Société Européenne de Banque
Société Anonyme
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Annual Accounts and Independent Auditor's Report and Directors' Report as at 31 December 2009

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Directors' report

Development of the activity

After the significant changes, which have involved the Société Européenne de Banque S.A. (the "Bank") during the 2008, the 2009 has been an outstanding year for the financial results.

After the completion of the reorganisation process in the Intesa Sanpaolo Group in 2008, with the transfer of the investment fund activity to Sanpaolo Bank S.A. and the transfer from the same bank of the treasury and private and corporate clientele activities, the year 2009 has been devoted to the enhancements of our activity and that has generated profit as at 31 December 2009 of EUR 93 million (2008: EUR 46 million) despite the negative impact of "scudo fiscale" and, mainly for the first part of the year, the global financial crisis.

In more details, as of December 2009, the Corporate Structured Division has reached the targets assigned in the relevant budget (EUR 15 million), after a difficult beginning. The Wealth Management Division (EUR 26.2 million) has performed better than the budget (plus 2.8%). The Financial Markets Division has over performed (plus 34% over budget) reaching EUR 70 million, impacted also by the growth of the intra-group funding, which totalled 5.3 bio at the end of the year.

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 risk, liquidity risk, credit risk and operational risk.). It includes different mitigating controls and structures.

The Risk Manager monitors on regular basis, under the supervision of the Management of the Bank, the market risks and the liquidity risk. He checks that the limits to the above risks are respected and in line with the Bank's limits.
He also manages the operational risk and provides different reporting to the General Management, the Board of Directors, the Audit Committee and the Parent Company.

The Credit risk is mainly monitored by the Credit Department on a daily basis, with further periodical reporting of the risks to the bodies of the Bank.

The Compliance function identifies, assesses and controls the compliance risks within the Bank and acts as advisor in compliance matters.

The Legal Department monitors constantly the legal risks of the Bank.

The Internal Audit function monitors and evaluates the effectiveness of the Bank's risk management process and the Internal Controls System. It performs different audit missions with periodical reporting of the results and residual risks of the different processes, to the Bank's Management and bodies.

Perspectives

The main objectives for 2010 is to achieve the budget target, set as EUR 117.7 million (gross profit) and EUR 84.1 million (net profit) despite a difficult outlook mainly caused by the on going initiatives, namely "C.F.C." and "scudo fiscale", by the Italian Government, which are expected to affect our business negatively.

Moreover, beside the direct impact to our profit and loss, the Bank will face an increasing hostile environment, fuelled by the media network, affecting the regular course of our business, since it is also expected to alter the mood of the Italian investors.

Financial elements for 2009

The total assets as at 31 December 2009 were EUR 9.6 billion (2008: EUR 8.8 billion).

The loans and receivables amounted to EUR 8.0 billion, of which EUR 7.3 billion has been granted to other credit institutions of the Group. Loans and receivables granted to customers other than credit institutions amounted to EUR 651 million.

The financial assets held for trading are mainly composed of derivatives financial instruments and debt securities valuated at their fair value.
The derivative financial instruments amounted to EUR 99 million and are mainly composed of interest rate swaps and foreign exchange derivative contracts.
Concerning the debt securities, they have been acquired during the 2009 and amounted to EUR 131 million.

The financial assets carried at fair value to profit or loss are composed of investments in financial instruments purchased to be kept in the Bank portfolio but evaluated at their fair value. As at 31 December 2009 they amounted to EUR 235 million.

The available-for-sale financial assets, which amount to EUR 853 million, were mainly composed of debt securities issued by other credit institutions for an amount of EUR 837 million and of the investments in subsidiaries.

The held-to-maturity portfolio was composed of a debt security issued by the Italian Government for an amount of EUR 25 million and of a debt security issued by Intesa Sanpaolo for an amount of EUR 150 million.

On the liabilities side, the Bank had EUR 2.3 billion of deposits from customers. The Bank has also issued debts certificates for an amount of EUR 2.1 billion. The liabilities included as well deposits from credit institutions for EUR 4.3 billion.

The net profit for the year amounts to EUR 93 million (2008: EUR 46 million), with a ROE equal to 22% (2008: 23%).

The net interest income amounts to EUR 117 million at the end of the 2009, significantly increased if compared with the 2008 figures (EUR 63 million). The interest income and expense reflects the 2009 average volume of liquidities.

The net fee and commission income amounts to EUR 29 million, showing an increase compared to 2008 net fee and commission income.

On 16 December 2009, the Bank has sold its participation in the company SEB Trust LTD for an amount of EUR 410.000, equal to its book value.

The net (un)realised losses on financial assets and liabilities held for trading amounts to EUR 25 million as at 31 December 2009 (2008: EUR -16 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 at fair value through profit or loss amounted to EUR 7 million as at 31 December 2009 (2008: EUR –6 million) due to the positive fluctuations on the fair value of the financial assets and liabilities carried at fair value through profit or loss.

The total administrative expenses have decreased compared to 2008, moving from EUR 34 million to EUR 29 million. The total staff expenses remained substantially in line with the 2008, while the other administrative expenses decreased from EUR 16 million to EUR 11 million in particular in relation to a reduction in the IT outsourcing costs.

The Bank has booked depreciations according to the fiscal law. No provisions have been booked in relation to current income taxes for the years 2008 and 2009 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 Luxembourg Mother Company.
On the other side, deferred tax assets and deferred tax liabilities have been booked as at 31 December 2009.

The net profit of the year available for the distribution, including the retained earnings amounts to EUR 92 877 447. The Board of Directors will propose the following distribution of the profits to the Annual General Meeting which will be held to approve the annual accounts as at 31 December 2009:

Net profit of 2009 financial year	EUR	92 865 611
Retained profit from previous years (excluding FTA)	EUR	11 836
Amount attributable to Shareholders	**EUR**	**92 877 447**
Allocation to reserves	EUR	55 500 000
Dividend for the financial year	EUR	37 350 000
Retained profit carried forward to the next financial year	EUR	27 447
Total	**EUR**	**92 877 447**

No significant subsequent events, which could have an impact on the 2009 figures or on the disclosures occurred after the year-end 2009.

The Bank did not purchase own shares during the 2009.

No research and development costs have been sustained during the 2009.

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, 23 February 2010

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Independent Auditor's report

To the Board of Directors of
Société Européenne de Banque
Société Anonyme
Luxembourg

Report on the annual accounts

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of Société Européenne de Banque S.A., which comprise the statement of financial position as at 31 December 2009, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing; implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "réviseur d'entreprises"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgement of the "réviseur d'entreprises", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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.

Responsibility of the "réviseur d'entreprises" (continued)

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 annual accounts.

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

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of Société Européenne de Banque S.A. as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The Directors' Report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

ERNST & YOUNG
Société Anonyme
Réviseur d'entreprises

Sylvie TESTA

Luxembourg, 23 February 2010

Société Européenne de Banque
Société Anonyme

Statement of financial position
31 December 2009
(expressed in EUR)

ASSETS	**2009**	**2008**
Cash and cash balances with central banks (Notes 3 and 4)	**71 329 090**	**110 030 806**
Financial assets held for trading (Notes 3 and 5)	**230 464 924**	**128 240 073**
Financial assets designated at fair value through profit or loss (Notes 3 and 5)	**234 793 821**	**285 342 604**
Available-for-sale financial assets (Notes 3 and 6)	**853 004 898**	**632 288 709**
Held-to-maturity investments (Notes 3 and 7)	**181 312 848**	**25 356 227**
Loans and advances (Notes 3 and 8)		
Loans and advances to credit institutions (Note 4)	7 302 590 274	6 527 999 543
Loans and advances to customers	650 633 428	1 000 997 661
	7 953 223 702	**7 528 997 204**
Derivatives held for hedging (Note 3)	**22 910 040**	**84 084 283**
Property, plant and equipment (Note 9)	**13 299 656**	**14 802 267**
Intangible assets (Note 10)	**25 308**	**38 285**
Deferred tax assets (Note 11)	**12 137 272**	**---**
Other assets (Notes 3 and 12)	**6 674 712**	**5 801 449**
TOTAL ASSETS	**9 579 176 271**	**8 814 981 907**

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

LIABILITIES AND SHAREHOLDERS' EQUITY	2009	2008
Deposits from central banks (Note 3)	**869 097**	**657 904**
Financial liabilities held for trading (Note 3)	**137 228 994**	**248 875 540**
Financial liabilities designated at fair value through profit or loss (Notes 3 and 13)	**98 219 467**	**158 749 058**
Financial liabilities measured at amortized cost (Notes 3 and 14)		
Deposits from credit institutions	4 323 630 365	2 529 171 998
Deposits from customers	2 333 126 839	3 915 586 578
Debts evidenced by certificates	2 110 980 656	1 488 375 701
	8 767 737 860	**7 933 134 277**
Derivatives held for hedging (Note 3)	**18 908 444**	**43 712 934**
Provisions (Note 15)	**1 410 598**	**755 108**
Deferred tax liabilities (Note 11)	**14 493 765**	**---**
Other liabilities (Note 12)	**17 184 083**	**16 676 032**
TOTAL LIABILITIES	**9 056 052 308**	**8 402 560 853**
Shareholders' equity (Note 16)		
Issued capital	45 000 000	45 000 000
Revaluation reserve	5 885 874	-11 951 424
Other reserves and retained earnings	379 372 478	333 228 446
Net profit for the year	92 865 611	46 144 032
TOTAL SHAREHOLDERS' EQUITY	**523 123 963**	**412 421 054**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**9 579 176 271**	**8 814 981 907**

Société Européenne de Banque
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Income statement

For the year ended 31 December 2009
(expressed in EUR)

	2009	2008
Net interest income (Note 17)		
Interest and similar income	349 382 466	378 673 234
Interest expenses and similar charges	-232 858 649	-315 868 296
	116 523 817	**62 804 938**
Net fee and commission income (Note 18)		
Fee and commission income	39 242 551	38 890 316
Fee and commission expenses	-9 746 678	-11 146 924
	29 495 873	**27 743 392**
Dividend income (Note 19)	**2 769 022**	**944 390**
Net (un)realised gains (losses) on financial assets and liabilities held for trading (Note 20)	**-25 398 380**	**-15 726 496**
Net (un)realised gains (losses) on financial assets and liabilities at fair value through profit or loss (Note 21)	**7 450 608**	**-5 526 995**
Net realised gains (losses) from financial assets and liabilities not at fair value through profit or loss (Note 22)	**1 172 255**	**3 995 783**
Fair value adjustments in hedge accounting (Note 3)	**---**	**10 189 904**
Net other operating income / expenses (Notes 23 and 27)		
Other operating income	475 846	1 574 079
Other operating expenses	-4 350 753	-274 109
	-3 874 907	**1 299 970**
Administrative expenses (Notes 24, 27 and 29)	**-28 927 704**	**-34 062 237**
Depreciation and amortisation (Notes 9 and 10)	**-1 860 375**	**-1 903 132**
Provisions (Note 15)	**-480 490**	**-675 000**
Impairment (Notes 8 and 25)	**-4 004 108**	**-2 940 485**
Net profit for the year	**92 865 611**	**46 144 032**

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

Société Européenne de Banque
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Statement of comprehensive income
For the year ended 31 December 2009
(expressed in EUR)

	2009	2008
Profit for the year	**92 865 611**	**46 144 032**
Other comprehensive income		
Net gain (loss) on available-for-sale financial assets	20 193 791	-13 679 584
Income tax relating to the components of other comprehensive income	-2 356 493	---
Other comprehensive income for the year, net of tax	**17 837 298**	**-13 679 584**
Total comprehensive income for the year, net of tax	**110 702 909**	**32 464 448**

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

Société Européenne de Banque
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Statement of changes in equity
For the year ended 31 December 2009
(expressed in EUR)

	Issued capital	Fair value revaluation reserve on AFS	Reserves		Retained earnings	Profit of the year before appropriation	Total
			Legal reserve	Other reserves			
Balance as at 1st January 2008	**45 000 000**	**1 728 160**	**5 250 000**	**46 350 424**	**6 755 000**	**24 873 022**	**129 956 606**
Total comprehensive income	---	-13 679 584	---	---	---	46 144 032	32 464 448
Transfers and appropriation of prior year's profit	---	---	---	26 800 000	-1 926 978	-24 873 022	---
Transfer of branches of activity	---	---	---	250 000 000(1)	---	---	250 000 000
Balance as at 31 December 2008	**45 000 000**	**-11 951 424**	**5 250 000**	**323 150 424**	**4 828 022**	**46 144 032**	**412 421 054**
Total comprehensive income	---	17 837 298	---	---	---	92 865 611	**110 702 909**
Transfers and appropriation of prior year's profit	---	---	---	46 144 032	---	-46 144 032	---
Balance as at 31 December 2009	**45 000 000**	**5 885 874**	**5 250 000**	**369 294 456**	**4 828 022**	**92 865 611**	**523 123 963**

(1) Please refer to Note 1 in relation to the transfer of branches of activity occurred in 2008.

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

Société Européenne de Banque
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Statement of cash flows
For the year ended 31 December 2009
(expressed in EUR)

	2009	2008
Profit before tax	**92 865 611**	**46 144 032**
Adjustments:		
Depreciation / amortisation	1 860 375	1 903 132
Impairment for credit losses	4 004 108	2 940 485
Provisions and other income/expenses	655 490	-4 265 173
Fair value adjustments	-40 230 017	8 930 638
Cash flows from operating profits before changes in operating assets and liabilities	**59 155 567**	**55 653 114**
Net (increase)/decrease in trading assets	-128 062 722	-138 880 756
Net (increase)/decrease in loans and advances to credit institutions	-1 845 662 983	-185 567 216
Net (increase)/decrease in loans and advances to customers	346 360 125	-387 216 815
Net (increase)/decrease in available-for-sale assets	-200 932 399	-55 598 805
Net (increase)/decrease in financial assets designated at fair value through profit or loss	49 252 577	-23 309 315
Net (increase)/decrease in derivatives financial instruments	-8 793 332	-65 175 193
Net (increase)/decrease in other assets	-873 263	-841 012
Net increase/(decrease) in deposits from banks	1 823 226 394	-640 451 278
Net (increase)/decrease in deposits from customers	-1 582 459 739	358 490 956
Net increase/(decrease) in other financial liabilities	534 399 163	1 655 160 060
Net increase/(decrease) in other liabilities	508 051	-100 329 015
Net cash flow from operating activities [1]	**-1 013 038 128**	**416 281 611**
Dividends received	2 270 008	944 390
Acquisition of intangible assets	---	-1
Acquisition of property, plant and equipment	-344 786	-538 875
Proceeds from purchase or sale of financial assets held-to-maturity	-155 956 621	20 511 179
Proceeds from sale of subsidiaries	410 000	5 000 000
Net cash flow from investing activities	**-153 621 399**	**25 916 693**
Dividends paid	---	---
Net cash flow from financing activities	**---**	**---**
Net increase/decrease in cash and cash equivalents	**-1 107 503 960**	**497 851 418**
Cash and cash equivalents at beginning of year	**2 740 107 592**	**2 242 255 774**
Net increase/decrease in cash and cash equivalents	-1 107 503 960	497 851 418
Cash and cash equivalents: exchange rate fluctuations	---	400
Cash and cash equivalents at end of year (Note 4)	**1 632 603 632**	**2 740 107 592**
of which : not available	71 063 512	109 770 000

[1] including, for 2008, the effects of the transfer of branches of activity (Refer to Note 1).

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

The Bank does not prepare consolidated financial statements. 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 annual accounts were authorised for submission to the Shareholders' Annual General Meeting by the Bank's Board of Directors on 23 February 2010.

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

Due to the transfer of activity occurred in July 2008 and mentioned above, the comparison between the income statement figures as of 31 December 2009 and 2008 may not be relevant.

Note 2 – Significant accounting policies

(a) Basis of preparation

The annual accounts 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.

Note 2 – Significant accounting policies (continued)

Statement of compliance

The annual accounts 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").

(b) Significant accounting judgements and estimates

In preparing the annual accounts, the Board of Directors is required to make 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 annual accounts.

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:

Fair value of financial instruments

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. 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 liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Impairment losses on loans and advances

The Bank reviews its problem 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.

Note 2 – Significant accounting policies (continued)

Valuation of unquoted equity investments (except for investments in subsidiaries)

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

- recent arms length market transactions;
- current fair value of another instrument that is substantially the same;
- the 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.

As at 31 December 2009 and 2008, there were no significant differences between the transaction price at initial recognition and the fair value that would be determined at that date using the valuation technique mentioned above.

Impairment of equity available-for-sale 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" 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.

(c) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

<u>IAS 1 Presentation of Financial Statements</u>

The revised IAS 1 "Presentation of Financial Statements" is applied for annual period starting on or after 1 January 2009. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank has elected to present two statements.

Note 2 – Significant accounting policies (continued)

IFRS 7 Financial Instruments: Disclosures

The amended standard is applied for annual period starting on or after 1 January 2009 and requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as disclosure of significant transfer between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 3. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 3.

(d) Standards issued but not yet effective

The following IFRS standards and IFRIC interpretations were issued with an effective date for financial periods beginning on or after 1 January 2009. The Bank has chosen not to early adopt these standards and interpretations before their effective dates.

Only accounting policies and disclosures applicable or potentially applicable to the Bank are mentioned below.

IFRS 3 (Revised 2008) Business Combinations and IAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 (Revised 2008) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Application of the revised standards will become mandatory for the Bank's 2010 financial statements.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items

This amendment to IAS 39 was issued on 31 July 2008 and is applicable for annual periods beginning on or after 1 July 2009 with early application permitted. The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

Note 2 – Significant accounting policies (continued)

IFRS 9: Financial Instruments

This is the first step in a three part project by the IASB to replace IAS 39 Financial Instruments. This first part, dealing with the classification and measurement of financial assets, simplifies the recognition of financial assets by requiring such assets to be measured at either amortised cost or fair value, depending on certain criteria. The standard is effective for financial years beginning on or after 1 January 2013, although it may be early adopted. The date of the adoption of this standard by the Bank will also be dependent on the timing of the EU endorsement process.

(e) Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for what is disclosed in Note 2 (c).

Foreign currency translation

The annual accounts 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 rate 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.

Note 2 – Significant accounting policies (continued)

Financial assets other than derivatives

(i) 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 at fair value through profit or loss

A financial asset is classified in this category if acquired for the purpose of short term profit taking. Financial assets at fair value through profit or loss also include financial assets 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 reduces 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.

Note 2 – Significant accounting policies (continued)

(ii) 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 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 profit or loss.

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

(iii) 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.

Note 2 – Significant accounting policies (continued)

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.

Financial liabilities other than derivatives

(i) Classification

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

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

(ii) Initial recognition and subsequent measurement

Interest-bearing liabilities – other than financial liabilities at fair value – 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.

(iii) Derecognition

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

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

Note 2 – Significant accounting policies (continued)

Derivative financial instruments

(i) Classification

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

(ii) Initial recognition and subsequent measurement

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

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

(iii) 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.

(iv) 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 and cash flow hedges.

Note 2 – Significant accounting policies (continued)

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 risk hedged 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 change 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 December 2009 and 2008, the Bank has no cash flow hedged transactions.

Note 2 – Significant accounting policies (continued)

Financial guarantee contracts

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

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 collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized 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.

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.

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.

Note 2 – Significant accounting policies (continued)

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.

Note 2 – Significant accounting policies (continued)

Property, plant and equipment

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.

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, plan 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.

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 software 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.

Note 2 – Significant accounting policies (continued)

Other assets

Other assets are stated at cost less impairment.

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.

Note 2 – Significant accounting policies (continued)

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.

Pension plan

The Bank contributes to a defined contribution retirement plan located with an external insurance company.

Yearly contributions to the plan are disclosed under Note 24.

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.

Other liabilities

Other liabilities are stated at cost.

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.

Note 2 – Significant accounting policies (continued)

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.

Dividend income

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

Taxes

Current income tax

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 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.

Note 2 – Significant accounting policies (continued)

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 at 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

(a) Strategies in using financial instruments

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 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.

Note 3 – Financial risk management (continued)

(b) 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 also clients of the Group;
- Calculation is made for all new credit transactions of the impact on capital requirements. 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 towards 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.

Note 3 – Financial risk management (continued)

(i) 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 EUR)	**Maximum exposure 2009**	**Maximum exposure 2008**
Cash and cash balances with central banks	71 329 090	110 030 806
Financial assets held for trading	230 464 924	128 240 073
Financial assets designated at fair value through profit or loss	234 793 821	285 342 604
Available-for-sale financial assets	853 004 898	632 288 709
Held-to-maturity investments	181 312 848	25 356 227
Loans and advances	7 953 223 702	7 528 997 204
Derivatives held for hedging	22 910 040	84 084 283
Other assets	6 674 712	5 801 449
Total	**9 553 714 035**	**8 800 141 355**
Contingent liabilities	78 478 735	134 589 198
Commitments	46 603 712	140 992 797
Total	**125 082 447**	**275 581 995**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not 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.

Note 3 – Financial risk management (continued)

(ii) 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):

(in EUR)	**Performing assets 2009**	**Doubtful assets 2009**	**Substandard exposures 2009**	**Past due exposures 2009**	**TOTAL 2009**
Financial assets held for trading	230 464 924	---	---	---	**230 464 924**
Financial assets designated at fair value through profit or loss	234 793 821	---	---	---	**234 793 821**
Available-for-sale financial assets	853 004 898	---	---	---	**853 004 898**
Held-to-maturity investments	181 312 848	---	---	---	**181 312 848**
Loans and advances	7 942 216 053	18 841 756	---	---	**7 961 057 809**
Total	**9 441 792 544**	**18 841 756**	---	---	**9 460 634 300**

(in EUR)	**Performing assets 2008**	**Doubtful assets 2008**	**Substandard exposures 2008**	**Past due exposures 2008**	**TOTAL 2008**
Financial assets held for trading	128 240 073	---	---	---	**128 240 073**
Financial assets designated at fair value through profit or loss	285 342 604	---	---	---	**285 342 604**
Available-for-sale financial assets	632 288 709	---	---	---	**632 288 709**
Held-to-maturity investments	25 356 227	---	---	---	**25 356 227**
Loans and advances	7 533 341 364	1 924 848	---	---	**7 535 266 212**
Total	**8 604 568 977**	**1 924 848**	---	---	**8 606 493 825**

Note 3 – Financial risk management (continued)

(iii) Credit quality per class of financial assets

The gross and net exposures of loans and advances are as follows (in EUR):

In 2009	Gross exposure	Individual value adjustments	Collective value adjustments	Net exposure
Performing loans	7 942 216 053	-1 364 192	-1 647 374	7 939 204 487
Doubtful loans	18 841 756	-4 822 541	---	14 019 215
Substandard exposures	---	---	---	---
Past due exposures	---	---	---	---
Total	**7 961 057 809**	**-6 186 733**	**-1 647 374**	**7 953 223 702**

In 2008	Gross exposure	Individual value adjustments	Collective value adjustments	Net exposure
Performing loans	7 533 341 364	-2 693 687	-1 650 473	7 528 997 204
Doubtful loans	1 924 848	-1 924 848	---	---
Substandard exposures	---	---	---	---
Past due exposures	---	---	---	---
Total	**7 535 266 212**	**-4 618 535**	**-1 650 473**	**7 528 997 204**

(iv) Concentration of risks

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

- The total risk exposure towards a single client or group of connected clients must not exceed 25% of the own funds of the Bank;
- The total risk exposure towards the parent undertaking or subsidiaries of the Bank must not exceed 20% of the own funds of the Bank;
- The total value of all large exposures must not exceed 800% of the own funds of the Bank.

As at 31 December 2009, the lending limit amounted to EUR 126 million (2008: EUR 96 million) and - except for intergroup operations and one sovereign risk - no borrower exceeded this amount. The main exposure relates to 24 borrowers or group of borrowers (2008: 20 borrowers or group of borrowers) with financing between EUR 12.5 and EUR 1 850 million each (2008: between EUR 14 – 100 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.

Note 3 – Financial risk management (continued)

(v) Geographical allocation of risks

As at 31 December 2009 and 2008, the distribution by geographical area of the risks held in the Securities (except for trading positions) and Loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(in EUR)	**2009**		**2008**	
	Securities (HTM, AFS, FVPL)	**Loans and advances**	**Securities (HTM, AFS, FVPL)**	**Loans and advances**
Italy	1 195 221 947	5 862 225 948	804 214 513	4 845 203 344
USA	---	6 524 431	---	88 415 236
Japan	---	4 639 394	---	4 785 837
France	---	6 827 302	---	8 660 711
Spain	9 969 770	1 758 631	35 301 303	4 437 623
Luxembourg	2 849 610	233 157 742	2 311 185	432 026 150
Belgium	---	3 384 092	---	91 267 795
Germany	---	3 444 387	---	7 040 172
United Kingdom	---	26 107 523	---	83 832 148
Switzerland	13 481 359	52 483 654	13 468 522	69 294 123
Netherlands	37 569 416	9 329 126	40 748 844	8 908 138
Poland	---	1 515 800	---	1 829 806
Panama	---	4 514 208	---	10 358 765
Russia	---	634 982 811	---	777 579 577
Croatia	---	590 613 692	---	508 193 657
Bosnia-Erzegovina	---	15 075 288	---	20 172 208
Hungary	---	251 331 403	---	252 285 862
Romania	---	165 702 231	---	193 220 183
Other	10 019 465	79 606 039	46 943 173	121 485 869
Total	**1 269 111 567**	**7 953 223 702**	**942 987 540**	**7 528 997 204**

(vi) Industry sector allocation of risks

As at 31 December 2009 and 2008, the breakdown by industry sector of the risks held in the Securities (except for trading positions) and Loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(in EUR)	**2009**		**2008**	
	Securities (HTM, AFS, FVPL)	**Loans and advances**	**Securities (HTM, AFS, FVPL)**	**Loans and advances**
Financial institutions	1 058 507 003	7 790 881 122	657 579 704	7 335 885 783
Public sector	200 634 794	---	250 106 533	---
Other industries	9 969 770	145 554 856	35 301 303	161 217 406
Individuals	---	16 787 724	---	31 894 015
Total	**1 269 111 567**	**7 953 223 702**	**942 987 540**	**7 528 997 204**

Note 3 – Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is defined as the possibility that an institution is unable to meet its payment obligations due to its incapacity to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of easily unwinding positions in financial assets without negatively and significantly affecting their price due to the inadequate market depth or temporary market disruptions (market liquidity risk).

The Bank monitors future expected cash inflow and outflow. Its policy throughout the year has been, at all times, to maintain sufficient high quality liquid assets to cover the expected cash outflow in order to stay within the limits for the 0 to 8 and 9 to 30 day periods set by the Board of Directors.

The customer deposit base represents a stable source of funding. The ultimate parent company is the main depositor, followed by corporate clients and institutionals.

The Bank avoids any concentration risk towards counterparties.

The Bank has developed a reporting system towards the Head of the Treasury Department, the Management Board, and Internal Audit:

- a weekly list of the 20 largest depositors highlighting the percentage of the customer exposure compared to the total of the deposits;
- weekly "Liquidity Gap" report until July 2009 / daily report since that date.

The Risk Management has the following missions:

- ensure supervision on a continuous basis;
- control the respect of the liquidity limits (internal and external);
- inform the Management Board about all going beyond the fixed limits;
- report to the Audit Committee;
- to be informed of all new regulations (internal / external) to be set up.

Note 3 – Financial risk management (continued)

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. The amounts disclosed in the 2009 table are the contractual undiscounted cash flows (in million EUR), including interests, whereas interests are not included in the 2008 table.

31 December 2009	**< 1 month**	**≥ 1 month < 3 months**	**≥3 months < 6 months**	**≥6 months < 1 year**	**≥1 year < 2 years**	**≥2 years < 5 years**	**≥ 5 years**	**Total**
Financial liabilities held for trading and derivatives held for hedging	24	-2	15	2	27	23	53	**142**
Financial liabilities at fair value through profit or loss	---	2	2	29	17	22	---	**72**
Financial liabilities measured at amortised cost	4 653	1 530	903	40	87	501	1 142	**8 856**
Total	**4 677**	**1 530**	**920**	**71**	**131**	**546**	**1 195**	**9 070**

31 December 2008	**< 1 month**	**≥ 1 month < 3 months**	**≥3 months < 6 months**	**≥ 6 months < 1 year**	**≥ 1 year < 2 years**	**≥ 2 years < 5 years**	**≥ 5 years**	**Total**
Financial liabilities held for trading and derivatives held for hedging	50	13	12	26	---	82	109	**292**
Financial liabilities at fair value through profit or loss	19	12	18	14	49	47	---	**159**
Financial liabilities measured at amortised cost	4 943	931	439	1 478	52	54	37	**7 934**
Total	**5 012**	**956**	**469**	**1 518**	**101**	**183**	**146**	**8 385**

Note 3 – Financial risk management (continued)

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

2009	**Government and central banks**	**Other public entities**	**Financial institutions**	**Non-financed companies**	**Other**	**Total**
Financial liabilities held for trading and for hedging	---	---	147 344 106	---	8 793 332	**156 137 438**
Financial liabilities carried at fair value	---	---	98 219 467	---	---	**98 219 467**
Financial liabilities measured at amortised cost	869 097	---	8 448 595 043	87 378 238	231 764 579	**8 768 606 957**
Total	**869 097**	**---**	**8 694 158 616**	**87 378 238**	**240 557 911**	**9 022 963 862**

2008	**Government and central banks**	**Other public entities**	**Financial institutions**	**Non-financed companies**	**Other**	**Total**
Financial liabilities held for trading and for hedging	---	---	215 406 401	61 198 145	15 983 928	**292 588 474**
Financial liabilities carried at fair value	---	---	158 749 058	---	---	**158 749 058**
Financial liabilities measured at amortised cost	657 904	49 002 119	7 467 195 037	56 036 110	360 901 011	**7 933 792 181**
Total	**657 904**	**49 002 119**	**7 841 350 496**	**117 234 255**	**376 884 939**	**8 385 129 713**

The breakdown by geographical areas is as follows (in EUR):

2009	**Zone EURO**	**Other European Countries**	**Other**	**Total**
Financial liabilities held for trading and for hedging	132 767 223	14 567 304	8 802 911	**156 137 438**
Financial liabilities carried at fair value	98 219 467	---	---	**98 219 467**
Financial liabilities measured at amortised cost	7 726 667 385	618 020 754	423 918 818	**8 768 606 957**
Total	**7 957 654 075**	**632 588 058**	**432 721 729**	**9 022 963 862**

2008	**Zone EURO**	**Other European Countries**	**Other**	**Total**
Financial liabilities held for trading and for hedging	292 588 474	---	---	**292 588 474**
Financial liabilities carried at fair value	158 749 058	---	---	**158 749 058**
Financial liabilities measured at amortised cost	6 398 489 460	813 524 708	721 778 013	**7 933 792 181**
Total	**6 849 826 992**	**813 524 708**	**721 778 013**	**8 385 129 713**

Note 3 – Financial risk management (continued)

(d) 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 General Manager responsible for the market activities, the Internal Audit, the Treasury Department and any other operational service responsible.

The Risk Management unit carries out its 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:

- a daily interest rate gap and limit control;
- a weekly VAR analysis until July 2009 / daily since that date.

The tendency of doing a more frequently reporting has been confirmed on the last trimester in the aim of performing a daily report on the interest rate risk.

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.

Note 3 – Financial risk management (continued)

(i) Interest rate risk

Average interest rate

The average effective interest rates on financial instruments by main currencies for the year ended 31 December 2009 and 2008 are as follows:

	2009		**2008**	
	Assets	Liabilities	Assets	Liabilities
EUR	1.3947	0.8759	3.8452	3.2773
USD	0.3637	0.2790	0.9247	0.6779

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.

Note 3 – Financial risk management (continued)

31 December 2009 (in million of EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥ 3 months < 6 months**	**≥ 6 months < 1 year**	**≥ 1 year < 2 years**	**≥ 2 years < 5 years**	**≥ 5 years**	**Undetermined**	**Total**
Cash and cash balances with central banks	71	---	---	---	---	---	---	---	**71**
Financial assets held for trading and derivatives held for hedging	122	---	---	131	---	---	---	---	**253**
Financial assets designated at fair value through profit or loss	---	---	---	---	22	213	---	---	**235**
Available-for-sale financial assets	16	129	30	248	430	---	---	---	**853**
Held-to-maturity investments	---	---	---	156	25	---	---	---	**181**
Loans and advances	533	1 027	936	3 963	857	637	---	---	**7 953**
Total financial assets	**742**	**1 156**	**966**	**4 498**	**1 334**	**850**	**---**	**---**	**9 546**
Financial liabilities held for trading and derivatives held for hedging	156	---	---	---	---	---	---	---	**156**
Financial liabilities designated at fair value through profit or loss	---	---	---	---	61	---	37	---	**98**
Financial liabilities measured at amortized cost	1 692	3 495	2 317	1 206	55	---	3	---	**8 768**
Total financial liabilities	**1 848**	**3 495**	**2 317**	**1 206**	**116**	**---**	**40**	**---**	**9 022**

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2009, a 25bp increase or decrease in market interest rates would influence the interest income before tax by EUR + 4 316 587 and EUR – 4 273 257 respectively.

Note 3 – Financial risk management (continued)

31 December 2008 (in million of EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥ 3 months < 6 months**	**≥ 6 months < 1 year**	**≥ 1 year < 2 years**	**≥ 2 years < 5 years**	**≥ 5 years**	**Undertermined**	**Total**
Cash and cash balances with central banks	110	---	---	---	---	---	---	---	**110**
Financial assets held for trading and derivatives held for hedging	33	4	4	1	8	156	6	---	**212**
Financial assets designated at fair value through profit or loss	---	---	---	---	---	19	267	---	**286**
Available-for-sale financial assets	22	25	12	90	276	172	19	16	**632**
Held-to-maturity investments	---	---	---	---	---	25	---	---	**25**
Loans and advances	2 780	1 515	962	1 785	225	201	61	---	**7 529**
Total financial assets	**2 945**	**1 544**	**978**	**1 876**	**509**	**573**	**353**	**16**	**8 794**
Financial liabilities held for trading and derivatives held for hedging	50	13	12	26	---	82	109	---	**292**
Financial liabilities designated at fair value through profit or loss	19	12	18	14	49	47	---	---	**159**
Financial liabilities measured at amortized cost	4 942	931	439	1 478	52	54	37	---	**7 933**
Total financial liabilities	**5 011**	**956**	**469**	**1 518**	**101**	**183**	**146**	**---**	**8 384**

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2008, a 25bp increase or decrease in market interest rates would influence the interest income before tax by EUR + 1 061 822 and EUR – 1 039 311 respectively.

Note 3 – Financial risk management (continued)

(e) Foreign exchange rate risk

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

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

As at 31 December 2009 and 2008, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR):

31 December 2009	EUR	USD	Other	Total
Cash and cash balances with central banks	71 319 611	6 135	3 344	**71 329 090**
Financial assets at fair value through profit or loss and held for trading	427 678 506	10 824	37 569 415	**465 258 745**
Available-for-sale financial assets	839 523 537	---	13 481 361	**853 004 898**
Held-to-maturity investments	181 312 848	---	---	**181 312 848**
Loans and advances	6 938 122 490	218 856 276	796 244 936	**7 953 223 702**
Hedging derivatives	22 910 040	---	---	**22 910 040**
Total financial assets	**8 480 867 032**	**218 873 235**	**847 299 056**	**9 547 039 323**

31 December 2009	EUR	USD	Other	Total
Financial liabilities at fair value through profit or loss and held for trading	206 882 048	9 579	28 556 834	**235 448 461**
Financial liabilities measured at amortized cost and deposits from central banks	7 673 051 613	695 984 280	399 571 064	**8 768 606 957**
Hedging derivatives	18 908 444	---	---	**18 908 444**
Total financial liabilities	**7 898 842 105**	**695 993 859**	**428 127 898**	**9 022 963 862**

Note 3 – Financial risk management (continued)

31 December 2008	EUR	USD	Other	Total
Cash and cash balances with central banks	110 003 784	12 388	14 634	**110 030 806**
Financial assets at fair value through profit or loss and held for trading	364 206 465	---	49 376 212	**413 582 677**
Available-for-sale financial assets	618 820 187	---	13 468 522	**632 288 709**
Held-to-maturity investments	25 356 227	---	---	**25 356 227**
Loans and advances	6 465 251 667	462 359 691	601 385 846	**7 528 997 204**
Hedging derivatives	84 084 283	---	---	**84 084 283**
Total financial assets	**7 667 722 613**	**462 372 079**	**664 245 214**	**8 794 339 906**
Financial liabilities at fair value through profit or loss and held for trading	382 721 639	---	24 902 959	**407 624 598**
Financial liabilities measured at amortized cost and deposits from central banks	7 017 806 183	632 532 274	283 453 724	**7 933 792 181**
Hedging derivatives	43 712 934	---	---	**43 712 934**
Total financial liabilities	**7 444 240 756**	**632 532 274**	**308 356 683**	**8 385 129 713**

(f) 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 2009, the solvency ratio of the Bank is 13,16% (2008: 15,15%), above the limit of 8%.

(g) 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.

Note 3 – Financial risk management (continued)

(h) Derivative financial instruments

During 2009 and 2008, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.

As at 31 December 2009 and 2008, the notional amount and fair value of the derivatives held for trading are as follows (in EUR):

	2009		2008	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	137 750 000	1 264 787	---	---
Currency instruments	1 345 067 436	98 320 700	1 103 691 643	128 201 581
	1 482 817 436	**99 585 487**	**1 103 691 643**	**128 201 581**
Liabilities				
Interest rate instruments	3 583 655 854	67 786 624	864 856 041	111 624 297
Currency instruments	1 644 708 665	69 358 165	1 558 189 722	137 178 072
	5 228 364 519	**137 144 789**	**2 423 045 763**	**248 802 369**

As mentioned in Note 2, only fair value hedge is applied by the Bank. Hedging items are as follows (in EUR):

	2009		2008	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	---	---	140 226 829	11 699 136
Currency instruments	160 429 761	22 910 040	545 493 445	72 385 147
	160 429 761	**22 910 040**	**685 720 274**	**84 084 283**
Liabilities				
Interest rate instruments	1 327 869 685	18 908 444	2 730 000 000	43 712 934
Currency instruments	---	---	---	---
	1 327 869 685	**18 908 444**	**2 730 000 000**	**43 712 974**

As mentioned in Note 2, only fair value hedge is applied by the Bank. Hedged items are as follows (in EUR):

	2009	2008
	Fair value	**Fair value**
Loans and advances	1 559 984 117	3 476 431 960

Note 3 – Financial risk management (continued)

(i) Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of financial assets and liabilities measured at amortized cost in the statement of financial position (in million of EUR).

	Carrying amount		Fair value	
	2009	**2008**	**2009**	**2008**
Assets				
Held-to-maturity investments	181	25	188	26
Loans and advances	7 953	4 053	9 358	4 053
Liabilities				
Financial liabilities measured at amortised cost	8 768	7 933	7 710	7 933

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.

Fair value hierarchy

As at 31 December 2009, 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.

Note 3 – Financial risk management (continued)

(in EUR)	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
- Derivatives held for trading	---	99 585 487	---	**99 585 487**
- Equity instruments	10 825	---	---	**10 825**
- Debt instruments	130 868 612	---	---	**130 868 612**
Financial assets designated at fair value through profit or loss				
- Debt instruments	197 224 406	37 569 415	---	**234 793 821**
Derivatives held for hedging	---	22 910 040	---	**22 910 040**
Available-for-sale financial assets				
- Equity instruments (other than investments in subsidiaries)	---	2 600 000	---	**2 600 000**
- Debt instruments	836 673 928	---	---	**836 673 928**
Total financial assets	**1 164 777 771**	**162 664 942**	---	**1 327 442 713**
Financial liabilities held for trading	84 205	137 144 789	---	**137 228 994**
Financial liabilities designated at fair value through profit and loss	---	98 219 467	---	**98 219 467**
Derivatives held for hedging	---	18 908 444	---	**18 908 444**
Total financial liabilities	**84 205**	**254 272 700**	---	**254 356 905**

During the reporting year ending 31 December 2009, there were no transfers between Level 1 and Level 2 categories, and no transfers into and out of Level 3 category.

Note 4 – Cash and cash equivalents

Cash and cash in 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 EUR)	2009	2008
Cash and cash balances with central banks	71 329 090	110 030 806
Loans and advances to banks with maturity ≤ 3 months	1 561 274 542	2 630 076 786
	1 632 603 632	**2 740 107 592**

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 2009 is EUR 71 063 512 (2008: EUR 109 770 000).

Note 5 – Financial assets held for trading and financial assets designated at fair value through profit or loss

(in EUR)	2009 Net carrying amount	2008 Net carrying amount
Financial assets held for trading		
Derivatives held for trading	99 585 487	128 201 581
Securities held for trading		
- equity instruments	10 825	8 926
- debt securities	130 868 612	29 566
	230 464 924	**128 240 073**

	2009 Net carrying amount	2008 Net carrying amount
Financial assets designated at inception at fair value through profit or loss - Securities	234 793 821	285 342 604
	234 793 821	**285 342 604**

At 31 December 2009 and 2008, a significant part of these securities is quoted.

Note 6 – Available-for-sale financial assets

(in EUR)	2009 Net carrying amount	2008 Net carrying amount
Quoted debt instruments issued by:		
Credit institutions	836 673 928	616 060 554
	836 673 928	**616 060 554**

As at 31 December 2009, the fair value of the available-for-sale financial assets which are sold under repurchase agreements amounts to EUR 523 million - see Note 14 (2008: EUR 188.3 million).

(in EUR)	2009 Net carrying amount	2008 Net carrying amount
Not quoted shares issued by:		
Credit institutions	13 481 359	13 468 522
Corporate	249 611	659 633
Other	2 600 000	2 100 000
	16 330 970	**16 228 155**

Note 6 – Available-for-sale financial assets

As at 31 December 2009, shares in affiliated undertakings, which are classified in this category, where the Bank helds at least 20% are as follows:

Company	Registered office	Percentage owned
Lux Gest Asset Management S.A.	Luxembourg	99.97%
Intesa Sanpaolo Private Bank (Suisse) S.A.	Lugano	99.99%
Luxiprivilège Conseil S.A.	Luxembourg	50.00%

Note 7 – Held-to-maturity investments

	2009		**2008**	
(in EUR)	**Net carrying amount**	**Fair value**	**Net carrying amount**	**Fair value**
Quoted debt instruments at amortised cost issued by :				
Financial institutions	155 990 548	161 443 174	---	---
Public sector	25 322 300	26 408 250	25 356 227	25 817 500
Total	**181 312 848**	**187 851 424**	**25 356 227**	**25 817 500**

Investments bearing a fixed interest rate amount to EUR 181 312 848 (2008: EUR 25 356 227).
No impairment loss was recognised on held-to-maturity investments in 2009 and 2008.

Note 8 – Loans and advances

	2009		**2008**	
(in EUR)	**Total net carrying amount**	**of which: Impairment**	**Total net carrying amount**	**of which: Impairment**
Unquoted loans and advances to:				
Credit institutions	7 302 590 274	485 106	6 527 999 543	---
Private customers	16 787 724	586 356	31 489 855	412 478
Corporate customers	633 845 704	6 762 645	969 507 806	5 856 530
	7 953 223 702	**7 834 107**	**7 528 997 204**	**6 269 008**

Impairment allowance for loans and advances

As of 31 December 2009, the Bank has determined its collective impairment to EUR 1 647 374 (2008: EUR 1 650 473) and its individual impairment to EUR 6 186 733 (2008: EUR 4 618 535).

Note 8 – Loans and advances (continued)

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

	2009
Impairment as at 1st January	6 269 008
Charge of the year / Transfers	4 042 887
Recoveries/amounts written off	-2 477 788
Impairment as at 31 December	**7 834 107**
of which:	
Individual impairment	6 186 733
Collective impairment	1 647 374

	2008
Impairment as at 1st January	2 874 273
Charge of the year / Transfers	4 181 809
Recoveries/amounts written off	-787 074
Impairment as at 31 December	**6 269 008**
of which:	
Individual impairment	4 618 535
Collective impairment	1 650 473

Guarantees received as collateral

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

			Loans and advances to customers	Loans and advances to credit institutions
2009	NET CARRYING AMOUNTS		650 633 428	7 302 590 274
	Real guarantees	Mortgage	---	---
		Securities	---	---
		Other real guarantees	259 544 654	12 384 888
	Personal guarantees	Government guarantees	31 015 205	---
		Credit Institutions guarantees	216 097 912	463 070 562
	Total guarantees		**506 657 771**	**475 455 450**
2008	NET CARRYING AMOUNTS		1 000 997 661	6 527 999 543
	Real guarantees	Mortgage	1 200 426	---
		Securities	21 182 801	---
		Other real guarantees	198 525 864	---
	Personal guarantees	Government guarantees	117 655 516	---
		Credit Institutions guarantees	211 452 943	828 023 281
	Total guarantees		**550 017 550**	**828 023 281**

Note 9 – Property, plant and equipment

(In EUR)	Land and building	Office equipment	Other equipment	Total
Cost as at 1st January	**26 738 272**	**1 717 928**	**8 044 075**	**36 500 275**
Additions / Disposals / Transfers	91 725	77 459	119 990	**289 174**
Cost as at 31 December 2009	26 829 997	1 795 387	8 164 065	**36 789 449**
Accumulated depreciation as at 1st January 2009	-14 919 695	-1 448 292	-5 330 021	**-21 698 008**
Depreciation charge/Transfers	-1 178 156	-44 058	-569 571	**-1 791 785**
Accumulated depreciation as at 31 December 2009	-16 097 851	-1 492 350	-5 899 592	**- 23 489 793**
Net carrying amount as at 31 December 2009	**10 732 146**	**303 037**	**2 264 473**	**13 299 656**

(In EUR)	Land and building	Office equipment	Other equipment	Total
Cost as at 1st January	**26 505 005**	**1 632 442**	**7 823 953**	**35 961 400**
Additions / Disposals / Transfers	233 267	85 486	220 122	**538 875**
Cost as at 31 December 2008	26 738 272	1 717 928	8 044 075	**36 500 275**
Accumulated depreciation as at 1st January 2008	-13 672 799	-1 407 775	-4 727 279	**-19 807 853**
Depreciation charge / Transfers	-1 246 896	-40 517	-602 742	**-1 890 155**
Accumulated depreciation as at 31 December 2008	-14 919 695	-1 448 292	-5 330 021	**-21 698 008**
Net carrying amount as at 31 December 2008	**11 818 577**	**269 636**	**2 714 054**	**14 802 267**

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

Note 10 – Intangible assets

(in EUR)	**2009**	**2008**
Cost as at 1st January	107 457	107 456
Additions / Disposals	---	1
Cost as at 31 December	107 457	107 457
Accumulated depreciation as at 1st January	-69 172	- 56 195
Depreciation charge	-12 977	- 12 977
Accumulated depreciation as at 31 December	-82 149	- 69 172
Net carrying amount as at 31 December	**25 308**	**38 285**

Note 11 – Tax expense, 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 EUR)	2009	2008
Deferred tax assets	12 137 272	---
Deferred tax liabilities	-14 493 765	---
Tax liabilities	-2 356 493	---

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

(in EUR)	1 January 2009	Income statement	Equity	31 December 2009
Financial assets held for trading	---	-12 049 504	---	-12 049 504
Financial assets designated at fair value through profit or loss	---	539 309	---	539 309
Available-for-sale financial assets	---		-2 356 493	-2 356 493
Financial liabilities held for trading	---	10 387 009	---	10 387 009
Financial liabilities designated at fair value through profit or loss	---	185 028	---	185 028
Provisions and value adjustments	---	938 158	---	938 158
Net deferred income tax assets/(liabilities)	**---**	**---**	**-2 356 493**	**-2 356 493**

The Bank records deferred taxes since 2009. As of 31 December 2009, full recognition of deferred tax assets (through income statement) has not been performed by the Bank. They have been recorded to the same extent as deferred tax liabilities (through income statement) 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.

Note 12 – Other assets and other liabilities

(in EUR)	2009	2008
Prepaid charges	214 931	239 709
VAT	3 979 876	3 297 117
Accrued commission income	696 331	1 435 212
Other	1 783 574	829 411
Other assets	**6 674 712**	**5 801 449**

(in EUR)	2009	2008
Social security charges	774 282	672 822
Income received in advance	132 263	181 122
Withholding taxes and VAT	5 872 171	4 754 745
Administrative expenses to be paid	4 658 558	6 792 268
Accrued commission expenses	1 235 512	1 849 722
Short term payable and other sundry accounts	4 511 297	2 425 353
Other liabilities	**17 184 083**	**16 676 032**

Note 13 – Financial liabilities designated at fair value through profit or loss

A portion of the bonds issued by the Bank 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. The Bank has recognised in this caption the fair value of such bonds and structured transactions. The bonds amount to EUR 69 662 633 (2008: EUR 158 749 058), with a nominal value of EUR 68 782 000 (2008: EUR 160 836 000).

Note 14 – Financial liabilities measured at amortised cost

(in EUR)	2009 Carrying amount	2008 Carrying amount
Current accounts and amounts with period of notice	461 746 595	293 439 486
Term deposits	3 861 883 770	2 235 732 512
Deposits from credit institutions	**4 323 630 365**	**2 529 171 998**
Current assets and amounts with period of notice	444 725 730	419 021 745
Term deposits	1 664 139 258	3 135 663 822
Deposits from corporate customers	**2 108 864 988**	**3 554 685 567**
Current accounts	49 170 317	61 575 537
Term deposits	175 053 336	299 325 474
Other deposits	38 198	---
Deposits from private customers	**224 261 851**	**360 901 011**
Certificates of deposits	2 110 980 656	577 392 248
Debt securities in issue - non convertible	---	910 983 453
Bonds issued and Certificates of deposits	**2 110 980 656**	**1 488 375 701**
Total	**8 767 737 860**	**7 933 134 277**
of which:		
Repurchase transactions	523 025 606	1 605 370 750
of which with related parties	519 655 953	1 528 058 038

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 annual accounts, in compliance with IFRS, the securities subscribed by the Bank are offset against the securities issued.
Part of the securities subscribed by the Bank are sold under repurchase agreements.

Note 15 – Provisions

(in EUR)	Litigations	Other provisions	Total
Provisions as at 1st January 2008	80 108	308 925	389 033
Additions	675 000	---	675 000
Amounts used	---	-308 925	-308 925
Provisions as at 31 december 2008	**755 108**	**---**	**755 108**
Additions	500 000(1)	910 598	1 410 598
Amounts used	-325 000	---	-325 000
Amounts reversed	-430 108	---	-430 108
Provisions as at 31 december 2009	**500 000**	**910 598**	**1 410 598**

(1) This amount corresponds to a transfer of provision made in 2009 in relation with the transfer of activity described in Note 1.

Note 16 – Shareholders' equity

Issued capital

As at 31 December 2009 and 2008, the Bank's subscribed and paid-up capital amounted to EUR 45 000 000, represented by 1 750 000 shares with no par value.

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.

Legal reserve

Under Luxembourg law, the Bank must appropriate to a legal reserve an amount equivalent to at 5% of the annual net profit until such reserve is equal to 10% of the share capital. This appropriation is made in the following year. Distribution of the legal reserve is restricted. As at 31 December 2009 and 2008, the legal reserve amounting to EUR 5 250 000 is higher than 10% of the share capital.

Note 16 – Shareholders' equity (continued)

Other reserves

At 31 December 2009, the other reserves amount to EUR 369 294 456 (2008: EUR 323 150 424).

At 31 December 2009 and 2008, this caption includes an amount of EUR 250 million resulting from the transfer for no consideration of the branches of activity mentioned in Note 1.

The other reserves also include the restricted reserve: in order to benefit from a reduction of net worth tax in accordance with the income tax law of 23 December 1997 (with particular reference to article 2.3), as modified on 21 December 2001, the Bank has recorded until 2001 a restricted reserve. The amount of this restricted reserve at 31 December 2009 and 2008 is EUR 1 900 000.

Retained earnings

As at 31 December 2009 and 2008, retained earnings including the impact of the first time application (FTA) of IFRS as adopted by the European Union, amount to EUR 4 828 022.

Dividends

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 92 865 611, which corresponds to a return on equity of circa 22% (2008: 23%). It is proposed to the Annual General Shareholders' Meeting approving the annual accounts as of 31 December 2009 to allocate the above mentioned amounts in accordance with the following (in EUR):

Net profit of 2009 financial year	92 865 611
Retained profit from previous years (excluding FTA)	11 836
Amount attributable to Shareholders	**92 877 447**
Allocation to reserves	55 500 000
Dividend for the financial year	37 350 000
Retained profit carried forward to the next financial year	27 447
Total	**92 877 447**

Note 17 – Net interest income

(in EUR)	2009	2008
Cash balances with central banks	1 301 099	3 121 669
Financial assets held for trading	905 281	25 422
Financial assets designated at fair value through profit or loss	11 978 794	14 043 478
Hedging derivatives	43 089 330	71 126 145
Available-for-sale financial assets	16 978 706	17 418 300
Held-to-maturity investments	7 019 122	950 403
Loans and advances	267 741 253	271 836 630
Other	368 881	151 187
Total interest and similar income	**349 382 466**	**378 673 234**

(in EUR)	2009	2008
Hedging derivatives	115 996 795	77 347 146
Financial liabilities held for trading	---	2 968
Financial liabilities measured at amortized cost	115 412 646	237 480 891
Financial liabilities designated at fair value thought profit or loss	1 449 208	848 309
Other	---	188 982
Total interest expenses and similar charges	**232 858 649**	**315 868 296**
Net interest income	**116 523 817**	**62 804 938**

No interest has been accrued in respect of impaired assets in 2009 and 2008.

Note 18 – Net fee and commission income

(in EUR)	2009	2008
Credit activities	1 005 083	1 924 291
Asset management	6 690 160	6 026 814
Corporate services	12 496 648	10 836 753
Other	19 050 660	20 102 458
Total fee and commission income	**39 242 551**	**38 890 316**
Brokerage and clearing fees	5 015 646	5 921 274
Other	4 731 032	5 225 650
Total fee and commission expenses	**9 746 678**	**11 146 924**
Net fee and commission income	**29 495 873**	**27 743 392**

Note 19 – Dividend income

At 31 December 2009 and 2008, the dividend income relates to available-for-sale financial assets.

Note 20 – Net (un)realised gains (losses) on financial assets and liabilities held for trading

At 31 December 2009 and 2008, the net un(realised) gains (losses) on financial assets and liabilities held for trading are composed of:

(in EUR)	**2009**	**2008**
Interest rate instruments and linked derivatives	-23 237 703	-20 670 484
Foreign exchange transactions	-2 160 677	4 943 988
	-25 398 380	**-15 726 496**

Note 21 – Net (un)realised gains (losses) on financial assets and liabilities at fair value through profit or loss

As at 31 December 2009, the net (un) realised gains (losses) on financial assets and liabilities at fair value through profit or loss concern, on the assets side, bonds and structured transactions and, on the liabilities side, debt securities and structured transactions.

As at 31 December 2008, they concerned, on the assets side, assets swaps and structured transactions and, on liabilities side, debt securities fair valued.

Note 22 – Net realised gains (losses) from financial assets and liabilities not at fair value through profit or loss

As at 31 December 2009, they are mainly composed of gains for EUR 1 323 872 (2008: EUR 3 995 783) realised on the sale of bond instruments held in the available-for-sale portfolio.

Note 23 – Net other operating income / expenses

At 31 December 2009 and 2008, net other operating income is mainly composed of withholding taxes and amounts related to prior years, which were linked to the Bank's business activity.

Note 24 – Administrative expenses

(In EUR)	2009	2008
Wages and salaries	15 269 427	15 496 652
Social security charges	1 692 478	1 530 346
Legal pension and similar expenses	611 695	666 621
Employees benefits	520 208	463 271
Other	143 245	97 160
Total staff expenses	**18 237 053**	**18 254 050**
Operative expenses	1 227 987	992 746
Repair and maintenance	159 685	671 062
Training and moving	982 426	742 714
Indirect taxes (1)	---	1 965 143
IT outsourcing costs	4 614 615	4 079 275
Legal and professional fees	825 767	919 308
Marketing and representation fees	260 681	227 502
Charges linked to Corporate activity and other charges	2 619 490	6 210 437
Total general and administrative expenses	**10 690 651**	**15 808 187**
Total administrative expenses	**28 927 704**	**34 062 237**

(1) As of 31 December 2009, indirect taxes are presented under the caption Net other operating income / expenses for an amount of EUR 3 377 471 (Refer also to Note 23)

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

	2009	2008
Senior Management	3	3
Middle Management	56	61
Employees	152	143
	211	**207**

Note 25 – Impairment

During the year, the Bank has booked/reversed impairment on financial assets as follows (in EUR):

	2009	2008
Available-for-sale financial assets	---	---
Loans and advances measured at amortised cost	4 004 108	2 940 485
Impairment losses	**4 004 108**	**2 940 485**

Note 26 – Related party disclosures

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 assets, liabilities, income and expenses as at 31 December 2009 and 2008 concerning Group entities and the parent companies are as follows (in EUR):

Assets and liabilities	**2009**	**2008**
Assets held for trading and assets carried at fair value	196 333 893	73 836 494
Available-for-sale financial assets	452 551 426	24 101 643
Held to maturity assessments	155 990 548	---
Loans and advances	7 177 462 428	6 540 003 024
Hedging derivatives	22 910 040	22 737 050
Financial liabilities held for trading and liabilities at fair value	119 429 139	48 339 623
Financial liabilities measured at amortized cost	4 715 581 496	1 508 924 441
Hedging derivatives	18 908 444	43 712 934

Income and expenses	**2009**	**2008**
Interest income	291 924 423	236 665 009
Fees and commissions received	4 843 302	5 997 886
Dividend income	923 544	944 390
Interest expenses	158 070 879	74 709 780
Fees and commissions paid	4 265 236	4 214 242

No impairment loss was recognised on available-for-sale financial assets, loans and advances with related parties.

Note 26 – Related party disclosures (continued)

The Banks incurred expenses with respect to the remuneration of the members of the administrative, management and supervisory bodies as follow (in EUR):

	2009	2008
Administrative bodies	105 000	90 000
Key management personnel	861 778	1 175 314
	966 778	**1 265 314**

As at 31 December 2009 and 2008, the Bank has no obligations related to retirement pensions for former employees for the above mentioned bodies and personnel.

Note 27 – Commitments and contingent liabilities

The Bank's commitments and contingent liabilities may be analysed as follows (in EUR):

	2009	2008
Unused confirmed credits	46 603 712	140 992 797
- out of which towards related parties	---	---
Guarantees and other direct substitutes for credit	78 478 735	116 257 147
- out of which towards related parties	*4 167 027*	*5 544 476*
Documentary credits	---	18 332 051
- out of which towards related parties	---	*18 332 051*

Note 27 – Commitments and contingent liabilities (continued)

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

			Contingent liabilities	Unused confirmed credits
2009	**Amounts**		**78 478 735**	**46 603 712**
	Real guarantees	Securities	7 294 294	---
		Other real guarantees	49 815 891	96 363
	Personal guarantees	Government guarantees	3 162 906	18 408 230
		Credit institutions guarantees	13 461 826	20 001
	Total guarantees		**73 734 917**	**18 524 594**
2008	**Amounts**		**134 589 198**	**140 992 797**
	Real guarantees	Securities	10 071 216	579 850
		Other real guarantees	71 621 403	520 001
	Personal guarantees	Government guarantees	500 516	86 205 941
		Credit institutions guarantees	27 997 202	26 211 496
	Total guarantees		**110 190 337**	**113 517 288**

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 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.

During the year 2009, advance payments were made for an amount of EUR 464 783 in relation to the Bank's contribution in relation to the respite of payment occurred by three Luxembourg subsidiaries of Icelandic bank's. Partial refunds totalling EUR 252 724 were received later in the year. These amounts have been recorded under the caption Net other operating income / expenses.

Note 28 – Investment management services and underwriting functions

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

- Private Banking;
- Corporate services;
- Custody and administration for investment funds (until 7 July 2008);
- Custody;
- Domiciliation; and
- Fiduciary representation.

Assets managed on behalf of third parties are as follows (in EUR):

	2009	**2008**
Custody and administration of transferable securities	10 104 315 727	9 977 559 079
Fiduciary representation	211 391 202	138 769 978

Note 29 – Audit fees

The audit fees and audit related fees for the year ended 31 December 2009 and 2008 are as follows (in EUR):

	2009	**2008**
Audit fees	161 650	227 650
Audit related fees	---	63 000
	161 650	**290 650**

Note 30 – Events after the reporting date

The Bank is not aware of any adjusting or non-adjusting event that would have occurred between 31 December 2009 and the date when the present annual accounts were authorised for submission, by the Board of Directors, to the Annual General Meeting of the Shareholders.