audit provides an independent, periodic and comprehensive review of the processes and of the compliance with regulatory and Group requirements.

Roles and responsibilities of the Bank's bodies and departments/functions have been defined in coordination with the ultimate Parent Company.

3.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

Credit risk arises due to:

- exposure to corporate and private clients;
- exposure to institutional counterparties.

The Bank's credit risk management is based on the commercial and risk strategy drawn up by the Management and validated by the Board of Directors. The main principles are as follows:

- the Bank grants credits in priority to corporate clients who are often also clients of the Group or are part of the Group;
- calculation of the impact on capital requirements is made for all new credit transactions. The objective is to maintain the adequate ratio of the own funds beyond the 10.5% required by local regulation;

- each new customer relation must be approved by the "Client Control Committee" and where applicable by the "Committee of acceptance of new customers and operations";
- the main exposures are toward the ultimate Parent Company;
- a large proportion of the loans are collateralised by pledges (cash or securities);
- the Bank does not systematically require a 100% collateral as a guarantee. It depends on the reputation of the borrower.

Credit risk is assessed by reviewing:

- large exposure;
- credit limits and collaterals;
- credit lines;
- financial analysis;
- ratings.

The Bank has in place a manual of procedures, which describes the controls, review and reports regarding credit risk. The Bank has a regular Credit Committee which reviews major transactions and risk situations. Periodic reporting on credit risk is made to the Audit Committee.

(i) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVTOCI debt instruments (as of 1 January 2018 and available-for-sale debt instruments until 31 December 2017). Unless specifically indicated, for financial assets, the amount in the table represent gross carrying amounts. For loan commitments and financial guarantees contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms "Stage 1", "Stage 2" and "Stage 3" is also included in Note 2.

The table below details the amount of loss allowances by stage and type of exposure as at 31 December 2018 and 2017 :

In 2018 (In €)	STAGE 1	STAGE 2	STAGE 3	TOTAL
Loans and advances	7,982,815	1,419,499	11,785,770	21,188,084
Off balance sheet exposures	958,682	351,445	---	1,310,127
Financial assets at FVTOCI	620,935	17,900	---	638,835
IFRS 9 Loss allowance	9,562,432	1,788,844	11,785,770	23,137,046

In 2017 (In €)	STAGE 1	STAGE 2	STAGE 3	TOTAL
Loans and advances	10,827,427	7,511,699	---	18,339,126
Off balance sheet exposures	853,515	741,455	---	1,594,970
Financial assets at FVTOCI	455,276	511,113	---	966,389
IFRS 9 Loss allowance	12,136,218	8,764,267	---	20,900,485

The following table shows the distribution of loss allowance calculated on loans and advances as at 31 December 2018 and 2017 by level of risk and stages, specifying the amount of impairment calculated in relation to each bucket.

In 2018 (In €)	STAGE 1	STAGE 2	STAGE 3	TOTAL
Loans and advances to credit institutions at AC				
Grades A: Low-fair risk	7,978,511,180	71,961	---	7,978,583,141
Grades B: Higher risk	10,041,030	32,883	---	10,073,913
Grades C: UTP ("Unlikely To Pay")	---	---	---	---
Grades C: UR ("Unrated")	6,985,185	235,010	---	7,220,195
Loss allowance	(3,883,961)	(647)	---	(3,884,608)
Carrying amount	7,991,653,434	339,207	---	7,991,992,641
Loans and advances to customers at AC				
Grades A: Low-fair risk	6,316,249,020	20,022,361	---	6,336,271,381
Grades B: Higher risk	1,040,453,803	118,905,745	---	1,159,359,548
Grades C: UTP ("Unlikely To Pay")	305	1,141	43,891,293	43,892,739
Grades C: UR ("Unrated")	197,303,492	2,670,755,410	66,845	2,868,125,747
Loss allowance	(4,098,854)	(1,418,852)	(11,785,770)	(17,303,476)
Carrying amount	7,549,907,766	2,808,265,805	32,172,368	10,390,345,939
Total amount loans and advances				18,382,338,580
<i>Including loss allowances</i>				<i>(21,188,084)</i>

In 2017 (In €)	STAGE 1	STAGE 2	STAGE 3	TOTAL
Loans and advances to credit institutions at AC				
Grades A: Low-fair risk	9,946,656,354	---	---	9,946,656,354
Grades B: Higher risk	124,464	9,575	---	134,039
Grades C: UTP ("Unlikely To Pay")	---	---	---	---
Grades C: UR ("Unrated")	3,481,331	237,277	---	3,718,608
Loss allowance	(4,945,436)	(206)	---	(4,945,642)
Carrying amount	9,945,316,713	246,646	---	9,945,563,359
Loans and advances to customers at AC				
Grades A: Low-fair risk	3,652,038,924	20,022,361	---	3,672,061,285
Grades B: Higher risk	1,779,584,452	294,764,041	---	2,074,348,493
Grades C: UTP ("Unlikely To Pay")	---	---	---	---
Grades C: UR ("Unrated")	85,383,624	2,905,353,197	---	2,990,736,821
Loss allowance	(5,881,991)	(7,511,493)	---	(13,393,484)
Carrying amount	5,511,125,009	3,212,628,106	---	8,723,753,115
Total gross amount loans and advances				18,687,655,600
<i>Loss allowances as per IFRS 9:</i>				<i>(18,339,126)</i>
Total carrying amount as per IFRS 9				18,669,316,474
Exposures not covered by IFRS 9				242,884
Loans and advances as at 01.01.2018				18,669,559,358
Loss allowance as per IFRS FTA				<i>(18,339,126)</i>
Loans and advances as at 31.12.2017				18,687,898,484

The following table shows the distribution of loss allowance calculated on guarantees, loan commitments and uncommitted off balance sheet items as at 31 December 2018 and 2017 by level of risk and stages, specifying the amount of impairment calculated in relation to each bucket.

In 2018 (In €)	STAGE 1	STAGE 2	STAGE 3	TOTAL
Financial guarantees, loan commitments and uncommitted credit lines				
Grades A: Low-fair risk	10,545,968,082	116,829	---	10,546,084,911
Grades B: Higher risk	491,037,784	89,004,693	---	580,042,477
Grades C: UTP ("Unlikely To Pay")	---	4,547	---	4,547
Grades C: UR ("Unrated")	868,357,270	336,068,157	---	1,204,425,427
Loss allowance	(958,682)	(351,445)	---	(1,310,127)
Carrying amount	11,904,404,454	424,842,781	---	12,329,247,235
Financial guarantees, loan commitments and uncommitted credit lines				12,330,557,362
Uncommitted off balance sheet items				(5,369,784,399)
Financial guarantees and loan commitments				6,960,772,963

In 2017 (In €)	STAGE 1	STAGE 2	STAGE 3	TOTAL
Financial guarantees, loan commitments and uncommitted credit lines				
Grades A: Low-fair risk	5,708,913,080	135,122,698	---	5,844,035,778
Grades B: Higher risk	385,683,640	---	---	385,683,640
Grades C: UTP ("Unlikely To Pay")	---	---	---	---
Grades C: UR ("Unrated")	1,085,457,748	535,148,503	---	1,620,606,251
Loss allowance	(853,515)	(741,455)	---	(1,594,970)
Carrying amount	7,179,200,953	669,529,746	-	7,848,730,699
Financial guarantees, loan commitments and uncommitted credit lines				7,850,325,669
Uncommitted off balance sheet items				(3,732,412,836)
Financial guarantees and loan commitments				4,117,912,833

The following table sets out the credit quality of debt investment securities. The analysis has been based on external ratings.

In 2018 (In €)	STAGE 1	STAGE 2	STAGE 3	TOTAL
Debt investment securities at FVTOCI (2017: Available-for-sale)				
A	31,419,383	---	---	31,419,383
A-	353,978,291	---	---	353,978,291
A+	17,939,179	---	---	17,939,179
A3	11,458,217	---	---	11,458,217
AA	196,893,927	---	---	196,893,927
AA-	30,125,004	---	---	30,125,004
Aa1	---	10,353,500	---	10,353,500
Aa2	19,873,042	---	---	19,873,042
AAA	403,169,067	---	---	403,169,067
Baa1	5,023,318	---	---	5,023,318
BB	7,864,841	7,059,690	---	14,924,531
BBB	1,213,309,800	---	---	1,213,309,800
BBB-	26,827,458	---	---	26,827,458
BBB+	15,664,615	---	---	15,664,615
Loss allowance	(620,935)	(17,900)	---	(638,835)
TOTAL	2,332,925,207	17,395,290	---	2,350,320,497

In 2017 (In €)	STAGE 1	STAGE 2	STAGE 3	TOTAL
Available-for-sale financial assets				
A	33,533,584	---	---	33,533,584
A-	18,547,859	---	---	18,547,859
A+	7,902,041	---	---	7,902,041
A3	11,770,468	---	---	11,770,468
AA	111,341,380	---	---	111,341,380
AA-	15,046,635	---	---	15,046,635
Aaa	450,217,247	3,147,548	---	453,364,795
Aa1	30,531,382	10,230,445	---	40,761,827
Aa2	69,856,202	---	---	69,856,202
Baa1	9,982,733	---	---	9,982,733
BB	---	7,109,661	---	7,109,661
BBB	1,988,994,711	---	---	1,988,994,711
BBB-	35,272,545	---	---	35,272,545
BBB+	366,027,679	---	---	366,027,679
Loss allowance	(455,276)	(511,113)	---	(966,389)
TOTAL	3,148,569,190	19,976,541	---	3,168,545,731

The following table shows the reconciliation from the opening to the closing balance of the loss allowance concerning:

Transfers since FTA (In €)	TRANSFERS BETWEEN STAGE 1 & 2		TRANSFERS BETWEEN STAGE 2 & 3		TRANSFERS BETWEEN STAGE 1 & 3		NO TRANSFERS	TOTAL
	TO 2 FROM 1	TO 1 FROM 2	TO 3 FROM 2	TO 2 FROM 3	TO 3 FROM 1	TO 1 FROM 3		
Balance at 1 January 2018								20,900,485
New financial assets originated or purchased	---	---	---	---	---	---	19,479,256	19,479,256
Remeasurement of loss allowance – increase	9,082	---	---	---	---	---	234,831	243,913
Remeasurement of loss allowance – decrease	(173,326)	(632,954)	(2)	---	(4,922)	---	(1,130,215)	(1,941,419)
Write offs and assets derecognised	---	---	---	---	---	---	(15,545,189)	(15,545,189)
Balance at 31 December 2018								23,137,046

During the year there was no significant change in carrying value that contributed to a significant change in loss allowance.

3.2.1. INPUTS, ASSUMPTIONS AND METHODOLOGY USED FOR ESTIMATING IMPAIRMENT

With respect to impairment, a model developed at Intesa Sanpaolo Group level has been introduced for instruments measured at amortised cost and fair value through other comprehensive income (other than equity instruments) based on the concept of “expected loss” instead of the “incurred loss” envisaged by IAS 39, aimed at recognising losses in a more timely manner. IFRS 9 requires that entities recognise expected credit losses over the next 12 months (stage 1) starting from initial recognition of the financial instrument. The time horizon for calculating expected losses is the entire residual life of the asset being measured if credit risk has increased “significantly” since initial recognition (stage 2) or if it is impaired (stage 3). More specifically, the introduction of the new impairment rules involves the:

- allocation of performing financial assets to different credit risk stages (staging), which correspond to value adjustments based on 12-month Expected Credit Losses (ECL) (Stage 1), or lifetime ECL over the remaining duration of the instrument (Stage 2), if there is a significant increase in the credit risk (SICR) determined by comparing the Probabilities of Default at the initial recognition date and at the reporting date;
- allocation of the non-performing financial assets to Stage 3, again with value adjustments based on the lifetime ECL;
- inclusion of forward-looking information in the calculation of the ECL, also consisting of information on the evolution of the macroeconomic scenario.

In particular

- the new impairment model methodology has been established for the tracking of the credit quality of the positions included in the portfolios of financial assets measured at amortised cost and at fair value through other comprehensive income;
- the parameters have been established for determining the significant increase in credit risk, for the correct allocation of performing exposures to stage 1 or stage 2. With regard to impaired exposures, on the other hand, the alignment of the definitions of accounting and regulatory default – already currently present – means that the current criteria for the classification of exposures as “non-performing/impaired” can be considered the same as the classification criteria for exposures within stage 3.

- the models have been produced – which include the forward-looking information – to be used for the stage allocation (based on the lifetime PD) and for the calculation of the 12-month expected credit loss (ECL) (to be applied to stage 1 exposures) and the lifetime ECL (to be applied to stage 2 and stage 3 exposures). To take into account forward-looking information and the macroeconomic scenarios in which the Bank may have to operate, it was decided to adopt, as reported in greater detail below, the so-called “most likely scenario + Add-on” approach.

With regard to the tracking of credit quality – in line with the regulatory content of the standard and the instructions from the Supervisory Authorities regarding the methods for applying the reporting standard for larger sized banks – the policy has been established to be applied for the specific analysis of the credit quality of each individual relationship (both in the form of securitised exposure and the form of lending). This is aimed at identifying any “significant deterioration in credit risk” between the initial recognition date and the reporting date, with the consequent need for classification to stage 2, as well as, vice versa, the conditions for returning to stage 1. In other words, this operational choice involves, case-by-case and at each reporting date, the comparison – for the purposes of staging – between the credit quality of the financial instrument at the time of measurement and at the time of initial disbursement or purchase.

With regard to the above, the factors that – in accordance with the standard and its operational implementation by the Bank – constitute the main drivers to be taken into consideration regarding the “transfers” between the different stages are the following:

- the variation (beyond set thresholds) of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a “relative” basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have “significantly increased” and, the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);
- the presence of forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those whose credit risk has “significantly increased” since initial recognition;

- lastly, for banks belonging to the international scope, some of the indicators from the credit monitoring systems specifically used by each bank are considered for the purposes of the transfer between "stages" where appropriate.
- This refers in particular to the watch lists, i.e. the credit monitoring systems that, based on the current credit quality of the borrower, identify performing exposures above a certain level of risk.

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk ("SICR") is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a Lifetime PD to the individual relationships is carried out by allocating the ratings for each segment according to the masterscale at both the initial recognition date and the observation date. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the Benchmark PDs are assigned to the type of counterparty being assessed.

The significant deterioration is therefore based on the increase in the lifetime PD caused by downgrades of the position, measured in terms of notches, from its origination to the reporting (observation) date, as well as the change in the forecast of the future macro-economic factors. The above-mentioned "relative" change in lifetime PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered "significant" (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used are determined based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ according to residual maturity, annual granularity and rating class at the time of disbursement/purchase of each individual financial instrument. The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:

- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

Some specific considerations apply for the "staging" of the debt securities. Unlike loans, for this type of exposure, sales and purchases after initial recognition (made using the same ISIN) may form part of the ordinary management of the positions (with the consequent need to identify methods to be adopted for identifying the sales and repayments in order to determine the remaining quantities of the individual transactions that need to be allocated a credit quality/rating upon origination to be compared with that parameter at the reporting date). In this regard, the use of the "first-in-first-out" or "FIFO" method (for the recognition of the recorded ECL in the income statement, in the event of sales or repayments) was considered to help in providing a more transparent management of the portfolio, also for the front office operators, while also enabling the continued updating of the credit rating based on new purchases.

Lastly, solely with regard to the first-time adoption of the standard, for certain categories of exposures (specifically identified and mainly related to performing debt securities measured at fair value through other comprehensive income, held by the Parent Company and the Italian bank subsidiaries), the low credit risk exemption established by IFRS 9 has been used. Based on the exemption, exposures which, at the date of transition to the new standard, had a credit rating equivalent to investment grade have been considered to have a low credit risk and therefore as stage 1.

Once the allocation to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9. These corrections include the adoption of a Point in Time (PIT) PD compared to the Through the Cycle (TTC) PD used for Basel purposes, the estimate of the PDs and, where necessary, of the multi-period LGDs to determine the lifetime expected credit loss for the financial instrument, and the removal of the economic downturn component from the LGD calculation, as well as the use of the effective interest rate of the individual transactions in the discounting process.

The measurement of the financial assets – both performing and stage 3 – also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. Information on future macroeconomic scenarios in which the Bank may find itself clearly influence the situation of the debtors, with regard both to the "risk" of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures).

In terms of method, various possible alternative approaches designed to take account of these elements have been analysed.

Of the various alternatives considered, the Bank has decided to adopt the "Most likely scenario+Add-on" approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely", in line with the approach used for other business purposes such as, for example, the budget and business plan) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes.

The design of the most-likely scenario is performed using a set of analytical and stand-alone forecasting instruments that determine the forecast path for several blocks of variables, namely:

- national accounts and inflation of the top 6 Eurozone countries, the United States and Japan;
- official rates (ECB, Fed, BoJ), EUR and USD swap rate curves, and several points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;
- some specific data for the Italian economy (industrial production, employment, public finance balances).

These forecasts are then entered in the Oxford Economics multi-country structural model (Global Economic Model), where they replace the forecast paths of the baseline scenario provided by the company with the periodic updating of the database.

The model is then solved to derive a consistent global forecasting framework, including variables for which no specific models have been developed, and to obtain a simulation environment that can be used to generate alternative scenarios. This step may require some iterations, particularly if the forecasting framework generated internally is significantly different from the one provided by Oxford Economics. If this is the case, further fine-tuning may be needed for specific secondary variables that the analysts consider to be inconsistent with the forecast scenario or that have an unexplainable quarterly volatility.

The construction of the most-likely scenario is accompanied by the identification of alternative paths, used as inputs in the calculation of the Add-On using the Oxford Economics "Global Model" simulation environment. For some variables, alternative paths are set with respect to those in the most-likely scenario, which are used to solve the model to obtain consistent simulated paths for the other variables used in this process.

The assessments made take account of the fact that the consensus estimates may include forecasts that already incorporate the total or partial realisation of one or more risk factors in their estimates, which means that the alternative paths may already incorporate these additional factors to some extent. Specific considerations apply to "stage 3" exposures (consisting, as reported above, of the current scope of non-performing assets). With regard to non-performing loans in particular, it should be noted that, despite the fact that the definition of "credit impaired" financial assets contained in IFRS 9 compared to the previous standard is substantially the same, the methods of calculation of the lifetime ECL have methodological repercussions also for the purposes of the measurements to be carried out in this segment, mainly in relation to the following aspects:

- the inclusion of forward-looking information, such as the information on the macroeconomic scenarios, on the recovery estimates and times, and on the likelihood of migration into worse classes, as well as information that can have an influence on the value of the collateral or the expected recovery time;
- the consideration of alternative recovery scenarios, such as the sale of the credit assets, in connection with possible disposals of parts of the non-performing portfolio, in relation to company objectives of reduction of the non-performing assets, to which a probability of realisation must be assigned, to be considered within the overall measurement.

With regard to the inclusion of forward looking information, it should be noted that, also in relation to non-performing exposures, in addition to a component linked to current economic conditions, a component linked to the most-likely and downside scenarios expected over the period of the next three years has been considered, according to the criteria already described.

As required by IFRS 9, the effects of the forward-looking scenario on LGD estimates pegged to the current conditions must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is

based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

– INCLUDING "FORWARD-LOOKING" INFORMATION

The Bank has decided to consider – among the various possible approaches identified for inclusion of information on future macroeconomic trends in the countries in which the Group operates – the "most likely scenario + add-on" approach.

The elements that determined this choice are briefly summarised as follows:

- consistency with the other corporate processes (e.g. business plan/budget/ICAAP);
- greater comprehensibility and comparability of results over time;
- greater governance and control over process metrics;
- possibility of calculating the add-on outside the accounting cycle/calendar hence within a time frame compatible with fast closing, as required by Regulators;
- ability to monitor more closely the natural volatility of expected losses;
- greater possibility of performing back-testing with period-end data to progressively improve the accuracy of estimates.

Briefly stated, this methodology provides that:

- each exposure (credit line/tranche of a security) is classified in one stage only;
- both stage assignment and ECL calculation are defined by considering a single reference forward-looking macroeconomic scenario (the one considered to be most likely and clearly used for other internal purposes by the Bank). The risk parameters of the scenario are corrected by an ad hoc "add-on" that takes into account the presence of non-linear effects in the relationship between the risk parameters themselves and the macroeconomic variables. Indeed, in reality, only rarely there are a direct correlation between the forward-looking macroeconomic trends implicit in the scenario used, on the one hand, and the magnitude of credit losses, on the other, and consequently the impacts of the single scenario identified must be "corrected" by a specific factor ("add on"), which is modelled separately. In the absence of such "correction factor", in other words, the use of a single scenario in the absence of a linear correlation between "scenarios" and "losses" would not be considered to be compliant with the provisions of IFRS 9 which seems to rule out the use of just one reference forward-looking scenario.

The processes for determining such "add on", and the methods for its validation and inclusion in stage assignment and in calculation of the expected loss of the exposures shown in the accounts, are detailed in the following paragraph. Here, we shall only mention that application of the add-on is also determined by means of managerial adjustment, in line with IFRS 9 to limit any benefits arising from its use that are inconsistent with other information available on the future scenarios considered.

For completeness, we provide below a table summarising the key features of the “Most likely scenario + Add-on” approach adopted by the Bank (in line with Intesa Sanpaolo Group decision).

Approach chosen	Stage Assignment	Definition of ECL	Main characteristics
Most likely scenario + Add-on	Each exposure is classified in one stage (1, 2 or 3); the change in credit risk, between the date of initial recognition and the measurement date, is defined by reference to a single forward-looking scenario, (considered to be the most likely), plus a possible add-on in the presence of non-linear correlations.	ECL is calculated by reference to only one forward-looking economic scenario (considered the most likely), to which however a separately modelled adjustment is made (add-on), designed to reflect the effects of other less likely scenarios and the associated non-linear impacts.	This approach is compliant with the standard (by introducing an add-on to account for the impacts of the non-linear correlation between the different forward-looking scenarios and the associated credit losses, as in the case of the ISP Group's portfolios Simpler representation and explanation of impairment dynamics between periods compared to possible alternative solutions.

— DETERMINATION OF FORWARD-LOOKING SCENARIOS

Definition of the Most-likely + Add-on model

To determine value adjustments, the Standard requires consideration of all the information that is available at the reporting date concerning past events, current conditions and forecasts of future economic conditions (“forward-looking”). In particular, to determine expected credit losses (at one year and lifetime), it is necessary to determine “an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes”. To this end, as described earlier, Intesa Sanpaolo adopts an approach (“Most-likely scenario+Add-on”) that starts from the determination of the parameters in a base scenario, considered more plausible (“Most-likely”), to which an adjustment is applied (“Add-on”) to reflect the effects of alternative scenarios and the associated non-linear impacts due to the changes in the macroeconomic variables determined. Indeed, only on occurrence of (i) linear links between scenario and risk parameters and (ii) symmetry of the alternative macroeconomic trends, would the Most-likely scenario alone cover all possibilities.

The “Most-likely scenario+Add-on” approach is consistent with the other projection-based corporate processes since it uses the same baseline macroeconomic scenario as the basis for building the alternative scenarios.

The implementation adopted, which includes calculation of one Add-on at lifetime PD level and one at LGD level, also makes it possible to ensure, for construction, consistency between the parameters used for Staging and those used to calculate ECL. Furthermore, incorporation of the effects of the alternative scenarios at the level of risk parameters makes it possible to assign the exposure to one Stage directly and uniquely and to make one calculation of the corresponding ECL for each exposure.

Definition of the Most-likely macroeconomic scenario

The baseline scenario is built every six months at the following times, unless significant changes require a mid-term update:

- March scenario, which includes largely complete historical data on the previous year and it usually allows significant improvements to the forecasts for the current year, to be used to condition the calculation parameters for preparing the half-year report and the third quarter report;

- September scenario, used to support other corporate processes (i.e. budget, business plan) and to determine other balance sheet parameters (e.g. goodwill), to be used to condition the calculation parameters for preparation of the year-end financial statements and the first quarter report.

The global macroeconomic scenario is designed using a set of stand-alone analytical and forecasting instruments, which determine the forecasting process using certain clusters of variables, specifically:

- countries economic indicators and inflation rate of the top six countries in the Eurozone, of the United States and of Japan;
- official rates (EBC, Fed, BoJ), EUR and USD swap rate curves, some points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;
- some detailed data on the Italian economy (industrial output, employment, public finance balances).

These forecasts are then applied to the multi-country structural model (Global Economic Model) of Oxford Economics, where they replace the forecasts of the baseline scenario provided by the company with the periodic updating of the database. The model is then resolved to obtain a coherent overall forecast, inclusive of variables for which no ad hoc models have been developed, and to have a simulation environment that can be used to generate possible alternative scenarios. This step may require several iterations, especially if the forecast based on internally processed data diverges significantly from the one produced by Oxford Economics. In this case, additional fine-tuning might be required on specific secondary variables that the analysts consider not consistent with the forward-looking scenario or which display an unexplained quarterly volatility.

Definition of alternative paths to calculate Add-on

At the same time intervals used to prepare the Most-likely scenario, alternative paths are identified; they are used as inputs to calculate the Add-on, using the Oxford Economics' Global Model simulation environment. For certain variables, alternative paths to that provided for in the Most-likely scenario are imposed. These are used as the basis to resolve the model in order to obtain coherent simulated paths for the other variables used in the process in question.

The key variables are the following:

- average annual GDP growth rates in certain countries (Italy, United States, Germany, France, Spain and United Kingdom);
- European stock exchange index (DJ Eurostoxx 50);
- US stock exchange index (S&P500);
- price of residential real estate (United States);
- price of residential real estate (Italy).

To select the alternative paths external information is used. More specifically:

- average annual GDP growth rates of certain countries: this is a key driver of the simulation; deviations are determined so as to replicate the dispersion of the growth estimates published by Consensus Economics in the latest report available at the date of the simulation, considering the minimum and maximum forecast (after applying a Grubbs filter to identify and remove any outliers). In the presence of outliers, the abnormal data is removed and the maximum and minimum of the remaining values are considered. Since consensus estimates are available only for the first two years of the simulation timeframe, for the third year an extrapolation is made of the deviations identified for the first two years;
- Stock market indices (DJ Eurostoxx 50, S&P500) and indices of US residential property prices: the minimum and maximum forecast of the Thomson Reuters panel are used;
- Italian residential property prices: since no consensus estimates are currently available, the alternative paths rely on the distribution of past quarterly variations available from 1980 to the current quarter.

For each quarter, the percentile relating to the variation of the quarter present in the Most-likely scenario with respect to the historical

distribution of the changes in the above-mentioned indicators is identified. Starting from the identified percentile value, the variations corresponding to probability deviation $\pm \Delta p$ are identified; they are calculated by means of statistical analysis of the historical distribution of the observations. The new values identified are then used as input to determine the negative Add-on factor (lowest value) and the input for the positive Add-on (highest value). The two changes (positive and negative) compared to the Most-likely scenario, are then used to calculate the level of the individual indices identified, reconstructing, for each, two alternative paths (one positive and one negative) which constitute the input for determining the Add-on factor. The probability deviation adopted is identified on the basis of the variability characteristics of the series, so as to obtain a significantly large deviation from the Most-likely scenario.

When applying the annual changes to the quarterly profile of the variables, each deviation from the annual average is distributed, within that year's forecast quarters, according to a standardised levelling methodology that minimises the overall variability of the variable's profile.

The two sets of alternative variables thus obtained are used as inputs in the above-mentioned Global Model of Oxford Economics, which is then resolved to obtain coherent paths for all the remaining variables and countries. The output of the model consists in two datasets of variables that reflect, through the model's equations, the two shocks applied (respectively adverse and positive). The datasets are checked to detect any excessive quarterly volatility and/or inconsistencies in the path of the secondary variables. If necessary, the results are fine-tuned. From these datasets, another set of variables is extracted; these are the narrower datasets supplied to produce the alternative Add-on scenarios in the next stages of the process.

(ii) Classification of financial assets on the date of initial recognition (transition from IAS 39 to IFRS 9 as of 1st January 2018)

Assets (In €)	IAS 39		IFRS 9									
	Classifi- cation	Carrying Amount	Cash on hand	Cash balances at central banks	Other demand deposits	FVTPL (HFT)	FVTPL (Mandatory)	FVtPL (FVO)	FVTOCI	Amortized cost	Derivatives Hedge accounting	Other assets
Cash on hand		336,602	336,602									
Cash balances at central banks		128,515,237		128,515,237								
Demand deposits with credit institutions	L&R	453,741,733			453,741,733							
Loans & advances	L&R	18,204,613,103								18,186,561,962		
Debt securities	FVTPL	12,254,930						12,254,930				
	AFS	3,169,512,119							3,169,512,119			
	L&R	29,543,648								29,498,545		
Equity instruments	AFS	729,307					729,307					
Consolidated subsidiaries	AFS	211,185							211,185			
Derivatives – Trading	HfT	133,702,824				133,702,824						
Derivatives – Hedge Accounting	HfH	4,986,123									4,986,123	
Other assets		22,372,433										22,372,433
TOTAL		22,160,519,244	336,602	128,515,237	453,741,733	133,702,824	729,307	12,254,930	3,169,723,304	18,216,060,507	4,986,123	22,372,433

Liabilities (In €)	IAS 39		IFRS 9				Derivatives Hedge accounting
	Classifi- cation	Carrying Amount	FVTPL (HFT)	FVTPL (FV0)	Amortized cost		
Deposits	FVTPL	12,124,209		12,124,209			
	AC	8,606,345,370			8,606,345,370		
Debt securities issued	AC	11,011,773,964			11,011,773,964		
Other financial liabilities	AC	38,448			38,448		
Derivatives – Trading	HFT	28,069,191	28,069,191				
Derivatives – Hedge Accounting	HfH	47,694,259					47,694,259
TOTAL		19,706,045,441	28,069,191	12,124,209	19,618,157,782		47,694,259

(iii) **Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown before the effect of mitigation through the use of collateral agreements but after deduction of impairments.

(In €)	MAXIMUM EXPOSURE 2018	MAXIMUM EXPOSURE 2017
Cash and cash balances with central banks	109,032,333	128,851,839
Financial assets held for trading	48,445,482	133,702,824
Financial assets designated at fair value	10,365,456	12,254,930
Financial assets mandatorily measured at FVTPL	789,701	---
Financial assets measured at FVTOCI	2,351,170,517	3,170,452,611
Loans and advances	18,382,338,580	18,687,898,484
Derivatives held for hedging	210,014	4,986,123
Other assets	25,473,149	22,372,433
TOTAL	20,927,825,232	22,160,519,244
Guarantees	479,967,237	383,234,583
Commitments	6,480,805,726	3,734,678,250
TOTAL	6,960,772,963	4,117,912,833

Where financial instruments are recorded at fair value, the amounts shown above represent the maximum risk exposure that could arise in the future as a result of change in values.

For more detail on the maximum credit exposure to credit risk for each class of financial instruments, references shall be made to the specific notes.

(iv) *Credit quality per class of financial assets*

For classification of non-performing exposures in the various risk categories (doubtful loans, substandard exposures and past due exposures), the Bank rules laid down by its ultimate Parent Company.

The table below gives a breakdown by categories of gross financial assets and credit quality (except for cash balances with central banks) before impairment:

In 2018 (In €)	PERFORMING ASSETS	DOUBTFUL ASSETS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL
Financial assets held for trading	48,445,482	---	---	---	48,445,482
Financial assets designated at fair value	10,365,456	---	---	---	10,365,456
Financial assets mandatorily measured at FVTPL	789,701	---	---	---	789,701
Financial assets at FVTOCI	2,351,170,517	---	---	---	2,351,170,517
Loans and advances	18,359,635,371	---	43,891,293	---	18,403,526,664
TOTAL	20,770,406,527	---	43,891,293	---	20,814,297, 820

In 2017 (In €)	PERFORMING ASSETS	DOUBTFUL ASSETS	SUBSTANDARD EXPOSURES	PAST DUE EXPOSURES	TOTAL
Financial assets held for trading	133,702,824	---	---	---	133,702,824
Financial assets at fair value through profit or loss	12,254,930	---	---	---	12,254,930
Available-for-sale financial assets	3,170,452,611	---	---	---	3,170,452,611
Loans and advances	18,687,698,147	443,221	---	---	18,688,141,368
TOTAL	22,004,108,512	443,221	---	---	22,004,551,733

(v) *Credit quality per class of financial assets*

The gross and net exposures of loans and advances are as follows:

As at 31 December 2017 and 2018, there is no credit position that could qualify for loan forbearance as defined by the ESMA (European Security and Market Authority).

In 2018 (In €)	PERFORMING ASSETS	INDIVIDUAL IMPAIRMENT	COLLECTIVE IMPAIRMENT	TOTAL
Performing loans	18,359,852,829	---	(9,402,314)	18,350,450,515
Doubtful loans	---	---	---	---
Unlikely to Pay	43,673,835	(11,785,770)	---	31,888,065
TOTAL	18,403,526,664	(11,785,770)	(9,402,314)	18,382,338,580

In 2017 (In €)	PERFORMING ASSETS	INDIVIDUAL IMPAIRMENT	COLLECTIVE IMPAIRMENT	TOTAL
Performing loans	18,687,698,147	---	---	18,687,698,147
Doubtful loans	443,221	(242,884)	---	200,337
Substandaed exposures	---	---	---	---
Past due exposures	---	---	---	---
TOTAL	18,688,141,368	(242,884)	---	18,687,898,484

(vi) Concentration of risks

In order to avoid a too high concentration of risks, the Bank has to respect the following limit on a permanent basis:

- the total risk exposure toward a single client or group of connected clients must not exceed 25% of the own funds of the Bank.

As at 31 December 2018, the lending limit amounted to EUR 622 million (2017: EUR 469 million) and - except for intergroup operations and one sovereign risk (Government of Italy) - no borrower exceeded this amount. The main exposures relates to 92 borrowers or group of borrowers (2017: 96 borrowers or group of borrowers) with financing between EUR 8 billion and EUR 15 million each (2017: between EUR 10 billion and EUR 13 million).

The Bank produces large exposures reports, which are the main tests of exposure concentration, as they include exposures to individual clients as well as group of counterparties and banking counterparties. They are communicated to the Management on a regular basis.

Following the Bank's request, the CSSF has approved an exemption from including in its calculation of the large risk exposures, in accordance with point 24, part XVI of CSSF circular 06/273 as subsequently amended and article 400.2 of the EU Regulation No 575/2013, the risks to which the Bank is exposed with the Intesa Sanpaolo Group. The exposures on related parties are disclosed in Note 27.

(vii) Geographical allocation of risks

As at 31 December 2018 and 2017, the distribution by geographical area of the risks held in securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(In €)	2018		2017	
	INVESTMENT SECURITIES (FVTOCI, FVTPL)	LOANS AND ADVANCES	SECURITIES (AFS, FVPL)	LOANS AND ADVANCES
Italy	1,271,364,905	11,143,277,724	2,069,565,302	12,761,457,890
USA	---	83,959,305	---	568,489,733
Japan	---	669,239	---	853,938
France	217,423,749	21,544,385	221,989,097	28,676,918
Spain	364,948,047	210,892,051	356,481,518	74,579,236
Luxembourg	97,154,426	1,274,178,524	275,207,929	500,134,018
Belgium	25,159,254	111,446,296	2,738,644	11,074,980
Germany	55,874,337	400,978,818	---	230,753,057
United Kingdom	10,030,655	381,458,938	---	435,696,747
Switzerland	---	161,264,324	---	157,843,706
The Netherlands	52,914,321	828,296,462	31,778,359	1,555,573,713
Poland	---	3,702,743	---	3,777,026
Qatar	---	382,702,947	---	82,514,690
Russia	---	2,203,621,629	---	867,223,287
Croatia	---	507,992	---	1,087,741
Hungary	---	196,411	---	1,599,990
Romania	---	123,286,073	---	131,619,589
Supranational	226,111,159	---	177,993,679	---
Slovenia	---	2,246,663	---	6,298,072
Portugal	---	180,172	---	831,554
South Africa	---	317,060,369	---	161,403,843
Ireland	10,035,944	64,346,535	---	68,406,715
Czech Republic	---	724,067	---	77,441,758
Denmark	---	48,722	11,657,669	932,407
Norway	10,430,116	20,176	15,110,723	508,052
Canada	15,043,319	355,579	15,105,577	231,629
Austria	---	33,750,689	---	4,728,321
Sweden	5,045,741	39,609	5,079,044	584,712
Cyprus	---	157,964,063	---	125,211,844
Azerbaijan	---	264,727,975	---	253,268,973
Other	---	208,890,100	---	575,094,345
TOTAL	2,361,535,973	18,382,338,580	3,182,707,541	18,687,898,484

(In €)	2018		2017	
	GUARANTEES	COMMITMENTS	GUARANTEES	COMMITMENTS
Belgium	106,986,900	400,151,990	---	422,836,905
Cyprus	60,000	25,437,741	---	---
France	70,000	---	74,425	---
Germany	---	127,768,339	262,678	126,497,287
Tunisia	10,000	---	---	---
Austria	---	---	---	40,408,823
Ghana	---	1	---	---
Italy	49,539,078	378,640,497	49,242,513	781,325,024
Luxembourg	46,093,814	496,882,202	36,483,909	283,381,086
The Netherlands	4,403,111	949,634,256	5,026,608	792,264,007
Qatar	---	801,129,228	---	417,909,728
Kuwait	---	131,004,367	---	-
Spain	---	---	---	16,676,395
Monaco	30,000	---	---	---
Switzerland	574,707	38,071,483	548,687	39,813,186
Turkey	15,000	---	14,999	---
USA	7,802,101	192,610,895	7,260,238	166,108,063
United Kingdom	264,342,526	129,327,189	284,280,526	421,442,616
Venezuela	10,000	---	10,000	---
Congo Dem. Republic	30,000	---	30,000	---
South Africa	---	78,338,768	---	188,409,507
Jersey Island	---	---	---	1
Russia	---	2,731,808,770	---	33,379,980
Czech Republic	---	---	---	4,225,642
TOTAL	479,967,237	6,480,805,726	383,234,583	3,734,678,250

Significant concerns about creditworthiness of certain Eurozone countries persisted during the year leading to speculation as to the long-term sustainability of the Eurozone.

The Bank is exposed to such risk mainly through the Italian sovereign debt securities held in its securities portfolio.

MATURING ON	FAIR VALUE (EUR)
2019	224,565,981
2020	174,158,856
2021	49,441,863
2022	181,950,196
2023	155,061,743
2024	121,941,780
2025	78,956,755
2026	47,778,727
2027	48,562,007
2028	72,386,614
TOTAL	1,154,804,522

(viii) Industry sector allocation of risks

As at 31 December 2018 and 2017, the breakdown by industry sector of the risks held in securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(In €)	2018		2017	
	INVESTMENT SECURITIES (FVTPL, FVTOCI)	LOANS AND ADVANCES	SECURITIES (AFS, FVPL)	LOANS AND ADVANCES
Financial institutions	352,553,907	7,991,992,641	371,208,572	9,950,509,001
Public sector	1,998,405,425	312,023,770	2,551,980,739	178,979,082
Other industries	10,576,641	8,159,400,224	259,518,230	7,033,991,073
Individuals	---	1,918,921,945	---	1,524,419,328
TOTAL	2,361,535,973	18,382,338,580	3,182,707,541	18,687,898,484

(In €)	2018		2017	
	GUARANTEES	COMMITMENTS	GUARANTEES	COMMITMENTS
Financial institutions	380,536,858	---	294,054,552	---
Public sector	---	801,129,228	---	417,909,728
Other industries	98,808,926	5,602,145,908	88,516,213	3,192,041,815
Individuals	621,453	77,530,590	663,818	124,726,707
TOTAL	479,967,237	6,480,805,726	383,234,583	3,734,678,250

3.3. LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Bank is able to cover cash outflows with inflows of cash, readily marketable assets and its own capacity to obtain credit. With regards to readily liquid assets in particular, market turmoil may occur which makes their sale or use of guarantee in exchange for funds extremely difficult (or even impossible); from this point of view, the Bank's liquidity is closely tied to the market liquidity conditions (market liquidity risk). The Liquidity Risk Management policy of the Bank is intended to define the guidelines for prudent management of this risk, outlining all the control processes and standards designed to prevent situations of liquidity crisis for the Bank. The Intesa Sanpaolo Group Guidelines for Liquidity Risk Management defines the rules, measurement methodologies, behavioural parameters and quantitative limits for the Bank.

In accordance with the Group guidelines and with the aim of guaranteeing a sufficient and balanced level of liquidity to ensure on-going availability of sufficient funds to meet its day-to-day payment commitments:

- the Bank developed a prudent approach to liquidity management, so as to maintain an overall risk profile at extremely contained levels;
- the liquidity risk management policy is clearly communicated to the whole organisation;
- all the Bank's operational units which carry out activities which have an impact on the liquidity are familiar with the liquidity management strategy and with the corresponding costs and should act within the framework of approved policies and limits;
- the units responsible for managing the liquidity risk operate within the approved limits;
- the Bank maintains a sufficient level of readily liquid assets to enable business-as-usual and overcome the initial stages of any shock to its own liquidity or that of the system.

The Bank also complies with Group regulations that from time to time may be imposed on the Bank as part of the Intesa Sanpaolo Group, such as occasional limitation of the access to the market by concentrating with the Parent Company any excess of liquidity.

As at 31 December 2018, the Liquidity Coverage Ratio of the Bank as defined in the article 416 of EU Regulation No 575/2013 was 193% (2017: 105%).

The tables below present the cash flows payable by the Bank under non-derivative and derivative financial liabilities held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position.

31 ST DECEMBER 2018 IN MILLION €	< 1 MONTH	≥ 1 MONTH < 3 MONTHS	≥ 3 MONTHS < 6 MONTHS	≥ 6 MONTHS < 1 YEAR	≥ 1 YEAR < 2 YEARS	≥ 2 YEARS < 5 YEARS	≥ 5 YEARS	TOTAL
Deposit from central banks	---	---	---	---	---	812	---	812
Financial liabilities at FVTPL and derivatives held for hedging	299	13	4,833	126	163	909	33	6,376
Financial liabilities at fair value through profit or loss	---	1	---	1	3	5	---	10
Financial liabilities measured at amortised cost	3,095	3,682	1,826	2,145	2,948	3,640	216	17,552
TOTAL	3,394	3,696	6,659	2,272	3,114	5,366	249	24,750

31 ST DECEMBER 2017 IN MILLION €	< 1 MONTH	≥ 1 MONTH < 3 MONTHS	≥ 3 MONTHS < 6 MONTHS	≥ 6 MONTHS < 1 YEAR	≥ 1 YEAR < 2 YEARS	≥ 2 YEARS < 5 YEARS	≥ 5 YEARS	TOTAL
Deposit from central banks	---	---	---	---	---	1,314	---	1,314
Financial liabilities held for trading and derivatives held for hedging	298	14	4,835	126	163	909	33	6,378
Financial liabilities at fair value through profit or loss	---	1	---	1	3	7	---	12
Financial liabilities measured at amortised cost	5,233	1,958	1,795	3,354	3,404	2,557	3	18,304
TOTAL	5,531	1,973	6,630	3,481	3,570	4,787	36	26,008

The breakdown by sector of financial liabilities is as follows (in EUR):

2018 (ln €)	GOVERNMENT AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	FINANCIAL INSTITUTIONS	NON- FINANCIAL COMPANIES	OTHER	TOTAL
Deposits from central banks	812,487,716	---	---	---	---	812,487,716
Financial liabilities held for trading and for hedging	---	---	119,445,466	---	16,941,817	136,387,283
Financial liabilities at fair value through profit or loss	---	---	10,240,794	---	---	10,240,794
Financial liabilities measured at amortised cost	---	138,127,304	1,072,688,424	559,660,454	15,781,433,247	17,551,909,429
TOTAL	812,487,716	138,127,304	1,202,374,684	559,660,454	15,798,375,064	18,511,025,222

2017 (ln €)	GOVERNMENT AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	FINANCIAL INSTITUTIONS	NON- FINANCIAL COMPANIES	OTHER	TOTAL
Deposits from central banks	1,314,049,823	---	---	---	---	1,314,049,823
Financial liabilities held for trading and for hedging	---	---	53,304,317	1,653	22,457,480	75,763,450
Financial liabilities at fair value through profit or loss	---	---	12,124,209	---	---	12,124,209
Financial liabilities measured at amortised cost	---	135,864,241	708,297,280	889,218,597	16,570,727,841	18,304,107,959
TOTAL	1,314,049,823	135,864,241	773,725,806	889,220,250	16,593,185,321	19,706,045,441

2018 (ln €)	ZONE EURO	OTHER EUROPEAN COUNTRIES	OTHER	TOTAL
Deposits from central banks	812,487,716	---	---	812,487,716
Financial liabilities held for trading and for hedging	135,730,009	130,193	527,081	136,387,283
Financial liabilities at fair value through profit or loss	10,240,794	---	---	10,240,794
Financial liabilities measured at amortised cost	16,852,491,535	479,158,739	220,259,155	17,551,909,429
TOTAL	17,810,950,054	479,288,932	220,786,236	18,511,025,222

2017 (ln €)	ZONE EURO	OTHER EUROPEAN COUNTRIES	OTHER	TOTAL
Deposits from central banks	1,314,049,823	---	---	1,314,049,823
Financial liabilities held for trading and for hedging	75,287,042	398,668	77,740	75,763,450
Financial liabilities at fair value through profit or loss	12,124,209	---	---	12,124,209
Financial liabilities measured at amortised cost	17,082,893,822	814,809,045	406,405,092	18,304,107,959
TOTAL	18,484,354,896	815,207,713	403,482,832	19,706,045,441

3.4. MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Bank's primary financial instruments comprise money markets assets and liabilities, some cash and liquid resources and various other items that arise directly from its operations.

The Bank enters into derivatives transactions, which are mainly interest rate swaps ("IRS") and forward foreign currency contracts. Those derivatives are held from an economic point of view for the purpose of monitoring the Bank's interest rate risk and currency risk respectively.

The Treasury Department is part of Dealing Room and is responsible for managing the interest rate risk and foreign exchange risk generated within the Bank and for maintaining them within risk limits validated by the Board of Directors of the Bank.

To assess market risk, the Bank has put in place a reporting addressed to the Authorized Management, the Internal Audit, the Financial Markets Division and any other operational service responsible.

The Risk Control Function carries out their own analyses and assessments and the results are communicated periodically to the members of Authorized Management of the Bank, to the Financial Markets Division, to the ALCO Committee and to the Board of Directors, through the Audit Committee.

The Risk Management conducts daily controls of positions in foreign exchange, securities trading and interest rate. The result of these checks and any overruns positions are communicated through a daily report to the Management of the Bank.

The Bank has in place Policies and a manual of procedures for the Treasury department and Risk Management, which describe limits, rules and controls.

Risk measurements

A Value at Risk (VaR) measurement of the proprietary portfolio is computed by the Parent Company Risk Management on a weekly basis and communicated to the Bank Risk Control Function in charge of the analysis.

The VaR model used by the Group and applied to the Bank is based on simulations where calculations of risk is made through the construction of "n" scenarios possible variations compared to the initial value of the risk factors: the scenarios are applied to the initial value of the risk positions in order to estimate the theoretical distribution of profit and loss on which to calculate the VaR at a predetermined percentile.

The approach used for the VaR computation is characterised by:

- a model of historical simulation using the platform Mark-to-Future (Algorithmics);
- a confidence interval of 99-th percentile;
- a considered holding period of 1 day;
- a full revaluation of positions.

A daily VaR limit is fixed at EUR 6.2 million.

3.4.1. INTEREST RATE RISK

Average interest rates

The average effective interest rates on financial instruments by main currencies for the year ended 31 December 2018 and 2017 are as follows:

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
EUR	0.4881%	0.2695%	0.3749%	0.2476%
USD	4.0516%	3.1808%	3.2534%	2.0567%

Interest rate risk is the risk arising from potential changes in interest rates that have an impact on the Bank's assets and liabilities other than those that are present in the trading portfolio.

In general, the interest rate risk is covered as follows:

- concerning client deposits in Euro as well as credit, investment and interbank loans, the Bank generally uses floating rates, which sustain profit margin. Euro bonds that pay fixed rate are hedged by interest rate swaps.
- concerning loan and credit operations held in foreign currencies, the Bank uses a roll over interest rates with a pre-agreed fixed margin.

The interest rate risk is mainly represented by treasury operations which are not perfectly hedged at maturity or risk of maturity transformation.

The interest rate risk is analysed based on the maturity of claims and liabilities, which also gives a measure of average margins and durations for treasury operations in given currencies. In order to optimise treasury activities, a mismatch is authorised either through cash positions, off balance sheet positions short term IRS, FRS or Futures. It is subject to certain limits in terms of interest rate positions, liquidity and concentration of client deposits.

The set of "Shift sensitivity +100bps" limits for the Bank has been approved by the Group Financial Risk Committee and by the Bank Board on 15 December 2017 and updated on July 2018:

Limits	Limit per time bucket		
	Short term	Medium term	Long term
Total	0 - 18 months	18 months - 5 years	> 5 years
+18 / -24 million	+8/-17 million	+8/-14 million	+8/-10 million

In addition a shift sensitivity +100bps limit for USD currency has been introduced and equal to +/- 3.6 million.

In order to measure interest rate risk, the Risk Management Department uses on a daily basis the "shift sensitivity of Fair Value" (EVE) indicator which measures the changes in economic value of a financial portfolio resulting from a parallel shift (+/- 100bps) in the discount curves (yield curve) related to currencies. To calculate the present value, discount curves which are suitable for measuring individual financial instruments are applied. The total value of shift sensitivity is broken down by time bucket (bucket analysis), in order to identify the distribution of risk over the time axis.

At year end, the values of shift sensitivity +/- 100bps (EVE) have been as follows:

Bucket	Shift +100p per bucket	Shift -100p per bucket	Limits
Short term	(6,905,227)	(1,434,769)	+8/-17 mln
Medium term	(460,342)	105,111	+8/-14 mln
Long term	(1,785,786)	1,870,014	+8/-10 mln
TOTAL	(9,151,355)	540,356	+18/-24 mln

At 31 December 2018, the Net Interest Income Sensitivity (NII), which measures the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of +/- 50 bps, over a period of 12 months, has been as follows:

Shift + 50bps	Shift - 50bps
10,592,467	(20,239,216)

The tables below present the financial assets and liabilities by repricing dates. Interest rate sensitive assets and liabilities are classified in the respective categories according to the interest rate repricing dates. For derivatives, the fair value of the instruments is used.

31 st December 2018 (In million €)	< 1 MONTH	≥ 1 MONTH < 3 MONTHS	≥ 3 MONTHS < 6 MONTHS	≥ 6 MONTHS < 1 YEAR	≥ 1 YEAR < 2 YEARS	≥ 2 YEARS < 5 YEARS	≥ 5 YEARS	TOTAL
Cash and cash balances with central banks	109	---	---	---	---	---	---	109
Financial assets held for trading derivatives held for hedging and financial assets mandatorily at FVTPL	---	---	---	---	---	---	49	49
Financial assets at fair value through profit or loss	---	---	---	---	---	10	---	10
Financial assets at FVTOCI	---	50	50	225	313	717	996	2,351
Loans and advances	3,646	4,081	610	2,581	1,102	5,206	1,156	18,382
TOTAL FINANCIAL ASSETS	3,755	4,131	660	2,806	1,415	5,933	2,201	20,901
Deposits from central banks	---	---	---	---	812	---	---	812
Financial liabilities held for trading and derivatives held for hedging	---	---	---	---	---	---	136	136
Financial liabilities at fair value through profit or loss	---	---	---	---	---	10	---	10
Financial liabilities measured at amortised cost	3,095	3,682	1,826	2,145	2,948	3,640	216	17,552
TOTAL FINANCIAL LIABILITIES	3,095	3,682	1,826	2,145	3,760	3,650	352	18,510

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2018, a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR (9,151,355) and EUR 540,356 respectively.

31 st December 2017 (In million €)	< 1 MONTH	≥ 1 MONTH < 3 MONTHS	≥ 3 MONTHS < 6 MONTHS	≥ 6 MONTHS < 1 YEAR	≥ 1 YEAR < 2 YEARS	≥ 2 YEARS < 5 YEARS	≥ 5 YEARS	TOTAL
Cash and cash balances with central banks	129	---	---	---	---	---	---	129
Financial assets held for trading and derivatives held for hedging	25	8	2	6	8	85	---	134
Financial assets at fair value through profit or loss	---	---	---	---	---	12	---	12
Available-for-sale financial assets	20	330	90	401	554	919	856	3,170
Loans and advances	5,720	1,911	376	2,686	3,074	3,835	1,086	18,688
TOTAL FINANCIAL ASSETS	5,894	2,249	468	3,093	3,636	4,851	1,942	22,133
Deposits from central banks	(3)	---	---	501	---	816	---	1,314
Financial liabilities held for trading and derivatives held for hedging	23	1	2	1	1	30	18	76
Financial liabilities at fair value through profit or loss	---	---	---	---	---	12	---	12
Financial liabilities measured at amortised cost	5,233	2,047	1,706	3,354	3,404	2,557	3	18,304
TOTAL FINANCIAL LIABILITIES	5,253	2,048	1,708	3,856	3,405	3,415	21	19,706

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2017, a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR (23,375,992) and EUR 16,923,021 respectively.

3.5. FOREIGN EXCHANGE RATE RISK

Foreign exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Specific limits are set-up based on the open positions in foreign currencies. In particular, for transactions involving derivative instruments, ad hoc limits are established.

As at 31 December 2018 and 2017, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR):

31 st December 2018 (In €)	EUR	USD	OTHER	TOTAL
Cash and cash balances with central banks	109,018,906	5,917	7,510	109,032,333
Financial assets at fair value through profit or loss and held for trading	789,701	41,561,416	17,249,522	59,600,639
Financial assets at FVTOCI	2,351,170,517	---	---	2,351,170,517
Loans and advances	15,798,612,329	2,457,647,095	126,079,156	18,382,338,580
TOTAL FINANCIAL ASSETS	18,259,591,453	2,499,214,428	143,336,188	20,902,142,069

Deposits from central banks	812,487,716	---	---	812,487,716
Financial liabilities held for trading and held for hedging	69,947,022	57,906,471	8,533,790	136,387,283
Financial liabilities at fair value through profit or loss	---	---	10,240,794	10,240,794
Financial liabilities measured at amortised cost	16,611,292,787	789,547,469	151,069,173	17,551,909,429
TOTAL FINANCIAL LIABILITIES	17,493,727,525	847,453,940	169,843,757	18,511,025,222

31 st December 2017 (In €)	EUR	USD	OTHER	TOTAL
Cash and cash balances with central banks	128,839,224	5,271	7,344	128,851,839
Financial assets at fair value through profit or loss and held for trading	---	123,961,304	21,996,450	145,957,754
Available-for-sale financial assets	3,170,452,611	---	---	3,170,452,611
Loans and advances	15,438,154,188	2,765,165,784	484,578,512	18,687,898,484
TOTAL FINANCIAL ASSETS	18,737,446,023	2,889,132,359	506,582,306	22,133,160,688

Deposits from central banks	1,314,049,823	---	---	1,314,049,823
Financial liabilities held for trading and held for hedging	50,039,063	15,536,705	10,187,682	75,763,450
Financial liabilities at fair value through profit or loss	---	---	12,124,209	12,124,209
Financial liabilities measured at amortised cost	16,910,968,612	944,429,225	448,710,122	18,304,107,959
TOTAL FINANCIAL LIABILITIES	18,275,057,498	959,965,930	471,022,013	19,706,045,441

3.6. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

3.6.1. REGULATORY CAPITAL

The Bank is required to comply with the Luxembourg prudential regulations that transpose the European Directive on "Capital adequacy for credit institutions" into national law.

During the past years the Bank has complied with its entire externally imposed capital requirement.

The Bank regulatory capital is determined in compliance with CSSF circulars, which adopted the Basel III capital requirements with effect from 1 January 2014.

The Bank regulatory capital consists of the sum of the following elements:

- TIER 1 capital (all qualifies as Common Equity TIER 1 – CET 1 – capital), which includes ordinary share capital, related share premiums, retained earnings, reserves and NCI after adjustment for foreseeable dividends and deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes;
- Tier 2 capital, which includes qualifying subordinated liabilities and certain provisions for loans losses that are presently unidentified on an individual basis.

Banking operations are categorised as either trading book or non-trading book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying level of risk attached to assets and exposures not recognised in the statement of financial position.

The Bank's aim is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's regulatory position under Basel III at 31 December 2018, excluding income for the current year, is as follows:

(In €)	2018	2017
TIER 1 CAPITAL		
Ordinary share capital	1,389,370,555	989,370,720
Share premium	7,720,692	7,720,692
Other reserves and retained earnings less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital Others deductions	895,709,492	894,906,708
Others deductions	(23,400,273)	(15,715,876)
TOTAL TIER 1	2,269,400,466	1,876,282,244
TIER 2 CAPITAL		
General credit risk adjustments	---	---
General credit risk adjustments	200,000,000	---
TOTAL TIER 2	200,000,000	---
TOTAL OWN FUND ELLIGIBLE FOR SOLVENCY PURPOSES	2,469,400,466	1,876,282,244

3.6.2. CAPITAL REQUIREMENTS AND RISK WEIGHTS

The following table summarises the risks broken down by Basel regulatory class. These risks serve as a reference for calculating the solvency ratio of the Bank within the framework of regulatory reports filed with the CSSF.

(In €)	2018	2017
	AMOUNT OF RISK WEIGHTED ASSETS	AMOUNT OF RISK WEIGHTED ASSETS
CREDIT AND COUNTERPARTY RISK	9,065,433,489	8,835,057,975
Central governments and central banks	57,439,997	18,794,470
International organizations	---	3,353,595
Corporates	5,036,477,865	3,730,980,831
Institutions	3,767,875,731	4,817,679,218
Retail	2,428,184	2,236,045
Exposures in default	33,385	180,194
Equity exposures	35,724,886	33,175,689
Other items	37,407,503	56,640,916
Covered bonds	86,215,772	139,063,230
Collective investments undertakings (CIU)	41,830,166	32,953,787
MARKET RISK	---	---
OPERATIONAL RISK	351,189,200	387,180,026
CREDIT VALUATION ADJUSTMENT	5,382,489	8,207,856
TOTAL RISK WEIGHTED ASSETS AND CAPITAL REQUIREMENTS	9,422,005,178	9,230,445,857
<i>TIER 1 capital ratio</i>	24.09%	20.33%
<i>Total capital ratio</i>	26.21%	20.33%

3.6.3. CAPITAL ADEQUACY

Under the European regulation transposed into national law by the CSSF circulars as amended, the Bank is required to comply with the regulatory ratios at all times meaning minimum common equity capital ratio at least equal to 4.5%, a minimum TIER 1 Capital ratio at least equal to 6% and a minimum Total Capital plus Conservation buffer of 10.5%.

As at 31 December 2018, the solvency ratio of the Bank is 26.21% (2017: 20.33%), above the regulatory limit of 8% and above the regulatory limit including conservation buffer limit of 10.5%. Over the year 2018, the higher solvency ratio amounted to 26.21% (December) and the lower amounted to 19.76% (March).

3.6.4. CAPITAL MANAGEMENT AND PLANNING

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise the shareholder value.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. No changes have been made to the objectives, policies and processes from the previous years.

As part of the internal assessment process for its capital adequacy (relative to Basel III Pillar 2), the Bank considers that the Pillar 1 risks (credit, market and operational risks) are sufficiently covered by the regulatory capital under Pillar 1 as at 31 December 2018 and going forward.

3.6.5. THE ICAAP (INTERNAL CAPITAL ASSESSMENT PROCESS)

The second Pillar of Basel III capital framework describes how supervisory authorities and the Bank can effectively assess the appropriate level of regulatory capital. This assessment must cover all risks incurred by the Bank, their sensitivity to crises scenarios and how they are expected to evolve in light of development projects.

This internal assessment system is regularly integrated into the Bank's decision-making and the management processes and supported, where appropriate, by impact analyses of crises scenarios on business plans and by models that reflect concentrations and diversifications in an economic manner.

3.7. OPERATIONAL RISK

The operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk.

Segregation of duties, internal procedures, and technological systems in force mitigate the risk of losses due to errors or inadequacies.

3.8. DERIVATIVE FINANCIAL INSTRUMENTS

During 2018 and 2017, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.

As at 31 December 2018 and 2017, the notional amount and fair value of the derivatives held for trading are as follows (in EUR):

(In €)	2018		2017	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
ASSETS				
Interest rate instruments	---	---	---	---
Currency instruments	2,846,361,067	48,445,482	3,985,832,987	133,702,824
	2,846,361,067	48,445,482	3,985,832,987	133,702,824
LIABILITIES				
Interest rate instruments	65,000,000	1,464,664	75,000,000	2,344,804
Currency instruments	3,410,238,045	65,878,843	2,654,612,861	25,724,387
	3,475,238,045	67,343,507	2,729,612,861	28,069,191

As mentioned in Note 2, as far as interest rate risk is concerned, only fair value hedge is applied by the Bank.

3.9. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The following table summarises the carrying amounts and fair values of financial assets and liabilities measured at amortised cost (excluding cash balances with central banks) in the statement of financial position (in millions of EUR):

(In €)	CARRYING AMOUNT		FAIR VALUE	
	2018	2017	2018	2017
ASSETS				
Loans and advances	18,382	18,688	18,398	18,696
LIABILITIES				
Financial liabilities measured at amortised cost	17,552	18,304	18,224	19,664

The fair value of the financial assets and liabilities corresponds to the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of financial assets and financial liabilities measured at amortised cost have been determined through the present value of future cash flows: the value of a financial instrument held to maturity at the year-end analysis is equal to the sum at that date of all the discounted cash inflows and outflows expected.

The cash flows are discounted with reference to the zero-coupon curve associated with currency in which the instrument is denominated and translated, where applicable, to the reference currency using the exchange rate applying on the analysis date.

3.9.1. FAIR VALUE HIERARCHY

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

(i) Valuation models

As at 31 December 2018 and 2017, the Bank uses the following fair value hierarchy for determining and disclosing the fair value of financial instruments, which reflects the significance of the inputs used in making the measurements:

Level 1: inputs that are quoted prices (unadjusted) in active markets for identical assets and liabilities. This level includes listed equity securities and debt instruments on exchanges (for example: London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchanges traded derivatives like futures (for example: Nasdaq, S&P 500).

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchanged-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(ii) Valuation framework

The Bank has adopted and applied a specific policy issued by the Group, denominated "Fair Value Policy", which states principles and methodologies to calculate financial instruments fair value.

In relation to controls and procedures put in place concerning valuation framework, please refer to Note 3.d "Market risk".

(iii) Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at year-end, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

31 December 2018 (In €)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)				
Financial assets held for trading	---	48,445,482	---	48,445,482
Financial assets mandatorily measured at fair value	789,701	---	---	789,701
Financial assets designated at fair value	---	10,365,456	---	10,365,456
FINANCIAL ASSETS MEASURED AT FVTOCI				
Equity instruments (other than investments in subsidiaries)	---	211,185	---	211,185
Debt instruments	2,350,959,332	---	---	2,350,959,332
DERIVATIVES HELD FOR HEDGING	---	210,014	---	210,014
TOTAL FINANCIAL ASSETS	2,351,749,033	59,232,137	---	2,410,981,170
FINANCIAL LIABILITIES HELD FOR TRADING				
Derivatives held for trading	---	67,343,507	---	67,343,507
Short positions	---	---	---	---
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	---	10,240,794	---	10,240,794
DERIVATIVES HELD FOR HEDGING	---	69,043,776	---	69,043,776
TOTAL FINANCIAL LIABILITIES	---	146,628,077	---	146,628,077

31 December 2017 (In €)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FINANCIAL ASSETS HELD FOR TRADING				
Derivatives held for trading	---	133,702,824	---	133,702,824
Equity instruments	---	---	---	---
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Debt instruments	---	12,254,930	---	12,254,930
AVAILABLE-FOR-SALE FINANCIAL ASSETS	---	---	---	---
Equity instruments (other than investments in subsidiaries)	729,306	211,185	---	940,491
Debt instruments	3,169,512,120	---	---	3,169,512,120
DERIVATIVES HELD FOR HEDGING	---	4,986,123	---	4,986,123
TOTAL FINANCIAL ASSETS	3,170,241,426	151,155,062	---	3,321,396,488
FINANCIAL LIABILITIES HELD FOR TRADING				
Derivatives held for trading	---	28,069,191	---	28,069,191
Short positions	---	---	---	---
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	---	12,124,209	---	12,124,209
DERIVATIVES HELD FOR HEDGING	---	47,694,259	---	47,694,259
TOTAL FINANCIAL LIABILITIES	---	87,887,659	---	87,887,659

During the reporting years ending 31 December 2018 and 31 December 2017, there were no transfers between Level 1 and Level 2 categories, and no transfers into and out of Level 3 category.

3.9. OPERATING SEGMENTS

The Bank has four reportable operating segments which are the Bank's strategic divisions. The Bank's Management reviews the divisions internal management reports on a monthly basis while the Bank's Board of Directors reviews these internal management reports on a quarterly basis.

Alongside these strategic divisions the Bank has also governance and administration divisions. The strategic divisions include: the Corporate Banking division which operates on loans, deposits, securities trading and other transactions with corporate customers.

The Wealth Management division operates on loans, deposits, securities trading and other transactions with private customers. The Financial Markets division undertakes the Bank's funding and centralised risk management activities through borrowings, issue of debt securities, use of derivatives for risk management purposes and investing in debt or equity securities.

2018 RESULTS BY STRATEGIC DIVISIONS (In £ '000)	CORPORATE & FINANCIAL INSTITUTIONS	WEALTH MANAGEMENT	FINANCIAL MARKETS	OTHERS FINANCIAL INSTITUTIONS	GOVERNANCE	TOTAL REVENUES
Net interest margin	67,837	1,981	84,576	(11,383)	---	143,011
Dividends	---	620	52	---	---	672
Net commission margin	29,590	4,238	8,607	101	---	42,536
Net trading income	2,121	476	(36,580)	(858)	---	(34,841)
Net other expenses	(137)	(270)	(46)	(2,404)	---	(2,857)
Impairment on financial assets	(4,027)	(79)	1,413	76	---	(2,617)
TOTAL AREA RESULTS	95,384	6,966	58,022	(14,468)	---	145,904
Depreciation	---	---	---	---	(960)	(960)
Provision	---	---	---	---	179	179
Staff and operating expenses	---	---	---	---	(38,841)	(38,841)
Tax expenses	---	---	---	---	(2,285)	(2,285)
TOTAL OPERATING & EXTRAORDINARY EXPENSES	---	---	---	---	(41,907)	(41,907)
RESULTS FOR THE YEAR						103,997

2017 RESULTS BY STRATEGIC DIVISIONS (In £ '000)	CORPORATE & FINANCIAL INSTITUTIONS	WEALTH MANAGEMENT	FINANCIAL MARKETS	OTHERS FINANCIAL INSTITUTIONS	GOVERNANCE	TOTAL REVENUES
Net interest margin	51,311	560	87,123	(3,267)	---	135,727
Dividends	---	540	46	---	---	586
Net commission margin	40,494	3,960	6,453	102	---	51,009
Net trading income	(6,111)	294	(4,187)	5,759	---	(4,245)
Net other operating expenses	55	(43)	(1,263)	(4,674)	---	(5,926)
Impairment on financial assets	36	(12)	---	75	---	99
TOTAL AREA RESULTS	85,785	5,298	88,172	(2,005)	---	177,250
Depreciation	---	---	---	---	(459)	(459)
Provision	---	---	---	---	---	---
Staff and operating expenses	---	---	---	---	(38,271)	(38,271)
Tax expenses	---	---	---	---	(3,047)	(3,047)
TOTAL OPERATING & EXTRAORDINARY EXPENSES	---	---	---	---	(41,777)	(41,777)
RESULTS FOR THE YEAR						135,474

2018 ASSETS BY STRATEGIC DIVISIONS (In € '000)	CORPORATE & FINANCIAL INSTITUTIONS	WEALTH MANAGEMENT	FINANCIAL MARKETS	OTHERS FINANCIAL INSTITUTIONS	TOTAL
Cash and cash balances with central banks	---	---	108,551	481	109,032
Financial assets held for trading	---	83	47,197	1,165	48,445
Financial assets designated at fair value through profit or loss	---	---	10,365	---	10,365
Financial assets mandatorily measured at fair value	---	---	790	---	790
Financial assets measured at FVTOCI	---	---	2,350,960	211	2,351,171
Loans and advances	10,390,228	22,442	6,217,547	1,752,122	18,382,339
<i>Loans and advances to credit institutions</i>	<i>53,630</i>	<i>---</i>	<i>6,216,349</i>	<i>1,722,014</i>	<i>7,991,993</i>
<i>Loans and advances to customers</i>	<i>10,336,598</i>	<i>22,442</i>	<i>1,198</i>	<i>30,108</i>	<i>10,390,346</i>
Derivatives held for hedging	---	---	210	---	210
Tangible fixed assets	236	---	---	546	782
Intangible assets	---	---	---	2	2
Tax assets	6,202	---	---	22,976	29,178
Other assets	3,335	179	1,970	19,989	25,473
TOTAL ASSETS	10,400,001	22,704	8,737,590	1,797,492	20,957,787

2017 ASSETS BY STRATEGIC DIVISIONS (In € '000)	CORPORATE & FINANCIAL INSTITUTIONS	WEALTH MANAGEMENT	FINANCIAL MARKETS	OTHERS FINANCIAL INSTITUTIONS	TOTAL
Cash and cash balances with central banks	1,682	(1)	126,834	337	128,852
Financial assets held for trading	---	450	130,162	3,091	133,703
Financial assets designated at fair value through profit or loss	---	---	12,255	---	12,255
Available-for-sale financial assets	---	---	3,170,242	211	3,170,453
Loans and advances	8,693,678	15,426	8,077,012	1,901,782	18,687,898
<i>Loans and advances to credit institutions</i>	<i>3,111</i>	<i>---</i>	<i>8,075,756</i>	<i>1,871,642</i>	<i>9,950,509</i>
<i>Loans and advances to customers</i>	<i>8,690,567</i>	<i>15,426</i>	<i>1,256</i>	<i>30,140</i>	<i>8,737,389</i>
Derivatives held for hedging	513	---	3,954	519	4,986
Tangible fixed assets	304	---	---	32,510	32,814
Intangible assets	---	---	---	3	3
Current tax assets	1,821	---	---	---	1,821
Deferred tax assets	---	---	---	7,515	7,515
Other assets	3,241	397	1,484	17,250	22,372
TOTAL ASSETS	8,701,239	16,273	11,521,943	1,963,216	22,202,672

2018 LIABILITIES & EQUITY BY STRATEGIC DIVISION (In € '000)	CORPORATE & FINANCIAL INSTITUTIONS	WEALTH MANAGEMENT	FINANCIAL MARKETS	OTHERS FINANCIAL INSTITUTIONS	TOTAL
LIABILITIES					
Deposits from central banks	---	---	812,488	---	812,488
Financial liabilities held for trading	---	735	66,608	---	67,343
Financial liabilities designated at fair value through profit or loss	10,241	---	---	---	10,241
Financial liabilities measured at amortised cost	3,804,691	798,171	12,704,919	244,128	17,551,909
<i>Deposits from credit institutions</i>	<i>65,441</i>	<i>---</i>	<i>967,552</i>	<i>39,695</i>	<i>1,072,688</i>
<i>Deposits from customers</i>	<i>3,736,327</i>	<i>798,171</i>	<i>1,557,429</i>	<i>203,856</i>	<i>6,295,783</i>
<i>Debts evidenced by certificates</i>	<i>2,923</i>	<i>---</i>	<i>10,179,938</i>	<i>577</i>	<i>10,183,438</i>
Derivatives held for hedging	---	---	68,482	562	69,044
Tax liabilities	1,277	48	8	1,727	3,060
Other liabilities	9,175	---	---	3,176	12,351
Total liabilities	7,394	151	1,560	40,024	49,129
TOTAL LIABILITIES	3,832,778	799,105	13,654,065	289,617	18,575,565
EQUITY					
Share capital and share premium	---	---	---	1,397,091	1,397,091
Revaluation reserve	---	---	(40,545)	---	(40,545)
Other reserves and retained earnings	399	273	6,241	914,766	921,679
Net profit for the year	159,463	769	(63,007)	6,772	103,997
TOTAL EQUITY	159,862	1,042	(97,311)	2,318,629	2,382,222
TOTAL LIABILITIES AND EQUITY	3,992,640	800,147	13,556,754	2,608,426	20,957,787

2017 LIABILITIES & EQUITY BY STRATEGIC DIVISION (In € '000)	CORPORATE & FINANCIAL INSTITUTIONS	WEALTH MANAGEMENT	FINANCIAL MARKETS	OTHERS FINANCIAL INSTITUTIONS	TOTAL
LIABILITIES					
Deposits from central banks	---	---	1,314,050	---	1,314,050
Financial liabilities held for trading	---	162	27,907	---	28,069
Financial liabilities designated at fair value through profit or loss	12,124	---	---	---	12,124
Financial liabilities measured at amortised cost	4,165,302	918,967	13,184,382	35,457	18,304,108
<i>Deposits from credit institutions</i>	<i>58,216</i>	<i>---</i>	<i>617,389</i>	<i>32,692</i>	<i>708,297</i>
<i>Deposits from customers</i>	<i>4,103,788</i>	<i>918,967</i>	<i>1,559,066</i>	<i>2,215</i>	<i>6,584,037</i>
<i>Debts evidenced by certificates</i>	<i>3,298</i>	<i>---</i>	<i>11,007,926</i>	<i>550</i>	<i>11,011,774</i>
Derivatives held for hedging	---	---	47,694	---	47,694
Provisions	23	---	---	1,656	1,679
Current tax liabilities	4,531	---	---	---	4,531
Deferred tax liabilities	---	---	---	15,606	15,606
Other liabilities	6,069	176	1,179	37,231	44,656
TOTAL LIABILITIES	4,188,049	919,305	14,575,211	89,951	19,772,517
EQUITY					
Share capital and share premium	---	---	---	1,397,092	1,397,092
Revaluation reserve	---	---	28,190	(7,634)	20,556
Other reserves and retained earnings	399	273	6,241	870,121	877,034
Net profit for the year	139,193	2,036	(17,789)	12,034	135,474
TOTAL EQUITY	139,592	2,309	16,642	2,271,613	2,430,156
TOTAL LIABILITIES AND EQUITY	4,327,641	921,614	14,591,853	2,361,564	22,202,672

3.10. RETURN ON ASSETS ("ROA")

The Bank return on asset is as follow:

(In €)	2018	2017
Total assets	20,957,787,120	22,202,672,246
Net profit for the year	103,997,153	135,474,318
RETURN ON ASSETS	0.50%	0.61%

3.11. PILLAR III DISCLOSURES REQUIREMENTS

As part of Intesa Sanpaolo Group, proper Pillar III disclosures are provided in a dedicated and specific document the Parent Company elaborates and publishes on a quarterly basis on its web site.

The document, denominated "Third pillar of Basel 2 and Basel 3 ("Pillar 3")" is available at the following web address:
"http://www.group.intesasanpaolo.com/scripts/sir0/si09/governance/eng_terzo_pilastro_basilea.jsp"

3.11.1. THE ICAAP (INTERNAL CAPITAL ASSESSMENT PROCESS)

The revised disclosure requirements will enable market participants to better compare banks' disclosures of risk-weighted assets. The revisions notably focus on improving the transparency of the internal model-based approaches that banks use to calculate minimum regulatory capital requirements. This assessment must cover all risks incurred by the Bank, their sensitivity to crises scenarios and how they are expected to evolve in light of development projects.

This internal assessment system is regularly integrated into the Bank's decision-making and the management processes and supported, where appropriate, by impact analyses of crises scenarios on business plans and by models that reflect concentrations and diversifications in an economic manner.

NOTE 4 – CASH AND CASH EQUIVALENTS MEASURED AT AMORTIZED COST

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(In €)	2018	2017
	NET CARRYING AMOUNT	NET CARRYING AMOUNT
Cash and cash balances with central banks	109,032,333	128,851,839
Loans and advances to credit institutions with maturity ≤ 3 months	4,158,192,064	3,745,383,487
TOTAL	4,267,224,397	3,874,235,326

In accordance with the requirements of the European Central Bank, the Luxembourg Central Bank implemented effective on 1 January 1999, a system of mandatory minimum reserves applicable to all Luxembourg credit institutions. The amount outstanding as at 31 December 2018 is EUR 105,999,996 (2017: EUR 126,833,521).

Concerning the branch of the Bank in Amsterdam, the mandatory reserve as at 31 December 2018 at De Nederlandsche Bank amounts to EUR 2,551,806 (2017: EUR 1,681,716).

NOTE 5 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (“FVTPL”)

(In €)	2018	2017
	NET CARRYING AMOUNT	NET CARRYING AMOUNT
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (“FVTPL”)	48,445,482	133,702,824
Derivatives held for trading	48,445,482	133,702,824
INVESTMENT SECURITIES MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (“FVTPL”)	789,701	---
Mutual funds shares	282,637	-
Securities	507,064	-
TOTAL	49,235,183	133,702,824
INVESTMENT SECURITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (“FVTPL”)		
Securities	10,365,456	12,254,930
TOTAL	10,365,456	12,254,930

As at 31 December 2018, the position designated as at fair value through profit or loss is represented by a unique structured corporate bond issued in JPY, maturing in February 2021, and funded by a deposit in the same currency from the Bank's ultimate Parent Company. Designation at FVTPL eliminates accounting mismatches.

Please refer to Note 3 for a reconciliation between IAS 39 and IFRS 9 financial assets presentation.

NOTE 6 – FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at end of the year, investment securities measured at Fair Value through Other Comprehensive Income portfolio was composed as follows:

Financial assets measured at Fair Value through Other Comprehensive Income with recycling:

(In €)	2018	2017
	NET CARRYING AMOUNT	NET CARRYING AMOUNT
QUOTED DEBT INSTRUMENTS ISSUED BY		
Financial institutions	352,553,907	370,479,266
Public sector	1,998,405,425	2,551,980,738
Other	---	247,052,116
TOTAL	2,350,959,332	3,169,512,120

In 2017 those investments were classified as available-for-sale securities. Please refer to Note 3 for a reconciliation between IAS 39 and IFRS 9 financial assets presentation. There has been no reclassification during the year affecting the above mentioned portfolios.

The Luxembourg Central Bank's long-term refinancing operation (LTRO) is a process by which the Luxembourg Central Bank provides financing to local banks in exchange of a deposit with the former of eligible bonds as collateral for that purposes.

The Bank started participating in the program in 2012, obtaining a financing of EUR 1,200,000, maturing in 2015. As at the end of 2014, the LTRO transactions were again available by auctions and the Bank decided to participate obtaining a new financing for an amount of EUR 90,000,000 maturing in 2018, which has been increased by EUR 500,000,000 during 2015 reaching the total amount of EUR 591,259,790 as at end of December 2015.

During 2016, EUR 90,000,000 has been reimbursed and a new TLTRO mechanism has been subscribed for an amount equal to EUR 821,440,000.

The last deposit received has been hedged entering in a hedge accounting relationship where an Interest Rate Swap has been used as hedging instrument: as a consequence of the hedge accounting, the TLTRO mechanism carrying amount of EUR 813,079,566 (of which negative accrued interests amount to EUR 8,360,434) as at 31 December 2018 has been adjusted for a negative amount equal to EUR 591,850 (NPV adjustment).

During 2018, the TLTRO deposit amounting to EUR 500,000,000 has been reimbursed.

The last deposit still alive is collateralised by eligible securities for an amount of EUR 872,657,341.

Financial assets measured at Fair Value through Other Comprehensive Income without recycling:

As at 31 December 2017 the Bank holds shares issued by Intesa Sanpaolo S.p.A. for an amount of EUR 729,306, bought by the Bank at end 2014, to be distributed to the Bank employees in respect of a plan developed by the Parent Company.

At 1 January 2018 the Bank designated the investment in Intesa Sanpaolo S.p.A. shares as investment security mandatorily measured at FVTPL. Please refer to Note 3 for a reconciliation between IAS 39 and IFRS 9 financial assets presentation. There has been no reclassification during the year affecting the above mentioned portfolios.

(In €)	2018	2017
	NET CARRYING AMOUNT	NET CARRYING AMOUNT
QUOTED AND NOT QUOTED SHARES ISSUED BY		
Shares – Intesa Sanpaolo S.p.A.	---	729,306
Corporates	211,185	211,185
TOTAL	211,185	940,491

As at 31 December 2018, shares in affiliated undertakings, which are classified in this category, where the Bank held at least 20% are as follows:

Company	REGISTERED OFFICE	PERCENTAGE OWNED	NET EQUITY (IN EUR)*	OF WHICH PROFIT OF THE YEAR (IN EUR)*
Lux Gest Asset Management S.A.	Luxembourg	100%	431,158	105,855

* Based on unaudited figures.

At 1 January 2018, the Bank designated the investment shown in the table above as equity security as at FVTOCI. In 2017, that investment was classified as available-for-sale and measured at cost. The FVTOCI designation was made because the investment is expected to be held for the long term for strategic purposes.

Equity instruments elected to present changes in value in other comprehensive income will never recycle to profit or loss, even in the event of disposal of the financial instrument (Financial assets measured at fair value through other comprehensive income without "recycling").

The below table describes the movements on the revaluation reserve related to the investment securities measured at OCI per type of securities:

(In €)	FIXED INC. SECURITIES	FLOATING INC. SECURITIES	EQUITY SECURITIES	TOTAL
BALANCE AS AT 31 DECEMBER 2017	2,371,077	204,590	104,889	2,680,556
IFRS 9 - FTA	640,628	179,292	(104,889)	715,031
BALANCE AS AT 01 JANUARY 2018	3,011,705	383,882	---	3,395,587
Increase (decrease) of unrealised gain	(4,443,214)	(249,150)	---	(4,692,364)
(Increase) decrease of unrealised gain	(2,904,779)	(681,302)	---	(3,586,081)
Amount reclassified from equity to profit or loss for the period	(2,143,945)	(413,218)	---	(2,557,163)
Unrealised fair value gain made on assets bought during the year	(37,546,007)	(10,576,551)	---	(48,122,558)
Loss allowance movement	(69,084)	(112,001)	---	(181,085)
Deferred taxes	12,112,349	3,085,949	---	15,198,298
BALANCE AS AT 31 DECEMBER 2018	(31,982,975)	(8,562,391)	---	(40,545,366)

NOTE 7 – LOANS AND ADVANCES

(In €)	2018		2017	
	NET CARRYING AMOUNT	OF WHICH: IMPAIRMENT	NET CARRYING AMOUNT	OF WHICH: IMPAIRMENT
Unquoted loans and advances to:				
Financial institutions and public sector	8,304,016,411	3,871,909	10,129,488,083	----
Private customers	1,918,921,945	118,145	1,524,419,328	2,784
Corporate customers	8,159,400,224	17,198,030	7,033,991,073	240,100
TOTAL	18,382,338,580	21,188,084	18,687,898,484	242,884

7.1. IMPAIRMENT ALLOWANCE FOR LOANS AND ADVANCES

As at 31 December 2018, the Bank has determined its individual impairment at EUR 11,785,770 (2017: EUR 242,884) and a collective provision amounting to EUR 9,402,314.

A reconciliation of the allowance for impairment losses for loans and advances is as follows (in EUR):

(In €)	2018	2017
Impairment as at 1 st January	242,884	10,945,932
Charge of the year/Transfers	36,244,149	47,054
Recoveries/amounts written off	(15,298,949)	(10,750,102)
IMPAIRMENT AS AT 31 DECEMBER	21,188,084	242,884
of which:		
Individual impairment	11,785,770	242,884
Collective impairment	9,402,314	---

Please refer to Note 3 for a presentation of the reconciliation between IAS 39 and IFRS 9 on opening balances as at 1st January 2018. There has been no reclassification during the year affecting the Loans and advances portfolio.

7.2. GUARANTEES RECEIVED AS COLLATERAL

Loans and advances are secured by the following guarantees received by the Bank:

(In €)	2018		2017	
	LOANS AND ADVANCES TO CUSTOMERS	LOANS AND ADVANCES TO CREDIT INSTITUTIONS	LOANS AND ADVANCES TO CUSTOMERS	LOANS AND ADVANCES TO CREDIT INSTITUTIONS
NET CARRYING AMOUNTS	10,390,345,939	7,991,992,641	8,737,389,483	9,950,509,001
REAL GUARANTEES				
Mortgage	---	---	---	---
Securities	5,210,387	---	2,067,224	---
Other real guarantees	2,576,932,145	45,294,306	2,924,717,900	45,000,000
OTHER GUARANTEES				
Government guarantees	1,698,890,101	---	853,008,314	---
Credit institutions guarantees	929,812,227	---	38,959,143	---
TOTAL GUARANTEES	5,210,844,860	45,294,306	3,818,752,581	45,000,000

NOTE 8 – PROPERTY AND EQUIPMENT

(In €)	LAND & BUILDING	OFFICE EQUIPMENT	OTHER EQUIPMENT	TOTAL
CARRYING VALUE BEFORE DEPRECIATION AS AT 1ST JANUARY 2018	49,550,706	1,551,678	8,141,863	59,244,247
Additions	---	23,532	326,478	350,010
Disposals/Transfers	(49,340,075)	(155,436)	(5,776,655)	(55,272,166)
Cost as at 31 December 2018	210,631	1,419,774	2,038,730	3,669,135
Accumulated depreciation as at 1 st January 2018	(17,841,212)	(1,349,408)	(7,239,486)	(26,430,106)
Depreciation charge	(883,845)	(40,500)	(35,350)	(959,695)
Depreciation reversal	18,569,966	155,436	5,777,655	24,503,057
Accumulated depreciation as at 31 December 2018	(155,091)	(1,234,472)	(1,497,181)	(2,886,744)
NET CARRYING AMOUNT AS AT 31 DECEMBER 2018	55,540	185,302	541,549	782,391
Revaluations	---	---	---	---
REVALUED NET CARRYING AMOUNT AS AT 31 DECEMBER 2018	55,540	185,302	541,549	782,391

(In €)	LAND & BUILDING	OFFICE EQUIPMENT	OTHER EQUIPMENT	TOTAL
CARRYING VALUE BEFORE DEPRECIATION AS AT 1ST JANUARY 2017	25,079,718	1,555,024	7,761,730	34,396,472
Additions	122,651	157,604	285,444	565,699
Disposals/Transfers	(165,198)	(160,950)	94,689	(231,459)
Cost as at 31 December 2017	25,037,171	1,551,678	8,141,863	34,730,712
Accumulated depreciation as at 1 st January 2017	(17,628,113)	(1,477,584)	(7,098,446)	(26,204,143)
Depreciation charge	(378,297)	(32,774)	(46,351)	(457,422)
Depreciation reversal	165,198	160,950	(94,689)	231,459
Accumulated depreciation as at 31 December 2017	(17,841,212)	(1,349,408)	(7,239,486)	(26,430,106)
NET CARRYING AMOUNT AS AT 31 DECEMBER 2017	7,195,959	202,270	902,377	8,300,606
Revaluations	24,513,535	---	---	24,513,535
REVALUED NET CARRYING AMOUNT AS AT 31 DECEMBER 2017	31,709,494	202,270	902,377	32,814,141

As at 31 August 2018, the Bank has sold its functional property for a proceeds amounting to EUR 38,166,789 realizing a net capital gain of EUR 3,564,203, detailed as follows:

(In €)	31.12.2018
SALE PRICE	38,166,789
Registration duties	(3,489,249)
SALE PRICE – NET OF REGISTRATION DUTIES	34,677,540
Revaluation price	(31,663,000)
Depreciation	549,663
NET CAPITAL GAIN	3,564,203

NOTE 9 – INTANGIBLE ASSETS

(In €)	2017
COST AS AT 1ST JANUARY 2018	4,968
Additions	---
Disposals/Transfers	---
Cost as at 31 December 2018	4,968
Accumulated depreciation as at 1 st January 2018	(2,250)
Depreciation charge	(1,125)
Accumulated depreciation as at 31 December 2018	(3,375)
NET CARRYING AMOUNT AS AT 31 DECEMBER 2018	1,593

NOTE 10 – TAX EXPENSE, CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

Current taxes recorded are related to the Amsterdam branch of the Bank; they comprise tax payable on the taxable income realised by the branch and they represent the best estimate of the tax amount expected to be paid.

(In €)	2018	2017
Current tax assets	6,201,905	1,821,250
Current tax liabilities	(9,174,660)	(4,530,721)
NET CURRENT TAX ASSETS (LIABILITIES)	(2,972,755)	(2,709,471)

In relation to the Luxembourg entity, instead, no current taxes are recorded considering the tax integration since 2002 with the Luxembourg Bank's local shareholder Intesa Sanpaolo Holding International S.A. The income from the Branch in the Netherlands is subject to the local income tax (25% as at 31 December 2017 and 2018).

Deferred tax assets and liabilities

(In €)	2018	2017
Deferred tax assets	22,975,999	7,514,893
Deferred tax liabilities	(3,176,749)	(15,605,772)
TAX ASSETS (LIABILITIES)	19,799,250	(8,090,879)

Recognised deferred tax assets and liabilities are attributable to the following:

(In €)	1 JANUARY 2018	INCOME STATEMENT	EQUITY	31 DECEMBER 2018
Financial assets held for trading	(28,964,098)	4,736,874	---	(24,227,224)
Instruments held for trading	---	57,417	---	57,417
Financial assets designated at fair value through profit or loss	4,843,156	58,417	38,946	4,940,519
Financial assets measured at FVTOCI	(995,473)	---	15,198,298	14,202,825
Financial liabilities held for trading	23,016,149	(4,344,523)	---	18,671,626
Financial liabilities designated at fair value through profit or loss	438,978	(51,039)	---	387,939
Provisions and value adjustments	208,674	---	---	208,674
IFRS 9 – FTA	---	---	5,557,474	5,557,474
Tangible assets	(6,638,265)	---	6,638,265	---
NET DEFERRED INCOME TAX ASSETS/ (LIABILITIES)	(8,090,879)	457,146	27,432,983	19,799,250

A deferred tax amount has been booked even if the Bank calculates current income in relation to the tax integration with the Bank's local shareholder.

The deferred tax expenses presented in profit or loss are related to temporary differences generated by financial instruments fair value changes booked through profit or loss.

The deferred tax assets calculated on financial asset at fair value through other comprehensive income and on the IFRS 9 First Time Adoption contributing to the other comprehensive income are showing a net deferred tax asset balance. The deferred tax amount has been consequently shown in deduction of the relative comprehensive income. The deferred tax booked in 2017 in relation to the property has been reversed in 2018 further to the disposal of the Bank's building.

NOTE 11 – OTHER ASSETS AND OTHER LIABILITIES

(In €)	2018	2017
Prepaid charges	2,486,745	2,361,088
Taxes	16,293,566	13,881,832
Accrued commission income	590,552	866,428
Other	6,102,286	5,263,085
OTHER ASSETS	25,473,149	22,372,433

(In €)	2018	2017
Social security charges	677,296	694,536
Withholding taxes and VAT	30,142,879	26,661,675
Administrative expenses to be paid	11,091,781	10,996,737
Accrued commission expenses	5,110,782	3,871,671
Short term payable and other sundry accounts	2,106,206	2,431,008
OTHER LIABILITIES	49,128,944	44,655,627

NOTE 12 – DEPOSITS FROM CENTRAL BANKS

The Luxembourg Central Bank's long-term refinancing operation (LTRO) is a process by which the Luxembourg Central Bank provides financing to local banks in exchange of a deposit with the former of eligible bonds as collateral for that purposes.

The Bank started participating in the program in 2012, obtaining a financing of EUR 1,200,000, maturing in 2015. As at the end of 2014, the LTRO transactions were again available by auctions and the Bank decided to participate obtaining a new financing for an amount of EUR 90,000,000 maturing in 2018, which has been increased by EUR 500,000,000 during 2015 reaching the total amount of EUR 591,259,790 as at end of December 2015.

During 2016, EUR 90,000,000 has been reimbursed and a new TLTRO mechanism has been subscribed for an amount equal to EUR 821,440,000.

The last deposit received has been hedged entering in a hedge accounting relationship where an Interest Rate Swap has been used as hedging instrument: as a consequence of the hedge accounting, the TLTRO mechanism carrying amount of EUR 813,079,566 (of which negative accrued interests amount to EUR 8,360,434) as at 31 December 2018 has been adjusted for a negative amount equal to EUR 591,850 (NPV adjustment).

During 2018, the TLTRO deposit amounting to EUR 500,000,000 has been reimbursed.

The last deposit still alive is collateralised by eligible securities for an amount of EUR 872,657,341.

NOTE 13 – FINANCIAL LIABILITIES DESIGNATED AT FVTPL

As at 31 December 2018, the caption is composed of a financial liability which is eligible, according to IFRS 9 and previously IAS 39, to fair value option, with a fair value based on the discounted cash flows method. As at 31 December 2018, the fair value of this liability amounts to EUR 10,240,794 (2017: EUR 12,124,209).

Please refer to Note 3 for a reconciliation between IAS 39 and IFRS 9 financial assets presentation. There has been no reclassification during the year affecting the above mentioned portfolios.

NOTE 14 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

(In €)	2018	2017	VARIATION	
	CARRYING AMOUNT	CARRYING AMOUNT	IN EUR	IN %
DEPOSITS FROM CREDIT INSTITUTIONS				
Current accounts and amounts with period of notice	228,808,275	488,585,082	(259,776,807)	(53%)
Term deposits	843,880,149	219,712,198	624,167,951	284%
TOTAL	1,072,688,424	708,297,280	364,391,144	51%
CORPORATE CUSTOMERS				
Current accounts and amounts with period of notice	1,058,338,112	1,560,969,556	(502,631,444)	(32%)
Term deposits	4,402,432,879	4,350,998,257	51,434,622	1%
TOTAL	5,460,770,991	5,911,967,813	(451,196,822)	(8%)
PRIVATE CUSTOMERS				
Current accounts and amounts with period of notice	489,716,555	334,071,413	155,645,142	47%
Term deposits	345,295,764	337,997,489	7,298,275	2%
TOTAL	835,012,319	672,068,902	162,943,417	24%
DEBTS EVIDENCED BY CERTIFICATES				
Certificates of deposits	4,844,685,272	4,557,128,337	287,556,935	6%
Term notes	3,772,365,418	4,840,706,577	(1,068,341,159)	(22%)
Commercial paper	1,566,387,005	1,613,939,050	(47,552,045)	(3%)
TOTAL	10,183,437,695	11,011,773,964	(828,336,269)	(8%)
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	17,551,909,429	18,304,107,959	(752,198,530)	(4%)

14.1. EUROPEAN MEDIUM TERM NOTES

Since November 2011, the Bank participates as an additional issuer in a EUR 70 billion Euro Medium Term Notes (EMTN) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The programme is guaranteed by Intesa Sanpaolo S.p.A. The EMTN (the "bonds") issued under this programme bear a maturity date of at maximum 5 years. The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 70 billion or the equivalent thereof in other currencies. The notes are denominated in any currency subject to compliance with any applicable legal and or regulatory and or central bank requirements. As at 31 December 2018, such notes issued by the Bank amount to EUR 3,772 million (2017: EUR 4,841 million).

14.2. COMMERCIAL PAPER

Since March 2011, the Bank participates as an additional issuer in a EUR 30 billion Euro Commercial Paper (ECP) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The ECP (further the "notes") issued under this programme bear a maturity date under 1 year (short term notes) and are denominated in Euro, US Dollars or any other currency subject to compliance with any applicable legal and regulatory requirements.

The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 30 billion or the equivalent thereof in other currencies. As at 31 December 2018, such ECP issued by the Bank amount to EUR 1,566 million (2017: EUR 1,614 million).

NOTE 15 – DERIVATIVES HELD FOR HEDGING

The Bank mainly uses interest rate swaps to hedge its exposure to changes in the fair values of certain fixed-rate bonds classified as financial assets measured at FVTOCI (AFS in 2017) due to adverse changes in interest rates. In more details, the risk investment strategy is to invest in fixed rate securities carried at FVTOCI. The exposure of the fixed interest rate hedged item to interest rate risk is converted to floating rates with an interest rate swap in order to mitigate a potential fall in its value. The investment in the hedged assets and the completion of the covering hedging instrument are done simultaneously (Asset Swaps).

Each interest rate swap is matched with a specific bond subscribed and each hedging relationship is formally documented at inception. The documentation describes the hedging strategy, identifies the hedged item and the hedging instrument and the nature of the hedged risk.

For each hedging relationship, ex-ante and ex-post hedge effectiveness is measured by ensuring that fair value changes of the hedged items match with fair value changes of the hedging instruments.

The fair values of derivatives designed as fair value hedges are as follows:

(In €)	2018		2017	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
ASSETS				
Interest rate instruments	155,000,000	210,014	490,000,000	4,986,123
TOTAL	155,000,000	210,014	490,000,000	4,986,123
LIABILITIES				
Interest rate instruments	2,342,734,498	69,043,776	1,558,000,000	47,694,259
TOTAL	2,342,734,498	69,043,776	1,558,000,000	47,694,259

Hedged items are as follows (in EUR):

(In €)	2018	2017
	CARRYING VALUE	CARRYING VALUE
Financial assets at fair value through other comprehensive income	1,515,661,025	1,423,827,081
Loans and advances	245,934,498	62,920,258
Deposits from central banks	821,440,000	821,440,000
Deposits from customers	155,000,000	---
TOTAL	2,738,035,523	2,308,187,339

NOTE 16 – PROVISIONS

(In €)	2018	2017
Financial guarantee contracts issued	382,690	---
Loan commitments issued and uncommitted credit lines	927,437	---
Other provisions	1,749,385	1,679,138
TOTAL	3,059,512	1,679,138

Financial guarantee contracts, loan commitments issued and uncommitted credit lines

As at 31 December 2018, the amount in respect of financial guarantee contracts issued, loan commitments issued and uncommitted credit lines represent the sum of ECL provisions calculated following IFRS 9 implementation.

Other provisions

The following table sets out other provisions.

(In €)	2018
PROVISION AS AT 1ST JANUARY 2018	1,679,138
Reduction	---
Forex impact	70,247
Provision reversed during the year	---
PROVISIONS AS AT 31 DECEMBER 2018	1,749,385

(In €)	2017
PROVISION AS AT 1ST JANUARY 2017	2,544,075
Reductions	(629,548)
Additions and forex impact	(235,389)
Provision reversed during the year	---
PROVISIONS AS AT 31 DECEMBER 2017	1,679,138

The above table shows provisions movements from 31 December 2017 to 31 December 2018. Increase has been generated by foreign exchange movements (linked to some provisions in foreign currency).

NOTE 17 – EQUITY

17.1. SHARE CAPITAL

As at 31 December 2011, the Bank's subscribed and paid-up capital amounts to EUR 280,000,000, represented by 1,750,000 shares with no par value.

On 29 June 2012, the Bank transferred the ownership of its subsidiary Intesa Sanpaolo Private Bank (Suisse), S.A., Lugano (ISPB) to its shareholder Intesa Sanpaolo Holding International S.A., Luxembourg through a partial demerger without dissolution. Consequently, ISPB is ultimately controlled by the same party both before and after the partial demerger.

In a partial demerger without dissolution, both assets and liabilities are transferred, this implied the Bank transferring an equivalent portion of own funds equal to the book value of the transferred asset.

According to the demerger contract concluded between the Bank and its sole shareholder, as published in the draft demerger project in the Luxembourg official newspaper (Mémorial), dated 26 May 2012, the book value of the subsidiary was fixed at EUR 16,605,170 and the Bank reduced its paid-up capital by EUR 4,908,480 cancelling 30,678 shares without par value and reduced its retained earnings and other reserves by an amount of EUR 11,696,690, drawing back its shares capital from EUR 280,000,000 to EUR 275,091,520 represented by 1,719,322 shares with no par value.

On 10 December 2012, the Bank increased its subscribed and paid-up capital by EUR 260,000,000.

On 1 February 2016 the Bank purchased the Branch from the Group through a contribution in kind. For that purpose, 13,750 shares have been issued to Intesa Sanpaolo S.p.A. consisting of EUR 4,279,308.01 to share capital and EUR 7,720,691.99 to share premium in exchange of the Branch.

On 22 September 2016, the Bank performed a capital increase of EUR 449,999,892.27 through the issuance of 1,445,911 shares integrally subscribed by Intesa Sanpaolo Holding International S.A.

The Board of Directors of the Bank during the last meeting held on 25 October 2017 resolved to increase – within the limit of the statutory authorized capital – the share capital by an amount of EUR 399,999,835.08 to raise it from EUR 989,370,720.28 to the amount of EUR 1,389,370,555.36 by creation and issue of 1,285,254 new shares without any nominal value.

These new shares all subscribed by the sole shareholder Intesa Sanpaolo Holding International S.A, fully paid off, benefit from the same rights and privileges as the existing shares.

As at 31 December 2018, the subscribed capital was therefore EUR 1,389,370,555.36 represented by 4,464,237 shares (integrally subscribed).

17.2. REVALUATION RESERVE

Revaluation reserve caption is composed of the cumulative net change in fair value of debt securities measured at FVTOCI (2017: available-for-sale financial assets) until the assets are derecognised or reclassified and it amounts to EUR (40,545,366). This amount includes the ECL loss allowance equal to EUR 638,835 (gross of deferred taxes equal to EUR 166,123). FTA revaluation reserve calculated as at 1 January 2018 following the IFRS 9 implementation has been recorded in Retained Earnings.

These revaluation reserves are not distributable.

(In €)	INVESTMENT SEC. MEASURED AT OCI PORTFOLIO	FUNCTIONAL PROPERTY	TOTAL
OPENING BALANCE AS AT 1 JANUARY 2018	2,680,556	17,875,270	20,555,826
Increase / (Decrease)	(58,424,220)	(24,513,535)	(82,937,755)
Deferred taxes	15,198,298	6,638,265	21,836,563
CLOSING BALANCE AS AT 31 DECEMBER 2018	(40,545,366)	---	(40,545,366)

As at the end of 2017, the Bank decided to change its accounting policy concerning function properties and decided to apply the revaluation method in compliance with IAS 16. Due to the change in accounting policy, a fair value revaluation reserve amounting to EUR 24,513,535 was booked, netted by deferred taxes amounting to EUR 6,638,265.

Following the sale of the functional property concluded at the end of August 2018, such reserve has been reclassified to Retained Earnings and related deferred taxes have been reversed.

17.3. LEGAL RESERVE

Under Luxembourg Law, the Bank must appropriate to a legal reserve an amount equivalent to 5% of the annual net profit until such reserve is equal to 10% of the share capital. This appropriation is made in the following year. Distribution of the legal reserve is restricted. As at 31 December 2018, the legal reserve amounts to EUR 66,415,281 (2017: EUR 59,641,565). As a consequence of the share capital increase the Bank had during 2018, it has been increased by EUR 6,773,716 during 2018.

17.4. OTHER RESERVES

As at 31 December 2018, other reserves amount to EUR 841,268,027 (2017: EUR 812,541,743).

17.5. RETAINED EARNINGS

As at 31 December 2018, retained earnings amount to EUR 13,995,691 (2017: EUR 4,850,848) and mainly include :

- the impact of the implementation (FTA) of IFRS 9 as adopted by the European Union (EUR -14,627,979);
- the impact of the first time adoption (FTA) of IAS/IFRS standards as adopted by the European Union (EUR 4,850,848);
- the impact of the disposal of the functional property carried at fair value (EUR 24,513,535).

17.6. PROFIT ALLOCATION PROPOSAL

The amount attributable to shareholders, including earnings profit from previous financial years but excluding the impact of the first time application of IFRS as adopted by European Union, totals EUR 104,011,676, which corresponds to a return on equity of circa 4.56% (2017: 6.89%). It is proposed to the Annual General Shareholders' Meeting approving the financial statements as at 31 December 2018 to allocate the above mentioned amounts as follows (in EUR):

(In €)	2018
Net profit of 2018 financial year	103,997,153
Retained profit from previous years (excluding FTA)	14,523
AMOUNT ATTRIBUTABLE TO SHAREHOLDERS	104,011,676
Allocation to legal reserve (5% Net profit)	5,199,858
Dividend for the financial year (95% rounded up)	98,800,000
TOTAL	103,999,858
<i>Retained profit carried forward to the next financial year</i>	<i>11,818</i>

NOTE 18 – NET INTEREST INCOME

(In €)	2018	2017
Cash balances with central banks	-	-
Financial assets held for trading	746,917	5,879
Financial assets at fair value through profit or loss	353,910	427,905
Hedging derivatives	935,977	900,472
Financial assets at FVTOCI (2017: available-for-sale)	23,997,338	33,253,456
Loans and advances	242,204,180	208,359,701
Interest income on liabilities	6,622,500	3,418,813
Other	12,862	30,876
TOTAL INTEREST AND SIMILAR INCOME	274,873,684	246,397,102

(In €)	2018	2017
Hedging derivatives	24,678,664	12,082,700
Financial liabilities held for trading	507	364
Financial liabilities measured at amortised cost	106,960,467	96,437,275
Financial liabilities at fair value through profit or loss	222,559	269,094
Interest expenses on assets	-	1,881,025
TOTAL INTEREST EXPENSES AND SIMILAR CHARGES	131,862,197	110,670,458
NET INTEREST INCOME	143,011,487	135,726,644

Interest income and expenses from loans and advances, financial liabilities measured at amortised cost and financial assets at FVTOCI are recognized according to the effective interest rate methodology.

NOTE 19 – NET FEE AND COMMISSION INCOME

19.1. DISAGGREGATION OF FEE AND COMMISSION INCOME

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major type of services.

(In €)	2018	2017
Credit activities	47,291,488	42,831,402
Wealth management and Treasury activities	22,096,875	25,535,207
Corporate services	1,005,608	776,251
Other	4,205,581	4,735,336
TOTAL FEE AND COMMISSION INCOME	74,599,552	73,878,196
Credit activities	19,175,610	6,968,067
Brokerage and clearing fees	9,355,570	13,125,124
Other	3,532,639	2,777,906
TOTAL FEE AND COMMISSION EXPENSES	32,063,819	22,871,097
NET FEE AND COMMISSION INCOME	42,535,733	51,007,099

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by nature:

(In €)	2018	2017
Wealth management and Treasury activities	22,097,604	25,595,124
Structuring fees	15,998,571	10,962,500
Commitment fees	11,028,688	8,289,626
Commission income on limited recourse transactions	5,023,575	4,855,658
Upfront fees	4,568,836	7,996,701
Other	4,204,851	2,269,151
Arrangement fees	3,798,054	3,284,183
Cash management fees	2,408,512	1,896,266
Amendment fees	1,622,677	1,273,351
Participation fees	878,450	455,824
Corporate services fees	770,313	733,848
Credit activities – other	727,607	5,332,083
Commission income on guarantees	669,863	381,477
Program and administrator fees	566,581	510,000
Buy out fees	162,546	---
Advisory fees	72,824	42,404
TOTAL FEE AND COMMISSION INCOME	74,599,552	73,878,196
Structuring fees	11,400,000	---
Brokerage and clearing fees	9,355,570	13,125,124
Other	3,531,910	2,777,906
Servicing fees	2,784,710	4,080,166
Credit activities - other	2,167,448	1,543,054
Commitment fees	1,265,714	170,062
Upfront fees	987,520	1,174,785
Arrangement fees	570,218	---
Wealth management and Treasury activities	729	---
TOTAL FEE AND COMMISSION EXPENSES	32,063,819	22,871,097
NET FEE AND COMMISSION INCOME	42,535,733	51,007,099

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by origin:

(In €)	2018	2017
LUXEMBOURG	24,982,514	8,528,261
ITALY	10,745,246	10,162,277
NETHERLAND	6,661,489	7,413,376
QATAR	6,078,450	3,756,142
U.S.A.	4,700,990	3,972,579
FRANCE	2,494,000	4,461,634
UNITED KINGDOM	2,482,516	8,170,887
GERMANY	1,846,963	1,398,671
SOUTH AFRICA	1,751,378	3,094,472
SPAIN	1,244,331	799,543
BELGIUM	1,036,269	894,483
IRELAND	1,022,947	935,468
RUSSIA	919,172	12,161,264
CYPRUS REP.	860,955	---
HONG KONG	810,666	412,635
JAPAN	794,496	875,490
GHANA	664,669	282,607
SWITZERLAND	616,432	1,271,608
SOUTH KOREA	536,656	457,762
CHINA	399,350	535,686
KUWAIT	395,802	109,018
CAYMAN ISL	360,835	479,571
TAIWAN	266,279	270,290
AUSTRIA	265,324	42,925
CANADA	257,111	129,489
INDIA	218,036	243,385
PAKISTAN	147,468	283,570
NIGERIA	133,383	145,236
MONACO	124,681	82,477
BRAZIL	113,025	154,307
SAUDI ARABIA	106,673	456,727
OTHER COUNTRIES	1,561,446	1,896,356
TOTAL FEE AND COMMISSION INCOME	74,599,552	73,878,196

(In €)	2018	2017
UNITED KINGDOM	13,701,853	4,247,739
ITALY	7,565,127	6,246,720
U.S.A.	2,349,258	1,248,696
LUXEMBOURG	2,005,866	139,762
FRANCE	1,874,411	3,534,797
RUSSIA	576,641	977,945
CYPRUS REP.	452,605	-
GERMANY	324,441	603,256
JAPAN	313,844	357,148
SOUTH KOREA	279,504	231,857
IRELAND	243,780	406,078
CHINA	211,610	321,983
SWITZERLAND	163,633	147,053
INDIA	152,669	176,262
TAIWAN	152,135	157,862
CAYMAN ISL.	148,721	223,304
SOUTH AFRICA	147,986	1,273,847
HONG KONG	119,819	255,485
NETHERLAND	105,288	257,181
CANADA	100,882	53,316
OTHER COUNTRIES	1,073,746	2,010,806
TOTAL FEE AND COMMISSION EXPENSES	32,063,819	22,871,097
NET FEE AND COMMISSION INCOME	42,535,733	51,007,099

19.2. CONTRACT BALANCES

Revenues are mainly recognised at a specific point in time, when the Bank satisfies a performance obligation by transferring a promised service to the customer.

19.3. PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 9 and 15 (applicable from 1 January 2018)
Corporate banking service	The Bank provides banking services to corporate customers. Fees for ongoing account management are charged to the customers' account on a monthly basis. Transaction-based fees are charged when the transaction takes place.	Revenue from account service is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Asset management service	The Bank provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customers' account balance on a monthly basis.	Revenue from asset management services is recognised over time as the services are provided.

NOTE 20 – DIVIDEND INCOME

As at 31 December 2018 and 2017, dividend income mainly relates to financial assets measured at FVTOCI (2017: available-for-sale financial assets).

NOTE 21 – NET (UN)REALISED LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2018 and 2017, the net (un)realised (losses) on financial assets and liabilities held for trading are composed of:

(In €)	2017	2016
Equity instruments and linked derivatives	18,204	(17,219)
Interest rate instruments and linked derivatives	(18,978,087)	(65,699,672)
Foreign exchange transactions	(41,333,014)	(19,099,116)
TOTAL	(60,292,897)	(84,816,007)

As at 31 December 2018 net (un)realised losses on financial assets and liabilities held for trading are mainly composed of :

- Losses realised on Interest rate swap contracts unwinded before their maturity for an amount of EUR 12.6 million (of which EUR 15.2 million paid in relation to their NPV and EUR 2.6 million received in relation to interest rate differentials); those contracts have been unwinded in relation to the sale of bond instruments disclosed in note 23;
- Losses unrealised on Cross Currency Interest rate swap contracts for an amount of EUR 56.4 million, of which EUR 7.6 million linked to their NPV and EUR 48.8 million linked to the interest rate differentials related to the hedging of forex exposures.

NOTE 22 – NET (UN)REALISED GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2018 the net (un)realised gains on financial assets and liabilities at fair value through profit or loss are mainly composed of unrealised losses on assets classified at fair value through profit or loss for an amount of EUR 175 thousands (2017: EUR 742 thousands) and of realised gains on debt securities for an amount of EUR 273 thousands (2017: EUR 273 thousands).

NOTE 23 – NET REALISED GAINS ON FINANCIAL ASSETS AND LIABILITIES NOT AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2018 net realised gains on financial assets and liabilities not at fair value through profit or loss are mainly composed of net gains realised on the sale of bond instruments measured at FVTOCI for an amount of EUR 25.9 million (2017: bond instruments held in the available-for-sale portfolio for an amount of EUR 55.5 million).

(In €)	2018			2017		
	PROFITS	LOSSES	NET	PROFITS	LOSSES	NET
Due from banks and customers	203,531	(948,000)	(744,469)	25,546,587	---	25,546,587
Financial assets available for sale	28,512,359	(2,562,689)	25,949,670	57,729,265	(2,232,995)	55,496,270
<i>Debt securities</i>	<i>28,512,359</i>	<i>(2,562,689)</i>	<i>25,949,670</i>	<i>57,729,265</i>	<i>(2,232,995)</i>	<i>55,496,270</i>
<i>Equities</i>	---	---	---	---	---	---
TOTAL ASSETS	28,715,890	(3,510,689)	25,205,201	83,275,852	(2,232,995)	81,042,857
Securities issued	---	---	---	2	(300)	(298)
TOTAL LIABILITIES	---	---	---	2	(300)	(298)
NET REALISED GAINS AND LOSSES	28,715,890	(3,510,689)	25,205,201	83,275,854	(2,233,295)	81,042,559

NOTE 24 – NET OTHER EXPENSES

As at 31 December 2018 and 2017, net other expenses are mainly composed of withholding taxes and net worth tax, which are linked to the Bank's business activity.

The Other income caption includes the realized gain on the functional property disposal described in Note 8.

NOTE 25 – ADMINISTRATIVE EXPENSES

(In €)	2018	2017
Wages and salaries	14,246,034	13,893,175
Social security charges	2,160,859	2,011,894
Legal pension and similar expenses	854,225	710,942
Employee benefits	1,632,146	2,933,163
Other	152,497	521,304
TOTAL STAFF EXPENSES	19,045,761	20,070,478
Operating expenses	5,982,750	4,229,971
Repair and maintenance	349,044	326,253
Training and moving	1,083,963	941,625
IT outsourcing costs	8,047,329	8,164,426
Legal and professional fees	1,524,454	1,852,920
Marketing and representation fees	1,582,330	1,538,740
Charges linked to Corporate activity and other charges	1,225,562	1,146,312
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	19,795,432	18,200,246
TOTAL ADMINISTRATIVE EXPENSES	38,841,193	38,270,724

The average number of personnel employed by the Bank at the end of the financial year was as follows:

	2018	2017
Senior Management	4	4
Middle Management	59	56
Employees	109	110
TOTAL	172	170

NOTE 26 – NET IMPAIRMENT ON FINANCIAL ASSETS

During the year, the Bank has recorded impairment on financial assets as follows:

(In €)	2018			2017
	Write-downs	Write-backs	Total	Total
Loans and advances	(18,375,145)	15,298,949	(3,076,196)	99,316
Loans and advances	(372,303)	831,963	459,660	---
Loans and advances	(18,747,448)	16,130,912	(2,616,536)	99,316

NOTE 27 – RELATED PARTY DISCLOSURES

27.1. IDENTITY OF RELATED PARTIES

The Bank has a related party relationship with its direct and non-direct parent companies, entities of its Group and with its directors (hereafter "administrative bodies") and executive officers (hereafter "other key management personnel"). All transactions made with related parties are concluded on an arm's length basis.

The amount of main assets, liabilities, income and expenses as at 31 December 2018 and 2017 concerning Group entities and the parent companies are as follows:

ASSETS AND LIABILITIES (In €)	2018	2017
Assets held for trading and assets carried at fair value through profit or loss	41,300,587	130,434,587
Investment securities mandatorily measured at FVTPL	507,064	940,491
Investment securities at FVTOCI	211,185	---
Loans and advances	7,955,946,319	9,877,621,742
Hedging derivatives	210,014	4,986,123
Financial liabilities held for trading and liabilities carried at fair value through profit or loss	60,304,445	16,857,379
Financial liabilities measured at amortised cost	9,505,200,327	8,468,553,941
Hedging derivatives	69,043,776	47,694,259
Provisions	136,523	---

INCOME AND EXPENSES (In €)	2018	2017
Interest income	46,799,881	58,601,044
Fees and commissions income	1,621,224	556,912
Dividend income	672,427	585,971
Net (un)realised losses on financial assets and liabilities held for trading	(185,547,082)	183,512,660
Net unrealised losses on financials assets and liabilities held for hedging	(54,268,176)	(21,726,165)
Net (un)realised losses on financials assets and liabilities at fair value through profit or loss	191,474	270,449
Net - 105 -ealized gains on financials assets and liabilities not at fair value through profit or loss	(1,151,622)	24,527,500
Other income	---	172,262
Interest expenses	(84,732,473)	(70,886,502)
Fees and commissions expenses	(15,210,779)	(2,166,940)
Impairment	1,088,202	---
Administrative expenses	(11,249,070)	(10,666,236)
Other expenses	(1,949,352)	(1,626,056)

27.2. KEY MANAGEMENT PERSONNEL

The Bank incurred expenses with respect to the remuneration of the members of the administrative, management and supervisory bodies as follows:

(In €)	2018	2017
Administrative bodies	131,392	210,901
Other key management personnel	1,506,370	967,977
TOTAL	1,637,762	1,178,878

Administrative bodies are related to Directors composing the Bank's board. The amount relates to their participation to each board.

As at 31 December 2018 and 2017, the Bank has no obligations related to retirement pensions for former administrative bodies and key management personnel.

As at 31 December 2018 and 2017, the Bank has not granted advances and credits and has not entered into guarantee commitments for the above mentioned bodies and personnel.

During 2018 the Bank has paid bonuses to other key management personnel for an amount of EUR 331,940 (2017: EUR 140,000).

NOTE 28 – COMMITMENTS AND CONTINGENT LIABILITIES

The Bank's commitments and contingent liabilities may be analysed as follows:

(In €)	2018	2017
Unused confirmed credits	6,480,805,726	3,734,678,250
- out of which towards related parties	25,065	-
Guarantees and other direct substitutes for credit	479,967,237	383,234,583
- out of which towards related parties	273,000,316	293,506,720

28.1. GUARANTEES RECEIVED BY THE BANK:

Unused confirmed credits and contingent liabilities are secured by guarantees received by the Bank as follows:

(In €)			CONTINGENT LIABILITIES	UNUSED CONFIRMED CREDITS
2018	NET CARRYING AMOUNTS		479,967,237	6,480,805,726
	Real guarantees	Mortgage	---	---
		Securities	1,520,969	---
		Other real guarantees	3,950,268	28,610,765
	Personal guarantees	Government guarantees	---	801,129,228
		Credit institutions guarantees	12,153	2,650,000,000
	TOTAL GUARANTEES		5,473,390	3,479,739,993

2017	NET CARRYING AMOUNTS		383,234,583	3,734,678,250
	Real guarantees	Mortgage	---	---
		Securities	2,519,533	---
		Other real guarantees	14,141,767	363,514,378
	Personal guarantees	Government guarantees	---	417,909,728
		Credit institutions guarantees	6,353	---
	TOTAL GUARANTEES		16,667,653	363,514,378

NOTE 29 – DEPOSIT GUARANTEE AND INVESTOR COMPENSATION SCHEMES

The law related to the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes ("the Law"), transposing into Luxembourgish law the directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and the directive 2014/49/EU related to deposit guarantee and investor compensation schemes, was passed on 18 December 2015.

The deposit guarantee and investor compensation scheme "Association pour la Garantie des Dépôts Luxembourg" (AGDL) was replaced by a new contribution based system of deposit guarantee and investor compensation scheme. This new system covers eligible deposits of each depositor up to an amount of EUR 100,000 and investments up to an amount of EUR 20,000. The Law also provides that deposits resulting from specific transactions or fulfilling a specific social or other purpose are covered for an amount above EUR 100,000 for a period of 12 months.

The funded amount of the "Fonds de résolution Luxembourg" (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 authorized credit institutions in all participating Member States. This amount will be collected from the credit institutions through annual contributions during the years 2015 to 2024.

The target level of funding of the "Fonds de Garantie des Dépôts Luxembourg" (FGDL) is set at 0.8% of covered deposits, as defined in article 163 number 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 made in the form of annual payments during the years 2016 to 2018.

When the level of 0.8% is reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

NOTE 30 – INVESTMENT MANAGEMENT SERVICES AND UNDERWRITING FUNCTIONS

The Bank provides its customers with, among others, the following services:

- Private Banking;
- Corporate services;
- Custody;
- And Fiduciary representation.

Assets managed on behalf of third parties are as follows:

(In €)	2018	2017
Custody and administration of transferable securities	8,766,001,222	8,742,587,173
Fiduciary representation	---	2,331,074
Wealth Management	216,904,473	188,133,467

NOTE 31 – AUDIT FEES

The audit fees and audit related fees for the years ended 31 December 2018 and 2017 are as follows:

(In €)	2018	2017
Audit fees	200,500	178,500
Audit related fees	350,500	305,500
Other	111,000	40,000
TOTAL	662,000	524,000

NOTE 32 – ENCUMBERED ASSETS

In 2018 and 2017 the Bank participated to the Long Term Refinancing Operation mechanism organised by the Banque centrale du Luxembourg for an amount of EUR 812 million (2017: EUR 1,314 million). Those deposits are collateralised by eligible securities classified in the securities at fair value through OCI portfolio for an amount of EUR 873 million (2017: EUR 1,415 million).

(In €)	ENCUMBERED		UNENCUMBERED		CARRYING AMOUNT	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	2018	2017
Cash and cash equivalents	-	-	4,267,224,397	-	4,267,224,397	3,874,235,326
Debt securities	872,657,341	872,657,341	1,488,667,447	1,488,667,447	2,361,324,788	3,181,767,050
Equities	-	-	1,000,886	1,000,886	1,000,886	940,491
Loans and advances	105,850,000	-	14,118,296,516	-	14,224,146,516	14,942,514,997
Other financial assets	-	-	48,655,496	-	48,655,496	138,688,947
Non financial assets	-	-	55,435,037	-	55,435,037	64,525,435
TOTAL 2018	978,507,341	872,657,341	19,979,279,779	1,489,668,333	20,957,787,120	22,202,672,246

NOTE 33 – ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

(In €)	LIABILITIES				EQUITY	TOTAL
	DEBT SECURITIES	SUBORDINATED LIABILITIES	ORDINARY SHARES	SHARE PREMIUM	RETAINED EARNINGS	
OPENING BALANCE AT 1 JANUARY 2018	6,454,645,627	---	1,389,370,555	7,720,692	4,850,848	7,856,587,722
Changes from financing cash flows						
Proceeds from issue of debt securities	3,276,013,564	---	---	---	---	3,276,013,564
Repayment of debt secu- rities	(4,391,439,737)	---	---	---	---	(4,391,439,737)
Proceeds from issue of subordinated loans	---	200,000,000	---	---	---	200,000,000
Proceeds from disposal of assets	---	---	---	---	24,513,535	24,513,535
TOTAL CHANGES FROM FINANCING CASH FLOW	(1,115,426,173)	200,000,000	---	---	24,513,535	(890,912,638)
IFRS9 - First time adoption	---	---	---	---	(15,343,010)	(15,343,010)
Other changes	(467,031)	---	---	---	---	(467,031)
Allocation of 2017 result	---	---	---	---	(25,682)	(25,682)
BALANCE AT 31 DECEMBER 2018	5,338,752,423	200,000,000	1,389,370,555	7,720,692	13,995,691	6,949,839,361

NOTE 34 – OPERATING LEASES

The Bank leases cars and office premises under operating leases. At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows:

(In €)	MOTOR VEHICLES	REAL ESTATE LOCATION CONTACTS	TOTAL
Within 1 year	74,964	1,768,750	1,843,714
1 to 5 years	179,169	3,537,500	3,716,669
Over 5 years	---	---	---
TOTAL	254,133	5,306,250	5,560,383

NOTE 35 – IMPACTS OF MACROECONOMIC FACTORS ON THE FINANCIAL STATEMENTS

The Bank does not expect a significant impact on its performance and financial stability due to the Brexit.

The above conclusion has been reached analysing the different type of risks Brexit can generate.

Exchange rate volatility:

A fall in value of sterling and exchange rate volatility could be generated in the aftermath of the Brexit. Taking into consideration the structure of exchange rate risk of the Bank, no significant impacts are expected.

Industry sectors:

Probably companies operating in the real estate-related sectors cited uncertainty within the UK property market, deferred investment decisions, and increases in construction and labour costs as being potential risks. Companies operating in the travel industry have cited the availability of markets, for example, securing flying rights in Europe, as being a major concern. The Bank has analysed the type of activities performed by its clients, and no risks related to Brexit have been identified.

Securities issued by the Bank:

Intesa Sanapaolo London S.p.A. acts as one of the dealers used by the Bank to place its issuance.

In case of Brexit, the Bank will engage a new dealer without any impact to the ECP/EMTN issuance program.

Involvement of Group entities located in UK in the Bank corporate lending activity:

From time to time the Bank interacts with entities of the Group located in London (Banca IMI London Branch or ISP London Branch) to finalize its corporate lending activities. In case of Brexit, the Bank will interact with the Group to achieve the same goals and have no impacts.

Positive impact of Brexit:

In case of Brexit, Luxembourg market could be favourable impact following the transfer of activities and entities. In the case, the Bank will dialogue with the Group to develop a strategy to capture opportunities to go on developing its business.

NOTE 36 – EVENTS AFTER THE REPORTING DATE

The Bank is not aware of any adjusting or non-adjusting event that would have occurred since 31 December 2018.

INDEPENDENT
AUDITOR'S
REPORT

To the Board of Directors of
Intesa Sanpaolo Bank Luxembourg S.A.
19-21 boulevard du Prince Henri
L-1724 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Intesa Sanpaolo Bank Luxembourg S.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 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 N° 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 financial statements » 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 financial statements, 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 opinion.

Key audit matters

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

Impairment of loans and advances to customers

a) Why the matter was considered to be one of most significance in our audit of the financial statements for the year ended 31 December 2018

Loans and advances to customers represent a significant amount of EUR 10,390,345,939 as at 31 December 2018. Certain aspects of the accounting for impairment of loans and advances to customers require significant judgments, such as the identification of credit exposures that are deteriorating, their staging, the estimation of expected credit losses as per IFRS 9 and of the recoverable value of credit exposures.

Impairment on loans and advances to customers are the Management best estimates of the expected credit losses at the balance sheet date. They are calculated on an individual basis for stage 3 exposures based on the expected discounted future cash flows or observable data markets and on a collective basis for stage 1 and 2 exposures based on internal models developed by the Bank with the support of the Intesa Sanpaolo S.p.A. Group ("the Group").

Due to the significance of loans and advances to customers and the related estimation uncertainty, we consider the valuation of loans as a key audit matter.

Please refer to notes 3, 7 and 26 of the financial statements for further information on the impairments of loans and advances to customers.

b) How the matter was addressed in our audit

Our audit approach included testing both the effectiveness of internal controls around determining loan loss provisions as well as substantive audit procedures.

We tested the design, implementation and operating effectiveness of the key controls the Bank implemented to monitor its credit exposures and support its specific and collective impairment calculation:

- Loan approval process;
- Annual review of credit exposures by the Credit department;
- Monthly review of the watch-list by Management and the Credit Committee;
- Monthly review of the past-due credit exposures by the Credit and the Risk Management departments;
- Timely review of the IFRS 9 impairment model's components, data quality and calculation at the Group level;
- Local management oversight monitoring of outsourced impairment calculation to the Group.

On a sample of credit operations, we tested the creditworthiness of the counterparty to assess the classification of the IFRS 9 staging. For all significant stage 3 exposures at year end, we verified the estimation of allowance for losses on loans and advances to customers prepared by the Bank.

We involved our financial risk management specialists to challenge key assumptions and judgements made by management relating to the IFRS 9 expected credit loss model and evaluated the reasonableness of management's key judgements and estimates made in preparing adjustments.

Finally, we assessed whether the disclosures in the financial statements appropriately reflect the Bank's exposure to credit risk.

Valuation of the Bank's swaps' portfolio

- a) *Why the matter was considered to be one of most significance in our audit of the financial statements for the year ended 31 December 2018*

The Bank enters into cross currency swaps and interest rate swaps derivatives to create risk management solutions for clients and to manage and hedge the Bank's own risks.

This portfolio of derivatives is only composed of Over-The-Counter operations measured by the Bank based on observable data markets and are classified as Level 2 financial instruments.

Given the amount and number of swaps in the Bank's portfolio, the use of wrong parameters or inappropriate yield curves might give rise to potential significant misstatements. Therefore we consider the valuation of those derivatives as a key audit matter.

Please refer to notes 3, 5 and 15 of the financial statements for further information on the valuation of derivatives.

- b) *How the matter was addressed in our audit*

We tested the design, implementation and effectiveness of the monthly controls implemented by the risk management department of the Bank on the swaps valuation to monitor, identify and analyze any difference between the Bank's internal valuation and the valuation from Intesa Sanpaolo Group.

We obtained and inspected a sample of derivatives term sheets and contracts to obtain assurance that they have been properly entered into the Bank's IT system.

We performed direct testing over the fair value on a sample derivatives at year-end based on observable data markets and the derivatives characteristics.

Where differences were identified between our independent valuation and management's valuation, we performed additional testing over each variance to support our assessment of the appropriateness of the fair value.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the annual report including the management report but does not include the financial statements and our report of "Réviseur d'Entreprises agréé" thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using 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 Bank's financial reporting process.

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements 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 N° 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 financial statements.

As part of an audit in accordance with the EU Regulation N° 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 financial statements, 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 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 on the appropriateness of 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 of "Réviseur d'Entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises agréé". 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 financial statements, including the disclosures, and whether the financial statements 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 financial statements 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 Board of Directors and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 7 years.

The management report is consistent with the financial statements 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, on the audit profession were not provided and that we remain independent of the Bank in conducting the audit.

Luxembourg, 21 March 2019

KPMG Luxembourg,
Société coopérative
Cabinet de révision agréé



S. Hustinx
Associate Partner

NOTES



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