



Société Européenne  
de Banque

# 2012



Statement of Financial Position  
Income Statement  
Annual Report



## Summary *Summary*

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Board of Directors

As from 15<sup>th</sup> March 2012

Chairman	Mr Angelo CALOIA
Deputy-Chairman	Mr Ferdinando SUPERTI FURGA
Managing Director and Chief Executive Officer	Mr Marco BUS
Directors	Mr Walter AMBROGI Mr Salvatore CATALANO Mr Paul HELMINGER Mr Francesco INTROZZI Mr Paolo MOLESINI Mr Arthur PHILIPPE Mr Marco ROTTIGNI Mr Stefano STANGONI

Auditor

As from 1<sup>st</sup> January 2012

KPMG, Luxembourg
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Executive Committee

As from 15<sup>th</sup> March 2012

Chairman	Mr Marco BUS
Members	Mr Walter AMBROGI Mr Giuseppe GIAMPIETRO Mr Marco ROTTIGNI

Audit Committee

As from 6<sup>th</sup> May 2011

Chairman	Mr Francesco INTROZZI
Members	Mr Giuseppe LA SORDA Mr Mauro ZANNI
Permanent Guests	Mr Stefano BUSCAGLIA

Management authorised by the CSSF

As from 15<sup>th</sup> March 2012

Managing Director & Chief Executive Officer	Mr Marco BUS
General Director	Mr Giuseppe GIAMPIETRO
Chief Financial Officer	Mr Franco VIVALDI

## Direct and Indirect Shareholders

as at 31<sup>st</sup> December 2012

Banca Intesa Sanpaolo S.p.A. Italie

100%

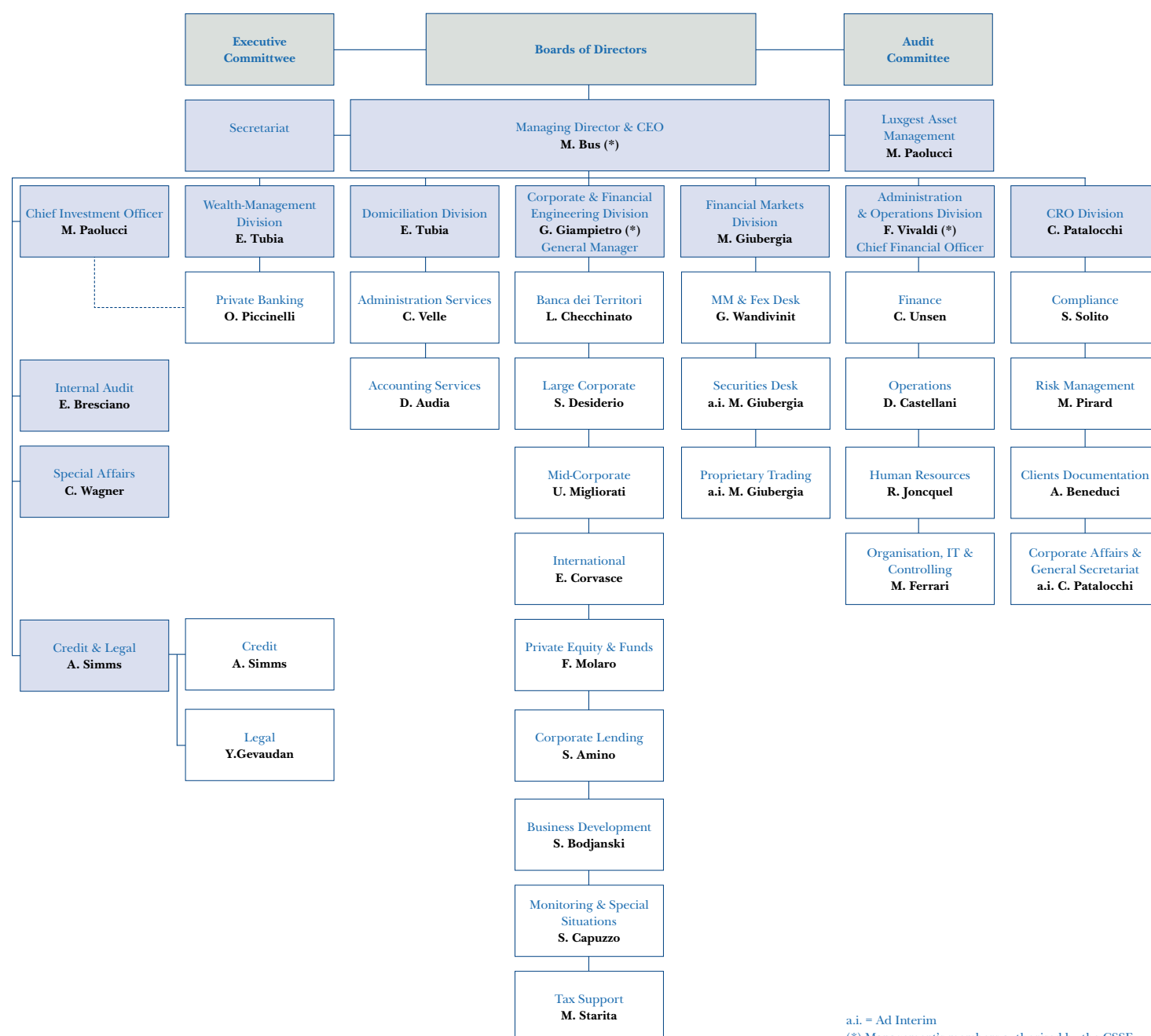
Intesa Sanpaolo Holding International Luxembourg

100%

Société Européenne de Banque S.A.

## Organisational Chart

as at 31<sup>st</sup> December 2012



## Directors' Report

as at 31<sup>st</sup> December 2012

### Development of the activity

The world economy remained weak during 2012 and trade stagnated. Global growth prospects were subject to considerable uncertainty and were negatively influenced by the euro crises and the management of the fiscal imbalances in the United States despite that the so-called fiscal cliff was finally avoided.

In the euro area, the tensions on the financial markets flared up again at the beginning of the second quarter and finally spread to what had been considered so far the more robust economies. As a consequence, the increase in risk aversion continued to push down the yields on securities issued by the reputedly soundest countries.

According to the most probable forecasts for 2013, the recovery is likely to remain fragile even though wide differences between regions are likely to surge. The world economic expansion in a whole might not gain pace before 2014.

During 2012, Société Européenne de Banque S.A. (the "Bank") has demonstrated its ability to well perform, managing the market environment difficulties, evolving its business and adapting it to the new market conditions.

2012 financial results, in fact, continued their positive trend already shown over the past years and each business unit has reached positive results.

### Risk Control

The risk management process, developed in connection with the local requirements and the Parent Company guidelines, consists of the identification, analysis and mitigation of major risks of the Bank (compliance and reputation 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, the Assets/Liabilities mismatching and the liquidity policy. Its main purpose is to ensure that the risk profiles remain at the sustainable limit fixed for the Bank.

The Assets/Liabilities Committee works are directly supported by the Chief Risk Officer with the Risk Management department.

The Compliance function identifies, assesses and controls the compliance risks by ensuring adherence to legal

and regulatory requirements and ethical principles including AML.

The Credit risk is mainly monitored by the Credit Department on a daily basis; a monthly report on Credit Risk is prepared by the Chief Risk Officer with periodical reporting of the risks to the bodies of the Bank.

The Legal Department monitors constantly the legal risks of the Bank and it coordinates and monitors the activity 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.

### Corporate governance

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

As Parent Company of the Banking Group, Intesa Sanpaolo is responsible, pursuant to the Consolidated Law on Banking, for the management and coordination of the companies belonging to the Banking Group and issues provisions 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 provisions.

For the purpose of actual application of rules contained in the Regulations, Intesa Sanpaolo has designed reporting procedures to be followed between the Parent Company and subsidiaries, through which the latter refer to the Parent Company.

Société Européenne de Banque duly complies with the requirements and provisions set forth by its Parent Company, especially in terms of assessing an effective and transparent financial reporting.

The Bank participates to a EUR 70 billion medium term notes issuance programme quoted on regulatory markets under the guarantee of its ultimate Parent Company. The notes issued under this programme by the Bank bear a minimum quote of EUR 100,000. This minimum quote limits the publication obligations to the Bank under the Transparency law.

Information on corporate governance and ownership structures in Italy are required by art. 123-bis of the



Consolidated Law on Finance. In compliance with this law, Intesa Sanpaolo sets forth a separate report on this matter which can be viewed in the Governance section of the Intesa Sanpaolo website, at [www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com). The group has adopted the Corporate Governance Code available on the Borsa Italiana website (under Borsa italiana/Rules/Corporate Governance).

In Luxembourg, the Bank has chosen Luxembourg as its origine member country and therefore refers to the corporate governance code available on the Luxembourg stock exchange website ([www.bourse.lu](http://www.bourse.lu)), under “The Ten Principles of Corporate Governance of the Luxembourg Stock Exchange”.

In view of the Bank’s size, the nature and particulars of the notes issued, the Bank has not retained to draw up a Corporate Governance Charter nor to establish a nomination committee amongst the Bank’s Board of Directors.

Subsidiaries and branches

In June 2012, the Bank has transferred the ownership of Intesa Sanpaolo Private Banking (Suisse), Lugano to its local Parent Company, Intesa Sanpaolo Holding International S.A., Luxembourg through a partial demerger.

At year end, the Bank detains only one fully owned subsidiary, Lux Gest Assets Management S.A., Luxembourg which is active as Management Company for some investment funds.

The Bank operates through its sole head-office located in Luxembourg-city and has not set up any branches.

Perspectives

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

The main objectives for 2013 are to achieve the budget target, maintaining a high level of result applying its usual strategy on a slightly redefined perimeter. Following a strategic decision at Group level, the Bank has decided to externalise/sale its corporates’ domiciliation activity during 2013.

Financial elements for 2012

The total assets as at 31<sup>st</sup> December 2012 amounted to EUR 14 billion (2011: EUR 12 billion).

The loans and advances to credit institutions (including balances with central banks), at EUR 9,7 billion, were 10% higher than in 2011 (EUR 8,8 billion) due to the high volume of investments with the Group. Loans and advances granted to customers other than credit institutions amounted to EUR 1,766 million.

The financial assets held for trading are composed of derivative financial instruments measured at their fair value and amounted to EUR 20 million at 31<sup>st</sup> December 2012 (2011: EUR 63 million); they are mainly composed of interest rate swaps and foreign exchange derivative contracts.

The financial assets designated at fair value through profit or loss, which amounted to EUR 30 million as at 31<sup>st</sup> December 2012 (2011: EUR 137 million), are composed of investments in financial debt instruments purchased to be kept in the Bank’s portfolio but measured at fair value.

The available-for-sale financial assets, which amounted to EUR 2,408 million (2011: EUR 1,407 million), were mainly composed of sovereign debt securities for an amount of EUR 1,447 million and of the investments of the Bank in other financial institutions and credit institutions (EUR 961 million).

The held-to-maturity portfolio was composed of a debt security issued by the Italian Government for a nominal amount of EUR 25 million and of a debt security for a nominal amount of EUR 150 million issued by Intesa Sanpaolo which both came to maturity during 2012.

Concerning the liability side, the Bank participated to the LTRO mechanism from the Luxembourg Central Bank for an amount of EUR 1,2 billion. To enter into such program, the Bank has pledged in favour of the BCL part of its debts instruments kept in its available for sale portfolio which were eligible for such purpose.

The deposits from customers amounted to EUR 3,3 billion at end of year (2011: EUR 2,5 billion). The Bank has also issued debts certificates for an amount of EUR 7,4 billion (2011: EUR 4,2 billion).

The increase in the sale of these debt certificates and the new financing resources from the Central Bank allowed the Bank to reduce its funding from the other credit institutions from EUR 4,2 billion in 2011 to EUR 491 million as at 31<sup>st</sup> December 2012.

As at the end of December 2012, the Bank paid in capital amounted to EUR 535 million (2011: EUR 280 million) resulting from the impact of the transfer of its Swiss subsidiary through a partial demerger and of an increase of capital of EUR 260 million.

The net profit for the year amounts to EUR 133 million (2011: EUR 103 million), with a ROE equal to 14% identical to the previous year ratio.

The net interest income amounts to EUR 155 million at the end of 2012 (2011: EUR 144 million). The interest income and expense reflects increase in the 2012 average volume of liquidities.

The net fee and commission income is positive and amounts to EUR 25 million, slightly over the EUR 24 million achieved in 2011.

The net (un)realised losses on financial assets and liabilities designated held for trading amount to EUR 14 million as at 31<sup>st</sup> December 2012 (2011: loss of EUR 5 million); the loss is due to the negative fluctuations in the fair value of the assets and liabilities held by the Bank for trading purposes.

The net (un)realised gains on financial assets and liabilities designated at fair value through profit or loss amounts to EUR 12 million as at 31<sup>st</sup> December 2012 (2011: loss of EUR 17 million). The profit is mainly due to the gains realised on sales of sovereign debt instruments during the year.

The total administrative expenses amounted to EUR 37 million (2011: EUR 31 million). The increase compared to previous year is mainly registered in the staff costs, legal and professional fees, marketing and representation fees and in IT outsourcing.

No provisions have been booked in relation to current income taxes due to the fact that the Bank can neutralise its current income taxes thanks to the application of the local rules on the consolidation taxable results with the ones generated by its Parent Company in Luxembourg.

On the other side, deferred tax assets and deferred tax liabilities have been booked as at 31<sup>st</sup> December 2012.

The net profit of the year available for distribution, including the retained earnings (excluding First Time Adoption “FTA”) amounts to EUR 133,512,755. 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<sup>st</sup> December 2012:

Subsequent events

Net profit of 2012 financial year	133,512,755
Retained profit from previous years	54,393
<b>Amount attributable to Shareholders</b>	<b>133,567,148</b>
Allocation to reserves	10,350,000
Allocation to legal reserve	43,150,000
Dividend for the financial year	80,000,000
Total	133,500,000
Retained profit carried forward to the next financial year	67,148

No significant subsequent events, which could have an impact on the 2012 figures or which could require additional disclosures, happened after 31<sup>st</sup> December 2012.

Miscellaneous

The Bank did not purchase own shares during the year 2012.

No research and development costs have been sustained during the year 2012.

Conclusion

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

Luxembourg, 26 February 2013

# Statement of financial position

as at 31<sup>st</sup> December 2012

Statement of financial position as at 31<sup>st</sup> December 2012

(in €)

(in €)

ASSETS	Notes	2012	2011
Cash and cash balances with central banks	3, 4	43,195,898	101,720,594
Financial assets held for trading	3, 5	19,854,064	63,024,898
Financial assets designated at fair value through profit or loss	3, 5	30,349,617	137,008,218
Available-for-sale financial assets	3, 6	2,407,939,904	1,407,723,814
Derivatives held for hedging	3	---	5,515,529
Held-to-maturity investments	3, 7	---	181,243,752
Loans and advances	3, 8		
a) Loans and advances to credit institutions	4	9,701,790,518	8,752,180,186
b) Loans and advances to customers		1,766,380,894	1,346,667,656
		11,468,171,412	10,098,847,842
Tangible fixed assets	9	10,003,271	10,888,580
Intangible assets	10	---	1,073
Deferred tax assets	11	5,575,894	8,530,888
Other assets	3, 12	12,324,357	9,342,776
<b>TOTAL ASSETS</b>		<b>13,997,414,417</b>	<b>12,023,847,964</b>

LIABILITIES AND EQUITY	Notes	2012	2011
Deposits from central banks	3, 13	1,208,750,000	---
Financial liabilities held for trading	3	96,774,700	156,877,204
Derivatives held for hedging	3	---	2,081,490
Financial liabilities designated at fair value through profit or loss	3, 14	37,928,724	48,844,596
Financial liabilities measured at amortised cost	3, 15		
a) Deposits from credit institutions		491,101,000	4,230,806,947
b) Deposits from customers		3,346,755,581	2,547,075,497
c) Debts evidenced by certificates		7,453,415,207	4,170,232,417
		11,291,271,788	10,948,114,861
Provisions	16	1,389,639	1,439,505
Deferred tax liabilities	11	14,439,293	8,530,888
Other liabilities	12	34,967,726	41,783,230
<b>TOTAL LIABILITIES</b>		<b>12,685,521,870</b>	<b>11,207,671,774</b>
Equity	17		
a) Share capital		535,091,520	280,000,000
b) Revaluation reserve		21,469,927	(97,338,844)
c) Other reserves and retained earnings		621,818,345	530,904,627
d) Net profit for the year		133,512,755	102,610,407
<b>TOTAL EQUITY</b>		<b>1,311,892,547</b>	<b>816,176,190</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>13,997,414,417</b>	<b>12,023,847,964</b>

The accompanying notes form an integral part of the annual accounts.

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## Income Statement

for the year ended 31<sup>st</sup> December 2012

(in €)

(In €)	Notes	2012	2011
<b>Net interest income</b>	18		
a) Interest and similar income		324,057,979	303,494,434
b) Interest expenses and similar charges		(168,638,482)	(159,110,067)
		<b>155,419,497</b>	<b>144,384,367</b>
<b>Net fee and commission income</b>	19		
a) Fee and commission income		37,062,918	32,880,519
b) Fee and commission expenses		(12,255,839)	(9,369,489)
		<b>24,807,079</b>	<b>23,511,030</b>
<b>Dividend income</b>	20	<b>2,067,500</b>	<b>3,005,721</b>
<b>Net (un)realised gains (losses) on financial assets and liabilities held for trading</b>	21	<b>(13,971,847)</b>	<b>(4,660,051)</b>
<b>Net (un)realised gains (losses) on financial assets and liabilities at fair value through profit or loss</b>	22	<b>11,936,364</b>	<b>(17,299,832)</b>
<b>Net realised gains on financial assets and liabilities not at fair value through profit or loss</b>	23	<b>6,811,998</b>	<b>429,281</b>
<b>Net other operating income / expenses</b>	24		
a) Other operating income		253,524	441,083
b) Other operating expenses		(6,805,496)	(4,787,560)
		<b>(6,551,972)</b>	<b>(4,346,477)</b>
<b>Administrative expenses</b>	25, 30	<b>(36,662,427)</b>	<b>(30,916,341)</b>
<b>Depreciation and amortisation</b>	9, 10	<b>(971,230)</b>	<b>(1,322,125)</b>
<b>Provisions</b>	16	<b>---</b>	<b>(680,130)</b>
<b>Net Impairment loss on financial assets</b>	26	<b>(9,372,207)</b>	<b>(9,495,036)</b>
<b>NET PROFIT FOR THE YEAR</b>		<b>133,512,755</b>	<b>102,610,407</b>

The accompanying notes form an integral part of the annual accounts.

## Statement of comprehensive income

for the year ended 31<sup>st</sup> December 2012

(in €)

(In €)	2012	2011
<b>NET PROFIT FOR THE YEAR</b>	<b>133,512,755</b>	<b>102,610,407</b>
<b>Other comprehensive income/(loss)</b>		
Net change in fair value on available-for-sale financial assets	127,672,170	(88,343,091)
Deferred tax relating to the components of other comprehensive income	(8,863,399)	---
<b>Other comprehensive income loss for the year</b>	<b>118,808,771</b>	<b>(88,343,091)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>252,321,526</b>	<b>14,267,316</b>

## Statement of changes in equity

for the year ended 31<sup>st</sup> December 2012

(in €)

RESERVES								
	Issued share capital	Revaluation reserve on AFS	Legal reserve	Other reserves	Retained earnings	Total Reserve and retained earnings	Profit of the year before appropriation	Total
<b>Balance as at 1<sup>st</sup> January 2011</b>	<b>45,000,000</b>	<b>(8,995,753)</b>	<b>5,250,000</b>	<b>424,794,456</b>	<b>4,843,633</b>	<b>434,888,089</b>	<b>96,016,538</b>	<b>566,908,874</b>
Total comprehensive income	---	(88,343,091)	---	---	---	---	102,610,407	<b>14,267,316</b>
Transfers and appropriation of prior year's profit	---	---	---	96,000,000	16,538	96,016,538	(96,016,538)	---
Dividend for the financial year	---	---	---	---	---	---	---	---
Capital increase	235,000,000	---	---	---	---	---	---	<b>235,000,000</b>
<b>Balance as at 31<sup>st</sup> December 2011</b>	<b>280,000,000</b>	<b>(97,338,844)</b>	<b>5,250,000</b>	<b>520,794,456</b>	<b>4,860,171</b>	<b>530,904,627</b>	<b>102,610,407</b>	<b>816,176,190</b>
Total comprehensive income	---	118,808,771	---	---	---	---	133,512,755	<b>252,321,527</b>
Transfers and appropriation of prior year's profit	---	---	5,150,000	97,450,000	10,407	102,610,407	(102,610,407)	---
Transfers	---	---	---	5,543	(5,543)	---	---	---
Dividend for the financial year	---	---	---	---	---	---	---	---
Capital decrease (note 17)	(4,908,480)	---	---	(11,696,690)	---	(11,696,689)	---	<b>(16,605,169)</b>
Capital increase (note 17)	260,000,000	---	---	---	---	---	---	<b>260,000,000</b>
<b>Balance as at 31<sup>st</sup> December 2012</b>	<b>535,091,520</b>	<b>21,469,927</b>	<b>10,400,000</b>	<b>606,553,309</b>	<b>4,865,035</b>	<b>621,818,345</b>	<b>133,512,755</b>	<b>1,311,892,547</b>

The accompanying notes form an integral part of the annual accounts.

## Statement of cash flows

for the year ended 31<sup>st</sup> December 2012

(in €)

(In €)	Notes	2012	2011
<b>Profit before tax</b>		<b>133,512,755</b>	<b>102,610,407</b>
Adjustments:			
a) Depreciation and amortisation		966,555	1,322,125
b) Impairment for credit losses		11,424,952	12,197,332
c) Reversal of loan impairment		(2,052,745)	(2,702,296)
d) Provisions and other income/expenses		(49,866)	689,505
e) Fair value adjustments		43,429,508	32,985,712
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>		<b>187,231,159</b>	<b>147,102,785</b>
Net (increase)/decrease in trading financial assets		37,767,067	47,765,241
Net (increase)/decrease in loans and advances to credit institutions		(414,501,006)	(925,762,200)
Net (increase)/decrease in loans and advances to customers		(429,085,445)	(790,147,087)
Net (increase)/decrease in available-for-sale financial assets		(891,216,590)	(271,132,703)
Net (increase)/decrease in financial assets designated at fair value through profit or loss		107,880,945	41,462,109
Net (increase)/decrease in held-to-maturity investments		181,243,752	35,170
Net (increase)/decrease in trading financial instruments		(2,981,581)	(2,546,759)
Net (increase)/decrease in other assets		(93,632,303)	(40,048,681)
Net (increase)/decrease in trading financial liabilities		(3,739,705,947)	264,007,015
Net (Increase)/decrease in deposits from credit institutions		1,208,750,000	---
Net (Increase)/decrease in deposits from Central bank		799,641,771	(1,019,385,002)
Net increase/(decrease) in other liabilities		(6,777,192)	21,606,793
Dividends received		2,067,500	3,005,721
<b>Net cash flows from/(used in) operating activities</b>		<b>(3,053,317,870)</b>	<b>(2,524,037,598)</b>
Acquisition of property, plant and equipment		(80,173)	(380,083)
<b>Net cash flows/(used in) from investing activities</b>		<b>(80,173)</b>	<b>(380,083)</b>
Net Increase/(decrease) in bonds issued		3,269,982,673	2,120,175,599
Increase in share capital		260,000,000	235,000,000
<b>Net cash flows/(used in) from financing activities</b>		<b>3,529,982,673</b>	<b>2,355,175,599</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>476,584,630</b>	<b>(169,242,082)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>172,866,198</b>	<b>342,108,281</b>
Net increase/decrease in cash and cash equivalents		476,584,630	(169,242,082)
Cash and cash equivalents: exchange rate fluctuations		---	---
<b>Cash and cash equivalents at the end of the year</b>	<b>4</b>	<b>649,450,828</b>	<b>172,866,199</b>

The accompanying notes form an integral part of the annual accounts.



## NOTE 1 – GENERAL INFORMATION

Société Européenne de Banque S.A. (hereafter the “Bank”) was incorporated in Luxembourg on 2<sup>nd</sup> June 1976 as a limited company under Luxembourg Law.

The main activities of the Bank are focused on private banking and corporate business. Until 6<sup>th</sup> July 2008, the Bank provided services to investment funds such as central administration, transfer agent and custodian. On 7<sup>th</sup> July 2008, following a decision of the Extraordinary Shareholders’ Meeting held on 25<sup>th</sup> 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.

The Bank is a wholly-owned subsidiary of Intesa Sanpaolo Holding International S.A., which does not object to the Bank not presenting consolidated financial statements. 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 bank 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 26<sup>th</sup> February 2013.

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

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

### 2.1. Basis of preparation

The financial statements are prepared on the historical cost basis except for financial instruments held for trading, for derivatives held for hedging, for financial instruments classified as available-for-sale and for financial assets and liabilities designated at fair value through profit or loss that are measured at fair value.

#### 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”).

### 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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date. For financial instruments traded in active markets, the determination of fair value of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. A market is considered as active when quoted prices are readily and regularly available from an exchange, pricing service or regulatory agencies, and those prices represent actual market transactions on an arm’s length basis. Financial assets are measured at bid price while financial liabilities are measured at an asking price.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.

Those valuation techniques are commonly accepted valuation methods in the financial markets such as reference

to current fair value of other similar instruments, present value of future cash flows, or option pricing models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial assets.

#### 2.2.2. Impairment losses on loans and advances

The Bank reviews its problematic loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. 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. In addition to specific allowance against individually significant loans and advances, the Bank also makes a collective impairment test on exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

#### 2.2.3. Valuation of unquoted equity investments (except for investments in subsidiaries)

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

- recent arm’s length market 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.

#### 2.2.4. Impairment of available-for-sale equity investments

The Bank treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgement. The Bank treats “significant” generally as 20% or more and “prolonged”

as greater than 6 months. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

### 2.3. Changes in accounting policies

#### 2.3.1. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1<sup>st</sup> January 2012, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

#### IFRS 9 Financial instruments (2010) and IFRS 9 Financial instruments (2009) (together IFRS 9)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset’s contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income.

No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income

unless they clearly represent a partial recovery of the cost of the investment.

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1<sup>st</sup> January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Bank has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

#### Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)

Disclosures - Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1<sup>st</sup> January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Bank will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net

settlement. The amendments are effective for annual periods beginning on or after 1<sup>st</sup> January 2014 and interim periods within those annual periods. Earlier application is permitted.

Based on our initial assessment, the Bank is not expecting a significant impact from the adoption of the amendments to IAS 32. However, the adoption of the amendments to IFRS 7 requires more extensive disclosures about rights of set-off.

#### IFRS 13 Fair value measurement (2011)

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Bank is currently reviewing its methodologies for determining fair values. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Bank to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3. IFRS 13 is effective for annual periods beginning on or after 1<sup>st</sup> January 2013 with early adoption permitted.

#### IAS 19 Employee benefits (2011)

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Bank. However, the Bank may need to assess the impact of the change in measurement principles of the expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1<sup>st</sup> January 2013 with early adoption permitted.

### **2.4. Summary of significant 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 income statement.

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 either recognised in the income statement or within the equity reserves.

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

#### **2.4.2. Financial assets other than derivatives**

##### Classification

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and advances, held-to-maturity investments, and available-for-sale financial assets.

##### **- Financial assets designated at fair value through profit or loss**

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- it is classified as held for trading if it is acquired for the purpose of short term profit taking.
- it is designated upon initial recognition as at fair value through profit or loss in compliance with the cases contemplated in the reference regulations. The Bank uses the fair value option mainly to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or recognising the gains and losses on them on different bases.

##### **- Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

##### **- Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's Management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be required to be reclassified as available-for-sale financial assets.

##### **- Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or those financial assets that are not classified in any of the three preceding categories. Available-for-sale financial assets include non quoted investments in subsidiaries.

##### Initial recognition and subsequent measurement

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity 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.

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 and held-to-maturity 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 income statement 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 equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

However, interest calculated using the effective interest method is recognised in the income statement.

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 lower of the fair value of the transferred asset and the option exercise price.

**2.4.3. Financial liabilities other than derivatives**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 recognised 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.

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 income statement 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 income statement.

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 income statement.

Non-derivative financial liabilities designated as hedging instruments

A non-derivative financial liability has been designated as hedging instrument for the purpose of a hedge of the foreign currency risk linked to a non quoted subsidiary denominated in foreign currency.

**2.4.4. Derivative financial instruments**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 income statement. The Bank assesses whether embedded derivatives are required to be separated from the host contracts when the Bank becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

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.

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 income statement.

Hedging

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.

A hedging relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective throughout the period and prospectively;
- the effectiveness of the hedge can be reliably measured;
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

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 income statement. 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 income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement 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 income statement.

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 income statement.

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 income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

**– Cash flow hedges**

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non financial asset or non financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

As at 31<sup>st</sup> December 2012 and 2011, the Bank has no cash flow hedged transactions.

Derecognition

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

**2.4.5. 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.

Loan commitments are firm commitments to provide loans or advances under pre-specified terms and conditions.

Financial guarantee contracts and loan commitments are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

#### 2.4.6. 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.

#### 2.4.7. 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.

#### 2.4.8. Impairment of financial assets

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 income statement.

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 granting 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 income statement. 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 income statement.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the income statement. 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 income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

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.

#### 2.4.9. Tangible fixed assets

Items of property, 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.

Depreciation is charged to the income statement 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

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 income statement 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 income statement as an expense as incurred.

#### 2.4.10. Intangible assets

Intangible assets, mainly composed of software acquired by the Bank, are measured on initial recognition at cost. Following initial recognition, they are carried at cost less accumulated amortisation and accumulated impairment

losses. The estimated useful lives of softwares are as follows: 4 to 5 years on a straight-line basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement in the year the asset is derecognised.

#### 2.4.11. Other assets

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

Other assets are stated at cost less impairment.

#### 2.4.12. 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 income statement 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 income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

#### 2.4.13. 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 reserve: 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.

#### 2.4.14. 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.

Yearly contributions to the plan are disclosed under Note 25.

The Bank does not grant any other employee benefits.

#### 2.4.15. 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 income statement 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.

#### 2.4.16. 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.

#### 2.4.17. Interest income and expense

For all instruments measured at amortised cost, interest income and expense are recognised in the income statement as they accrue, taking into account the effective yield of the asset and the liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

#### 2.4.18. 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.

#### 2.4.19. Dividend income

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

#### 2.4.20. Taxes

##### 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.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

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.

### NOTE 3 – FINANCIAL RISK MANAGEMENT

#### 3.1. Introduction and overview

The Parent Company governing bodies (Supervisory Board and Management Board), 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 refers to the Group business strategies and objectives, defines scopes and methods to manage risks:

- assures different types of risk measurement and controlling. i.e. market, interest rate, liquidity and operational risks following specific policies;
- revaluates the Bank assets according to mark-to-market and fair value principle defined in a “Fair Value Policy” issued at the 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 Corporate Banking and Credit Risk function provides details, own assessments and complies with regulatory and ultimate parent company requirements with regards to credit risk.

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 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 very often also clients 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 8% required by local regulation;
- Each new customer relation must be approved by the "Committee of acceptance of new customers and operations";
- The main exposures are toward the ultimate Parent Company;
- Most of corporate loans are collateralised by guarantees (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 the topics as follows:

- Large exposure;
- Credit limits and collaterals;
- Credit lines;
- Ratings;
- Exposures by country.

The Bank has in place a manual of procedures, which describes the controls, review and report regarding the credit risk. A periodic reporting on credit risk is made to the Audit Committee.

(in €)

3.2.1. 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 2012	Maximum exposure 2011
Cash and cash balances with central banks	43,195,898	101,720,594
Financial assets held for trading	19,854,064	63,024,898
Financial assets designated at fair value through profit or loss	30,349,617	137,008,218
Available-for-sale financial assets	2,407,939,904	1,407,723,814
Held-to-maturity investments	---	181,243,752
Loans and advances	11,468,171,412	10,098,847,842
Derivatives held for hedging	---	5,515,529
Other assets	12,324,357	9,342,776
<b>TOTAL</b>	<b>13,981,835,252</b>	<b>12,004,427,423</b>
Contingent liabilities	45,364,172	80,170,590
Commitments	107,069,321	153,688,902
<b>TOTAL</b>	<b>152,433,493</b>	<b>233,859,492</b>

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.

(in €)

3.2.2. 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 applies regulation issued by its ultimate mother 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 2012 In €	Performing assets	Doubtful assets	Substandard exposures	Past due exposures	TOTAL
Financial assets held for trading	19,854,064	---	---	---	19,854,064
Financial assets designated at fair value through profit or loss	30,349,617	---	---	---	30,349,617
Available-for-sale financial assets	2,407,939,904	---	---	---	2,407,939,904
Loans and advances	11,338,657,549	154,500,984	---	---	11,493,158,533
<b>TOTAL</b>	<b>13,796,801,134</b>	<b>154,500,984</b>	<b>---</b>	<b>---</b>	<b>13,951,302,118</b>

In 2011 In €	Performing assets	Doubtful assets	Substandard exposures	Past due exposures	TOTAL
Financial assets held for trading	63,024,898	---	---	---	63,024,898
Financial assets designated at fair value through profit or loss	137,008,218	---	---	---	137,008,218
Available-for-sale financial assets	1,407,723,814	---	---	---	1,407,723,814
Held-to-maturity investments	181,243,752	---	---	---	181,243,752
Loans and advances	10,082,356,641	33,831,055	---	---	10,116,187,696
<b>TOTAL</b>	<b>11,871,357,323</b>	<b>33,831,055</b>	<b>---</b>	<b>---</b>	<b>11,905,188,378</b>

(in €)

3.2.3. Credit quality per class of financial assets

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

In 2012 In €	Gross exposure	Individual impairment	Collective impairment	Net exposure
Performing loans	11,338,657,549	(960,373)	(1,159,904)	11,336,537,272
Doubtful loans	154,500,984	(22,866,844)	---	131,634,140
Past due exposures	---	---	---	---
<b>TOTAL</b>	<b>11,493,158,533</b>	<b>(23,827,217)</b>	<b>(1,159,904)</b>	<b>11,468,171,412</b>

In 2011 In €	Gross exposure	Individual value adjustments	Collective value adjustments	Net exposure
Performing loans	10,082,356,641	(1,120,845)	(1,469,290)	10,079,766,506
Doubtful loans	33,831,055	(14,749,719)	---	19,081,336
Past due exposures	---	---	---	---
<b>TOTAL</b>	<b>10,116,187,696</b>	<b>(15,870,564)</b>	<b>(1,469,290)</b>	<b>10,098,847,842</b>

Loans for which no objective evidence of loss as emerged from individual measurement are subject to collective measurement.

Collective measurement occurs for homogeneous loans categories similar in terms of credit risk. Classification in similar groups is based on common elements such as business sector, type of guarantee, concentration of risk, ...

The Bank has adopted a formula-based approach to assess impairment losses on a similar group of loans and financial assets and the determination of provisions is carried out adopting the parameters of the calculation model set out in the supervisory provisions, namely, Probability of Default and Loss Given Default. The relationship between the two aforementioned parameters represents the starting point for loan segmentation, since they summarise the relevant factors considered by IAS/IFRS for the determination of the homogeneous categories and for the calculation of provisions. The time period of a year used for the determination of the probability of default is considered suitable to approximate the notion of incurred loss, that is, the loss based on current events but not yet included by the entity in the review of the risk of the specific customer, set forth by international accounting standards. This time period is reduced to six months solely for counterparties that are natural persons for whom the recognition of a worsening credit situation and the consequent transfer among the non-performing loans which generally take place following unpaid instalments or continuous defaults for more than 90/180 days. The allocation also takes into account corrective factors such as the state of the economic cycle and the concentration of credit risks towards persons who have a significant exposure to the Group.

As at 31<sup>st</sup> December 2012, there is no credit position that could qualify for loan forbearance as defined by the ESMA (European Security and Market Authority) .

3.2.4. 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<sup>st</sup> December 2012, the lending limit amounted to EUR 289 million (2011: EUR 174 million) and - except for intergroup operations and one sovereign risk - no borrower exceeded this amount. The main exposure relates to 22 borrowers or group of borrowers (2011: 29 borrowers or group of borrowers) with financing between EUR 12,5 and EUR 2,411 million each (2011: between EUR 12,5 and EUR 1,900 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 Part XVI, point 24 of the CSSF Circular 06/273, as amended, the risks to which the Bank is exposed with the Intesa Sanpaolo Group. The exposures on related parties are disclosed in Note 27.

3.2.5. Geographical allocation of risks

As at 31<sup>st</sup> December 2012 and 2011, the distribution by geographical area of the risks held in the 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 €	2012		2011	
	Securities (HTM, AFS, FVPL)	Loans and advances	Securities (HTM, AFS, FVPL)	Loans and advances
Italy	2,091,804,963	9,249,621,470	1,539,705,479	7,630,755,322
USA	---	1,088,594	---	2,755,939
Japan	---	43,381	---	703,386
France	---	5,931,132	---	3,592,494
Spain	10,011,708	2,146,797	9,708,167	1,643,173
Luxembourg	1,480,185	474,783,044	1,811,185	196,018,186
Belgium	---	1,259,735	---	62,960,652
Germany	---	13,869,042	---	420,722
United Kingdom	---	38,230,797	---	192,091,054
Switzerland	---	33,213,174	16,452,522	38,076,725
The Netherlands	30,349,617	7,822,434	35,904,873	19,535,657
Poland	---	1,341,494	---	890,559
Panama	---	2,091,838	---	2,085,977
Russia	---	485,370,602	---	761,726,519
Croatia	---	670,738,174	---	697,065,193
Bosnia and Herzegovina	---	---	---	---
Hungary	---	250,284,307	---	250,531,202
Romania	---	181,088,943	---	181,275,641
Supranational	304,643,048	---	122,393,558	---
Slovenia	---	99,581	---	30,171,750
Portugal	---	1,545	---	2,026,528
Nigeria	---	1,855	---	1,294,950
Greece	---	193	---	378
Ireland	---	114,023	---	10,001
Czech Republic	---	8,533,295	---	7,959,608
Other	---	40,495,961	---	15,256,226
<b>TOTAL</b>	<b>2,438,289,521</b>	<b>11,468,171,412</b>	<b>1,725,975,784</b>	<b>10,098,847,842</b>



(in €)

In €	2012		2011	
	Guarantees	Commitments	Guarantees	Commitments
Andorra	---	---	6,000	---
British Virgin Isl.	---	---	7,500	---
Austria	---	---	---	---
Belgium	---	---	---	---
Canada	22,500	---	22,500	---
Dominican rep.	75,000	---	75,000	---
France	913,919	---	250,932	---
Germany	112,500	---	37,500	---
Greece	15,000	---	15,000	---
Iran	22,500	---	52,500	---
Italy	1,555,845	59,371,314	17,381,491	87,318,574
Luxembourg	41,229,290	13,750,000	42,021,250	20,650,000
Madeira (Afr.	---	---	15,000	---
Netherland	45,000	18,948,007	45,000	19,321,431
Panama	75,000	---	105,000	---
Poland	15,000	---	15,000	---
Principato di Monaco	90,000	---	90,000	---
Qatar	7,500	---	7,500	---
Romania	---	15,000,000	---	15,000,000
Russia	---	---	17,478,741	---
Singapore	---	---	140,000	---
Spain	37,500	---	62,290	---
Switzerland	808,618	---	2,015,428	---
Thailand	75,000	---	75,000	---
Turkey	6,000	---	6,000	---
U.S.A.	193,500	---	193,500	---
United Kingdom	12,000	---	22,457	11,398,897
New Zealand	---	---	---	---
Ireland	---	---	---	---
Vietnam	30,000	---	30,000	---
Congo Dem. Republic	22,500	---	---	---
<b>TOTAL</b>	<b>45,364,172</b>	<b>107,069,321</b>	<b>80,170,590</b>	<b>153,688,902</b>

(in €)

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.

Republic of Italy	
Maturing on:	EUR
2013	387,312,250
2014	259,193,993
2015	367,536,437
2016	62,262,829
2017	180,454,417
2018	137,785,200
2019	26,080,580
2021	26,435,207
<b>Total</b>	<b>1,447,060,914</b>

### 3.2.6. Industry sector allocation of risks

As at 31<sup>st</sup> December 2012 and 2011, the breakdown by industry sector of the risks held in the 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 €	2012		2011	
	Securities (HTM, AFS, FVPL)	Loans and advances	Securities (HTM, AFS, FVPL)	Loans and advances
Financial institutions	949,387,096	10,286,869,811	1,262,817,915	9,159,123,605
Public sector <sup>1)</sup>	1,447,060,914	71,056,037	463,157,869	51,902,896
Other industries	41,841,511	293,747,780	---	219,103,071
Individuals	---	816,497,784	---	668,718,270
<b>TOTAL</b>	<b>2,438,289,521</b>	<b>11,468,171,412</b>	<b>1,725,975,784</b>	<b>10,098,847,842</b>

<sup>1)</sup> These amounts relate to Italian government bonds.

In €	2012		2011	
	Guarantees	Commitments	Guarantees	Commitments
Financial institutions	41,253,575	47,698,007	58,460,626	54,971,431
Public sector <sup>1)</sup>	---	---	---	---
Other industries	1,340,239	22,212,226	18,394,237	98,717,470
Individuals	2,770,358	37,159,088	3,315,727	---
<b>TOTAL</b>	<b>45,364,172</b>	<b>107,069,321</b>	<b>80,170,590</b>	<b>153,688,902</b>

(in €)

**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 shall also comply with Group regulations that from time to time can be imposed to 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<sup>st</sup> December 2012, the liquidity ratio of the Bank is 83% (2011: 91.30%), above the regulatory limit of 30%.

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.

<b>31<sup>st</sup> December 2012</b>	<b>&lt; 1</b>	<b>≥ 1 month</b>	<b>≥ 3 months</b>	<b>≥ 6 months</b>	<b>≥ 1 year</b>	<b>≥ 2 years</b>	<b>≥ 5 years</b>	<b>Total</b>
<b>In million €</b>	<b>month</b>	<b>&lt; 3 months</b>	<b>&lt; 6 months</b>	<b>&lt; 1 year</b>	<b>&lt; 2 years</b>	<b>&lt; 5 years</b>		
Deposit from central banks	---	---	---	---	---	1,209	---	<b>1,209</b>
Financial liabilities held for trading and derivatives held for hedging	18	3	63	9	45	39	5	<b>182</b>
Financial liabilities at fair value through profit or loss	---	2	1	2	12	10	15	<b>42</b>
Financial liabilities measured at amortised cost	2,605	1,498	898	2,498	95	2,652	1,045	<b>11,291</b>
<b>TOTAL</b>	<b>2,623</b>	<b>1,503</b>	<b>962</b>	<b>2,509</b>	<b>152</b>	<b>3,910</b>	<b>1,065</b>	<b>12,724</b>

<b>31<sup>st</sup> December 2011</b>	<b>&lt; 1</b>	<b>≥ 1 month</b>	<b>≥ 3 months</b>	<b>≥ 6 months</b>	<b>≥ 1 year</b>	<b>≥ 2 years</b>	<b>≥ 5 years</b>	<b>Total</b>
<b>In million €</b>	<b>month</b>	<b>&lt; 3 months</b>	<b>&lt; 6 months</b>	<b>&lt; 1 year</b>	<b>&lt; 2 years</b>	<b>&lt; 5 years</b>		
Deposit from central banks	---	---	---	---	---	---	---	---
Financial liabilities held for trading and derivatives held for hedging	7	43	17	19	12	86	30	<b>214</b>
Financial liabilities at fair value through profit or loss	1	2	---	5	5	18	16	<b>47</b>
Financial liabilities measured at amortised cost	1,699	3,238	1,623	1,210	626	1,021	1,370	<b>10,787</b>
<b>TOTAL</b>	<b>1,707</b>	<b>3,283</b>	<b>1,640</b>	<b>1,234</b>	<b>643</b>	<b>1,125</b>	<b>1,416</b>	<b>11,048</b>

(in €)

The breakdown by sector of financial liabilities is as follows:

<b>2012</b>	<b>Government and central banks</b>	<b>Other public entities</b>	<b>Financial institutions</b>	<b>Non-financial companies</b>	<b>Others</b>	<b>Total</b>
<b>In €</b>						
Deposits from central banks	1,208,750,000	---	---	---	---	<b>1,208,750,000</b>
Financial liabilities held for trading and for hedging	---	---	79,767,085	16,921,032	86,582	<b>96,774,700</b>
Financial liabilities carried at fair value	---	---	28,729,078	9,199,646	---	<b>37,928,724</b>
Financial liabilities measured at amortised cost	---	50,247,148	7,944,554,519	2,156,777,655	1,139,692,466	<b>11,291,271,788</b>
<b>TOTAL</b>	<b>1,208,750,000</b>	<b>50,247,148</b>	<b>8,053,050,683</b>	<b>2,182,898,333</b>	<b>1,139,779,048</b>	<b>12,634,725,212</b>

<b>2011</b>	<b>Government and central banks</b>	<b>Other public entities</b>	<b>Financial institutions</b>	<b>Non-financial companies</b>	<b>Others</b>	<b>Total</b>
<b>In €</b>						
Deposits from central banks	---	---	---	---	---	---
Financial liabilities held for trading and for hedging	---	---	158,958,694	---	---	<b>158,958,694</b>
Financial liabilities carried at fair value	---	---	48,844,596	---	---	<b>48,844,596</b>
Financial liabilities measured at amortised cost	97,977,293	---	10,295,926,069	429,990,515	124,220,984	<b>10,948,114,861</b>
<b>TOTAL</b>	<b>97,977,293</b>	<b>---</b>	<b>10,503,729,359</b>	<b>429,990,515</b>	<b>124,220,984</b>	<b>11,155,918,151</b>

<b>2012</b>	<b>Zone EURO</b>	<b>Other European Countries</b>	<b>Others</b>	<b>Total</b>
<b>In €</b>				
Deposits from central banks	1,208,750,000	---	---	<b>1,208,750,000</b>
Financial liabilities held for trading	96,331,510	75,721	367,469	<b>96,774,700</b>
Financial liabilities designated at fair value through profit or loss	37,928,724	---	---	<b>37,928,724</b>
Financial liabilities measured at amortised cost	10,858,862,726	81,374,145	351,034,917	<b>11,291,271,788</b>
<b>TOTAL</b>	<b>12,201,872,960</b>	<b>81,449,866</b>	<b>351,402,386</b>	<b>12,634,725,212</b>

<b>2011</b>	<b>Zone EURO</b>	<b>Other European Countries</b>	<b>Others</b>	<b>Total</b>
<b>In €</b>				
Deposits from central banks	---	---	---	---
Financial liabilities held for trading	158,498,531	50,062	410,101	<b>158,958,694</b>
Financial liabilities designated at fair value through profit or loss	48,384,480	---	460,116	<b>48,844,596</b>
Financial liabilities measured at amortised cost	10,216,676,813	338,290,514	393,147,534	<b>10,948,114,861</b>
<b>TOTAL</b>	<b>10,423,559,824</b>	<b>338,340,576</b>	<b>394,017,751</b>	<b>11,155,918,151</b>

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 Management Board, the Chief Financial Officer, the Chief Risk Officer, the General Manager responsible for the market activities, the Internal Audit, the Treasury Department and any other operational service responsible.

The Risk Management unit together with the Chief Executive Officer carry out their own analyses and assessments and the results are communicated periodically to the Management Board, to the Treasury Department, to the Audit Committee and to the Board of Directors, through the ALCO committee.

The Risk Management unit 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 Board. The Bank has in place a manual of procedures for the Treasury Department and a Risk Management Charter, which describe limits, treasury rules and controls.

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 2012 and 2011 are as follows:

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
EUR	0,9426%	0,4083%	1,8241%	1,3085%
USD	0,6066%	0,3803%	0,5498%	0,4428%

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. Assets and liabilities insensitive to interest rate risk are included in the undetermined category.

31 <sup>st</sup> December 2012 (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	Unde- termined	Total
Cash and cash balances with central banks	43	---	---	---	---	---	---	---	43
Financial assets held for trading and derivatives used for hedging	15	3	---	---	1	1	---	---	20
Financial assets designated at fair value through profit or loss	---	---	---	---	---	---	30	---	30
Available-for-sale financial assets	510	473	610	208	292	262	53	---	2,408
Held-to-maturity investments	---	---	---	---	---	---	---	---	---
Loans and advances	3,998	5,952	1,131	235	1	151	---	---	11,468
TOTAL FINANCIAL ASSETS	4,566	6,428	1,741	443	294	414	83	---	13,969
Deposits from central banks	1,209	---	---	---	---	---	---	---	1,209
Financial liabilities held for trading and derivatives used for hedging	43	2	3	2	41	4	---	---	97
Financial liabilities designated at fair value through profit or loss	---	---	1	8	---	---	29	---	38
Financial liabilities measured at amortised cost	7,820	2,558	445	247	91	131	---	---	11,291
TOTAL FINANCIAL LIABILITIES	9,073	2,560	449	257	132	135	29	---	12,635

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2012, a 25 bp increase or decrease in market interest rates would influence the interest income before tax by EUR +4,262,797 and EUR -5,023,227 respectively.

(in €)

31 <sup>st</sup> December 2011 (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	Unde- termined	Total
Cash and cash balances with central banks	102	---	---	---	---	---	---	---	102
Financial assets held for trading and derivatives used for hedging	11	18	14	6	17	3	---	---	69
Financial assets designated at fair value through profit or loss	---	---	13	11	---	---	113	---	137
Available-for-sale financial assets	160	461	177	158	385	49	---	18	1,408
Held-to-maturity investments	156	---	---	25	---	---	---	---	181
Loans and advances	1,998	6,405	1,443	49	204	---	---	---	10,099
<b>TOTAL FINANCIAL ASSETS</b>	<b>2,427</b>	<b>6,884</b>	<b>1,647</b>	<b>249</b>	<b>606</b>	<b>52</b>	<b>113</b>	<b>18</b>	<b>11,996</b>
Deposits from central banks	---	---	---	---	---	---	---	---	---
Financial liabilities held for trading and derivatives used for hedging	9	4	13	8	16	62	47	---	159
Financial liabilities designated at fair value through profit or loss	4	---	---	11	1	---	33	---	49
Financial liabilities measured at amortised cost	5,004	4,603	926	259	115	41	---	---	10,948
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>5,017</b>	<b>4,607</b>	<b>939</b>	<b>278</b>	<b>132</b>	<b>103</b>	<b>80</b>	<b>---</b>	<b>11,156</b>

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2011, a 25 bp increase or decrease in market interest rates would influence the interest income before tax by EUR +5,029,899 and EUR -4,988,568 respectively.

(in €)

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<sup>st</sup> December 2012 and 2011, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR):

31 <sup>st</sup> December 2012 (In €)	EUR	USD	Other	Total
Cash and cash balances with central banks	43,149,253	29,585	17,060	43,195,898
Financial assets designated at fair value through profit or loss and held for trading	908,004	2,777,029	46,518,648	50,203,681
Available-for-sale financial assets	2,407,939,904	---	---	2,407,939,904
Held-to-maturity investments	---	---	---	---
Loans and advances	10,119,928,461	473,504,828	874,738,123	11,468,171,412
<b>TOTAL FINANCIAL ASSETS</b>	<b>12,571,925,622</b>	<b>476,311,442</b>	<b>921,273,831</b>	<b>13,969,510,895</b>
Deposits from central banks	1,208,750,000	---	---	1,208,750,000
Financial liabilities designated at fair value through profit or loss and held for trading	10,865,958	3,921,043	119,916,423	134,703,424
Financial liabilities measured at amortised cost	10,681,390,874	416,337,728	193,543,186	11,291,271,788
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>11,901,006,832</b>	<b>420,258,771</b>	<b>313,459,609</b>	<b>12,634,725,212</b>

31 <sup>st</sup> December 2011 (In €)	EUR	USD	Other	Total
Cash and cash balances with central banks	101,694,609	13,456	12,529	101,720,594
Financial assets at fair value through profit or loss and held for trading	102,329,150	30,613,093	67,090,873	200,033,116
Available-for-sale financial assets	1,391,271,292	---	16,452,522	1,407,723,814
Held-to-maturity investments	181,243,752	---	---	181,243,752
Loans and advances	8,562,825,610	347,917,887	1,188,104,345	10,098,847,842
Hedging derivatives	---	---	5,515,529	5,515,529
<b>TOTAL FINANCIAL ASSETS</b>	<b>10,339,364,413</b>	<b>378,544,436</b>	<b>1,277,175,798</b>	<b>11,995,084,647</b>
Deposits from central banks	---	---	---	---
Financial liabilities at fair value through profit or loss and held for trading	64,362,431	4,839,213	136,520,156	205,721,800
Financial liabilities measured at amortised cost	10,248,545,387	394,376,033	305,193,441	10,948,114,861
Hedging derivatives	---	---	2,081,490	2,081,490
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>10,312,907,818</b>	<b>399,215,246</b>	<b>443,795,087</b>	<b>11,155,918,151</b>



(in €)

**3.6. Capital management**

The Bank is subject to the local regulation (CSSF Circular 06/273 as amended) in relation to the capital adequacy ratio. The Bank calculates the simplified solvency ratio, which is followed on a quarterly basis.

As of 31 December 2012, the solvency ratio of the Bank is 11,36% (2011: 10,9 %), above the regulatory limit of 8%. Over the 2012 year, the higher solvency ratio amounted to 13,13% (March 2012) and the lower amounted to 8,35% (September 2012).

In €	2012	2011
<b>Tier 1 Capital</b>		
Share capital	535,091,520	280,000,000
Other reserves and retained earnings	621,818,345	432,691,333
Less 50% of holdings in other credit and financial Institutions amounting to more than 10% of their capital	(105,593)	(15,789,258)
Others deductions	---	(1,073)
<b>TOTAL TIER 1</b>	<b>1,156,804,272</b>	<b>696,901,002</b>
<b>Tier 2 Capital</b>	<b>2012</b>	<b>2011</b>
Valuation differences in AFS securities	21,469,928	874,450
Less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital	(105,593)	-874,450
<b>TOTAL TIER 2</b>	<b>21,364,335</b>	<b>---</b>
<b>Total own fund eligible for solvency purposes</b>	<b>1,178,168,607</b>	<b>696,901,002</b>
<b>Capital requirements</b>	<b>829,731,328</b>	<b>511,422,832</b>
Fund eligible for Credit risk	804,277,241	492,614,758
Fund eligible for Settlement risk	---	---
Fund eligible for Exchange rate risk	---	---
Fund eligible for Operational risk	25,454,087	18,808,074
	<b>11.36%</b>	<b>10.9%</b>

(in €)

**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 2012 and 2011, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.

As at 31 December 2012 and 2011, the notional amount and fair value of the derivatives held for trading are as follows (in EUR):

In €	2012		2011	
	Notional amount	Fair value	Notional amount	Fair value
<b>Assets</b>				
Interest rate instruments	3,418,091,065	1,525,524	1,653,271,129	2,223,078
Currency instruments	1,822,447,020	18,328,540	2,031,144,875	60,801,820
	<b>5,240,538,085</b>	<b>19,854,064</b>	<b>3,684,416,004</b>	<b>63,024,898</b>
<b>Liabilities</b>				
Interest rate instruments	3,862,896,013	1,988,955	1,796,349,769	52,096,738
Currency instruments	2,387,617,354	94,785,745	2,091,591,875	104,780,466
	<b>6,250,513,367</b>	<b>96,774,700</b>	<b>3,887,941,644</b>	<b>156,877,204</b>

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

Hedging items are as follows (in EUR):

In €	2012		2011	
	Notional amount	Fair value	Notional amount	Fair value
<b>Assets</b>				
Interest rate instruments	---	---	---	---
Currency instruments	---	---	44,295,440	5,515,529
	---	---	<b>44,295,440</b>	<b>5,515,529</b>
<b>Liabilities</b>				
Interest rate instruments	---	---	44,295,440	2,081,490
Currency instruments	---	---	---	---
	---	---	<b>44,295,440</b>	<b>2,081,490</b>

Hedged items are as follows (in EUR):

In €	2012	2011
	Fair value	Fair value
Loans and advances	---	44,411,998

### 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 million of EUR):

In million €	2012	2011	2012	2011
	Carrying amount		Fair value	
<b>Assets</b>				
Held-to-maturity investments	---	181	---	181
Loans and advances	11,468	10,099	11,360	10,106
<b>Liabilities</b>				
Financial liabilities measured at amortised cost	11,291	10,948	12,521	10,721

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 though the present value of future cash flows.

#### 3.9.1. Fair value hierarchy

As at 31<sup>st</sup> December 2012 and 2011, the Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: 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: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

31 <sup>st</sup> December 2012 <input type="checkbox"/>	LEVEL 1		LEVEL 2		LEVEL 3		Total	
31 <sup>st</sup> December 2011 <input type="checkbox"/>								
<b>Financial assets held for trading</b>								
- Derivatives held for trading	---	---	19,854,064	63,024,898	---	---	19,854,064	63,024,898
<b>Financial assets designated at fair value through profit or loss</b>								
- Debt instruments	---	101,103,345	30,349,617	35,904,873	---	---	30,349,617	137,008,218
<b>Derivatives held for hedging</b>	---	---	---	5,515,529	---	---	---	5,515,529
<b>Available-for-sale financial assets</b>								
- Equity instruments (other than investments in subsidiaries)	---	---	1,480,185	1,600,000	---	---	1,480,185	1,600,000
- Debt instruments	2,406,459,719	1,389,460,106	---	---	---	---	2,406,459,719	1,389,460,106
<b>TOTAL FINANCIAL ASSETS</b>	<b>2,406,459,719</b>	<b>1,490,563,451</b>	<b>51,683,866</b>	<b>106,045,300</b>	<b>---</b>	<b>---</b>	<b>2,458,143,585</b>	<b>1,596,608,751</b>
<b>Financial liabilities held for trading</b>								
- Derivatives held for trading	---	---	96,774,700	156,877,204	---	---	96,774,700	156,877,204
<b>Financial liabilities designated at fair value through profit and loss</b>	---	---	37,928,724	48,844,596	---	---	37,928,724	48,844,596
<b>Derivatives held for hedging</b>	---	---	---	2,081,490	---	---	---	2,081,490
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>---</b>	<b>---</b>	<b>134,703,424</b>	<b>207,803,290</b>	<b>---</b>	<b>---</b>	<b>134,703,424</b>	<b>207,803,290</b>

During the reporting years ending 31 December 2012 and 31 December 2011, there were no transfers between Level 1 and Level 2 categories, and no transfers into and out of Level 3 category.

### 3.10. 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 & Financial Engineering division which operates on loans, deposits, securities trading and other transactions with corporate customers. It also includes the corporate finance activities.

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.

Other Financial division is related to the loans operations with the other entities of the Intesa Sanpaolo Group. Information regarding the results of each strategic division is disclosed below. Performance is measured based on the revenue as presented in the internal management report reviewed by the Bank's Board and Management. Division revenues are used to measure performance as such information is considered by the Bank's management bodies as the most relevant indicator evaluating the achievement of the strategic divisions.

(in €)

Results by strategic divisions in EUR '000	Net interest margin	Net commission margin	Net trading income	Net other income	Impairment on financial assets	Total revenues
Corporate & Financial Engineering Division	3,797	14,105	1,372	(427)	246	19,093
Wealth Management Division	6,769	6,215	1,089	(119)	(85)	13,869
Financial Markets Division	113,368	2,536	2,316	---	---	118,220
Others Financial Institutions	33,554	253	---	---	---	33,807
<b>Total Areas Results</b>	<b>157,488</b>	<b>23,109</b>	<b>4,777</b>	<b>(546)</b>	<b>161</b>	<b>184,989</b>
<b>Governance</b>						
Impairment on financial assets						(9,533)
Staff and operating expenses						(42,160)
Extraordinary governance expenses						217
<b>Result for the year</b>						<b>133,513</b>

**NOTE 4 – CASH AND CASH EQUIVALENTS**

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 €	2012	2011
	<b>Net carrying amount</b>	<b>Net carrying amount</b>
Cash and cash balances with central banks	43,195,898	101,720,594
Loans and advances to banks with maturity < 3 months	649,233,461	172,703,910
<b>TOTAL</b>	<b>692,429,359</b>	<b>274,424,504</b>

In accordance with the requirements of the European Central Bank, the Luxembourg Central Bank implemented, effective 1st January 1999, a system of mandatory minimum reserves applicable to all Luxembourg credit institutions. The amount outstanding as at 31 December 2012 is EUR 42,978,531 (2011: EUR 101,558,305).

(in €)

**NOTE 5 – FINANCIAL ASSETS HELD FOR TRADING AND FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

In €	2012	2011
	<b>Net carrying amount</b>	<b>Net carrying amount</b>
<b>Financial assets held for trading</b>		
Derivatives held for trading	19,854,064	63,024,898
	<b>19,854,064</b>	<b>63,024,898</b>
<b>Financial assets designated at inception at fair value through profit or loss</b>		
Securities	30,349,617	137,008,218
	<b>30,349,617</b>	<b>137,008,218</b>

The result arising from the sale of some of the securities during 2012 is shown in the income statement in the net (un)realised gains (losses) on financial assets and liabilities at fair value through profit or loss and commented on Note 22.

As at December 2012, the position is represented by a unique structured corporate bonds issued in JPY, maturing in February 2021, and funded by a deposit in the same currency from the Bank's ultimate Parent Company.

**NOTE 6 – AVAILABLE-FOR-SALE FINANCIAL ASSETS**

In €	2012	2011
	<b>Net carrying amount</b>	<b>Net carrying amount</b>
<b>Quoted debt instruments issued by</b>		
Financial institutions	644,744,049	1,019,088,436
Public sector	1,751,703,962	360,663,504
Other	10,011,708	9,708,166
	<b>2,406,459,719</b>	<b>1,389,460,106</b>

As at 31 December 2012, the fair value of the available-for-sale financial assets which are sold under repurchase agreements amounts to EUR 207 million (2011: EUR 192 million) (refer to note 15).

The Bank participated to the LTRO mechanism from the Luxembourg Central Bank for an amount of EUR 1,2 billion. To enter into such program, the Bank has pledged in favour of the BCL part of its debts instruments kept in its available for sale portfolio which were eligible for such purpose; as at 31 December 2012 the market value of the assets pledge is equal to EUR 1,4 billion.

In €	2012	2011
	<b>Net carrying amount</b>	<b>Net carrying amount</b>
<b>Not quoted shares issued by</b>		
Financial institutions	---	16,452,523
Corporates	211,185	211,185
Other	1,269,000	1,600,000
	<b>1,480,185</b>	<b>18,263,708</b>

As at 31<sup>st</sup> December 2012, 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 the result of the year*
Lux Gest Asset Management S.A.	Luxembourg	100%	2,854,121	2,633,196

\* based on unaudited financial statements as of 31<sup>st</sup> December 2012.

During the first semester of 2012, the Bank's participation in Intesa Sanpaolo Private Bank (Suisse) S.A. has been transferred to its Parent Company Intesa Sanpaolo Holding S.A. through a partial demerger made in accordance with article 287 et seq. of the Law of 10<sup>th</sup> August 1915 on commercial companies, as amended.

The below table describes the movements on the reevaluation reserve related to the financial assets available for sale per type of securities:

In €	Registered office	Percentage owned	Net equity (in EUR)*	Of which the result of the year*
<b>Balance as at 31<sup>st</sup> December 2011</b>	<b>(17,590,461)</b>	<b>(80,622,833)</b>	<b>874,450</b>	<b>(97,338,844)</b>
Increase (decrease) of unrealised gain	24,677,485	4,453,462	(331,000)	28,799,947
(Increase) decrease of unrealised loss	20,013,931	78,858,292	---	98,872,223
Deferred tax	(7,805,076)	(1,026,251)	95,328	(8,735,999)
Inmpact of changes in tax rate of 29.22%	(113,824)	(9,808)	(3,768)	(127,400)
<b>Balance as at 31<sup>st</sup> December 2012</b>	<b>19,182,055</b>	<b>1,652,862</b>	<b>635,010</b>	<b>21,469,927</b>

#### NOTE 7 – HELD-TO-MATURITY INVESTMENTS

In €	2012		2011	
	Net carrying amount	Fair value	Net carrying amount	Fair value
Quoted debt instruments at amortised cost issued by:				
Financial institutions	---	---	155,990,548	156,342,003
Public sector	---	---	25,253,204	25,326,434
<b>TOTAL</b>	<b>---</b>	<b>---</b>	<b>181,243,752</b>	<b>181,668,437</b>

Investments bearing a fixed interest rate amount to EUR 0 (2011: EUR 181,243,752).

No impairment loss was recognised on held-to-maturity investments in 2012 and 2011.

#### NOTE 8 – LOANS AND ADVANCES

In €	2012		2011	
	Total net carrying amount	of which: Impairment	Total net carrying amount	of which: Impairment
Unquoted loans and advances to:				
Financial institutions	10,357,925,848	13,130,526	9,211,026,501	15,772,742
Private customers	816,497,784	10,697,012	668,718,270	470,451
Corporate customers	293,747,780	1,159,583	219,103,071	1,096,661
<b>TOTAL</b>	<b>11,468,171,412</b>	<b>24,987,121</b>	<b>10,098,847,842</b>	<b>17,339,854</b>

##### 8.1. Impairment allowance for loans and advances

As at 31<sup>st</sup> December 2012, the Bank has determined its collective impairment to EUR 1,159,904 (2011: EUR 1,469,290) and its individual impairment to EUR 23,827,217 (2011: EUR 15,870,564).

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

In €	2012	2011
Impairment as at 1 <sup>st</sup> January	17,339,854	7,542,483
Charge of the year / Transfers	11,767,167	12,458,498
Recoveries / amounts written off	(4,119,900)	(2,661,127)
<b>Impairment as at 31<sup>st</sup> December</b>	<b>24,987,121</b>	<b>17,339,854</b>
of which:		
Individual impairment	23,827,217	15,870,564
Collective impairment	1,159,904	1,469,290



(in €)

**8.2. Guarantees received as collateral**

Loans and advances are secured by the following guarantees received by the Bank (in EUR):

In €		Loans and advances to customers	Loans and advances to credit institutions
<b>2012</b>	<b>NET CARRYING AMOUNTS</b>	1,766,380,894	9,701,790,518
	Real guarantees	Mortgage	---
		Securities	34,622,616
		Other real guarantees	1,195,439,180
	Personal guarantees	Government guarantees	7,651,920
		Credit Institutions guarantees	292,912,723
	<b>TOTAL GUARANTEES</b>	<b>1,530,626,439</b>	<b>158,820,202</b>
<b>2011</b>	<b>NET CARRYING AMOUNTS</b>	1,346,667,656	8,752,180,186
	Real guarantees	Mortgage	---
		Securities	42,913,115
		Other real guarantees	989,861,889
	Personal guarantees	Government guarantees	19,213,121
		Credit Institutions guarantees	135,767,028
	<b>TOTAL GUARANTEES</b>	<b>1,187,755,153</b>	<b>160,376,814</b>

**NOTE 9 – PROPERTY, PLANT AND EQUIPMENT**

In €	Land and building	Office equipment	Other equipment	Total
<b>Cost as at 1<sup>st</sup> January 2012</b>	<b>27,029,111</b>	<b>1,832,641</b>	<b>8,437,987</b>	<b>37,299,739</b>
Additions/Disposals/Transfers	19,863	7,080	53,230	<b>80,173</b>
Cost as at 31 <sup>st</sup> December 2012	27,048,974	1,839,721	8,491,217	<b>37,379,912</b>
Accumulated depreciation as at 1 <sup>st</sup> January 2012	(17,795,146)	(1,582,430)	(7,033,583)	<b>(26,411,159)</b>
Depreciation charge/Transfers	(515,454)	(43,793)	(406,235)	<b>(965,482)</b>
Accumulated depreciation as at 31 <sup>st</sup> December 2012	(18,310,600)	(1,626,223)	(7,439,818)	<b>(27,376,641)</b>
<b>Net carrying amount as at 31<sup>st</sup> December 2012</b>	<b>8,738,374</b>	<b>213,498</b>	<b>1,051,399</b>	<b>10,003,271</b>

In €	Land and building	Office equipment	Other equipment	Total
<b>Cost as at 1<sup>st</sup> January 2011</b>	<b>26,921,389</b>	<b>1,800,564</b>	<b>8,197,703</b>	<b>36,919,656</b>
Additions / Disposals / Transfers	107,722	32,077	240,284	<b>380,083</b>
Cost as at 31 <sup>st</sup> December 2011	27,029,111	1,832,641	8,437,987	<b>37,299,739</b>
Accumulated depreciation as at 1 <sup>st</sup> January 2011	(17,077,648)	(1,526,632)	(6,496,012)	<b>(25,100,292)</b>
Depreciation charge / Transfers	(717,498)	(55,798)	(537,571)	<b>(1,310,867)</b>
Accumulated depreciation as at 31 <sup>st</sup> December 2011	(17,795,146)	(1,582,430)	(7,033,583)	<b>(26,411,159)</b>
<b>Net carrying amount as at 31<sup>st</sup> December 2011</b>	<b>9,233,965</b>	<b>250,211</b>	<b>1,404,404</b>	<b>10,888,580</b>

Land and building are used by the Bank for its own needs.

(in €)

**NOTE 10 – INTANGIBLE ASSETS**

In €	2012	2011
<b>Cost as at 1<sup>st</sup> January</b>	<b>107,457</b>	<b>107,457</b>
Additions / Disposals	---	---
Cost as at 31 <sup>st</sup> December	107,457	107,457
Accumulated depreciation as at 1 <sup>st</sup> January	(106,384)	(95,126)
Depreciation charge	(1,073)	(11,258)
Accumulated depreciation as at 31 <sup>st</sup> December	(107,457)	(106,384)
<b>Net carrying amount as at 31<sup>st</sup> December</b>	<b>---</b>	<b>1,073</b>

**NOTE 11 – TAX EXPENSE, DEFERRED TAX ASSETS AND LIABILITIES**

No current taxes are recorded considering the tax integration since 2002 with the Luxembourg Bank's Mother Company, which presents significant tax losses carried forward.

DEFERRED TAX ASSETS AND LIABILITIES (In €)	2012	2011
Deferred tax assets	5,575,894	8,530,888
Deferred tax liabilities	(14,439,293)	(8,530,888)
<b>Net deferred tax assets (liabilities)</b>	<b>(8,863,399)</b>	<b>---</b>

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

In €	1 <sup>st</sup> January 2012	Income statement	Equity	31 <sup>st</sup> December 2012
Financial assets held for trading	(8,138,827)	(5,565,368)	---	(13,704,195)
Financial assets designated at fair value through profit or loss	5,438,057	---	---	5,438,057
Available-for-sale financial assets	---	---	(8,863,399)	(8,863,399)
Financial liabilities held for trading	2,519,922	5,457,315	---	7,977,237
Financial liabilities designated at fair value through profit or loss	(38,351)	118,578	---	80,227
Provisions and value adjustments	219,199	(10,525)	---	208,674
<b>NET DEFERRED INCOME TAX ASSETS/(LIABILITIES)</b>	<b>---</b>	<b>---</b>	<b>(8,863,399)</b>	<b>(8,863,399)</b>

As of 31 December 2012, full recognition of deferred tax assets has not been performed by the Bank. They have been recorded to the same extent as deferred tax liabilities because tax planning opportunity is not available that will create taxable profit in appropriate periods taken into consideration the tax integration with the Bank's Luxembourg Mother Company and its significant tax losses carried forward.

The deferred tax assets/liabilities are calculated on the financial assets/liabilities that would qualified for operating income have been limited as explained above. However, the deferred tax assets/liabilities calculated on the financial assets/liabilities contributing to the other comprehensive income are showing a deferred tax liabilities balance. The deferred tax amount has been consequently shown in deduction from the relative comprehensive income.

In 2011, the income tax rate used was the rate prevalent for that year i.e. 28.80% while the 2012 even if the current income tax

rate is still 28.80%, the income tax rate used for the deferred taxes assessment was 29.22% which is the tax rate that will be applied as from 1<sup>st</sup> January 2013.

The impact of this new tax rate is an additional EUR 127,400 income tax liabilities related to the other comprehensive income.

#### NOTE 12 – OTHER ASSETS AND OTHER LIABILITIES

In €	2012	2011
Prepaid charges	130,348	241,454
VAT	8,876,341	7,313,715
Accrued commission income	720,450	957,399
Other	2,597,218	830,208
<b>OTHER ASSETS</b>	<b>12,324,357</b>	<b>9,342,776</b>
Social security charges	1,070,856	961,449
Withholding taxes and VAT	18,164,189	15,277,605
Administrative expenses to be paid	12,027,658	4,936,383
Accrued commission expenses	168,818	246,569
Short term payable and other sundry accounts	3,536,205	20,361,224
<b>OTHER LIABILITIES</b>	<b>34,967,726</b>	<b>41,783,230</b>

The short term payable and other sundry accounts caption includes mainly fees and expenses due and booked in expenses but not yet paid.

#### NOTE 13 – DEPOSITS FROM CENTRAL BANKS

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

The LTRO transactions are available by auctions to which the bank participated early in 2012. The Bank managed to obtain a financing of EUR 1,200,000,000 maturing in 2015.

#### NOTE 14 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2012, the caption is composed of:

- a portion of the bonds issued by the Bank, which is eligible, according to IAS 39, to fair value option. Such items are fair valued using the quotations of the bonds available through an external provider. As at 31 December 2012, the bonds amount to EUR 9,199,646 (2011: EUR 13,551,209), with a nominal value of EUR 8,784,000 (2011: EUR 12,736,000);
- a financial liability which is eligible, according to IAS 39, to fair value option, with a fair value based on the discounted cash flows method. As at 31 December 2012, the fair value of this liability amounts to EUR 28,729,079 (2011: EUR 35,293,387).

#### NOTE 15 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

In €	2012	2011
	<b>Carrying amount</b>	<b>Carrying amount</b>
Current accounts and amounts with period of notice	255,840,400	277,293,804
Term deposits	235,260,600	3,953,513,143
<b>Deposits from credit institutions</b>	<b>491,101,000</b>	<b>4,230,806,947</b>
Current assets and amounts with period of notice	15,025,500	177,172,360
Term deposits	1,483,001,309	2,245,682,153
<b>Deposits from corporate customers</b>	<b>1,498,026,809</b>	<b>2,422,854,513</b>
Current accounts	380,761,369	49,883,711
Term deposits	1,467,967,403	74,337,273
<b>Deposits from private customers</b>	<b>1,848,728,772</b>	<b>124,220,984</b>
Certificates of deposits	5,778,870,830	3,873,679,169
Bonds	1,391,547,677	---
Commercial paper	282,996,700	296,553,248
<b>Bonds issued and Certificates of deposits</b>	<b>7,453,415,207</b>	<b>4,170,232,417</b>
<b>TOTAL</b>	<b>11,291,271,788</b>	<b>10,948,114,861</b>

In the context of its Euro Medium Term Notes Program, the Bank has issued securities, the maximum amount of the program being EUR 4,5 billion. A significant part of the securities issued by the Bank are subscribed by itself. In these financial statements, in compliance with IFRS, the securities subscribed by the Bank are offset against the securities issued. Part of the securities subscribed by the Bank is sold under repurchase agreements (refer to note 6).

Since March 2011, the Bank is participating as an additional issuer in an existing EUR 30 billion Euro-Commercial Paper (ECP) and Certificate of Deposit (CD) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The issuance programme is guaranteed by Intesa Sanpaolo S.p.A.

The ECP and CD (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<sup>st</sup> December 2012, such ECP issued by the Bank amount to EUR 191 million (2011: EUR 137 million).

Since November 2011, the Bank is participating as an additional issuer in a new EUR 70 billion Euro Medium Term Notes (EMTN) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The issuance programme is guaranteed by Intesa Sanpaolo S.p.A. The EMTN (further the “notes”) issued under this programme bear a maturity date at least of 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<sup>st</sup> December 2012, such EMTN issued by the Bank amount to EUR 1,391 million (2011: 0).

NOTE 16 – PROVISIONS

In €	Litigations	Other provisions	Total
Provision as at 1 <sup>st</sup> January 2012	1,020,500	419,005	1,439,505
Additions	12,180	9,864	22,044
Amounts used	(71,910)	---	71,910
<b>PROVISIONS AS AT 31<sup>ST</sup> DECEMBER 2012</b>	<b>960,770</b>	<b>428,869</b>	<b>1,389,639</b>

Provisions as at 1 <sup>st</sup> January 2011	750,000	---	750,000
Additions	270,500	419,005	689,505 *
Amounts used	---	---	---
Amounts reversed	---	---	---
<b>PROVISIONS AS AT 31<sup>ST</sup> DECEMBER 2011</b>	<b>1,020,500</b>	<b>419,005</b>	<b>1,439,505</b>

\* of which an amount of EUR 22,044 is related to foreign exchange.

NOTE 17 – EQUITY

As at 31<sup>st</sup> 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 June 29, 2012, the Bank transferred the ownership of its subsidiary Intesa Sanpaolo Private Bank (Suisse), S.A., Lugano to its shareholder Intesa Sanpaolo Holding International S.A., Luxembourg through a partial demerger without dissolution. Consequently, ISPB Lugano 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 trough the Bank and its sole shareholder, as published in the draft demerger project in the Luxembourg official newspaper (Memorial), dated 26<sup>th</sup> 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 December 10, 2012, the Bank increased its subscribed and paid-up capital by EUR 260,000,000.

As at 31<sup>st</sup> December 2012, the Bank’s subscribed and paid-up capital amounts to EUR 535,091,520, represented by 1,719,322 shares with no par value.

17.1. Revaluation reserve

The fair value revaluation reserve on available-for-sale financial assets includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

17.2. 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<sup>st</sup> December 2012, the legal reserve amounts to EUR 10,400,000 (2011: EUR 5,250,000).

17.3. Other reserves

As at 31<sup>st</sup> December 2012, other reserves amount to EUR 606,553,309 (2011: EUR 520,794,456).

As at 31<sup>st</sup> December 2012 and 2011, this caption includes an amount of EUR 250 million resulting from the transfer for no consideration of the branch of activity.

17.4. Retained earnings

As at 31<sup>st</sup> December 2012, retained earnings including the impact of the first time application (FTA) of IFRS as adopted by the European Union, amount to EUR 4,865,035 (2011: EUR 4,860,171).

17.5. 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 133,567,148, which corresponds to a return on equity of circa 14% (2011: 14%). It is proposed to the Annual General Shareholders’ Meeting approving the financial statements as at 31 December 2012 to allocate the above mentioned amounts as follows (in EUR):

Net profit of 2012 financial year	133,512,755
Retained profit from previous years (excluding FTA)	54,393
<b>Amount attributable to Shareholders</b>	<b>133,567,148</b>
Allocation to other reserves	10,350,000
Allocation to legal reserves	43,150,000
Dividend for the financial year	80,000,000
<b>TOTAL</b>	<b>133,500,000</b>
Retained profit carried forward to the next financial year	67,148

**NOTE 18 – NET INTEREST INCOME**

In €	2012	2011
Cash balances with central banks	423,618	1,355,478
Financial assets held for trading	17,125	96,121
Financial assets designated at fair value through profit or loss	5,406,315	7,851,054
Hedging derivatives	615,176	4,202,358
Available-for-sale financial assets	58,304,586	37,537,364
Held-to-maturity investments	1,268,748	7,477,330
Loans and advances	257,951,387	244,968,922
Other	71,024	5,807
<b>TOTAL INTEREST AND SIMILAR INCOME</b>	<b>324,057,979</b>	<b>303,494,434</b>

In €	2012	2011
Hedging derivatives	5,488,645	17,631,264
Financial assets held for trading	13,355	29,556
Financial liabilities measured at amortised cost	162,664,871	140,253,647
Financial liabilities designated at fair value through profit or loss	471,611	1,195,600
<b>TOTAL INTEREST EXPENSES AND SIMILAR CHARGES</b>	<b>168,638,482</b>	<b>159,110,067</b>
<b>NET INTEREST INCOME</b>	<b>155,419,497</b>	<b>144,384,367</b>

No interest has been accrued in respect of impaired assets in 2012 and 2011.

**NOTE 19 – NET FEE AND COMMISSION INCOME**

In €	2012	2011
Credit activities	982,665	2,428,250
Asset management	16,884,017	16,021,418
Corporate services	8,749,782	9,148,588
Other	10,446,454	5,282,263
<b>TOTAL FEE AND COMMISSION INCOME</b>	<b>37,062,918</b>	<b>32,880,519</b>
Brokerage and clearing fees	4,478,077	5,487,119
Other	7,777,762	3,882,370
<b>TOTAL FEE AND COMMISSION EXPENSES</b>	<b>12,255,839</b>	<b>9,369,489</b>
<b>NET FEE AND COMMISSION INCOME</b>	<b>24,807,079</b>	<b>23,511,030</b>

**NOTE 20 – DIVIDEND INCOME**

As at 31<sup>st</sup> December 2012 and 2011, dividend income relates to available-for-sale financial assets.

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

As at 31<sup>st</sup> December 2012 and 2011, the net un(realised) gains (losses) on financial assets and liabilities held for trading are composed of:

In €	2012	2011
Equity instruments and linked derivatives	192,608	402,817
Interest rate instruments and linked derivatives	(3,842,381)	(5,777,573)
Foreign exchange transactions	(10,322,074)	714,705
<b>TOTAL</b>	<b>(13,971,847)</b>	<b>(4,660,051)</b>

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

The 2012 profit arises mainly from the sale of the Italian sovereign bonds for EUR 11,243,788, maturing 2023, designated at fair value through profit or loss that the Bank held in its books. The net profit realized from the sale of this investment bond amounts at EUR 7,111,000. The 2011 results suffered from a loss deriving from the high volatility registered on this sovereign bonds position.



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

As at 31<sup>st</sup> December 2012 and 2011, net realised gains on financial assets and liabilities not at fair value through profit or loss are mainly composed of gains realised on the sale of bond instruments held in the available-for-sale portfolio.

**NOTE 24 – NET OTHER OPERATING EXPENSES**

As at 31<sup>st</sup> December 2012 and 2011, net other operating expenses are mainly composed of withholding taxes and net worth tax, which are linked to the Bank's business activity.

**NOTE 25 – ADMINISTRATIVE EXPENSES**

In €	2012	2011
Wages and salaries	16,533,538	16,812,409
Social security charges	2,100,244	2,072,665
Legal pension and similar expenses	848,106	813,147
Employee benefits	315,780	333,151
Other	2,597,682	104,763
<b>TOTAL STAFF EXPENSES</b>	<b>22,395,350</b>	<b>20,136,135</b>
Operating expenses	1,793,684	1,711,816
Repair and maintenance	316,217	287,772
Training and moving	1,149,622	1,108,069
IT outsourcing costs	5,076,926	4,599,700
Legal and professional fees	2,301,221	698,654
Marketing and representation fees	1,578,431	487,396
Charges linked to Corporate activity and other charges	2,050,976	1,886,799
<b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>14,267,077</b>	<b>10,780,206</b>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>36,662,427</b>	<b>30,916,341</b>

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

	2012	2011
Senior Management	3	3
Middle Management	69	68
Employees	130	140
<b>TOTAL</b>	<b>202</b>	<b>211</b>

**NOTE 26 – IMPAIRMENT**

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

In €	2012	2011
Loans and advances	9,372,207	9,495,036
<b>IMPAIRMENT</b>	<b>9,372,207</b>	<b>9,495,036</b>

**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 and executive officers. 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 2012 and 2011 concerning Group entities and the parent companies are as follows:

ASSETS AND LIABILITIES (In €)	2012	2011
Assets held for trading and assets carried at fair value through profit or loss	17,356,732	61,625,902
Available-for-sale financial assets	373,052,172	567,333,433
Held-to-maturity investments	---	155,990,548
Loans and advances	10,035,115,158	8,896,802,582
Hedging derivatives	---	5,515,529
Financial liabilities held for trading and liabilities carried at fair value through profit or loss	117,176,508	201,122,655
Financial liabilities measured at amortised cost	9,282,168,268	9,354,264,314
Hedging derivatives	---	2,081,490
INCOME AND EXPENSES (In €)	2012	2011
Interest income	218,392,930	252,318,016
Fees and commissions received	3,256,935	3,359,844
Dividend income	2,025,000	2,963,221
Interest expenses	126,906,904	115,974,234
Fees and commissions paid	1,916,610	1,687,037

As at 31 December 2012 and 2011, no impairment loss was recognised on available-for-sale financial assets, loans and advances with related parties.

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

In €	2012	2011
Administrative bodies	105,000	105,000
Key management personnel	1,103,195	1,027,829
<b>TOTAL</b>	<b>1,208,195</b>	<b>1,132,829</b>

As at 31 December 2012 and 2011, the Bank has no obligations related to retirement pensions for former administrative bodies and key management personnel.

As at 31 December 2012 and 2011, the Bank has not granted advances and credits and has not entered into guarantee commitments for the above mentioned bodies and personnel.

#### NOTE 28 – COMMITMENTS AND CONTINGENT LIABILITIES

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

In €	2012	2011
Unused confirmed credits	107,069,321	153,688,902
- out of which towards related parties	15,000,000	15,000,000
Guarantees and other direct substitutes for credit	45,364,172	80,170,590
- out of which towards related parties	848,207	17,352,179

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

In €		Contingent liabilities	Unused confirmed credits
2012	<b>AMOUNTS</b>	<b>45,364,172</b>	<b>107,069,321</b>
	Real guarantees	Securities	1,727,485
		Other real guarantees	27,318,461
	Personal guarantees	Government guarantees	---
		Credit Institutions guarantees	279,696
	<b>TOTAL GUARANTEES</b>	<b>29,325,642</b>	<b>71,107,095</b>
2011	<b>AMOUNTS</b>	<b>80,175,590</b>	<b>153,688,902</b>
	Real guarantees	Securities	3,952,298
		Other real guarantees	31,317,135
	Personal guarantees	Government guarantees	336,869
		Credit Institutions guarantees	13,791,080
	<b>TOTAL GUARANTEES</b>	<b>49,397,382</b>	<b>118,038,902</b>

#### Association pour la Garantie des Dépôts, Luxembourg (AGDL)

The Bank is a member of the non-profit making organisation “Association pour la Garantie des Dépôts, Luxembourg” (AGDL) that was established on 25<sup>th</sup> September 1989.

The AGDL has as its sole objective the establishment of a mutual system for the guarantee of cash deposits for the benefit of customers of the member credit institutions of the Association and for claims arising from investment transactions in favour of investors with the credit institutions and investment firms which are members of the Association.

The guarantee of cash deposits and of claims arising from investment transactions in favour of clients, individuals and certain companies as defined by the regulations, is limited to a maximum amount fixed at the equivalent value in all currencies of EUR 100,000 per cash deposit and EUR 20,000 per claim arising out of investment transactions.

If the guarantee is called, the annual payment to be made by each member is limited to 5% of Shareholders' equity.

#### NOTE 29 – INVESTMENT MANAGEMENT SERVICES AND UNDERWRITING FUNCTIONS

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

- Private Banking;
- Corporate services;
- Custody;
- Domiciliation; and
- Fiduciary representation.

Assets managed on behalf of third parties are as follows:

In €	2012	2011
Custody and administration of transferable securities	10,661,775,274	8,696,086,315
Fiduciary representation	291,862,127	343,562,952
Wealth Management	268,392,728	---

#### NOTE 30 – AUDIT FEES

The audit fees and audit related fees for the years ended 31<sup>st</sup> December 2012 and 2011 are as follows:

The fees for the year ended 31<sup>st</sup> December 2011 have been invoiced by the previous auditor Ernst & Young.

In €	2012	2011
Audit fees	119,000	180,155
Audit related fees	---	---
Other	41,000	30,000
<b>TOTAL</b>	<b>160,000</b>	<b>210,155</b>

#### NOTE 31 – EVENTS AFTER THE REPORTING DATE

The Bank is not aware of any adjusting or non-adjusting event that would have been occurred between 31<sup>st</sup> December 2012 and the date when the present financial statements were authorised for submission, by the Board of Directors, to the Annual General Meeting of Shareholders.

## Independent Auditor's Report



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### REPORT OF THE REVISEUR D'ENTREPRISES AGREE

#### *Report on the financial statements*

We have audited the accompanying financial statements of Société Européenne de Banque S.A., which comprise the statement of financial position as at 31 December 2012 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Board of Directors' responsibility for the financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

#### *Responsibility of the Réviseur d'Entreprises agréé*

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

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

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





S. Chambourdon

## Notes



## Notes





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