Financial statements,
Independent auditor's report
and Directors' report as at 31 December 2017

Intesa Sanpaolo Bank Luxembourg S.A.
Société Anonyme
19-21, boulevard du Prince Henri
L-1724 Luxembourg

R.C.S. Luxembourg: B 13.859

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Board of Directors' report
31 December 2017

Development of the activity

The year 2017 started with the inauguration of Donald Trump as 45th US president vowing to follow an "America first" policy, and marked some difference in the relationship with key international powers like Russia and China or less aligned countries like North Korea and Iran. European scenario was also dominated by important political events, first with the launch of Brexit process on March 29th, followed by political elections in the key EU countries of France, UK and Germany, with at times rather unexpected outcomes, and by the Catalonia independence referendum of October 1st and the subsequent suspension of autonomy followed by December local elections.
Around the world tensions were also visible in several areas, with North Korea intensification of nuclear tests, crisis in Venezuela and severance of diplomatic ties between Qatar and its Arab neighbors.

Against this backdrop of political uncertainties, the economic scenario was however characterized by rather constant positive trends on both Equity and Fixed Income markets around the world, which recorded the best performance in many years sustained by an ideal scenario of "synchronized global growth", with no major economy in contraction for the first time since 2008 and a world GDP advancing in the region of 3.5%.

European economy also started to show signs of strength, with positive data on exports and capex, which helped to push the Eur exchange rate back to the levels of end 2015.
Liquidity remained abundant during the year with short term interest rates as well as most Eurozone Government and investment grade Corporate Bonds yields staying well below zero.

The generalized high liquidity and low interest rate environment, in particular in Europe, continued to put pressure on the ability of the banking sector to generate acceptable returns, while the increased attention of regulators towards treatment of non-performing loans required increased attention to capital requirements.

Despite the elements of weakness and risk indicated above, during 2017 Intesa Sanpaolo Bank Luxembourg S.A. (the "Bank") achieved once again a positive performance, supported by the sizable capital increase and the implementation of its renewed business model concluded in 2017, which allowed to surpass the results achieved in the previous year.

More in detail at the end of 2017 the Bank successfully concluded the implementation of its 2014-2017 business plan with the finalization of few residual activities and further promoted a significant growth of its corporate lending activity. As a result the Bank achieved a more diversified balance sheet structure with a significantly reduced concentration on intra-group transactions as well as a larger contribution from the Corporate and Financial Institutions division to the overall revenues of the Bank, while at the same time maintaining and promoting its private/wealth management and its financial markets activities.

Corporate governance

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

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

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

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

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

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

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

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

Risk Control

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

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

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

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

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

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

Subsidiaries and branches

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

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

As a consequence, the Bank operates through its head-office located in Luxembourg-city and through its Branch located in Amsterdam at 31 December 2017.

Perspectives

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

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

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

The above inclusion of the above mentioned TIER 1 capital increase in the regulatory capital and the subscription of the Subordinated Loan are still awaiting the relevant approvals from the supervisors, which are expected during the first quarter of 2018 and will allow the Bank to continue promoting the growth of the Corporate banking activity and of its corporate loan portfolio.

Deposit Guarantee Scheme and Resolution Mechanism

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

- 2014/59
- 2014/49

which respectively established:

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

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The introduction of the two above mentioned directives had a direct impact on the Bank, which was called to contribute to the Resolution Fund paying an amount of EUR 1,864,287 and to contribute to the FGDL paying an amount of EUR 95,631.

Financial elements for 2017

Total assets as at 31 December 2017 stood at EUR 22.2 billion (31 December 2016: EUR 18.0 billion).

Loans and advances to credit institutions (including balances with central banks) amounted to EUR 10.080 billion as at 31 December 2017, showing an increase when compared to 31 December 2016 (EUR 8.4 billion). Loans and advances granted to customers other than credit institutions amounted to EUR 8.7 billion.

Financial assets held for trading are composed of derivative financial instruments measured at their fair value and amounted to EUR 134 million at 31 December 2017 (31 December 2016: EUR 25 million). Those are mainly composed of interest rate swaps and foreign exchange derivative contracts.

Financial assets designated at fair value through profit or loss, which amounted to EUR 12.3 million as at 31 December 2017 (31 December 2016: EUR 16.6 million), are composed of a financial debt instrument purchased to be kept in the Bank's portfolio but measured at fair value.

Available-for-sale financial assets, which amounted to EUR 3.2 billion (31 December 2016: EUR 2.9 billion), are composed of sovereign debt securities (Italian, Spanish, French and Luxembourgish Government) for an amount of EUR 2.4 billion, debt securities issued by the European Investment Bank for an amount of EUR 0.2 billion and other bonds for an amount of EUR 0.6 billion.

Concerning liabilities, during 2016 Intesa Sanpaolo Bank Luxembourg S.A. participated in the LTRO mechanism with the Luxembourg Central Bank ("BCL") for an amount of EUR 0.8 billion. To enter into such program, the Bank pledged in favour of the BCL part of its debt instruments kept in its available for sale portfolio which were eligible for such purpose.

Deposits from customers amounted to EUR 6.6 billion at end of the year (31 December 2016: EUR 5.3 billion). The Bank also issued debt certificates for an amount of EUR 11.1 billion (31 December 2016: EUR 8.5 billion) composed as follows:

- certificates of deposit: EUR 4.6 billion (mainly subscribed by Intesa Sanpaolo Holding International S.A., the Bank's local parent company);
- non-convertible bonds: EUR 6.5 billion, which are part of a European Commercial Paper program and of the European Medium Term Notes program described herein.

The net profit for the year amounts to EUR 135.5 million (2016: EUR 121.8 million), with a ROE equal to 6.89%. Net interest income amounts to EUR 135.7 million at the end of 2017 (end 2016: EUR 93.9 million). Interest income and expense reflects the corporate lending activity development.
Net fee and commission income is positive and amounts to EUR 51.0 million, showing a significant increase when compared to 2016 (EUR 44.6 million).

Net (un)realised losses on financial assets and liabilities held for trading amount to EUR (84.8) million as at 31 December 2017 (31 December 2016: loss of EUR 5 million). The higher loss compared to last year is mainly due to derivatives contracts unwinded during the year.

Net realised gains on financial assets and liabilities not at fair value through profit or loss amount to EUR 81.0 million as at 31 December 2017 (31 December 2016: gain of EUR 27.9 million) mainly thanks to gains of EUR 57.7 million realised on the sale of several AFS securities and gains of EUR 25.5 million realised on early redeemed intra-group loans as mentioned above.

Total administrative expenses amounted to EUR 38.3 million, higher than the previous year due to projects linked to the Bank new business development.

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

However, deferred tax assets and deferred tax liabilities generated by temporary differences have been booked as at 31 December 2017.

The net profit of the year available for distribution, including retained earnings (but excluding First Time Adoption "FTA") amounts to EUR 135,514,523. The Board of Directors will propose the following allocation of the profit to the Annual General Meeting which will be held to approve the financial statements as at 31 December 2017:

Net profit of 2017 financial year	EUR 135,474,318
Retained profit from previous year (excluding first time adoption)	EUR 40,205
Amount attributable to shareholders	**EUR 135,514,523**
Allocation to legal reserve	EUR 6,773,716
Allocation to other reserves	EUR 28,726,284
Dividend for the financial year	EUR 100,000,000
Total	EUR 135,500,000
Retained profit carried forward to the next financial year (excluding first time adoption)	EUR 14,523

Subsequent events

The Bank is not aware of any adjusting or non-adjusting event that would have occurred between 31 December 2017 and the date when the present financial statements were authorised for submission by the Board of Directors to the Annual General Meeting of Shareholders.

Miscellaneous

The Bank did not purchase own shares during the year 2017. No research and development costs have been sustained during the year 2017.

Conclusion

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

Luxembourg, 7 March 2018

KPMG

KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L - 1855 Luxembourg

Tel.: +352 22 51 51 1
Fax: +352 22 51 71
E-mail: info@kpmg.lu
Internet: www.kpmg.lu

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

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Intesa Sanpaolo Bank Luxembourg S.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the financial statements » section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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Impairment of loans and advances to customers

a) *Why the matter was considered to be one of most significance in our audit of the financial statements for the year ended 31 December 2017*

Loans and advances to customers represent a significant amount of EUR 8,737,389,483 as at 31 December 2017. Certain aspects of the accounting for impairment of loans and advances to customers require significant judgment, such as the identification of credit exposures that are deteriorating and non-performing, the assessment of objective evidence for impairment and of the recoverable amount.

Impairment on loans and advances to customers are the Management best estimates of the losses incurred at the balance sheet date. They are calculated on an individual basis for all non-performing loans and advances to customers based on the expected discounted future cash flows.

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

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

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

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

- Loan approval process;
- Annual review of credit exposures by the Credit department;
- Monthly review of the watch-list by Management and Credit Committee;
- Monthly review of the past-due credit exposures by the Credit and the Risk Management departments.

On a sample of credit operations, we tested the creditworthiness of the counterparty to assess the classification between performing versus non-performing. For all non-performing loans at year end, we verified the calculation of allowance for losses on loans and advances to customers prepared by the Bank.

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

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

Valuation of the Bank's derivatives portfolio

a) *Why the matter was considered to be one of most significance in our audit of the financial statements for the year ended 31 December 2017*

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

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

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

b) How the matter was addressed in our audit

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

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

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

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

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

Valuation of the Bank's building

a) Why the matter was considered to be one of most significance in our audit of the financial statements for the year ended 31 December 2017

The Bank is currently the owner of its own building. This building was accounted at amortized cost and its carrying value was EUR 7,149,465 as at 31 December 2017.

On January 18, 2018 we have been informed that upon the group request, Management decided to change its accounting policies to start accounting its building at fair value on its balance sheet as of 31 December 2017.

The experts engaged by Management concluded that the building valuation was EUR 31,663,000 as at 31 December 2017. As a consequence, the Bank recognized an unrealized gain of EUR 24,513,535 and a deferred tax liability of EUR 6,638,265.

Due to the significance of the fair value of the building and of the unrealized gain booked as at 31 December 2017, we consider the valuation of the building as a key audit matter.

b) How the matter was addressed in our audit

We obtained the external expert valuation report used by the Bank's management to book the building at fair value as at 31 December 2017.

We assessed the independence and competence of the expert engaged by Management to price at fair value the Bank's building.

We obtained representation from the Management and Board of Directors on the key assumptions used for the valuation of the building.

We involved our valuation specialists in real estate to inspect the expert valuation report and challenge the valuation judgment applied by the external experts and compare it to our knowledge of the real estate industry.

We finally verified the completeness, relevance and accuracy of the disclosures in relation to this change in accounting policy in the financial statements.

Please refer to notes 2 and 8 of the financial statements for further information on the valuation of the building.

Other information

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

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

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

Responsibilities of the Board of Directors and Those Charged with Governance for the financial statements

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

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

— Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements

We have been appointed as "Réviseur d'Entreprises agréé" by the Board of Directors and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 6 years.

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

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014, on the audit profession were not provided and that we remain independent of the Bank in conducting the audit.

Luxembourg, 7 March 2018,

KPMG Luxembourg,
Société coopérative
Cabinet de révision agréé

S. Hustinx
Associate Partner

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of financial position
31 December 2017
(expressed in EUR)

<u>Assets</u>	Notes	31.12.2017	31.12.2016
Cash and cash balances with central banks	3,4	**128,851,839**	**79,503,903**
Financial assets held for trading	3,5	**133,702,824**	**25,469,017**
Financial assets at fair value through profit or loss	3,5	**12,254,930**	**16,550,671**
Available-for-sale financial assets	3,6	**3,170,452,611**	**2,944,460,046**
Loans and advances	3,4,7		
Loans and advances to credit institutions		9,950,509,001	8,357,143,757
Loans and advances to customers		8,737,389,483	6,536,600,925
		18,687,898,484	**14,893,744,682**
Derivatives held for hedging	3,15	**4,986,123**	**841,669**
Tangible fixed assets	8	**32,814,141**	**8,192,329**
Intangible assets	9	**2,718**	**3,843**
Current tax assets	10	**1,821,250**	**1,866,698**
Deferred tax assets	10	**7,514,893**	**7,882,772**
Other assets	3,11	**22,372,433**	**17,290,186**
Total assets		**22,202,672,246**	**17,995,805,816**

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

Statement of financial position (continued)
31 December 2017
(expressed in EUR)

Liabilities and equity

	Notes	31.12.2017	31.12.2016
Deposits from central banks	3,12	**1,314,049,823**	**1,316,971,256**
Financial liabilities held for trading	3	**28,069,191**	**88,695,094**
Financial liabilities at fair value through profit or loss	3,13	**12,124,209**	**16,065,533**
Financial liabilities measured at amortised cost	3,14		
Deposits from credit institutions		708,297,280	584,302,635
Deposits from customers		6,584,036,715	5,342,660,924
Debts evidenced by certificates		11,011,773,964	8,505,566,000
		18,304,107,959	**14,432,529,559**
Derivatives held for hedging	3,15	**47,694,259**	**97,582,506**
Provisions	16	**1,679,138**	**2,544,075**
Current tax liabilities	10	**4,530,721**	**2,225,310**
Deferred tax liabilities	10	**15,605,772**	**9,819,036**
Other liabilities	11	**44,655,627**	**50,057,644**
Total liabilities		**19,772,516,699**	**16,016,490,013**
Equity	17		
Share capital		1,389,370,555	989,370,720
Share premium		7,720,692	7,720,692
Revaluation reserve		20,555,826	4,690,235
Other reserves and retained earnings		877,034,156	855,702,849
Net profit for the year		135,474,318	121,831,307
Total equity		**2,430,155,547**	**1,979,315,803**
Total liabilities and equity		**22,202,672,246**	**17,995,805,816**

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

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2017
(expressed in EUR)

	Notes	31.12.2017	31.12.2016
	18		
Interest income		246,397,102	217,050,066
Interest expenses		(110,670,458)	(123,081,174)
Net interest income		**135,726,644**	**93,968,892**
	19		
Fee and commission income		73,878,196	66,165,193
Fee and commission expenses		(22,871,097)	(21,541,885)
Net fee and commission income		**51,007,099**	**44,623,308**
Dividend income	**20**	**585,971**	**916,093**
Net (un)realised losses on financial assets and liabilities held for trading	**21**	**(84,816,007)**	**(5,185,722)**
Net (un)realised losses on financial assets and liabilities at fair value through profit or loss	**22**	**(469,232)**	**(60,114)**
Net realised gains on financial assets and liabilities not at fair value through profit or loss	**23**	**81,042,559**	**27,877,144**
Net other operating expenses	**24**		
Other operating income		3,548,244	1,546,129
Other operating expenses		(9,474,208)	(6,813,207)
		(5,925,964)	**(5,267,078)**
Administrative expenses	**25.31**	**(38,270,724)**	**(34,904,259)**
Depreciation and amortisation	**8,9**	**(458,547)**	**(613,078)**
Provisions	**16**	**-**	**(74,500)**
Net impairment result on financial assets	**26**	**99,316**	**2,775,931**
Tax (expense) income related to profit from continuing operations	**10**	**(3,046,797)**	**(2,225,310)**
NET PROFIT FOR THE YEAR		**135,474,318**	**121,831,307**

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

Statement of profit or loss and other comprehensive income (continued)
For the year ended 31 December 2017
(expressed in EUR)

	31.12.2017	31.12.2016
Net profit for the year	**135,474,318**	**121,831,307**
Other comprehensive income :		
Items that will not be reclassified to profit or loss		
Tangible assets	24,513,535	-
Deferred tax relating to items that will not be reclassified	(6,638,265)	-
Items that are or may be reclassified to profit or loss		
Net change in fair value on available-for-sale financial assets	(2,950,475)	(12,664,194)
Deferred tax relating to the components of other comprehensive income	940,796	3,700,478
Other comprehensive income for the year, net of tax	**15,865,591**	**(8,963,716)**
Total comprehensive income for the year	**151,339,909**	**112,867,591**

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

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of changes in equity
31 December 2017
(expressed in EUR)

	Issued share capital	Share premium	Revaluation reserves	Reserves: Legal reserve	Reserves: Other reserves	Reserves: Retained earnings	Total Reserve and retained earnings	Profit of the year before appropriation	Total
Note	17		17	17	17	17		17	
Balance as at 1st January 2016	**535,091,520**	**-**	**13,653,951**	**53,550,000**	**746,673,309**	**4,817,576**	**805,040,885**	**163,661,965**	**1,517,448,321**
Total comprehensive income	-	-	(8,963,716)	-	-	-	-	121,831,307	**112,867,591**
Transfers and appropriation of prior year's profit	-	-	-	-	62,660,000	1,965	62,661,965	(62,661,965)	-
Amsterdam Branch Contribution in Kind	4,279,308	7,720,692	-	-	(12,000,000)	-	(12,000,000)	-	-
Dividend for the financial year	-	-	-	-	-	-	-	(101,000,000)	**(101,000,000)**
Capital decrease	-	-	-	-	-	-	-	-	-
Capital increase	449,999,892	-	-	-	-	-	-	-	**449,999,892**
Balance as at 31 December 2016	**989,370,720**	**7,720,692**	**4,690,235**	**53,550,000**	**797,333,308**	**4,819,541**	**855,702,849**	**121,831,307**	**1,979,315,803**
Total comprehensive income	-	-	15,865,591	-	-	-	-	135,474,318	**151,339,909**
Transfers and appropriation of prior year's profit	-	-	-	6,091,565	15,208,435	31,307	21,331,307	(21,331,307)	-
Dividend for the financial year	-	-	-	-	-	-	-	(100,500,000)	(100,500,000)
Capital decrease	-	-	-	-	-	-	-	-	-
Capital increase	399,999,835	-	-	-	-	-	-	-	**399,999,835**
Balance as at 31 December 2017	**1,389,370,555**	**7,720,692**	**20,555,826**	**59,641,565**	**812,541,743**	**4,850,848**	**877,034,156**	**135,474,318**	**2,430,155,547**

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

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of cash flows
For the year ended 31 December 2017
(expressed in EUR)

	Notes	31.12.2017	31.12.2016
Profit before tax		**138,521,115**	**124,056,617**
Adjustments:			
Depreciation / amortisation	**8, 9**	458,547	613,078
Impairment for credit losses	**26**	47,811	287,605
Reversal of loan impairment	**26**	(147,127)	(3,063,536)
Provisions and other income/expenses		(864,937)	86,017
Fair value adjustments		(56,505,745)	(23,579,542)
Cash flows from operating profits before changes in operating assets and liabilities		**81,509,664**	**98,400,239**
Net (Increase)/decrease in trading assets		(103,154,924)	92,260,725
Net (Increase)/decrease in loans and advances to credit institutions		(207,872,318)	1,723,572,567
Net (Increase)/decrease in loans and advances to customers		(2,200,689,242)	(3,057,431,376)
Net (Increase)/decrease in available-for-sale assets		(233,539,287)	(288,762,106)
Net (Increase)/decrease in financial assets designated at fair value through profit and loss		3,590,953	1,394,698
Net (Increase)/decrease in other assets		(5,082,247)	(8,573,747)
Net Increase/(decrease) in trading financial liabilities		(58,867,050)	69,792,544
Net Increase/(decrease) in deposits from credit institutions		123,994,645	105,480,656
Net Increase/(decrease) in deposits from Central bank		(2,921,433)	725,711,466
Net Increase/(decrease) in deposits from customers		1,241,375,791	43,361,953
Net Increase/(decrease) in financial liabilities at FVtPL & in other liabilities		(9,231,762)	20,681,894
Net cash flows from/(used in) operating activities		**(1,370,887,210)**	**(474,110,487)**
Dividends received	**20**	585,971	916,093
Acquisition and disposal of property and equipment	**8**	(565,699)	(48,001)
Net cash flows/(used in) from investing activities		**20,272**	**868,092**
Dividends paid	**17**	(100,500,000)	(101,000,000)
Net increase/(decrease) in debts evidenced by certificates		2,506,207,964	420,490,204
Increase in share capital	**17**	399,999,835	449,999,892
Net cash flows/(used in) from financing activities		**2,805,707,799**	**769,490,096**
Net (decrease)/increase in cash and cash equivalents		**1,434,840,861**	**296,247,701**

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

Statement of cash flows (continued)
For the year ended 31 December 2017
(expressed in EUR)

	Notes	31.12.2017	31.12.2016
Cash and cash equivalents at the beginning of the year		**2,312,560,944**	**2,016,313,243**
Net increase/decrease in cash and cash equivalents		1,434,840,861	296,247,701
Cash and cash equivalents: exchange rate fluctuations		-	-
Cash and cash equivalents at the end of the year	**4**	**3,747,401,805**	**2,312,560,944**

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

Note 1 – General information

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

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

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

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

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

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

On 26 October 2017, the Bank performed a capital increase of EUR 399,999,835.08 through the issuance of 1,285,254 shares integrally subscribed by Intesa Sanpaolo Holding International S.A.. The subscribed capital of the Bank as at 31 December 2017 was therefore of EUR 1,389,370,555.36 composed of 4,464,237 shares (integrally subscribed).

As at 31 December 2017, 100% of the Bank share capital is owned by Intesa Sanpaolo Holding International S.A..

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

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

These financial statements were authorised for submission to the Shareholders' Annual General Meeting by the Bank's Board of Directors on 16 February 2018.

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

Note 2 – Significant accounting policies

(a) Basis of preparation

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

Statement of compliance

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

(b) Significant accounting judgements, estimates and assumptions

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

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

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

Fair value of financial instruments

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

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

If there is not quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation techniques incorporate all of the factors that market participants would take into account in pricing a transaction.

Note 2 – Significant accounting policies (continued)

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

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

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

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

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

Impairment losses on loans and advances

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

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

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

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

Note 2 – Significant accounting policies (continued)

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 of from other available observable market data.

Impairment of available-for-sale equity investments

The Bank treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. The Bank treats "significant" generally as 20% or more and "prolonged" as greater than 6 months. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Functional property valuation

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

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

(c) Changes in accounting policies

Except for the changes below, the Bank has consistently applied accounting policies as set out in Note 2 (d) to all periods presented in these financial statements.

Changes to the accounting standard on property

Compared to previous financial statements, in the Annual Report as at 31 December 2017, the Intesa Sanpaolo Group and the Bank have changed the accounting criteria for the disclosure and measurement of the following classes of tangible assets:

- functional property and valuable art collections (governed by IAS 16 "Property, Plant and Equipment);
- property held for investment (governed by IAS 40 "Investment property").

More specifically, concerning Intesa Sanpaolo Bank Luxembourg S.A., the modifications:

- impact its functional property located in Boulevard du Prince Henri 19-21;
- imply the switch from the cost model to revaluation model.

Since its inception, one of Intesa Sanpaolo's priorities has been the full valorisation of its artistic heritage and property. This heritage consists of valuable works of art and buildings that are both historically and architecturally important.

In preparing the recently approved 2018-2021 Business Plan, Intesa Sanpaolo Group decided to continue re-assessing its artistic and property (both functional and investment) patrimony

Note 2 – Significant accounting policies (continued)

in order to align the book value to the current market value, thereby providing users of the financial reports with better information.

It is believed that in this way, and in line with IAS 8 that governs the cases when it is permissible to modify application of the accounting standard, it will be possible to provide reliable and more significant information on the effects of business management and, in a last analysis, the Group's overall capital-financial position and profit results.

As mentioned, the above amendment, applied from the current financial statements, has led in particular to switch from the cost model to revaluation model.

Usually, voluntary changes to the accounting standards, such as those under discussion, require revaluation of initial balances and the provision of comparative information. However, IAS 8 introduces an exception to the usual treatment for this category: more specifically, paragraph 17 of the Standard states that a change in an accounting policy shall be dealt with as a revaluation in accordance with IAS 16 for a revaluation, without requiring any re-exposure of previous positions.

Consequently, in the light of the requirements of IAS 16 on the subject, revaluation of current values resulting from the change in accounting standard has produced capital effects attributable to positive revaluation to be disclosed in net equity. Please also refer to note 8 for further information on the impact of the implementation of the fair value model on the building.

Considering that the change in the valuation criterion occurred with effect as at 31 December 2017, amortisation for 2017 has been calculated using the preceding cost criterion; therefore Intesa Sanpaolo Bank Luxembourg functional property has been amortised up to 31 December 2017. As of 2018, it will be valued using the criterion of revaluation according to IAS 16 and it will continue to be amortised for the useful life.

New currently effective requirements

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017:

- Annual Improvements to IFRSs 2014-2016 Cycle;
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12);
- Disclosure initiative (Amendments to IAS 7).

These changes did not to have a material impact on the Bank's financial statements.

Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and earlier application is permitted; however, the Bank has not yet early adopted the following new or amended standards in preparing these financial statements.

Note 2 – Significant accounting policies (continued)

IFRS 9 Financial instruments

Qualitative assessment

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank has completed the process of evaluating the potential effect of this standard, jointly with its Head Quarter Intesa Sanpaolo S.p.A.. Given the nature of the Bank's operations, this standard will have a pervasive impact on the Bank's financial statements.

During 2016 and 2017 qualitative and quantitave assessments have been performed to evaluate IFRS 9 impacts.

Beginning of 2017 the Bank, supported by its Head Quarter, informed CSSF that:

- A parallel run was undertaken starting from 30 June 2017;
- No retrospective application will be made;
- A debt securities assessment has been performed on a “instrument by instrument” basis;
- Bonds carried at Fair value through Other Comprehensive income failing the Solely Payments of Principal and Interest (SPPI) test mainly refer to:
    - Contractually linked instruments which will require the look through test on the underlying pool of financial instruments;
    - Constant maturity rate bonds and assets with a structured rate of interest;
    - Convertible bonds and leveraged inflation linked instruments;
    - Instruments whose deferred interest does not accrue additional interests.
- In terms of hedge accounting, the Bank will continue on IAS 39 with carve-out.

With reference to the methodology used to estimate Expected Credit Losses, as at today the Intesa Sanpaolo Banking Group adopts the PD (Probability of Default) x LGD (Loss Given Default) approach for each performing loan portfolio (stages 1 and 2), using 12 month PDs / Lifetime PDs as well as LGDs, without including the so-called “downturn” factors (no downturn LGDs).

The Group confirmed the adoption of the PD x LGD approach also in relation to the IFRS 9 implementation, even though some different considerations have been developed for specific portfolios or cases.

On the basis of analyses carried out so far, loss allowances on non performing instruments (stage 3) has shown no substantial changes with respect to IAS 39 measurement.

Note 2 – Significant accounting policies (continued)

Moreover, the Group decided to include an "add-on" on methodology parameters (PD and LGD) to incorporate multiple scenario impacts on ECL (Expected Credit Losses) and staging calculation and it uses the most likely scenario plus an add-on also to include forward looking information.

Regarding non-trading equity instruments, IFRS 9 contains the possibility to opt (irrevocable decision) for classification at FVTOCI ("Fair Value Through Other Comprehensive Income"). The changes in fair value are recorded in a reserve of net equity and no re-cycling to profit and loss is foreseen, not even in the event of disposal of the instrument. Only the income from dividends will be recorded in profit and loss.

The above mentioned faculty has the following characteristics:

- It may be exercised at the level of individual instrument;
- It may be exercised on initial disclosure of the instrument;
- It is irrevocable;
- the changes in fair value recorded in the specific net equity reserve shall not be subsequently moved to profit (loss) in the period, not even in the event of disposal of the financial instrument.

The Bank has decided to apply that faculty to its participation in Luxgest Asset Management S.A.

Quantitative assessment

In terms of quantitative assessment, an estimation of the initial application of IFRS 9 has been performed.

The total estimated adjustment to the opening balance of the Bank's equity at 1 January 2018 amounts to EUR 21 million. The principal component of the estimated adjustment is the new IFRS 9 loss allowance calculated in relation to on balance sheet captions and off balance sheet ones.

<u>Classification – financial assets</u>
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 containes three principal classification categories for financial assets:

- Measured at amortized cost;
- FVOCI ("Fair Value through Other Comprehensive Income");
- FVTPL ("Fair Value through Profit and Loss").

The standard eliminated the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9 derivative embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Bank does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

Note 2 – Significant accounting policies (continued)

The following table presents IFRS 9 impacts in terms of financial instruments presentation as at 1 January 2018:

		PER IAS 39		PER IFRS 9				
		Classification	Carrying amount	FV P&L HFT	FV P&L Mandatory	FV P&L (FVO)	FV OCI	Amortized cost
ASSETS	Loans & Advances	HFT						
		FV P&L (FVO)						
		AFS						
		L&R	18 657 830 018					18 657 830 018
		HTM						
	Debt securities	HFT						
		FV P&L (FVO)	12 254 930			12 254 930		
		AFS	3 169 512 120				3 169 512 120	
		L&R	30 068 466					30 068 466
		HTM						
	Equity instruments (excluding funds)	HFT						
		FV P&L (FVO)						
		AFS	940 491			729 306	211 185	
	Funds (collective investment undertakings)	HFT						
		FV P&L (FVO)						
		AFS						
	Trading derivatives	HFT	133 702 824		133 702 824			
	Total		**22 004 308 849**	**-**	**133 702 824**	**12 984 236**	**3 169 723 305**	**18 687 898 484**
LIABILITIES	Trading derivatives	HFT	28 069 191		28 069 191			
	Financial liabilities measured at AC		19 618 157 782					19 618 157 782
	Financial liabilities measured at FV		12 124 209			12 124 209		
			19 658 351 182		**28 069 191**	**12 124 209**		**19 618 157 782**

<u>Impairment – financial assets</u>

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward –looking "expected credit loss" (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

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

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

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

Note 2 – Significant accounting policies (continued)

Based on the impairment methodology described, the Bank has estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in additional impairment losses as follows:

	Exposure per IAS 39	Loss allowance per IAS 39 / IAS 37	Loss allowance per IFRS 9	Stage 1 %	Stage 2 %	Stage 3 %	
	Carrying amount (net of IAS 39 loss allowance)						*Total % (shall be 100,00%)*
Debt securities at amortized cost	**29,543,648**		**45,103**	100%			100.00%
Debt securities in AFS at FV OCI	**3,169,512,120**		**1,707,707**	70%	30%		100.00%
Loans and advances at amortized cost	**18,658,354,836**	**242,884**	**18,018,904**	58%	42%		100.00%
Loans and advances in AFS at FV OCI							0.00%
	Nominal amount						
Off-balance sheet exposures	**7,672,819,487**		**1,594,970**	**54%**	**46%**		**100.00%**
of which : loan commitments given - uncommitted	*3,554,906,654*		*10,264*	81%	19%		100.00%
of which : loan commitments given - committed	*3,734,678,250*		*1,037,645*	64%	36%		100.00%
of which : financial guarantees given	*383,234,583*		*547,062*	34%	66%		100.00%
Total / Average	**29,530,230,091**	**242,884**	**21,366,684**	**59%**	**41%**		

The following table presents, IFRS 9 impacts in terms of equity adjustments as at 1 January 2018:

	Estimated impact of adoption of IFRS 9		
(in EUR)	**As reported at 31 December 2017**	**Estimated adjustments due to adoption of IFRS 9**	**Estimated adjusted opening balance at 1 January 2018**
Reserves (including revaluation reserves)	892,739,134	21,366,684	914,105,818
Retained Earnings	4,850,848	-	4,850,848
Share capital and premium	1,397,091,247	-	1,397,091,247
	2,294,681,229	**21,366,684**	**2,316,047,913**

The following analysis provides further detail about this estimated impact at 1 January 2018.

Loans and advances at amortised cost

In general, the methodogical framework developed to calculate all the parameters used in the ECL formula is based on the one supporting the AIRB ("Advanced Internal Rating-Based") model.

Note 2 – Significant accounting policies (continued)

The Internal rating systems developed by ISP Group represent the base used to develop the IFRS 9 models and they have been adapted to fulfil the accounting principle requirements. In fact, risk parameters used to calculate ECL under IFRS 9 requirements are based on the "*Point in time*" approach, which gives the opportunity to capture all the available information of a counterparty.

It has been estimated that the application of IFRS 9's impairment requirements at 1 January 2018 results in an increase of EUR 19.6 million over the impairment recognised under IAS 39.

The above published tabled shows that 58% of loans and advances were subject to 12-month ECL, while 42% to lifetime ECL. No loans and advances have been identified falling in stage 3 category.

Debt securities
The Bank monitors changes in credit risk by tracking published external credit ratings.

It has been estimated that the application of IFRS 9's impairment requirements as at 1 January 2018 results in a increase in of EUR 1.7 million over the impairment recognised under IAS 39.

The above published table shows that 70% of debt securities were subject to 12-month ECL, while 30% to lifetime ECL.

IFRS 15 Revenue from Contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue,* IAS 11 *Construction Contracts* and IAS 13 *Customer Loyalty Programmes*.

An entity shall apply this Standard to all contracts with customers, except the following:
- Lease contacts within the scope of IFRS 16 *Leases*;
- Insurance contracts within the scope of IFRS 4 *Insurance Contracts*;
- Financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investment in Associates and Joint Ventures*: and
- Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:
- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligation of the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract;

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Note 2 – Significant accounting policies (continued)

During 2017 the Bank has performed a qualitative and quantitative assessment to identify any impact generated by IFRS 15 impleamentation developing a dedicated gap analysis and evaluation of impacts.

The analysis has been developed based on the following steps:

1. Identification of accounts and amounts to be analysed:
    a. Goal: identification of main revenues in scope;
    b. Approach: selection of accounts that could be impacted by the new framework;
2. Documentation of the revenue recognition:
    a. Approach: Feed a proper check-list collecting all the information related to accounts identified;
3. Identification of any potential issue to be analysed:
    a. Goal: analysis of potential issues;
    b. Approach: if issues were identified, information to be filled in the check-list and;
4. Identification of revenues which recognition may vary:
    a. Goal: determination of IFRS 15 impacts.

1. <u>Identification of accounts and amounts to be analysed</u>

The following captions have been taken into consideration to be analysed:

Fees and commission income

- Commission income on guarantees given;
- Commission income on commitments;
- Commission income on credit structuration and syndication;
- Commission income on collection of payment services;
- Commission income on dealing in financial instruments;
- Commission income on portfolio management;
- Commission income on custody and administration of securities;
- Commission income on depositary bank;
- Commission income on placement of securities;
- Commission income on factoring transactions;
- Commission income on other services.

Other operating revenue

- Brokerage profits.

2. <u>Documentation of the revenue recognition</u>

All the relevant accounts identified have been analysed on the base of above listed five steps. Each step has been divided into specific questions in oder to identify any important characteristic to be taken into consideration when implementing IFRS 15.

3. <u>Identification of any issue to be analysed</u>

No issues have been identified.

4. <u>Identification of revenues for which recognition may vary</u>

No changes in revenue recognition have been identified.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Note 2 – Significant accounting policies (continued)

Furthercoming requirements

Effective date	New standards or amendments
1 January 2018	IFRS 15 *Revenue from Contracts with Customers* IFRS 9 *Financial Instruments* *Classification and measurement of Share-based Payment Transactions* (Amendments to IFRS 2) *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (Amendments to IFRS 4) *Transfers of Investment Property* (Amendments to IAS 40) *Annual Improvements to IFRSs 2014-2016 Cycle – various standards* (Amendments to IFRS 1 and IAS 28) IFRIC *22 Foreign Currency Transactions and Advance Consideration*
1 January 2019	IFRS 16 *Leases* IFRIC 23 *Uncertainty over Income Tax Treatments*
1 January 2021	IFRS 17 *Insurance Contracts*
To be determined	*Sale or Contribution of Asset between an Investor ans its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28)

(d) Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Foreign currency translation

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

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

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

Note 2 – Significant accounting policies (continued)

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 statement of profit or loss or in other comprehensive income.

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

Financial assets other than held for trading and hedging

(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, derivatives held for hedging and available-for-sale financial assets.

Financial assets at fair value through profit or loss

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

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

Loans and advances

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

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 and available-for-sale are recognised on value date. Loans and advances are recognised when cash is advanced to the borrowers.

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

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

(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.

Note 2 – Significant accounting policies (continued)

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

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

Financial liabilities other than held for trading and hedging

(i) Classification

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

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

(ii) Initial recognition and subsequent measurement

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

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

(iii) Derecognition

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

Note 2 – Significant accounting policies (continued)

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

Derivative financial instruments

(i) Classification

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

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 when:
- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- embedded instruments, even though separate, fully meet the definition of derivative;
- combined instruments are not measured at fair value with changes in fair value recognised through profit or loss."

An exception relates to call, put, prepayment options embedded in a host loan, where the exercise price compensates the lender for loss of interest by reducing the economic loss from re-investment risk.

Such a type of embedded derivatives is closely related to the host contract in either of the following scenarios:
- The exercise price of the option is approximately equal on each exercise date to the amortised cost of the host loan instrument;
- The exercise price of the prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid, multiplied by the interest rate differential, which is the excess of the effective interest rate of the host contract over the effective interest rate that the lender would receive at the prepayment date if it re-invested the principal amount prepaid in a similar contract for the remaining term of the host contract.

(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.

Note 2 – Significant accounting policies (continued)

Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to meet the definition of derivative are recorded separately from the host contract at fair value.

(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 statement of profit and loss.

(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.

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

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

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

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

<u>Fair value hedges</u>

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

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

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

Note 2 – Significant accounting policies (continued)

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

(v) Derecognition

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

Financial guarantee contracts and loan commitment

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

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

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

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

Repurchase agreements and reverse repurchase agreements

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

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

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.

Note 2 – Significant accounting policies (continued)

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 statement of profit or loss.

Indicators of impairment include:

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

In addition, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

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

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

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

Note 2 – Significant accounting policies (continued)

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.

Tangible and intangible fixed assets

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

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

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

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

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

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

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

Other assets

This caption includes assets such as prepaid charges, accrued income or unearned income.
Other assets are stated at cost less impairment.

Note 2 – Significant accounting policies (continued)

Impairment of non-financial assets

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

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

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

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.

Employee benefits

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

Note 2 – Significant accounting policies (continued)

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

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

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment. The Bank contributes to a defined contribution retirement plan located with an external insurance company.
The Bank does not grant any other employee benefits.

Provisions

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

Other liabilities

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

Discontinued operations

A discontinued operation is a component of the Bank's business, the operations and the cash flows of which can be clearly distinguished from the rest of the Bank and which:
- represents a separate major line of business or geographical area of operations;
- is a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

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

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

Note 2 – Significant accounting policies (continued)

Interest income and expense

For all instruments measured at amortised cost, interest income and expense are recognised in the statement of profit or loss 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.

In relation to negative interest rates, the Bank recognises negative interest rates generated by placements or assets in the interest expense caption, while positive interests generated by deposits or liabilities in the interest income captions.

Fee and commission income

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

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

Dividend income

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

Net realised gains and losses on financial assets and liabilities not at fair value through profit and loss

Gains and losses on financial assets and liabilities are recognised in the statement of profit or loss at the date of sale, on the basis of difference between the consideration paid or collected and the carrying amount of such instruments. In case of Available for sale assets, gains and losses are adjusted to take into consideration premiums and discounts accrued as at the date of sale.

Taxes

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

Note 2 – Significant accounting policies (continued)

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

Deferred income tax

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

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

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

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

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

Current tax and deferred tax relating to items recognised directly in other comprehensive income are also recognised in other comprehensive income and not in the statement of profit or loss.

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.

(e) Reclassification of interest margin

The Bank has reclassified comparative figures concerning interest income on liabilities and interest expenses on assets. As per consequence comparative figures in note 18 and in the statement of profit and loss and other comprehensive income have been restated.

Note 3 – Financial risk management

(a) Introduction and overview

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

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

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

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

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

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

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

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

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

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

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 often also clients of the Group or are part of the Group;
- calculation of the impact on capital requirements is made for all new credit transactions. The objective is to maintain the adequate ratio of the own funds beyond the 10.5% required by local regulation;
- each new customer relation must be approved by the "Client Control Committee" and where applicable by the "Committee of acceptance of new customers and operations";
- the main exposures are toward the ultimate Parent Company;
- a large proportion of the loans are collateralised by pledges (cash or securities);
- the Bank does not systematically require a 100% collateral as a guarantee. It depends on the reputation of the borrower.

Credit risk is assessed by reviewing:

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

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

(i) 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.

Note 3 – Financial risk management (continued)

	Maximum exposure	
(in EUR)	**2017**	**2016**
Cash and cash balances with central banks	128,851,839	79,503,903
Financial assets held for trading	133,702,824	25,469,017
Financial assets at fair value through profit or loss	12,254,930	16,550,671
Available-for-sale financial assets	3,170,452,611	2,944,460,046
Loans and advances	18,687,898,484	14,893,744,682
Derivatives held for hedging	4,986,123	841,669
Other assets	22,372,433	17,290,186
Total	**22,160,519,244**	**17,977,860,174**
Guarantees	383,234,583	215,309,119
Commitments	3,734,678,250	3,520,103,961
Total	**4,117,912,833**	**3,735,413,080**

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

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

(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 rules laid down by its ultimate Parent Company.

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

Note 3 – Financial risk management (continued)

(in EUR)	Performing assets 2017	Doubtful assets 2017	Substandard exposures 2017	Past due exposures 2017	Total 2017
Financial assets held for trading	133,702,824	-	-	-	**133,702,824**
Financial assets at fair value through profit or loss	12,254,930	-	-	-	**12,254,930**
Available-for-sale financial assets	3,170,452,611	-	-	-	**3,170,452,611**
Loans and advances	18,687,698,147	443,221	-	-	**18,688,141,368**
Total	**22,004,108,512**	**443,221**	**-**	**-**	**22,004,551,733**

(in EUR)	Performing assets 2016	Doubtful assets 2016	Substandard exposures 2016	Past due exposures 2016	Total 2016
Financial assets held for trading	25,469,017	-	-	-	**25,469,017**
Financial assets at fair value through profit or loss	16,550,671	-	-	-	**16,550,671**
Available-for-sale financial assets	2,944,460,046	-	-	-	**2,944,460,046**
Loans and advances	14,772,347,647	132,342,967	-	-	**14,904,690,614**
Total	**17,758,827,381**	**132,342,967**	**-**	**-**	**17,891,170,348**

(iii) Credit quality per class of financial assets

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

(in EUR)	Gross exposure 2017	Individual impairment 2017	Collective impairment 2017	Net exposure 2017
Performing loans	18,687,698,147	-	-	18,687,698,147
Doubtful loans	443,221	(242,884)		200,337
Past due exposures	-	-	-	-
Total	**18,688,141,368**	**(242,884)**	**-**	**18,687,898,484**

(in EUR)	Gross exposure 2016	Individual impairment 2016	Collective impairment 2016	Net exposure 2016
Performing loans	14,772,347,647	-	-	14,772,347,647
Doubtful loans	132,342,967	(10,945,932)	-	121,397,035
Past due exposures	-	-	-	-
Total	**14,904,690,614**	**(10,945,932)**	**-**	**14,893,744,682**

As at 31 December 2016 and 2017, there is no credit position that could qualify for loan forbearance as defined by the ESMA (European Security and Market Authority).

Note 3 – Financial risk management (continued)

(iv) Concentration of risks

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

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

As at 31 December 2017, the lending limit amounted to EUR 469 million (2016: EUR 463 million) and - except for intergroup operations and one sovereign risk (Government of Italy) - no borrower exceeded this amount. The main exposure relates to 96 borrowers or group of borrowers (2016: 70 borrowers or group of borrowers) with financing between EUR 10 billion and EUR 13 million each (2016: between EUR 8.6 billion and EUR 15 million).

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

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

(v) Geographical allocation of risks

As at 31 December 2017 and 2016, the distribution by geographical area of the risks held in securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

Note 3 – Financial risk management (continued)

(in EUR)	2017		2016	
	Securities (AFS, FVPL)	**Loans and advances**	**Securities (AFS, FVPL)**	**Loans and advances**
Italy	2,069,565,302	12,761,457,890	2,616,183,192	10,535,215,639
USA	-	568,489,733	-	73,796,009
Japan	-	853,938	-	200,285
France	221,989,097	28,676,918	24,811,034	195,092,343
Spain	356,481,518	74,579,236	-	121,036,433
Luxembourg	275,207,929	500,134,018	10,234,418	722,379,951
Belgium	2,738,644	11,074,980	7,855,911	76,221,102
Germany	-	230,753,057	5,025,202	150,248,742
United Kingdom	-	435,696,747	-	473,513,545
Switzerland	-	157,843,706	-	1,944,314
The Netherlands	31,778,359	1,555,573,713	26,780,739	1,351,468,661
Poland	-	3,777,026	-	3,993,964
Panama	-	1,475	-	1,438
Russia	-	867,223,287	-	167,900,967
Croatia	-	1,087,741	-	61,248,431
Hungary	-	1,599,990	-	1,412,636
Romania	-	131,619,589	-	132,773,101
Supranational	177,993,679	-	226,092,500	-
Slovenia	-	6,298,072	-	6,305,808
Portugal	-	831,554	-	1,465,674
Nigeria	-	-	-	2,685,170
Greece	-	6,365	-	753
Ireland	-	68,406,715	-	352,459
Czech Republic	-	77,441,758	-	68,243,209
Denmark	11,657,669	932,407	5,032,603	882,022
Norway	15,110,723	508,052	28,815,142	618,643
Canada	15,105,577	231,629	10,179,976	358,496
Austria	-	4,728,321	-	-
Sweden	5,079,044	584,712	-	-
Other	-	1,197,485,855	-	744,384,889
Total	**3,182,707,541**	**18,687,898,484**	**2,961,010,717**	**14,893,744,682**

Note 3 – Financial risk management (continued)

(in EUR)	2017		2016	
	Guarantees	**Commitments**	**Guarantees**	**Commitments**
Belgium	-	422,836,905	-	400,536,809
Canada	-	-	35,000	-
France	74,425	-	181,162	-
Germany	262,678	126,497,287	262,678	-
Austria	-	40,408,823	-	-
Iran	-	-	22,500	-
Italy	49,242,513	781,325,024	13,388,843	283,588,350
Luxembourg	36,483,909	283,381,086	29,130,393	111,479,562
The Netherlands	5,026,608	792,264,007	11,291,818	1,427,162,591
Qatar	-	417,909,728	-	-
Spain	-	16,676,395	-	-
Switzerland	548,687	39,813,186	624,267	3,136,786
Turkey	14,999	-	11,500	-
USA	7,260,238	166,108,063	8,545,011	227,735,319
United Kingdom	284,280,526	421,442,616	151,745,947	292,186,766
Venezuela	10,000	-	17,500	-
Congo Dem. Republic	30,000	-	52,500	-
South Africa	-	188,409,507	-	24,277,778
Jersey IsL.	-	1	-	-
Russia	-	33,379,980	-	750,000,000
Rep.Czecha	-	4,225,642	-	-
Total	**383,234,583**	**3,734,678,250**	**215,309,119**	**3,520,103,961**

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

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

Maturing on :	**EUR**
2018	526,201,250
2019	553,892,284
2020	104,126,345
2021	237,321,003
2022	183,578,057
2023	135,120,481
2024	101,815,215
2025	100,284,607
Total	**1,942,339,242**

Note 3 – Financial risk management (continued)

(vi) Industry sector allocation of risks

As at 31 December 2017 and 2016, the breakdown by industry sector of the risks held in securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(in EUR)	2017		2016	
	Securities (AFS, FVPL)	**Loans and advances**	**Securities (AFS, FVPL)**	**Loans and advances**
Financial institutions	371,208,572	9,950,509,001	116,541,147	8,357,143,757
Public sector	2,551,980,739	178,979,082	2,806,008,265	29,722,572
Other industries	259,518,230	7,033,991,073	38,461,305	5,465,083,156
Individuals	-	1,524,419,328	-	1,041,795,197
Total	**3,182,707,541**	**18,687,898,484**	**2,961,010,717**	**14,893,744,682**

(in EUR)	2017		2016	
	Guarantees	**Commitments**	**Guarantees**	**Commitments**
Financial institutions	294,054,552	-	161,780,478	-
Public sector	-	417,909,728	-	-
Other industries	88,516,213	3,192,041,815	52,360,535	3,520,103,961
Individuals	663,818	124,726,707	1,168,106	-
Total	**383,234,583**	**3,734,678,250**	**215,309,119**	**3,520,103,961**

(c) Liquidity risk

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Bank is able to cover cash outflows with inflows of cash, readily marketable assets and its own capacity to obtain credit. With regards to readily liquid assets in particular, market turmoil may occur which makes their sale or use of guarantee in exchange for funds extremely difficult (or even impossible); from this point of view, the Bank's liquidity is closely tied to the market liquidity conditions (market liquidity risk).

The Liquidity Risk Management policy of the Bank is intended to define the guidelines for prudent management of this risk, outlining all the control processes and standards designed to prevent situations of liquidity crisis for the Bank.

The Intesa Sanpaolo Group Guidelines for Liquidity Risk Management defines the rules, measurement methodologies, behavioural parameters and quantitative limits for the Bank.

Note 3 – Financial risk management (continued)

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

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

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

As at 31 December 2017, the Liquidity Coverage Ratio of the Bank as defined in the article 416 of EU Regulation No 575/2013 was 105% (2016: 137%).

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.

31 December 2017 (in million 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**	**Total**
Deposit from central banks	-	-	-	-	-	1,314	-	**1,314**
Financial liabilities held for trading and derivatives held for hedging	298	14	4,835	126	163	909	33	**6,378**
Financial liabilities at fair value through profit or loss	-	1	-	1	3	7	-	**12**
Financial liabilities measured at amortised cost	5,233	1,958	1,795	3,354	3,404	2,557	3	**18,304**
Total	**5,531**	**1,973**	**6,630**	**3,481**	**3,570**	**4,787**	**36**	**26,008**

31 December 2016 (in million 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**	**Total**
Deposit from central banks	-	-	-	-	-	1,317	-	**1,317**
Financial liabilities held for trading and derivatives held for hedging	20	15	15	27	66	73	2	**218**
Financial liabilities at fair value through profit or loss	-	1	-	1	3	10	-	**15**
Financial liabilities measured at amortised cost	4,534	636	2,086	3,233	2,682	1,259	2	**14,432**
Total	**4,554**	**652**	**2,101**	**3,261**	**2,751**	**2,659**	**4**	**15,982**

Note 3 – Financial risk management (continued)

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

2017	**Government and central banks**	**Other public entities**	**Financial institutions**	**Non financial companies**	**Other**	**Total**
Deposits from central banks	1,314,049,823	-	-	-	-	**1,314,049,823**
Financial liabilities held for trading and for hedging	-	-	53,304,317	1,653	22,457,480	**75,763,450**
Financial liabilities at fair value through profit or loss	-	-	12,124,209	-	-	**12,124,209**
Financial liabilities measured at amortised cost	-	135,864,241	708,297,280	889,218,597	16,570,727,841	**18,304,107,959**
Total	**1,314,049,823**	**135,864,241**	**773,725,806**	**889,220,250**	**16,593,185,321**	**19,706,045,441**

Note 3 – Financial risk management (continued)

2016	Government and central banks	Other public entities	Financial institutions	Non financial companies	Other	Total
Deposits from central banks	1,316,971,256	-	-	-	-	**1,316,971,256**
Financial liabilities held for trading and for hedging	-	-	167,484,552	1,478,319	17,314,729	**186,277,600**
Financial liabilities at fair value through profit or loss	-	-	16,065,533	-	-	**16,065,533**
Financial liabilities measured at amortised cost	-	286,006,138	587,152,750	788,765,955	12,770,604,716	**14,432,529,559**
Total	**1,316,971,256**	**286,006,138**	**770,702,835**	**790,244,274**	**12,787,919,445**	**15,951,843,948**

Note 3 – Financial risk management (continued)

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

2016	Zone EURO	Other European countries	Other	Total
Deposits from central banks	1,316,971,256	-	-	**1,316,971,256**
Financial liabilities held for trading and for hedging	185,932,865	228,028	116,707	**186,277,600**
Financial liabilities at fair value through profit or loss	16,065,533	-	-	**16,065,533**
Financial liabilities measured at amortised cost	13,876,999,521	514,962,237	40,567,801	**14,432,529,559**
Total	**15,395,969,175**	**515,190,265**	**40,684,508**	**15,951,843,948**

(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.

Note 3 – Financial risk management (continued)

To assess market risk, the Bank has put in place a reporting addressed to the Authorized Management, the Internal Audit, the Financial Markets Division and any other operational service responsible.
The Risk Control Function carries out their own analyses and assessments and the results are communicated periodically to the members of Authorized Management of the Bank, to the Financial Markets Division, to the ALCO Committee and to the Board of Directors, through the Audit Committee.

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

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

<u>Risk measurements</u>

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

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

The approach used for the VaR computation is characterised by:

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

A daily VaR limit is fixed at EUR 6.2 million.

Note 3 – Financial risk management (continued)

(i) Interest rate risk

Average interest rates

The average effective interest rates on financial instruments by main currencies for the year ended 31 December 2017 and 2016 are as follows:

	2017		2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
EUR	0.3749%	0.247618%	0.6987%	0.4334%
USD	3.25337%	2.056692%	2.5547%	1.3789%

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

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

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

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

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

The set of "Shift sensitivity +100bps" limits for the Bank has been approved by the Group Financial Risk Committee and by the Bank Board on 26 May 2017 for the last time:

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

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

Note 3 – Financial risk management (continued)

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

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

Bucket	Shift + 100bp per bucket	Shift - 100bp per bucket	Limits (+100bp)
Short term	(13,124,723)	1,196,195	+/- 17 mln
Medium term	(5,099,776)	6,054,424	+/- 18 mln
Long term	(5,151,493)	9,672,402	+/- 8 mln
Total	**(23,375,992)**	**16,923,021**	**+/- 24 mln**

At 31 December 2017, the Net Interest Income Sensitivity (NII), which measures the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of +/- 50 bps, over a period of 12 months, has been as follows:

Shift + 50bps (NII)	Shift - 50bps (NII)
8,732,604	(14,000,512)

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.

Note 3 – Financial risk management (continued)

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

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

Note 3 – Financial risk management (continued)

31 December 2016 (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**	**Total**
Cash and cash balances with central banks	80	-	-	-	-	-	-	**80**
Financial assets held for trading and derivatives held for hedging	19	2	3	2	-	-	-	**26**
Financial assets at fair value through profit or loss	-	-	-	-	-	17	-	**17**
Available-for-sale financial assets	75	-	-	101	881	1,615	272	**2,944**
Loans and advances	4,833	485	896	1,859	1,929	4,280	612	**14,894**
Total financial assets	**5,007**	**487**	**899**	**1,962**	**2,810**	**5,912**	**884**	**17,961**
Deposits from central banks	-	-	-	-	497	820	-	**1,317**
Financial liabilities held for trading and derivatives held for hedging	19	2	5	-	24	134	2	**186**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	16	-	**16**
Financial liabilities measured at amortised cost	4,483	687	2,086	3,233	2,683	1,259	2	**14,433**
Total financial liabilities	**4,502**	**689**	**2,091**	**3,233**	**3,204**	**2,229**	**4**	**15,952**

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2016, a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR (17,366,914) and EUR (2,626,080) 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 2017 and 2016, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR):

31 December 2017	EUR	USD	Other	Total
Cash and cash balances with central banks	128,839,224	5,271	7,344	**128,851,839**
Financial assets at fair value through profit or loss and held for trading	-	123,961,304	21,996,450	**145,957,754**
Available-for-sale financial assets	3,170,452,611	-	-	**3,170,452,611**
Loans and advances	15,438,154,188	2,765,165,784	484,578,512	**18,687,898,484**
Total financial assets	**18,737,446,023**	**2,889,132,359**	**506,582,306**	**22,133,160,688**
Deposits from central banks	1,314,049,823	-	-	**1,314,049,823**
Financial liabilities held for trading and held for hedging	50,039,063	15,536,705	10,187,682	**75,763,450**
Financial liabilities at fair value through profit or loss	-	-	12,124,209	**12,124,209**
Financial liabilities measured at amortised cost	16,910,968,612	944,429,225	448,710,122	**18,304,107,959**
Total financial liabilities	**18,275,057,498**	**959,965,930**	**471,022,013**	**19,706,045,441**

Note 3 – Financial risk management (continued)

31 December 2016	EUR	USD	Other	Total
Cash and cash balances with central banks	79,481,885	6,959	15,059	**79,503,903**
Financial assets at fair value through profit or loss and held for trading	1,998	15,828,184	26,189,506	**42,019,688**
Available-for-sale financial assets	2,944,460,046	-	-	**2,944,460,046**
Loans and advances	12,824,900,187	1,906,037,782	162,806,713	**14,893,744,682**
Total financial assets	**15,848,844,116**	**1,921,872,925**	**189,011,278**	**17,959,728,319**
Deposits from central banks	1,316,971,256	-	-	**1,316,971,256**
Financial liabilities held for trading and held for hedging	100,998,693	72,828,392	12,450,515	**186,277,600**
Financial liabilities at fair value through profit or loss	-	-	16,065,533	**16,065,533**
Financial liabilities measured at amortised cost	13,643,876,585	599,391,796	189,261,178	**14,432,529,559**
Total financial liabilities	**15,061,846,534**	**672,220,188**	**217,777,226**	**15,951,843,948**

(f) Capital management and capital adequacy

Regulatory capital

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

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

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

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

Note 3 – Financial risk management (continued)

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

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

The Bank's regulatory position under Basel III at 31 December 2017, excluding income for the current year, is as follows:

	2017	**2016**
Tier 1 Capital		
Ordinary share capital	989,370,720	989,370,720
Share premium	7,720,692	7,720,692
Other reserves and retained earnings	894,906,708	855,699,007
less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital	-	-
Others deductions	(15,715,876)	-
Total Tier 1	**1,876,282,244**	**1,852,790,419**
Tier 2 Capital		
General credit risk adjustments	-	-
Total Tier 2	-	-
Total own fund eligible for solvency purposes	**1,876,282,244**	**1,852,790,419**

Note 3 – Financial risk management (continued)

Capital requirements and risk weights

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

	2017 Amount of risk weighted assets	**2016** Amount of risk weighted assets
Credit and couterparty risk	**8,835,057,975**	**9,622,345,439**
Central governments and central banks	18,794,470	55,805,216
International organizations	3,353,595	-
Corporates	3,730,980,831	4,723,695,529
Institutions	4,817,679,218	4,698,358,739
Retail	2,236,045	2,746,753
Exposures in default	180,194	537,763
Equity exposures	33,175,689	38,521,470
Other items	56,640,916	30,585,967
Covered bonds	139,063,230	72,092,004
Collective investments undertakings (CIU)	32,953,787	1,998
Market risk	**-**	**-**
Operational risk	**387,180,026**	**399,714,120**
Credit Valuation Adjustment	**8,207,856**	**-**
Total risk weighted assets and capital requirements	**9,230,445,857**	**10,022,059,559**
Tier 1 capital ratio	*20.33%*	*18.49%*
Total capital ratio	*20.33%*	*18.49%*

Capital adequacy

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

As at 31 December 2017, the solvency ratio of the Bank is 20.33% (2016: 18.49%), above the regulatory limit of 8% and above the regulatory limit including conservation buffer limit of 10.5%. Over the year 2017, the higher solvency ratio amounted to 20.92% (September) and the lower amounted to 18.10% (February).

Note 3 – Financial risk management (continued)

Capital management and planning

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

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

As part of the internal assessment process for its capital adequacy (relative to Basel III Pillar 2), the Bank considers that the Pillar 1 risks (credit, market and operational risks) are sufficiently covered by the regulatory capital under Pillar 1 as at 31 December 2017 and going forward.

The ICAAP (Internal Capital Assessment Process)

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

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

(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.

(h) Derivative financial instruments

During 2017 and 2016, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.

As at 31 December 2017 and 2016, the notional amount and fair value of the derivatives held for trading are as follows (in EUR):

Note 3 – Financial risk management (continued)

	2017		2016	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	-	-	-	-
Currency instruments	3,985,832,987	133,702,824	2,166,371,502	25,467,019
	3,985,832,987	**133,702,824**	**2,166,371,502**	**25,467,019**
Liabilities				
Interest rate instruments	75,000,000	2,344,804	75,000,000	3,416,187
Currency instruments	2,654,612,861	25,724,387	3,729,449,890	85,278,907
	2,729,612,861	**28,069,191**	**3,804,449,890**	**88,695,094**

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

(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 amortised cost (excluding cash balances with central banks) in the statement of financial position (in millions of EUR):

	Carrying amount		**Fair value**	
	2017	**2016**	**2017**	**2016**
Assets				
Loans and advances	18,688	14,894	18,696	14,761
Liabilities				
Financial liabilities measured at amortised cost	18,304	14,433	19,664	15,803

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

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

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

Note 3 – Financial risk management (continued)

Fair value hierarchy

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

(i) Valuation models

As at 31 December 2017 and 2016, the Bank uses the following fair value hierarchy for determining and disclosing the fair value of financial instruments, which reflects the significance of the inputs used in making the measurements:

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

(ii) Valuation framework

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

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

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

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

31 December 2017 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
- Derivatives held for trading	-	133,702,824	-	**133,702,824**
- Equity instruments	-	-	-	**-**
Financial assets at fair value through profit or loss				**-**
- Debt instruments	-	12,254,930	-	**12,254,930**
Available-for-sale financial assets				**-**
- Equity instruments (other than investments in subsidiaries)	729,306	211,185	-	**940,491**
- Debt instruments	3,169,512,120	-	-	**3,169,512,120**
Derivatives held for hedging	-	4,986,123	-	**4,986,123**
Total financial assets	**3,170,241,426**	**151,155,062**	**-**	**3,321,396,488**
Financial liabilities held for trading				
- Derivatives held for trading	-	28,069,191	-	**28,069,191**
- Short positions	-	-	-	-
Financial liabilities at fair value through profit or loss	-	12,124,209	-	**12,124,209**
Derivatives held for hedging	-	47,694,259	-	**47,694,259**
Total financial liabilities	**-**	**87,887,659**	**-**	**87,887,659**

Note 3 – Financial risk management (continued)

31 December 2016 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
- Derivatives held for trading	-	25,467,019	-	**25,467,019**
- Equity instruments	1,998	-	-	**1,998**
Financial assets at fair value through profit or loss				**-**
- Debt instruments	-	16,550,671	-	**16,550,671**
Available-for-sale financial assets				**-**
- Equity instruments (other than investments in subsidiaries)	630,497	211,185	-	**841,682**
- Debt instruments	2,943,618,364	-	-	**2,943,618,364**
Derivatives held for hedging	-	841,669	-	**841,669**
Total financial assets	**2,944,250,859**	**43,070,544**	**-**	**2,987,321,403**
Financial liabilities held for trading				
- Derivatives held for trading	-	88,695,094	-	**88,695,094**
- Short positions	-	-	-	-
Financial liabilities at fair value through profit or loss	-	16,065,533	-	**16,065,533**
Derivatives held for hedging	-	97,582,506	-	**97,582,506**
Total financial liabilities	**-**	**202,343,133**	**-**	**202,343,133**

During the reporting years ending 31 December 2017 and 31 December 2016, there were no transfers between Level 1 and Level 2 categories, and no transfers into and out of Level 3 category.

(j) Operating segments

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

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

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

Note 3 – Financial risk management (continued)

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

Results by strategic divisions in EUR '000	**2017**					
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Governance**	**Total revenues**
Net interest margin	51,311	560	87,123	(3,267)	-	135,727
Dividends	-	540	46	-	-	586
Net commission margin	40,494	3,960	6,453	102	-	51,009
Net trading income	(6,111)	294	(4,187)	5,759	-	(4,245)
Net other operating expenses	55	(43)	(1,263)	(4,674)	-	(5 926)
Profit from discontinuing operations	-	-	-	-	-	-
Impairment on financial assets	36	(12)	-	75	-	99
Total area results	**85,785**	**5,298**	**88,172**	**(2,005)**	**-**	**177,250**
Impairment on financial assets					-	-
Depreciation					(459)	(459)
Provision					-	-
Staff and operating expenses					(38,271)	(38,271)
Tax expenses					(3,047)	(3,047)
Total operating & extraordinary expenses					**(41,777)**	**(41 777)**
RESULTS FOR THE YEAR						**135,474**

Results by strategic divisions in EUR '000	**2016**					
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Governance**	**Total revenues**
Net interest margin	28,073	344	67,115	(1,563)	-	93,969
Dividends	-	880	36	-	-	916
Net commission margin	35,340	4,344	4,765	174	-	44,623
Net trading income	134	538	22,257	(298)	-	22,631
Net other operating expenses	(44)	(135)	(2)	(5,086)	-	(5,267)
Profit from discontinuing operations	-	-	-	-	-	-
Impairment on financial assets	2,519	94	-	163	-	2,776
Total area results	**66,022**	**6,065**	**94,171**	**(6,610)**	**-**	**159,648**
Impairment on financial assets					-	-
Depreciation					(613)	(613)
Provision					(75)	(75)
Staff and operating expenses					(34,904)	(34,904)
Tax expenses					(2,225)	(2,225)
Total operating & extraordinary expenses					**(37,817)**	**(37,817)**
RESULTS FOR THE YEAR						**121,831**

Note 3 – Financial risk management (continued)

Assets by strategic division in EUR'000	**2017**				
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Cash and cash balances with central banks	1,682	(1)	126,834	337	**128,852**
Financial assets held for trading	-	450	130,162	3,091	**133,703**
Financial assets designated at fair value through profit or loss	-	-	12,255	-	**12,255**
Available-for-sale financial assets	-	-	3,170,242	211	**3,170,453**
Loans and advances	8,693,678	15,426	8,077,012	1,901,782	**18,687,898**
Loans and advances to credit institutions	*3,111*	-	*8,075,756*	*1,871,642*	***9,950,509***
Loans and advances to customers	*8,690,567*	*15,426*	*1,256*	*30,140*	***8,737,389***
Derivatives held for hedging	513	-	3,954	519	**4,986**
Tangible fixed assets	304	-	-	32,510	**32,814**
Intangible assets	-	-	-	3	**3**
Current tax assets	1,821	-	-	-	**1,821**
Deferred tax assets	-	-	-	7,515	**7,515**
Other assets	3,241	397	1,484	17,250	**22,372**
Total assets	**8,701,239**	**16,273**	**11,521,943**	**1,963,216**	**22,202,672**

Assets by strategic division in EUR'000	**2016**				
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Cash and cash balances with central banks	1,237	-	78,097	170	**79,504**
Financial assets held for trading	2,135	1,989	21,345	-	**25,469**
Financial assets designated at fair value through profit or loss	-	-	16,551	-	**16,551**
Available-for-sale financial assets	-	-	2,944,249	211	**2,944,460**
Loans and advances	6,526,054	11,545	5,568,344	2,787,802	**14,893,745**
Loans and advances to credit institutions	*153,538*	-	*5,567,040*	*2,636,566*	***8,357,144***
Loans and advances to customers	*6,372,516*	*11,545*	*1,304*	*151,236*	***6,536,601***
Derivatives held for hedging	351	-	-	491	**842**
Tangible fixed assets	10	-	-	8,182	**8,192**
Intangible assets	-	-	-	4	**4**
Current tax assets	1,867	-	-	-	**1,867**
Deferred tax assets	-	-	-	7,883	**7,883**
Other assets	2,643	473	987	13,186	**17,289**
Total assets	**6,534,297**	**14,007**	**8,629,573**	**2,817,929**	**17,995,806**

Note 3 – Financial risk management (continued)

Liabilities & Equity by strategic division in EUR'000 **2017**

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

Liabilitis & Equity by strategic division in EUR'000 **2016**

Liabilities	**Corporate & Financial Institutions**	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Deposits from central banks	-	-	1,316,971	-	**1,316,971**
Financial liabilities held for trading	2,022	371	84,904	1,398	**88,695**
Financial liabilities designated at fair value through profit or loss	16,066	-	-	-	**16,066**
Financial liabilities measured at amortised cost	**2,816,903**	**662,161**	**10,932,021**	**21,445**	**14,432,530**
Deposits from credit institutions	*5,215*	*-*	*560,291*	*18,797*	***584,303***
Deposits from customers	*2,808,390*	*662,156*	*1,870,092*	*2,023*	***5,342,661***
Debts evidenced by certificates	*3,298*	*5*	*8,501,638*	*625*	***8,505,566***
Derivatives held for hedging	-	-	97,583	-	**97,583**
Provisions	23	-	-	2,521	**2,544**
Current tax liabilities	2,225	-	-	-	**2,225**
Deferred tax liabilities	-	-	-	9,819	**9,819**
Other liabilities	18,163	320	1,419	30,155	**50,057**
Total liabilities	**2,855,402**	**662,852**	**12,432,898**	**65,338**	**16,016,490**
Equity					
Share capital	-	-	-	989,371	**989,371**
Share premium	-	-	-	7,721	**7,721**
Revaluation reserve	-	-	6,626	(1,936)	**4,690**
Other reserves and retained earnings	399	(1,897)	6,241	850,960	**855,703**
Net profit for the year	82,074	8,081	(339)	32,015	**121,831**
Total equity	**82,473**	**6,184**	**12,528**	**1,878,131**	**1,979,316**
Total liabilities and equity	**2,937,875**	**669,036**	**12,445,426**	**1,943,469**	**17,995,806**

Note 3 – Financial risk management (continued)

(k) Return on assets ("ROA")

The Bank return on asset is as follow:

	2017	2016
Total assets	22,202,672,246	17,995,805,816
Net profit for the year	135,474,318	121,831,307
Return on assets	**0.61%**	**0.68%**

(l) Pillar III disclosures requirements

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

The document, denominated "Third pillar of Basel 2 and Basel 3 ("Pillar 3")" is available at the following web address:
"http://www.group.intesasanpaolo.com/scriptIsir0/si09/governance/eng_terzo_pilastro_basilea.jsp"

The ICAAP (Internal Capital Assessment Process)

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

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

Note 4 – Cash and cash equivalents

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

	Net carrying amount	
(in EUR)	**2017**	**2016**
Cash and cash balances with central banks	128,851,839	79,503,903
Loans and advances to banks with maturity ≤ 3 months	3,745,383,487	2,311,150,389
	3,874,235,326	**2,390,654,292**

In accordance with the requirements of the European Central Bank, the Luxembourg Central Bank implemented effective on 1 January 1999, a system of mandatory minimum reserves applicable to all Luxembourg credit institutions. The amount outstanding as at 31 December 2017 is EUR 126,833,521 (2016: EUR 78,093,348).

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

	Net carrying amount	
(in EUR)	**2017**	**2016**
Financial assets held for trading		
Derivatives held for trading	133,702,824	25,467,019
Mutual funds shares	-	1,998
	133,702,824	**25,469,017**
Financial assets designated at inception at fair value through profit or loss		
Securities	12,254,930	16,550,671
	12,254,930	**16,550,671**

As at 31 December 2017, the position is represented by a unique structured corporate bonds issued in JPY, maturing in February 2021, and funded by a deposit in the same currency from the Bank's ultimate Parent Company.

Note 6 – Available-for-sale financial assets

As at end of the year, the Available-for-sale portfolio was composed as follow:

Quoted debt instruments:

(in EUR)	Net carrying amount 2017	2016
Quoted debt instruments issued by:		
Financial institutions	370,479,266	115,910,650
Public sector	2,551,980,738	2,806,008,265
Other	247,052,116	21,699,449
	3,169,512,120	**2,943,618,364**

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

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

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

The last deposit received has been hedged entering in a hedge accounting relationship where an Interest Rate Swap has been used as hedging instrument: as a consequence of the hedge accounting, the TLTRO mechanism carrying amount of EUR 1,317,114,434 (of which negative accrued interests amount to EUR 4,325,566) as at 31 December 2017 has been adjusted for a negative amount equal to EUR 3,064,611 (NPV adjustment).

Those deposits are collateralised by eligible securities for an amount of EUR 1,415,116,133.

Note 6 – Available-for-sale financial assets (continued)

Quoted and not quoted shares:
As at 31 December 2017 the Bank holds shares issued by Intesa Sanpaolo S.p.A. for an amount of EUR 729,306, bought by the Bank at end 2014, to be distributed to the Bank employees in respect of a plan developed by the Parent Company.

	Net carrying amount	
(in EUR)	**2017**	**2016**
Quoted & not quoted shares issued by:		
ISP Group	729,306	630,497
Corporates	211,185	211,185
	940,491	**841,682**

As at 31 December 2017, shares in affiliated undertakings, which are classified in this category, where the Bank held at least 20% are as follows:

	Registered office	Precentage owned	Net equity (in EUR)*	Of which Profit of the year (in EUR)*
Company				
Lux Gest Asset Management S.A.	Luxembourg	100%	942,803	613,577

* Based on unaudited figures

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

(in EUR)	Fixed Income securities	Floating Income securities	Equity securities	Total
Balance as at 31 December 2016	**1,716,375**	**2,941,986**	**31,874**	**4,690,235**
Increase (decrease) of unrealised gain	(271,833)	(1,521,141)	98,809	**(1,694,165)**
(Increase) decrease of unrealised loss	2,256,098	29,393	-	**2,285,491**
Amount reclassified from equity to profit or loss for the period	(5,676,652)	(1,679,589)	-	**(7,356,241)**
Unrealised fair value gain made on assets bought during the year	4,519,057	(704,617)	-	**3,814,440**
Deferred tax	(171,968)	1,138,558	(25,794)	**940,796**
Balance as at 31 December 2017	**2,371,077**	**204,590**	**104,889**	**2,680,556**

Note 7 – Loans and advances

(in EUR)	2017		2016	
	Total Net carrying amount	**Of which: Impairment**	**Total Net carrying amount**	**Of which: Impairment**
Unquoted loans and advances to:				
Financial institutions and public sector	10,129,488,083	-	8,386,866,329	-
Private customers	1,524,419,328	2,784	1,041,795,197	10,531,869
Corporate customers	7,033,991,073	240,100	5,465,083,156	414,063
Total	**18,687,898,484**	**242,884**	**14,893,744,682**	**10,945,932**

Impairment allowance for loans and advances

As at 31 December 2017, the Bank has determined its individual impairment at EUR 242,884 (2016: EUR 10,945,932).

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

(in EUR)	**2017**	**2016**
Impairment as at 1st January	10,945,932	11,508,164
Charge of the year/Transfers	47,054	493,517
Recoveries/amounts written off	(10,750,102)	(1,055,749)
Impairment as at 31 December	**242,884**	**10,945,932**
of which:		
Individual impairment	242,884	10,945,932
Collective impairment	-	-

Guarantees received as collateral

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

(in EUR)	2017		2016	
	Loans and advances to customers	**Loans and advances to credit institutions**	**Loans and advances to customers**	**Loans and advances to credit institutions**
Net carrying amounts	8,737,389,483	9,950,509,001	6,536,600,925	8,357,143,757
Real guarantees				
Mortgage	-	-	-	-
Securities	2,067,224	-	2,606,944	-
Other real guarantees	2,924,717,900	45,000,000	2,202,071,568	45,000,000
Personal guarantees				
Government guarantees	853,008,314	-	71,150,746	-
Credit institutions guarantees	38,959,143	-	1,724,661,876	24,990,000
Total guarantees	**3,818,752,581**	**45,000,000**	**4,000,491,134**	**69,990,000**

Note 8 – Property and equipment

(in EUR)	**Land & building**	**Office equipment**	**Other equipment**	**Total**
Cost as at 1st January 2017	25,079,718	1,555,024	7,761,730	**34,396,472**
Additions	122,651	157,604	285,444	**565,699**
Disposals/Transfers	(165,198)	(160,950)	94,689	**(231,459)**
Cost as at 31 December 2017	25,037,171	1,551,678	8,141,863	**34,730,712**
Accumulated depreciation as at 1st January 2017	(17,628,113)	(1,477,584)	(7,098,446)	**(26,204,143)**
Depreciation charge	(378,297)	(32,774)	(46,351)	**(457,422)**
Depreciation reversal	165,198	160,950	(94,689)	**231,459**
Accumulated depreciation as at 31 December 2017	(17,841,212)	(1,349,408)	(7,239,486)	**(26,430,106)**
Net carrying amount as at 31 December 2017	**7,195,959**	**202,270**	**902,377**	**8,300,606**
Revaluations	24,513,535	-	-	**24,513,535**
Revalued net carrying amount as at 31 December 2017	**31,709,494**	**202,270**	**902,377**	**32,814,141**

(in EUR)	**Land & building**	**Office equipment**	**Other equipment**	**Total**
Cost as at 1st January 2016	25,773,559	1,541,522	7,709,087	**35,024,168**
Additions	16,591	13,502	52,643	**82,736**
Disposals/Transfers	(710,432)	-	-	**(710,432)**
Cost as at 31 December 2016	25,079,718	1,555,024	7,761,730	**34,396,472**
Amsterdam Branch integration - Accumulated depreciation	-	-	(43,059)	**(43,059)**
Accumulated depreciation as at 1st January 2016	(18,005,961)	(1,440,548)	(6,821,378)	**(26,267,887)**
Depreciation charge	(332,584)	(37,036)	(234,009)	**(603,629)**
Depreciation reversal	710,432	-	-	**710,432**
Accumulated depreciation as at 31 December 2016	(17,628,113)	(1,477,584)	(7,098,446)	**(26,204,143)**
Net carrying amount as at 31 December 2016	**7,451,605**	**77,440**	**663,284**	**8,192,329**

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

As at 31 December 2017 Land & building caption has been revalued on the base of Intesa Sanpaolo Group voluntary change to adopt land and building fair value as carrying amount instead of acquisition cost.

The above modification has led to the disclosure, in a dedicated valuation reserve, of an unrealized gain of EUR 24 million and all the financial information involving the Bank functional and leading to the above mentioned amount of revaluation reserve are detailed as follows:

	31.12.17
Land and building - Historic cost	**24,543,481**
Accumulated depreciation	17,394,016
Carrying amount	**7,149,465**
Functional property Fair value as at 31.12.2017	**31,663,000**
REVALUATION RESERVE	**24,513,535**

Note 8 – Property and equipment (continued)

Property description

The property comprises 3 office buildings (19/21 Prince Henri and 23 Prince Henri built in 1999) with 7 above ground floors and 3 basement level comprising 34 internal parking spaces for a total of 5,739 m². The property appears to have been constructed around a concrete frame, with stone and glass faced elevations. Internally, the accommodation has been fitted out to include air-conditioning and double-glazing. The internal and external appearance of the office spaces is to a good standard.

The fair value of functional property was determined by an external, independent property valuer, having appropriate recognised professional qualifications and experience in the location and category of the property being valued. The independent valuer will provide the fair value of the Bank's functional property portfolio every twelve months.

The fair value measurement for the functional property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Valuation methodology

Market value

Functional property fair value as at 31 December 2017 has been calculated under the assumption of a sale and leaseback to Intesa Sanpaolo for a term in line with market standards that can be identified under a lease length of 9 years and an early net income equal to EUR 1,495,206. The value of the building was assessed by means of both the comparable and investment approaches to valuation. With regards to the investment approach, it has been calculated a net income by considering an assumed estimated rental value (ERV) and deducting appropriate non-recoverable costs and then it has been capitalised at an appropriate hardcore yield into perpetuity. Capital costs required to achieve the assumed ERV are deducted and may include letting fees and tenant incentive among other items. The hardcore yields used are "growth implicit" and therefore no indexation or rental growth is explicitly modelled in our valuations.

Vacant Possession Value

For the Vacant Possession Value it has been adopted both the comparable and investment approaches to valuation. With regards to the investment approach, it has been calculated the net income by considering an assumed estimated rental value (ERV) and deducting appropriate non-recoverable costs. An appropriate void period which also includes any rent free has been considered and it has been capitalised at an appropriate hardcore yield into perpetuity at a rate reflecting the risk associated with a void property. Capital costs required to achieve the assumed ERV are deducted and may include letting fees and tenant incentive among other items. The resultant capital value per sqm as a secondary sense check methodology has been also taken into consideration.

Note 9 – Intangible assets

(in EUR)	2017
Cost as at 1st January 2017	**4,968**
Additions	
Disposals/Transfers	-
Cost as at 31 December 2017	4,968
Accumulated depreciation as at 1st January 2017	(1,125)
Depreciation charge	(1 125)
Accumulated depreciation as at 31 December 2017	(2,250)
Net carrying amount as at 31 December 2017	**2,718**

Note 10 – Tax expense, current and deferred tax assets and liabilities

Current taxes recorded are related to the Amsterdam branch of the Bank.

(in EUR)	2017	2016
Current tax assets	1,821,250	1,866,698
Current tax liabilities	(4,530,721)	(2,225,310)
Net current tax assets (liabilities)	**(2,709,471)**	**(358,612)**

In relation to the Luxembourg entity, instead, no current taxes are recorded considering the tax integration since 2002 with the Luxembourg Bank's local shareholder Intesa Sanpaolo Holding International S.A., which presents significant tax losses carried forward.

Deferred tax assets and liabilities

	2017	2016
Deferred tax assets	7,514,893	7,882,772
Deferred tax liabilities	(15,605,772)	(9,819,036)
Tax assets (liabilities)	**(8,090,879)**	**(1,936,264)**

Note 10 – Tax expense, current and deferred tax assets and liabilities (continued)

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

(in EUR)	1 January 2017	Income statement	Equity	31 December 2017
Financial assets held for trading	(21,179,148)	(7,784,950)	-	**(28,964,098)**
Financial assets designated at fair value through profit or loss	5,030,245	(187,089)	-	**4,843,156**
Available-for-sale financial assets	(1,936,269)	-	940,796	**(995,473)**
Financial liabilities held for trading	15,628,508	7,387,641	-	**23,016,149**
Financial liabilities designated at fair value through profit or loss	311,726	127,252	-	**438,978**
Provisions and value adjustments	208,674	-	-	**208,674**
Tangible assets	-	-	(6,638,265)	**(6,638,265)**
Net deferred income tax assets/(liabilities)	**(1,936,264)**	**(457,146)**	**(5,697,469)**	**(8,090,879)**

As at 31 December 2017, full recognition of deferred tax assets has been performed by the Bank because they have been lower than deferred tax liabilities amount.

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

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

The deferred tax liabilities calculated on available-for-sale financial assets and on the property contributing to the other comprehensive income are showing a net deferred tax liability balance. The deferred tax amount has been consequently shown in deduction of the relative comprehensive income.

Note 11 – Other assets and other liabilities

(in EUR)	2017	2016
Prepaid charges	2,361,088	2,114,319
Taxes	13,881,832	10,131,046
Accrued commission income	866,428	2,944,889
Other	5,263,085	2,099,932
Other assets	**22,372,433**	**17,290,186**

(in EUR)	2017	2016
Social security charges	694,536	686,679
Withholding taxes and VAT	26,661,675	22,018,740
Administrative expenses to be paid	10,996,737	9,093,464
Accrued commission expenses	3,871,671	14,778,505
Short term payable and other sundry accounts	2,431,008	3,480,256
Other liabilities	**44,655,627**	**50,057,644**

Note 12 – Deposits from central banks

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

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

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

The last deposit received has been hedged entering in a hedge accounting relationship where an Interest Rate Swap has been used as hedging instrument: as a consequence of the hedge accounting, the TLTRO mechanism carrying amount of EUR 1,317,114,434 (of which negative accrued interests amount to EUR 4,325,566) as at 31 December 2017 has been adjusted for an amount equal to EUR 3,064,611 (NPV adjustment).

Those deposits are collateralised by eligible securities for an amount of EUR 1,415,116,133.

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

As at 31 December 2017, the caption is composed of a financial liability which is eligible, according to IAS 39, to fair value option, with a fair value based on the discounted cash flows method. As at 31 December 2017, the fair value of this liability amounts to EUR 12,124,209 (2016: EUR 16,065,533).

Note 14 – Financial liabilities measured at amortised cost

(in EUR)	2017 Carrying amount	2016 Carrying amount	Variation in EUR	in %
Deposits from credit institutions				
Current accounts and amounts with period of notice	488,585,082	415,830,593	72,754,489	17%
Term deposits	219,712,198	168,472,042	51,240,156	30%
Total	**708,297,280**	**584,302,635**	**123,994,645**	**21%**
Corporate customers				
Current accounts and amounts with period of notice	1,560,969,556	1,801,012,570	(240,043,014)	-13%
Term deposits	4,350,998,257	3,379,073,506	971,924,751	29%
Total	**5,911,967,813**	**5,180,086,076**	**731,881,737**	**14%**
Private customers				
Current accounts and amounts with period of notice	334,071,413	125,650,350	208,421,063	166%
Term deposits	337,997,489	36,924,498	301,072,991	815%
Total	**672,068,902**	**162,574,848**	**509,494,054**	**313%**
Certificates of deposits				
Certificates of deposits	4,557,128,337	4,655,902,896	(98,774,559)	-2%
Bonds	4,840,706,577	3,809,477,284	1,031,229,293	27%
Commercial paper	1,613,939,050	40,185,820	(1573,753,230)	3,916%
Total	**11,011,773,964**	**8,505,566,000**	**2,506,207,964**	**29%**
Financial liabilities measured at amortised cost	**18,304,107,959**	**14,432,529,559**	**3,871,578,400**	**27%**

European Medium Term Notes :

Since November 2011, the Bank participates as an additional issuer in a EUR 70 billion Euro Medium Term Notes (EMTN) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The programme is guaranteed by Intesa Sanpaolo S.p.A.. The EMTN (the "bonds") issued under this programme bear a maturity date of at maximum 5 years. The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 70 billion or the equivalent thereof in other currencies. The notes are denominated in any currency subject to compliance with any applicable legal and or regulatory and or central bank requirements. As at 31 December 2017, such notes issued by the Bank amount to EUR 4,841 million (2016: EUR 3,809 million).

Commercial Paper:

Since March 2011, the Bank participates as an additional issuer in a EUR 30 billion Euro Commercial Paper (ECP) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The ECP (further the "notes") issued under this programme bear a maturity date under 1 year (short term notes) and are denominated in Euro, US Dollars or any other currency subject to compliance with any applicable legal and regulatory requirements. The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 30 billion or the equilvalent thereof in other currencies. As at 31 December 2017, such ECP issued by the Bank amount to EUR 1,614 million (2016: EUR 40 million).

Note 15 – Derivatives held for hedging

The Bank mainly uses interest rate swaps to hedge its exposure to changes in the fair values of certain fixed-rate bonds classified as available-for-sale due to adverse changes in interest rates.

In more details, the risk investment strategy is to invest in fixed rate securities carried as available-for-sale. The exposure of the fixed interest rate hedged item to interest rate risk is converted to floating rates with an interest rate swap in order to mitigate a potential fall in its value. The investment in the hedged assets and the completion of the covering hedging instrument are done simultaneously (Asset Swaps).

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

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

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

(in EUR)	**2017**		**2016**	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	490,000,000	4,986,123	70,000,000	841,669
	490,000,000	**4,986,123**	**70,000,000**	**841,669**
Liabilities				
Interest rate instruments	1,558,000,000	47,694,259	1,552,000,000	97,582,506
	1,558,000,000	**47,694,259**	**1,552,000,000**	**97,582,506**

Hedged items are as follows (in EUR):

(in EUR)	**2017**	**2016**
	Carrying value	**Carrying value**
Available-for-sale financial assets	1,423,827,081	1,052,133,173
Loans and advances	62,920,258	37,467,909
Deposits from central banks	821,440,000	818,218,899
Total	2,308,187,339	1,907,819,981

Note 16 – Provisions

(in EUR)	2016
Provision as at 1st January 2016	2,458,058
Reductions	(65,072)
Additions and forex impact	151,089
Provision reversed during the year	-
Provisions as at 31 December 2016	**2,544,075**

(in EUR)	2017
Provision as at 1st January 2017	2,544,075
Reduction	(629,548)
Forex impact	(235,389)
Provision reversed during the year	-
Provisions as at 31 December 2017	**1,679,138**

The above table shows provisions movements from 31 December 2016 to 31 December 2017. Reduction have been generated by foreign exchange movements (linked to some provisions in foreign currency) for an amount of EUR 235,389 and utilisation of provisions during 2017.

Note 17 – Equity

Share capital

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

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

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

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

Note 17 – Equity (continued)

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

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

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

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

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

As at 31 December 3017, the subscribed capital was therefore EUR 1,389,370,555.36 represented by 4,464,237 shares (integrally subscribed).

Revaluation reserve

Revaluation reserve caption in composed of two amounts:

- The fair value revaluation reserve for functional property, amounting to EUR 17,875,270 (net of deferred taxes equal to EUR 6,638,265);
- The fair value revaluation reserve for available-for-sale financial assets, which includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired and amounting to EUR 2,680,556 (net of deferred taxes equal to EUR 940,796).

	REVALUATION RESERVE		
(in EUR)	**AFS Portfolio**	**Functional Property**	**Total**
Opening balance as at 31 December 2016	4,690,235	-	**4,690,235**
Increase / (Decrease)	(2,950,475)	24,513,535	**21,563,060**
Deferred taxes	940,796	(6,638,265)	**(5,697,469)**
Closing balance as at 31 December 2017	**2,680,556**	**17,875,270**	**20,555,826**

These revaluation reserves are not distributable.

Note 17 – Equity (continued)

Legal reserve

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

Other reserves

As at 31 December 2017, other reserves amount to EUR 812,541,743 (2016: EUR 797,333,308).

Retained earnings

As at 31 December 2017, retained earnings including the impact of the first time application (FTA) of IFRS as adopted by the European Union, amount to EUR 4,850,848 (2016: EUR 4,819,541).

Profit allocation proposal

The amount attributable to shareholders, including earnings profit from previous financial years but excluding the impact of the first time application of IFRS as adopted by European Union, totals EUR 135,514,523, which corresponds to a return on equity of circa 6.89% (2016: 8.23%). It is proposed to the Annual General Shareholders' Meeting approving the financial statements as at 31 December 2017 to allocate the above mentioned amounts as follows (in EUR):

	2017
Net profit of 2017 financial year	135,474,318
Retained profit from previous years (excluding FTA)	40,205
Amount attributable to Shareholders	**135,514,523**
Allocation to legal reserve	6,773,716
Allocation to other reserves	28,726,284
Dividend for the financial year	100,000,000
Total	**135,500,000**
Retained profit carried forward to the next financial year	14,523

Note 18 – Net interest income

(in EUR)	2017	2016 Restated figures	2016 Restatment	2016 Last year figures
Cash balances with central banks	-	6,805	-	6,805
Financial assets held for trading	5,879	2,289	-	2,289
Financial assets at fair value through profit or loss	427,905	554,948	(4,463)	559,411
Hedging derivatives	900,472	880,673	-	880,673
Available-for-sale financial assets	33,253,456	41,821,653	(90,243)	41,911,896
Loans and advances	208,359,701	172,038,176	(9,548,322)	181,586,498
Interest income on liabilities	3,418,813	1,732,332	(17,886,504)	19,618,836
Other	30,876	13,191	(617)	13,808
Total interest and similar income	**246,397,102**	**217,050,066**	**(27,530,149)**	**244,580,215**

(in EUR)	2017	2016		2016
Hedging derivatives	12,082,700	30,601,977	(1,687,740)	32,289,717
Financial liabilities held for trading	364	7,572	-	7,572
Financial liabilities measured at amortised cost	96,437,275	92,122,838	(17,896,407)	110,019,245
Financial liabilities at fair value thought profit or loss	269,094	348,786	-	348,786
Interest expense on assets	1,881,025	-	(7,946,002)	7,946,002
Total interest expenses and similar charges	**110,670,458**	**123,081,174**	**(27,530,149)**	**150,611,323**
Net interest income	**135,726,644**	**93,968,892**	**-**	**93,968,892**

The Bank has reclassified comparative figures concerning interest income on liabilities and interest expenses on assets. As per consequence comparative figures in note 18 have been restated.

No interest has been accrued in respect of impaired assets in 2017 and 2016.

Note 19 – Net fee and commission income

(in EUR)	2017	2016
Credit activities	42,831,402	43,862,613
Wealth management and Treasury activities	25,535,207	18,814,699
Corporate services	776,251	724,652
Other	4,735,336	2,763,229
Total fee and commission income	**73,878,196**	**66,165,193**
Credit activities	6,968,067	10,986,271
Brokerage and clearing fees	13,125,124	7,932,299
Other	2,777,906	2,623,315
Total fee and commission expenses	**22,871,097**	**21,541,885**
Net fee and commission income	**51,007,099**	**44,623,308**

Note 20 – Dividend income

As at 31 December 2017 and 2016, dividend income relates to available-for-sale financial assets.

Note 21 – Net (un)realised losses on financial assets and liabilities held for trading

As at 31 December 2017 and 2016, the net (un)realised (losses) on financial assets and liabilities held for trading are composed of:

(in EUR)	2017	2016
Equity instruments and linked derivatives	(17,219)	(20,830)
Interest rate instruments and linked derivatives	(65,699,672)	1,975,793
Foreign exchange transactions	(19,099,116)	(7,140,685)
	(84,816,007)	**(5,185,722)**

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

- Losses realised on Interest rate swap contracts unwinded before their maturity for an amount of EUR 61.0 million (of which EUR 46.2 million paid in relation to their NPV and EUR 14.7 million in relation to interest rate differentials); those contracts have been unwinded in relation to the sale of bond instruments disclosed in note 23;
- Losses unrealised on Cross Currency Interest rate swap contracts for an amount of EUR 22.3 million, of which EUR 1.0 million linked to their NPV and EUR 21.3 million linked to the interest rate differentials related to the hedging of forex exposures.

Note 22 – Net (un)realised losses on financial assets and liabilities at fair value through profit or loss

As at 31 December 2017 the net (un)realised losses on financial assets and liabilities at fair value through profit or loss are mainly composed of unrealised losses on assets classified at fair value through profit or loss for an amount of EUR 742 thousands (2016: EUR 334 thousands) and of realised gains on debt securities for an amount of EUR 273 thousands (2016: EUR 274 thousands).

Note 23 – Net realised gains on financial assets and liabilities not at fair value through profit or loss

As at 31 December 2017 net realised gains on financial assets and liabilities not at fair value through profit or loss are mainly composed of:

- gains realised on the early redemption of several loans granted to intragroup banks for an amount of EUR 25 million;
- net gains realised on the sale of bond instruments held in the available-for-sale portfolio for an amount of EUR 55.5 million.

(in EUR)	2017			2016		
	Profits	**Losses**	**Net**	**Profits**	**Losses**	**Net**
Due from banks and customers	25,546,587	-	25,546,587	20,106,513	-	20,106,513
Financial assets available for sale	57,729,265	(2,232,995)	55,496,270	8,237,994	(467,798)	7,770,196
Debt securities	*57,729,265*	*(2,232,995)*	*55,496,270*	*8,237,994*	*(467,798)*	*7,770,196*
Equities	-		-	-	-	-
Total assets	**83,275,852**	**(2,232,995)**	**81,042,857**	**28,344,507**	**(467,798)**	**27,876,709**
Securities issued	2	(300)	(298)	3,512	(3,077)	435
Total liabilities	**2**	**(300)**	**(298)**	**3,512**	**(3,077)**	**435**
Net realised gains and losses	**83,275,854**	**(2,233,295)**	**81,042,559**	**28,348,019**	**(470,875)**	**27,877,144**

Note 24 – Net other operating expenses

As at 31 December 2017 and 2016, net other operating expenses are mainly composed of withholding taxes and net worth tax, which are linked to the Bank's business activity.

Note 25 – Administrative expenses

(in EUR)	2017	2016
Wages and salaries	13,893,175	13,150,008
Social security charges	2,011,894	1,936,650
Legal pension and similar expenses	710,942	902,827
Employee benefits	2,933,163	1,441,451
Other	521,304	536,695
Total staff expenses	**20,070,478**	**17,967,631**
Operating expenses	4,229,971	2,895,167
Repair and maintenance	326,253	307,661
Training and moving	941,625	963,942
IT outsourcing costs	8,164,426	6,785,211
Legal and professional fees	1,852,920	3,828,976
Marketing and representation fees	1,538,740	1,586,172
Charges linked to Corporate activity and other charges	1,146,312	569,499
Total general and administrative expneses	**18,200,246**	**16,936,628**
Total administrative expenses	**38,270,724**	**34,904,259**

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

	2017	2016
Senior Management	4	3
Middle Management	56	54
Employees	110	112
	170	**169**

Note 26 – Net Impairment on financial assets

During the year, the Bank has reversed impairment on financial assets as follow:

(in EUR)	2017	2016
Loans and advances	99,316	2,775,931
Impairment	**99,316**	**2,775,931**

Note 27 – 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 (hereafter "administrative bodies") and executive officers (hereafter "other key management personnel"). All transactions made with related parties are concluded on an arm's length basis.

The amount of main assets, liabilities, income and expenses as at 31 December 2017 and 2016 concerning Group entities and the parent companies are as follows:

(in EUR)	2017	2016
Assets and liabilities		
Assets held for trading and assets carried at fair value through profit or loss	130,434,587	19,809,595
Available-for-sale financial assets	940,491	841,682
Loans and advances	9,877,621,742	8,225,418,288
Hedging derivatives	4,986,123	841,669
Financial liabilities held for trading and liabilities carried at fair value through profit or loss	16,857,379	85,457,888
Financial liabilities measured at amortised cost	8,468,553,941	7,487,541,998
Hedging derivatives	47,694,259	97,582,506

(in EUR)	2017	2016
Income and expenses		
Interest income	58,601,044	93,615,918
Fees and commissions income	556,912	1,135,079
Dividend income	585,971	916,093
Net realised gains on financials assets and liabilities not at fair value through P/L	24,527,500	-
Other operating income	172,262	-
Interest expenses	(70,886,502)	(96,807,298)
Fees and commissions expenses	(2,166,940)	(5,959,884)
Administrative expenses	(10,666,236)	(8,221,329)
Other operating expenses	(1,626,056)	(1,545,071)

As at 31 December 2017 and 2016, no impairment loss was recognised on available-for-sale financial assets and loans and advances with related parties.

Note 27 – Related party disclosures (continued)

Key management personnel

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

(in EUR)	2017	2016
Administrative bodies	210,901	251,000
Other key management personnel	967,977	849,697
	1,178,878	**1,100,697**

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

As at 31 December 2017 and 2016, the Bank has no obligations related to retirement pensions for former administrative bodies and key management personnel.

As at 31 December 2017 and 2016, the Bank has not granted advances and credits and has not entered into guarantee commitments for the above mentioned bodies and personnel.

During 2017 the Bank has paid bonuses to Other Key management personnel for an amount of EUR 140,000 (2016: EUR 225,625).

Note 28 – Commitments and contingent liabilities

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

(in EUR)	2017	2016
Unused confirmed credits	3,734,678,250	3,520,103,961
- out of which towards related parties	-	-
Guarantees and other direct subsitutes for credit	383,234,583	215,309,119
- out of which towards related parties	*293,506,720*	*161,191,121*

Note 28 – Commitments and contingent liabilities (continued)

Guarantees received by the Bank:

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

(in EUR)	2017		2016	
	Contingent liabilities	**Unused confirmed credits**	**Contingent liabilities**	**Unused confirmed credits**
Net carrying amounts	**383,234,583**	**3,734,678,250**	**215,309,119**	**3,520,103,961**
Real guarantees				
Mortgage	-	-	-	-
Securities	2,519,533	-	486,522	-
Other real guarantees	14,141,767	363,514,378	17,335,870	180,980,260
Personal guarantees				
Government guarantees	-	417,909,728	-	750,000,000
Credit institutions guarantees	6,353	-	5,153	83,246,371
Total guarantees	**16,667,653**	**363,514,378**	**17,827,545**	**1,014,226,631**

Note 29 – Deposit guarantee and investor compensation schemes

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

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

The funded amount of the "Fonds de résolution Luxembourg" (FRL) shall reach by the end of 2024 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States. This amount will be collected from the credit institutions through annual contributions during the years 2015 to 2024.

Note 29 – Deposit guarantee and investor compensation schemes (continued)

The target level of funding of the "Fonds de Garantie des Dépôts Luxembourg" (FGDL) is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and is to be reached by the end of 2018 through annual contributions. The contributions are to be made in the form of annual payments during the years 2016 to 2018.

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

Note 30 – Investment management services and underwriting functions

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

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

Assets managed on behalf of third parties are as follows:

(in EUR)	**2017**	**2016**
Custody and administration of transferable securities	8,742,587,173	8,644,073,265
Fiduciary representation	2,331,074	3,032,183
Wealth Management	188,133,467	173,366,351

Note 31 – Audit fees

The audit fees and audit related fees for the years ended 31 December 2017 and 2016 are as follows:

(in EUR)	**2017**	**2016**
Audit fees	509,000	479,500
Audit related fees	15,000	15,000
Other	-	15,000
	524,000	**509,500**

Note 32 – Encumbered assets

In 2017 and 2016 the Bank participated to the Long Term Refinancing Operation mechanism organised by the Banque centrale du Luxembourg for an amount of EUR 1,314 million (2016: EUR 1,317 million). Those deposits are collateralised by eligible securities classified in the available-for-sale securities portfolio for an amount of EUR 1,415 million (2016: 1,342 million).

ASSET ENCUMBRANCE

	ENCUMBERED		UNENCUMBERED		CARRYING AMOUNT	
(in EUR)	Carrying amount	Fair value	Carrying amount	Fair value	2017	2016
Cash and cash equivalents	-		3,874,235,326		3,874,235,326	2,390,654,292
Debt securities	1,415,116,133	1,415,116,133	1,766,650,917	1,766,650,917	3,181,767,050	2,960,169,035
Equities	-		940,491	940,491	940,491	841,682
Loans and advances	45,520,000		14,896,994,999		14,942,514,997	12,582,594,293
Other financial assets	-		138,688,947		138,688,947	26,310,686
Non financial assets	-		64,525,435		64,525,435	35,235,828
Total 2017	**1,460,636,133**	**1,415,116,133**	**20,742,036,115**	**1,767,591,408**	**22,202,672,246**	**17,995,805,816**

Note 33 – Events after the reporting date

The Bank is not aware of any adjusting or non-adjusting event that would have occurred between 31 December 2017.