Financial statements,
Independent auditor's report
and Directors' report as at 31 December 2020

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Board of Directors' report as at 31 December 2020

Development of the activity

In 2020, Intesa SanPaolo Bank Luxembourg ("the Bank" hereafter) continues to consolidate the new business model undertaken in the recent years. The Bank prospers and achieves good results in the moment of maximum uncertainty and persistence of negative trends (March) on the path of corporate growth. The spread of Covid-19 profoundly affects global capital markets in Q1. Equities suffer steep declines and core government bond yields fall as investors favor their perceived safety and start to invest in safe havens causing a gold rush as of the end of January. After the pandemic spread in China, Chinese economic growth at 6.1% highlights a slowdown at the slowest pace since 1990. While the Shanghai Stock Exchange falls 10%, the PboC intervenes on several fronts to support the economy. It announces a liquidity operation in the interbank system for almost $ 174 bln and cuts the 7 and 14 days reverse Repo rates by 10 bps, while asking banks not to demand immediate repayment of loans in areas most affected by the virus and promoting homeworking wherever possible. Meanwhile, due to linked escalation for the coronavirus, the US Treasury 3 Months – 10 Years curve inverts. European core bonds start trading higher following the US Treasury 30Y rally at an all-time yield low. Moreover, uncertainty continues to sink Asian stock exchanges, including those foreign companies whose production depends on China, such as Apple, the first to announce the impossibility to reach Q1 revenue estimates. Early March, capital markets see extreme declines and high volatility. Shares fall across developed markets as coronavirus spreads and countries go into lockdown to contain the outbreak. As Italy and Spain become some of the most severely affected countries other than China, the Italian BTP/Bund 10Y Spread booms to 320 bps, while the European pandemic spread results in severe declines and extreme daily volatility in assets prices on a scale comparable to the crisis of 2008, with a VIX high of $ 83.78. The hedge rush leads to historic lows for the Bund 10Y yield at -0.89% while US Treasury 10Y reduces yield up to at an all-time low record of 0.54%. Besides that, sovereign wealth funds have to reduce dramatically their exposures, as do the Norwegian fund, which loses a record $ 113 bln in Q1 and US unemployment claims surge to $ 6.65 mln from the starting level of $ 300,000. The scenario gets worse after a dispute over oil. In fact, OPEC violates the agreements relating to the production limit and because of lockdown and production stop, the WTI loses 57%, shrinking back to early 2016 level. All equity sectors see significant declines apart the information technology and healthcare sectors, which hold up better, while PMI for March falls to a record low of 31.4, compared to 51.6 in February. Corporate bonds, high yield, emerging market and currencies decline significantly so that governments and central banks announce measures to support businesses and households, reducing borrowing costs. The ECB launches a temporary Pandemic Emergency Purchase Program (PEPP) for € 750 bln until the end of the year. The FED cuts rates twice to 0% - 0.25%, the lowest since the 2008 crisis, approving a QE program for $ 700 bln, and the IMF provided a $ 1'000 bln help plan. Finally, the US approves a $ 2'000 billion tax plan to fight the crisis determining the Dow Jones to recover 11% in a day as never happened since 1933. As soon as central banks intervenes, the capital markets find a relative and fragile equilibrium, largely determined by the adoption of a full-scale expansionary policy. However, the overall MSCI World Index loses 19.2% since the beginning of the year. The Bank closes the Q1 with one of the best quarterly results of the recent past, even better than expected from a target perspective, for the closing of important corporate deals while maintaining a risk off strategy on Italian securities.

The easing of Covid-19 lockdowns and early signs of economic recovery see the risk appetite returning rapidly in Q2, supporting equity and credit markets. China is the first one to open post 'lockdown' encouraging data, including a rebound in the PMI, rising from 35.7 to 52. In the US, the data on initial unemployment claims starts to decrease, for the first time in three weeks, and the VIX diminishes to a level of USD 40 as the volatility rolls down. The hope for an EU Recovery Fund up to € 1'500 bln to support the economy, with the greater share destined to Italy and Spain, stimulates equity markets and bond peripheral sectors as well as corporates and high yield. The ECB announces as well a reduction of the TLTRO III interest rate until June 2021, bringing it to a value of 50 bps below the average refinancing rate, effectively improving it, with the promise to launch a new program of long-term refinancing operations under the name of PELTRO, or Pandemic Emergency Longer-Term Refinancing Operations. On the other hand, the production activity block due to the pandemic physiologically undermines the oil price. 2020 will be also remembered for the sharp drop in the WTI futures falling into negative territory, hitting an all-time low of $ -40 per barrel, the equivalent of storage costs, as several producers were willing to pay in order to avoid the stop and reactivation costs. Despite this, the implementation of trials on humans for the anti-Covid19 vaccine by Moderna, Pfizer, AstraZeneca and BionTech, well tolerated by patients with few collateral effects, raises the capital markets promising to have a vaccine ready for the end of the year. In early June, the ECB strengthens and prolongs the PEPP program incrementing it to a total of € 1'350 bln, extending reinvestments until the end of 2022. This leads to the differentials against the Bund 10Y to shrink in a range of 20-30 bps per month for all the European peripherals, especially for Italy, while corporate bonds outperform government ones and consumer discretionary stock, along with information technology raising again. The FED promises to use up to $ 3'500 bln QE. This leads the S&P 500 back above 3'000 points and raises the Treasury yields with the 10Y above 120 bps and the 5-30Y curve at its highest steepness since 2016. In the US, retail sales increase by 17.7% in May, with the largest monthly increase since 1992, even though markets become increasingly cautious about fears of a potential second wave of COVID-19, whose cases rise again in Florida, Texas and California. In the Q2, the Bank continues to prosper as in the first quarter with positive outcomes due to the increasing credit demands in the corporate area.

Global capital markets continue to gain in Q3 supported by central banks stimulus and 'non aggressive' monetary policy, but regional performances diverge with Asia and the US outperforming Europe, where some countries continue to suffer the national confinement. However, the allotment decision by the EU for the distribution of the Recovery Fund allows Italy to receive total € 209 bln to reinvest inside the country reducing again the spread over 10Y Bund under 150 bps, back to pre Covid-19 level, while Spain benefits from a slightly lower recovery amount and outperforms as well as the rest of European peripherals. In the US, Equity markets suffer a stress period due to escalation of tensions for American elections. Moreover, disagreements between US and China come out again, including privacy policies violation by smartphone producers such as Huawei, undermining the stability of the markets. After reaching high records consecutively, NASDAQ loses 5% in a one-day drop, while few days later Tesla loses 21% in a day probably due to a "profit taking" or a massive purchase of call options on the stock and sale of the underlying assets. During September, the effect of the monetary policies come out and the 3-month Euribor level falls below the depo rate, while the 3-month Libor falls to its lowest level since 2014 with the market continuing to pay for a rate cut by the end of 2021, with possible new improvements to TLTRO actions and an increase in excess liquidity. Nevertheless, US Equities gain in Q3 as FED remains highly accommodative, while Eurozone stocks remain virtually flat. Bond wise, European government bonds perform well as sentiment toward the region improves markedly after the EU Recovery Plan decisions and corporate bonds enjoy a decidedly positive quarter, as riskier assets are broadly bought while monetary policies reduce yields. In the third quarter, the Bank maintains positive trend results, despite a slowdown in the demand of credit, almost replaying the same revenues of the previous year and increasing the weight of the corporate incomes.

As a number of vaccines breakthroughs foster hopes of a return to economic normality, global capital markets gain again in Q4, even though new lockdown procedures start to be adopted again as a second wave spreads in Europe. Pfizer is the first one to sell the 90% efficacy vaccine all over the world, followed by Moderna and AstraZeneca with almost the same efficacy percentage. The sentiment though continues to be 'Risk on' for the markets even after a controversial resolution of the American elections where Joe Biden wins and incredibly gets the approval of the investors spurred by a $ 900 bln stimulus package announced in late December. The FED nonetheless reinforces its supportive message, stating it will continue with current levels of QE. Economically, sensitive sectors make the strongest gains, while sectors that are more defensive make modest progresses. Sectors that had previously suffered most severely from the pandemic, such as energy and financials, are now the top gainers. However, rising Covid-19 infections see many European countries tighten restrictions. EU leaders approve the landmark € 1'800 bln budget package, including the € 750 bln recovery fund, after overcoming opposition from Hungary and Poland and on the 31st of December, the EU agrees the final definitive Brexit trade deal with the UK. Bond wise US yields raise, reducing prices while Italian and Spanish 10Y yields see significant declines of 32 and 20 bps respectively, as the European Central Bank increases quantitative easing. With a series of reassurances in terms of the PEPP until March 2022 for an higher amount of € 1'850 bln, as well as the implementation of a new TLTRO and the reinvestment in terms of QE on debt for a longer period, ECB governor Christine Lagarde supports the stimulus to the depressed economy. ECB gives breathing space to credit and greater impetus to the peripheral sector, largely affected by the new pandemic restrictions underway. Therefore, in front of a stable 10Y Bund, the Italian 10Y spread tightens until a year minimum of 102 bps. The Bank ends the year with a final rush that leads to present better results in comparison with the previous year. The economic return on the increased corporate portfolio compensates the incomes coming from the maturity of intragroup loans occurred in 2019 and, supported by the core Treasury Department and by a solid operating organization, allows to reach significant targets in a not directional and difficult market.

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 (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 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 2020.

Perspectives

As a subsidiary of Intesa Sanpaolo S.p.A., the Bank operates within the worldwide business strategy of the Intesa Sanpaolo Banking Group and with the IMI Corporate & Investment Banking steering assistance.

IMI|CIB has recently launched a project initiative ("IMI C&IB International Next") aimed at the reorganization and growth of the Division's international activities, also in light of the "Hard Brexit" scenario and the incorporation of Banca IMI.

This project with the external support of major consultant involves six initiatives, including two relating to the EU area:

- Refocusing and strengthening of Intesa Sanpaolo Bank Luxembourg as a "lending factory" serving the international network. The capabilities of loan structuring (Structured Finance and SEF), corporate solutions, loan syndication and loan management, as well as the capital markets and proprietary trading Hold To Collect & Sale business models will be strengthened.

- Creation of a Hub EU based in Milan, responsible for the coordination and development of European clients and "core Europe" spoke branches currently reporting to the HUB London (Paris, Frankfurt, Madrid and Warsaw) and in the future ISPBL (Amsterdam) branch. Considering the cross boarder nature of the transaction, the transfer of Amsterdam branch from the Bank to its Parent Company is expected to be finalized by the end of 2021, after the completion of the analysis on the legal, regulatory and fiscal aspects.

In the context of the process of restructuring and enhance of the core activity of the Bank, are still ongoing the activities related to transfer of the Private Business branch to another Intesa SanPaolo Group Entity.

Deposit Guarantee Scheme and Resolution Mechanism

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

- 2014/59;
- 2014/49

which respectively established:

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

The introduction of the two above mentioned directives had a direct impact on the Bank, which was called to contribute to the Resolution Fund paying an amount of EUR 4,610,714 and to contribute to the Fonds de garantie des dépôts (FGDL) paying an amount of EUR 200,780.

Financial elements for 2020

Total assets as at 31 December 2020 stood at EUR 18.7 billion (31 December 2019: EUR 22.2 billion).

Loans and advances to credit institutions (including balances with central banks) amounted to EUR 8.2 billion as at 31 December 2020, showing an amount in line with 31 December 2019 one (EUR 9.3 billion). Loans and advances granted to customers other than credit institutions amounted to EUR 8.4 billion as at 31 December 2020 (EUR 10.6 billion as at 31 December 2019).

Financial assets held for trading are mainly composed of derivative financial instruments measured at their fair value and amounted to EUR 55 million at 31 December 2020 (31 December 2019: EUR 30 million). Those are mainly composed of cross currency interest rate swaps and foreign exchange derivative contracts.

Financial instruments measured at Fair Value through Other Comprehensive Income (FVTOCI), which amounted to EUR 2.0 billion as at 31 December 2020 (31 December 2019: EUR 2.3 billion), are composed of sovereign debt securities (Italian, Spanish, French, Luxembourgish, German, Dutch and Belgian Governments) for an amount of EUR 1.3 billion, debt securities issued by the other public entities for an amount of EUR 0.2 billion and other bonds for an amount of EUR 0.5 billion. 2019 caption also included one loan valued at fair value for an amount of EUR 7.0 million disposed during 2020.

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

Deposits from customers amounted to EUR 4.3 billion at end of the year (31 December 2019: EUR 3.2 billion). The Bank also issued debt certificates for an amount of EUR 7.7 billion as at 31 December 2020 (31 December 2019: EUR 12.7 billion) composed as follows:

- certificates of deposit: EUR 3.9 billion (mainly subscribed by Intesa Sanpaolo Holding International S.A., the Bank's local parent company);
- non-convertible bonds: EUR 3.8 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 amounted to EUR 82.6 million as at 31 December 2020 (2019: EUR 94.1 million), with a ROE equal to 3.41%.

Net interest income amounted to EUR 130.1 million at the end of 2020 (end 2019: EUR 154.1 million). Interest income and expenses are mainly focused on the corporate lending activity and the decrease in value is linked to a reduction in volumes experienced during the year.

Net fee and commission income was positive and amounted to EUR 47.5 million as at 31 December 2020, showing an increase compared to 2019 (EUR 35.4 million).

Net (un)realised losses on financial assets and liabilities held for trading amounted to EUR 16.6 million as at 31 December 2020 (31 December 2019: loss of EUR 39.0 million). The lower loss compared to last year was mainly due to NPV trend of derivatives contracts during 2020 and lower differentials paid compared to 2019.

Net realised gains on financial assets and liabilities not at fair value through profit or loss amounted to EUR 2.3 million as at 31 December 2020 (31 December 2019: gain of EUR 5.3 million) mainly thanks to realised gains of EUR 5.2 million partly compensated by losses of EUR 2.9 million on the sale of several assets measured at FVTOCI.

Total administrative expenses amounted to EUR 43 million, in line with 2019 administrative expenses caption.

Due to the Covid-19 effects on the global economic situation during 2020, the Bank recognized impairment losses on financial assets (EUR 26.3 million) in 2020 higher than the ones booked during 2019 (EUR 6.6 million). Detailed information are presented in Note 3 and 25.

Due to the implementation of IFRS 16 principle, which came into force starting from 1 January 2019, the Bank booked depreciations for EUR 2.3 million in 2020, mainly due to operating leases on real estate location contracts.

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 current taxes are managed applying the 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 2020.

The net profit of the year available for distribution, including retained earnings (but excluding First Time Adoption "FTA" and reclassification from revaluation reserves) amounted to EUR 82,594,316. Retained earnings amount included also functional property revaluation of EUR 24,513,535, which has been reclassified from revaluation reserve to retained earnings following the functional property disposal concluded in 2018.

The Board of Directors will propose the following allocation of the profit to the Annual General Meeting, which will be held to approve the financial statements as at 31 December 2020:

(EUR)	
Net profit of 2020 financial year	82,594,316
Retained profit from previous year (excluding FTA and reclassification from revaluation reserves)	72,133,859
Amount attributable to shareholders	**154,728,175**
Allocation to legal reserve (5% net profit)	4,129,716
Allocation to the NWT reserve	18,000,000
Dividend carried forward (86% rounded up)	**132,598,459**
Total	**154,728,175**

In accordance with ECB guidelines issued in the light of Covid-19 crisis, CSSF issued two circulars in July and December on restriction of distributions during the Covid-19 pandemic situation, inviting banks in taking into consideration the non-distribution of dividends at least until 30 September 2021.

Subsequent events

The Bank is not aware of any adjusting event that would have occurred between 31 December 2020 and the date when the present financial statements were authorised for submission by the Board of Directors to the Annual General Meeting of Shareholders.

In relation to non-adjusing events which could happen after the reporting date, the Bank would like to draw your attention to the following ones:

1) Amsterdam branch transfer to Intesa Sanpaolo S.p.A.;
2) Private Banking department transfer to Fideuram Bank (Luxembourg) S.A..

Those events do not classify as discontinued operations at 31 December 2020 because of the lack of relevant information not yet available or not yet defined as at the end of the year; as per consequence, they are disclosed as subsequent events without any impact on the 2020 primary statements.

Amsterdam branch transfer to Intesa Sanpaolo S.p.A.

At the end of 2020, IMI Corporate & Investment Banking Division ("IMI CIB") launched a project aimed at the reorganization and growth of the Division's international activities.

Among the initiatives planned by the project to implement the pillars of the new strategy, it has been proposed the transfer of Intesa Sanpaolo Bank Luxembourg S.A.'s ("the Bank" or "ISPBL") Amsterdam branch to its ultimate Parent Company Intesa Sanpaolo S.p.A. ("ISP S.p.A."), including it in the coordination of the new Hub in Milan.

The project has been presented to the Board of Directors of the Bank in December 2020 and it resolved to approve the start of the process related to the transfer of the Bank Amsterdam Branch to ISP S.p.A..

The Board of Directors also resolved to give mandate to all members of the Authorized Management of ISPBL to perform the tasks necessary to implement the transfer including the engagement of the advisors.

Activities started in the end of 2020 with the support of external advisors to analyse any legal, regulatory and fiscal aspects in order to complete the transfer by the end of 2021.

The transfer is expected to be completed by the end of 2021 and the Bank started analysing legal, regulatory and fiscal aspects at the end of 2020.

As at today, the Bank is still waiting for final approval by European Central Bank.

The following table presents the main figures of the branch as at 31 December 2020 on a stand-alone basis:

(in EUR'000)	2020
Deposits from customers	1,402,626
Loans & advances to corporate customers	570,912
Net interest margin	6,743
Commission margin	7,157
Operating costs	(2,301)
Net profit after taxes	7,496

Private Banking transfer to Fideuram Bank S.A.

Intesa Sanpaolo Bank Luxembourg S.A. ("the Bank" or "ISPBL") is negociating with Fideuram Bank (Luxembourg) S.A. ("Fideuram") the transfer of its private banking business which should be finalized during the year 2021.

As at 31 December 2020, from an organisational point of view, some significant elements like the perimeter of resources to be transferred or the precise definition of assets and liabilities to be included in the above mentioned business still have to be defined. Even if the perimeter of resources to be transferred has not yet been defined, the Bank has not foreseen to apply any dismissal.

As per consequence, the cash consideration has not been yet agreed between the parties, who are also waiting for the final approval by Regulators.

The following table presents the estimated main figures of the private banking business as at 31 December 2020 on a stand-alone basis:

(in EUR'000)	**2020**
Loans to customers	14,564
Deposits from customers	673,298
Net interest margin	771
Net commission margin	3,081
Personnel expenses	(1,178)
Asset under management	1,143,321

Miscellaneous

The Bank did not purchase own shares during the year 2020. No research and development costs have been sustained during the year 2020.

Risks, uncertainties and impacts due to Covid-19

During 2020, following the evolution of the health and economic situation, regulators and international organizations issued several rules and regulatory communications to support the application of accounting principles in relation to Covid-19 impacts.

The following table summarises the most significant documents issued and their field of application:

			Main field		
Issuer	**Date**	**Title**	**Moratoria**	**ECL**	**Financial disclosure**
EBA	25.03.20	Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of Covid-19 measures	X		
ESMA	25.03.20	Public Statement. Accounting implications of the Covid-19 outbreak on the calculation of ECL in accordance with IFRS 9	X	X	
IFRS Foundation	27.03.20	IFRS 9 and Covid-19 – Accounting for ECL applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19		X	
ECB	01.04.20	IFRS 9 in the context of the Coronavirus (Covid-19) pandemic		X	
EBA	02.04.20	Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis	X		
ESMA	20.05.20	Implications of the Covid-19 outbreak on the half-yearly financial reports			X
EBA	02.06.20	Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis	X		
ESMA	28.10.20	European common enforcement priorities for 2020 annual financial reports			X
EBA	02.12.20	Guidelines amending guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis	X		
ECB	04.12.20	Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic	X	X	

Since the beginning of the crisis, when the World Health Organization declared Covid-19 to be a public health emergency on 30 January 2020, the Bank has been fully engaged to face actively and effectively the new difficult situation.

Each solution and decision adopted has been taken in connection and coordination with the relevant structures of the Ultimate Parent Company and with the Regulators.
Processes and activities were assured thanks to dedicated expenses and investments of time /resources and the main solutions adopted helped the Bank in:

- Facing each emergency;
- Reacting promptly to any change;
- Mitigating risks
- Assuring services going concern.

In terms of solutions adopted, the Bank was able to:

- Organize promptly a dedicated Crises Unit since February 2020 for the identification and management of all operational risks; the Crises Unit supervised and implemented all operational solutions to assure a proper performance of all the activities, implement Government decisions and Regulators suggestion and guarantee an healthy and safe environment for each employee;
- Extend smart working for all the employees as of March 2020;
- Increase and speed up processes digitalization;
- Strengthen liquidity management in strict coordination with Head Office;
- Implement an overall and continuous assessment of the whole activities to identify any potential new impact and adopt solutions to react promptly.

Among the consequences of Covid-19 circulation, it is important to mention its impact on uncertainty.
According to IFRS requirements, 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. The most significant use of judgements and estimates concerns, in particular, fair value of financial assets, impairment losses on financial assets and provisions for risks and charges.

Due to Covid-19 negative impacts on markets and to resolutions adopted by Governments aimed to face the virus and to avoid a further economic slowdown, it has been observed an increased volatility and uncertainty in financial markets with a direct impact on accounting judgements and estimates. The Bank, in coordination and collaboration with the dedicated departments of the Head Quarter, made estimations supporting them with dedicated sensitivity analysis, which are disclosed below.

Macro-economic scenario of Intesa Sanpaolo Group in the process of loans and receivables valuation
In order to face that uncertain situation, regulators and, in particular the European Central Bank (who published the document *IFRS – in the context of coronavirus (Covid-19) pandemic*) recommended to credit institutions to connect their forecast scenarios in calculating expected credit losses (ECL) to macroeconomic forecasts issued by ECB and by central banks in order to avoid excessively procyclical assumptions. As per consequence, dedicated head quarter departments developed IFRS 9 scenarios (baseline, mild, severe) compliant with the ones published by ECB and in line with further ECB recommendations issued on 4 December 2020 "*Identification and measurement of credit risk in the context of the coronavirus pandemic*". ISP scenarios have been developed adopting the *Oxford Economics multi-country model* to forecast changes in parameters not provided by the Euro system. Central banks, in fact, foresaw accurately the main macro-economic parameters trend (adopted in ISP scenarios) which have been used to complete forecasting parameters used in the models.

The most-likely scenario has been used to calculate estimations for financial statements purposes.

Loans and receivables classification and valuation in the Covid-19 scenario
Covid-19 affected significantly loans classification in connection to moratoria of payments and Expected Credit Loss (ECL) calculation.

Concerning *classification*, Covid-19 pushed banks, in accordance with governments and regulators, in granting generalized suspensions in repayments (moratoria) to performing customers. Those measured have been summarized by EBA in its document "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the Covid-19 crisis*".
EBA compliant moratoria introduction implied that:

- past-due counting was restarted with new terms;
- moratoria was not considered automatically a *forbearance measure*, hence it was not considered a Stage 2 classification trigger event under IFRS 9 (concerning exposures classified in Stage 1).

EBA recommended to come back to an one-to-one analysis after summertime, when overall situation seemed to evolve positively.

After the second Covid wave, EBA issued a new document "*Guidelines amending EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis*" and it stated that:

- opportunity to grant moratoria in line with the first guidelines was extended until 31 March 2021;
- new moratoria duration or extension of already granted ones was capped at 9 months.

Considering that introduction of moratoria breached one of the main parameters to monitor loans quality, the Bank strengthened (and the process is still evolving) the monitoring of the credit portfolio and introduced the proactive credit management process in alignment with the Group rules.
The Bank granted one non legislative EBA compliant moratoria during the year (six months delay for capital repayment) and the customer respected the new deadline before year end.

Concerning *loans valuation*, the Bank, in line with decision taken at Group level, adopted a prudent approach in relation to ECL outcomes calculated by ISP IFRS 9 models, but taking into consideration measures introduced by national authorities and ECB.
The approach became more sophisticated and coherent with the economic scenario during the crisis thanks to the available enriched set of information and data overserved and thanks to the new valuation framework to calculate the expected vulnerability.
Those interventions gave the opportunity to strengthen from a methodological point of view the management overlays adopted also to be more and more in line with ECB letter issued on 4 December 2020.

Adjustments and overlays adopted in exposures valuation under the Covid-19 scenario
The adjustments and overlays adopted in exposures valuation under the Covid-19 scenario are:

- Impacts due to national guarantees acquisition:
  The Bank had not state aid exposures as at 31 December 2020;
- Impacts due to moratoria granted:
  As mentioned above, the Bank granted one non legislative EBA compliant moratoria during the year (six months delay for capital repayment) and the customer respected the new deadline before year end;
- Micro-segment vulnerability and moratoria to identify further trigger to move exposures from Stage 1 to Stage 2.

IFRS 9 accounting principle requires that when a significant risk in credit risk ("SICR" – which implies a classification of a counterparty in Stage 2) is observed, it is necessary to evaluate expected losses throughout the entire residual life of an exposure ("lifetime"). When a SICR is not observed, expected loss is evaluated referring to a 12 months' time horizon (and the exposure is classified in Stage 1).

The main parameter adopted by ISP Group to identify a SICR is the default risk of a counterparty, measured by the delta probability of default ("PD") lifetime and calculated taking into consideration impacts of expected macro-economic scenarios.

There are two further parameters taken into consideration:

- Past-due days, which become significant when the number of days is higher than 30 days;
- Granting of forbearance measure.

Therefore, just taking into consideration the Delta PD factor, pandemic situation impact on forward-looking scenarios mainly explains performing portfolio movements from Stage 1 to Stage 2.

Some re-rating activities have been introduced to identify correctly impairment trigger events not directly linked to the pandemic crisis or amplified by it.

Concerning the other two parameters (30 days past-due and forbearance measures), moratoria granting process decreased significantly their magnitude in terms of staging classification.

A further factor taken into consideration by the Group performing its ECL calculations was the impact of the pandemic crisis on the different micro-economic sectors belonging to the same macro-economic sector, which can be significantly different.
IFRS 9 methodology takes into consideration macro-economic sector concept, to assure more stable estimations. On the other side, the credit risk appetite framework focuses its estimation taking into consideration micro-economic sectors and thanks to that information, it was possible to estimate ECL percentages based on IFRS 9 methodology for a cluster of counterparties and compare them with percentages based on CRS framework to calculate their "Delta ECL". If Delta ECL is above 10%, that micro-economic sector was identified as more sensitive to pandemic crises and that information was taken into consideration for a more accurate staging allocation of counterparties.

As per consequence, the following triggers have been identified to classify and corporate and SME corporate exposure in Stage 2:

- Belonging to high-risk micro-economic sector as above identified;
- Take advantage of moratoria measure at least once;
- Have a rating equal or worst that M4, to avoid to include counterparties which asked for moratoria as an opportunity and not as a necessity.

In terms of impact on the Bank's financial statements due to Covid-19, administrative expenses are summarised as follows:

(in EUR'000)	**2020**
Cost of IT services	125
Cleaning of premises	20
Staff indirect costs	47
Provision for charges	33
Total expenses	**225**

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, 19 March 2021

Massimo Torchiana
Administrateur Délégué & CEO

KPMG

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L-1855 Luxembourg

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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 2020, 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 2020, 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 as adopted for Luxembourg by the CSSF 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 Bank in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for 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.

T.V.A. LU 27351518
R.C.S. Luxembourg B 149133

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 2020*

Loans and advances to customers represent a significant amount of EUR 8,379,809,481 as at 31 December 2020. Certain aspects of the accounting for impairment of loans and advances to customers require significant judgments, such as the identification of credit exposures that are deteriorating, their staging, the estimation of expected credit losses as per IFRS 9 and of the recoverable value of credit exposures.

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

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

Please refer to notes 3, 7 and 25 of the financial statements for further information on the impairments of loans and advances to customers.

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

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

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

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

On a sample of credit operations, whose selection has been adapted to consider sectors more affected by the pandemic COVID 19, we tested the creditworthiness of the counterparty to assess the classification of the IFRS 9 staging. Where differences were identified between the Bank’s assessment and our assessment of the creditworthiness of the counterparty, we performed additional procedures to support our assessment of the classification of the IFRS 9 staging and evaluated the impact on the impairment computation.

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

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

Valuation of the Bank's swaps portfolio

a) *Why the matter was considered to be one of most significance in our audit of the financial statements for the year ended 31 December 2020*

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

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

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

Please refer to notes 3, 5 and 14 of the financial statements for further information on the valuation of derivatives.

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

We tested the design, implementation and effectiveness of the monthly controls implemented by the risk management department of the Bank on the swaps valuation to monitor, identify and analyze any difference between the Bank's internal valuation and the valuation from the 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 of derivatives at year-end based on observable data markets and the derivatives characteristics.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the management report but does not include the financial statements and our report of the "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 the "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 the "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 the "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.

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 9 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 N° 537/2014 were not provided and that we remained independent of the Bank in conducting the audit.

Luxembourg, 22 March 2021

KPMG Luxembourg,
Société coopérative
Cabinet de révision agréé

S. Hustinx
Associate Partner

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of financial position
31 December 2020
(expressed in EUR)

Assets	Notes	31.12.2020	31.12.2019
Cash and cash balances with central banks	**3, 4**	**538,213,036**	**726,382,833**
Financial assets measured at fair value through profit or loss (“FVTPL”)	**3, 5**		
Financial assets held for trading		54,712,261	30,193,047
Financial assets mandatorily measured at fair value		499,954	613,898
		55,212,215	**30,806,945**
Financial assets measured at fair value through other comprehensive income (“FVTOCI”)	**3, 6**	**1,996,131,350**	**2,265,365,852**
Loans and advances	**3, 4, 7**		
Loans and advances to credit institutions		7,679,988,042	8,558,435,684
Loans and advances to customers		8,379,809,481	10,586,894,810
		16,059,797,523	**19,145,330,494**
Derivatives held for hedging	**3, 14**	**-**	**2,111,798**
Tangible fixed assets	**8, 33**	**2,625,433**	**4,608,604**
Intangible assets	**9**	**-**	**469**
Current tax assets	**10**	**7,133,520**	**8,969,210**
Deferred tax assets	**10**	**1,202,134**	**5,754,733**
Other assets	**3, 11**	**22,008,614**	**35,638,829**
Total assets		**18,682,323,825**	**22,224,969,767**

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

Statement of financial position (continued)
31 December 2020
(expressed in EUR)

Liabilities and equity

	Notes	31.12.2020	31.12.2019
Deposits from central banks	**3, 12**	**799,977,778**	**809,894,291**
Financial liabilities measured at fair value through profit or loss ("FVTPL")			
Financial liabilities held for trading	**3**	12,830,805	80,700,893
		12,830,805	**80,700,893**
Financial liabilities measured at amortised cost ("AC")	**3, 13**		
Deposits from credit institutions		3,273,209,249	2,874,862,323
Deposits from customers		4,263,865,651	3,164,036,018
Debts evidenced by certificates		7,687,405,680	12,730,158,046
		15,224,480,580	**18,769,056,387**
Derivatives held for hedging	**3, 14**	**92,636,544**	**98,241,822**
Provisions	**15**	**6,532,816**	**4,377,959**
Current tax liabilities	**10**	**5,847,920**	**6,760,165**
Deferred tax liabilities	**10**	**3,422,486**	**3,524,440**
Other liabilities	**11**	**29,772,971**	**39,621,981**
Total liabilities		**16,175,501,900**	**19,812,177,938**
Equity	**6, 16**		
Share capital		1,389,370,555	1,389,370,555
Share premium		7,720,692	7,720,692
Revaluation reserve		5,917,302	(5,170,699)
Other reserves and retained earnings		1,021,219,060	926,788,553
Net profit for the year		82,594,316	94,082,728
Total equity		**2,506,821,925**	**2,412,791,829**
Total liabilities and equity		**18,682,323,825**	**22,224,969,767**

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 2020
(expressed in EUR)

CONTINUING OPERATIONS:	**Notes**	**31.12.2020**	**31.12.2019**
Interest income		218,326,687	277,649,165
Interest expenses		(88,226,776)	(123,567,681)
Net interest income	**17**	**130,099,911**	**154,081,484**
Fee and commission income		71,808,799	95,055,176
Fee and commission expenses		(24,255,107)	(59,704,907)
Net fee and commission income	**18**	**47,553,692**	**35,350,269**
Dividend income	**19**	**-**	**50,878**
Net (un)realised losses on financial assets and liabilities held for trading	**20**	**(16,577,204)**	**(39,047,692)**
Net unrealised gains/(losses) on financial assets and liabilities held for hedging	**14**	**69,804**	**(156,650)**
Net (un)realised gains on financial assets and liabilities at fair value through profit or loss	**21**	**(113,944)**	**44,528**
Net realised gains on financial assets and liabilities not at fair value through profit or loss	**22**	**2,323,315**	**5,255,755**
Other income		2,143,066	2,919,397
Other expenses		(4,328,110)	(4,586,124)
Net other expenses	**23**	**(2,185,044)**	**(1,666,727)**
Administrative expenses	**24, 30**	**(43,304,088)**	**(43,203,915)**
Depreciation and amortization	**8, 9, 33**	**(2,295,944)**	**(2,235,676)**
Provisions	**15**	**(2,430,633)**	**(1,172,388)**
Net impairment result on financial assets	**25**	**(26,310,200)**	**(6,591,048)**
Tax (expense) income	**10**	**(4,235,349)**	**(6,626,090)**
NET PROFIT FOR THE YEAR		**82,594,316**	**94,082,728**

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 2020
(expressed in EUR)

	31.12.2020	31.12.2019
Net profit for the year	**82,594,316**	**94,082,728**
Other comprehensive income:		
Items that are or may be reclassified to profit or loss		
Net change in fair value on financial assets at fair value through other comprehensive income and expected credit losses	14,774,576	47,907,295
Deferred tax relating to the components of other comprehensive income	(3,686,575)	(12,532,628)
Other comprehensive income for the year, net of tax	**11,088,001**	**35,374,667**
Total comprehensive income for the year	**93,682,317**	**129,457,395**

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

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of changes in equity
31 December 2020
(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	**16**		**6, 16**	**16**	**16**	**16**		**16**	
Balance as at 1st January 2019	**1,389,370,555**	**7,720,692**	**(40,545,366)**	**66,415,281**	**841,268,027**	**13,995,691**	**921,678,999**	**103,997,153**	**2,382,222,033**
								-	**-**
Total comprehensive income	-	-	35,374,667	-	-	-	-	94,082,728	**129,457,395**
Transfers and appropriation of prior year's profit	-	-	-	5,199,858	-	(2,705)	5,197,153	(5,197,153)	**-**
Dividend for the financial year	-	-	-	-	-	-	-	(98,800,000)	**(98,800,000)**
Foreign translation difference	-	-	-	-	-	(87,599)*	(87,599)*	-	**(87,599)***
Capital decrease	-	-	-	-	-	-	-	-	**-**
Capital increase	-	-	-	-	-	-	-	-	**-**
Balance as at 31 December 2019	**1,389,370,555**	**7,720,692**	**(5,170,699)**	**71,615,139**	**841,268,027**	**13,905,387**	**926,788,553**	**94,082,728**	**2,412,791,829**
Balance as at 1st January 2020	**1,389,370,555**	**7,720,692**	**(5,170,699)**	**71,615,139**	**841,268,027**	**13,905,387**	**926,788,553**	**94,082,728**	**2,412,791,829**
Total comprehensive income	-	-	11,088,001	-	-	-	-	82,594,316	**93,682,317**
Transfers and appropriation of prior year's profit	-	-	-	4,704,137	17,256,550	72,122,041	94,082,728	(94,082,728)	**-**
Dividend for the financial year	-	-	-	-	-	-	-	-	**-**
Foreign translation difference	-	-	-	-	-	347,779*	347,779*	-	**347,779***
Capital decrease	-	-	-	-	-	-	-	-	**-**
Capital increase	-	-	-	-	-	-	-	-	**-**
Balance as at 31 December 2020	**1,389,370,555**	**7,720,692**	**5,917,302**	**76,319,276**	**858,524,577**	**86,375,207**	**1,021,219,060**	**82,594,316**	**2,506,821,925**

**Foreign translation difference generated by IFRS 9 FTA due to loss allowance calculation on loans and advances denominated in foreign currencies.*

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 2020
(expressed in EUR)

	Notes	31.12.2020	31.12.2019
Profit before tax		**86,829,665**	**100,708,818**
Adjustments:			
Depreciation / amortization	**8, 9**	246,675	251,270
Impairment for credit losses	**25**	48,635,134	14,115,047
Reversal of loan impairment	**25**	(22,324,934)	(7,523,999)
Provisions and other income/expenses	**15**	2,154,857	1,318,447
Fair value adjustments		(16,930,456)	57,864,454
Cash flows from operating profits before changes in operating assets and liabilities		**98,610,941**	**166,734,037**
Net (Increase)/decrease in trading assets		(8,889,647)	2,012,062
Net (Increase)/decrease in loans and advances to credit institutions		2,983,735,470	(1,723,119,411)
Net (Increase)/decrease in loans and advances to customers		2,181,201,521	(202,652,178)
Net (Increase)/decrease in financial assets at FVTOCI		280,243,890	133,133,866
Net (Increase)/decrease in derivatives held for hedging		(16,399,300)	2,344,128
Net (Increase)/decrease in financial assets designated at fair value through profit and loss		-	10,365,456
Net (Increase)/decrease in other assets		13,630,215	(10,165,680)
Net Increase/(decrease) in relation to leasing contracts	**8, 33**	(2,049,269)	(1,984,406)
Net Increase/(decrease) in trading financial liabilities		(53,549,434)	(3,064,974)
Net Increase/(decrease) in deposits from credit institutions		398,346,926	1,802,212,417
Net Increase/(decrease) in deposits from central banks		(9,916,513)	(2,593,425)
Net Increase/(decrease) in deposits from customers		1,103,584,973	(3,134,314,305)
Net Increase /(decrease) in current taxes		1,138,741	(6,768,806)
Net Increase/(decrease) in financial liabilities at FVtPL & in other liabilities		(9,849,010)	(19,872,418)
Net cash flows from/(used in) operating activities		**6,959,839,504**	**(2,987,733,637)**
Dividends received		-	50,878
Acquisition and disposal of property and equipment	**8**	30,894	436,542
Net cash flows/(used in) from investing activities		**30,894**	**487,420**
Dividends paid	**16**	-	(98,800,000)
Net increase/(decrease) in debts evidenced by certificates	**13**	(5,042,752,366)	2,546,720,351
Net cash flows/(used in) from financing activities		**(5,042,752,366)**	**2,447,920,351**
Net (decrease)/increase in cash and cash equivalents		**1,917,118,032**	**(539,325,866)**

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

Statement of cash flows (continued)
For the year ended 31 December 2020
(expressed in EUR)

	Notes	31.12.2020	31.12.2019
Cash and cash equivalents at the beginning of the year		**3,619,346,728**	**4,158,672,594**
Net increase/decrease in cash and cash equivalents		1,917,118,032	(539,325,866)
Cash and cash equivalents: exchange rate fluctuations			-
Cash and cash equivalents at the end of the year	**4**	**5,536,464,760**	**3,619,346,728**

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

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

As at 31 December 2020, 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 19 March 2021.

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

Note 2 – Significant accounting policies

(a) Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) endorsed by the Eurpean Commission (EC) and the "agenda decision"[1] published by IFRIC 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 no 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.

[1] The term « agenda decisions » refers to the publications of the IFRIC as part of its activities, for example the IFRIC Updates, to explain the reason why, in the face of an application submitted, it is not considered necessary to add a new project to the work plan (standard setting project).

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 positions at an ask price.

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

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

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

Impairment losses on financial assets

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

Classification of financial assets and liabilities

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

Valuation of unquoted equity investments and credit exposures

Valuation of unquoted equity investments and credit exposures 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 and credit exposures 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.

(c) Changes in accounting policies

***IBOR Reform*:**
The phase 1 amendments:
Please refer to dedicated section in Note 3.

The phase 2 amendments:
In August 2020 the IASB issued "Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IAS 16" about the phase 2 which complement the amendments issued in 2019 and focus on the effects of the interest rate benchmark reform on a company's financial statements that arise when, for example, an interest rate benchmark used to calculate interest on financial asset is replaced with an alternative benchmark rate.
The key reliefs provided by phase 2 amendments are as follows:

- *Changes to contractual cash flow*
  When changing the basis for determining contractual cash flows for financial assets and liabilities, the reliefs have the effect that the changes that are required by an interest rate benchmark reform (that is, are necessary as a direct consequence of IBOR reform and are economically equivalent) will not result in an immediate gain or loss in the income statement.
- *Hedge accounting*
  The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

The amendments are effective for annual periods beginning on or after 1 January 2021 and are to be applied retrospectively. Early adoption is permitted.
The Bank, in line with the Group, decided not to early adopt those amendments in 2020 financial statements.

A number of other new standards are also effective from 1 January 2020 but they do not have a material effect on the Bank's financial statements.

Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements.

Note 2 – Significant accounting policies (continued)

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

- *Onerous Contracts – Cost of Fullfilling a Contract (Amendments to IAS 37);*
- *Covid-19-Related Rent Concessions (Amendment to IFRS 16);*
- *Property, Pland and Equipment: Proceeds before intended Use (Amendments to IAS 16);*
- *Reference to Conceptual Framework (Amendments to IFRS 3);*
- *Classification of Liabilities as Current or Non-Current (Amendment to IAS 1);*
- *IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts.*

(d) Summary of significant accounting policies

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

Foreign currency translation

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

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

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

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

Exchange differences on non-monetary financial assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are recognised either in the statement of profit or loss or in other comprehensive income. The elements of the statement of profit or loss are translated into euro on a daily basis using the prevailing exchange rates.

Financial assets and Financial liabilities

(i) Recognition and initial measurement

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

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

Note 2 – Significant accounting policies (continued)

(ii) Classification

Financial assets

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

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated at FVTPL:
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated at FVTPL:
- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

Note 2 – Significant accounting policies (continued)

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an all-overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

In assessing whether the contractual cash flows are SPPI, the Bank considered contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet the condition. In making the assessment, the Bank considers:
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

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

Financial liabilities

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

(iii) Derecognition

Financial assets

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

Note 2 – Significant accounting policies (continued)

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVTOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

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

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Offsetting

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

Financial assets at fair value through profit or loss

Assets and liabilities held for trading

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

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

Designation at fair value through profit or loss

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

Note 2 – Significant accounting policies (continued)

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

Loans and advances

Loans and advances captions in the statement of financial position include:
- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transactional costs, and subsequently at their amortised cost using the effective interest method;
- finance lease receivables.

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

Financial assets at FVTOCI

The financial assets at FVTOCI in the statement of financial position include:
- Debt investment securities measured at amortised cost: these are initially measured at fair value plus incremental transaction costs, and subsequently at their amortised cost using the effective interest rate;
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL: these are at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVTOCI; and
- Equity investment securities designated at FVTOCI;
- Loans belonging to the "*Originate to share*" deals, where a syndicated loan is either originated by the Bank or by a third-party with the intent to distribute a quota on the primary or post-primary market and holding the rest. If there is the willingness and the possibility to sell to third-parties a part of the loan, that amount is designated at FVTOCI.

For the debt securities measured at FVTOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:
- interests revenue using the effective interest method; and
- Foreign exchange gains and losses.

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

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

Note 2 – Significant accounting policies (continued)

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

Financial liabilities other than held for trading and hedging

(i) Classification

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

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

(ii) Initial recognition and subsequent measurement

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

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

(iii) Derecognition

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

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

Note 2 – Significant accounting policies (continued)

Derivative financial instruments

(i) Classification

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

(ii) Initial recognition and subsequent measurement

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

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

(iii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:
- The host contract is not in the scope of IFRS 9;
- The host contract is not itself carried at FVTPL;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

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

(iv) Trading

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

(v) Hedge accounting

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

Note 2 – Significant accounting policies (continued)

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

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

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

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

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

Fair value hedges

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

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

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

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

(vi) Derecognition

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

Note 2 – Significant accounting policies (continued)

Financial guarantee contracts and loan commitment

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

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:
- The amount of the loss allowance;
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

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

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

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

The Bank recognises a loss allowance in compliance with IFRS 9.

Repurchase agreements and reverse repurchase agreements

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

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

Impairment of financial assets

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

Note 2 – Significant accounting policies (continued)

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

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

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

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

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

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

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

Note 2 – Significant accounting policies (continued)

Credit-impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVTOCI are credit impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

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

Note 2 – Significant accounting policies (continued)

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

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

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

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

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

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

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

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

Note 2 – Significant accounting policies (continued)

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

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

Tangible and intangible fixed assets

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 3 years

An item of 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 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.

Note 2 – Significant accounting policies (continued)

Other assets

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

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

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 reserves:

- Credit institutions established in Luxembourg are required to hold minimum reserves with the Luxembourg Central Bank. These deposits represent 2% of some of their liabilities and are considered as not available. Compliance with the reserve requirement is determined on the basis of the institutions' average daily reserve holdings over the maintenance period, thus reserves of credit institutions can vary from one day to another following their treasury management, the money market or their expectations in interest rates.

Note 2 – Significant accounting policies (continued)

- Concerning the branch of the Bank located in Amsterdam, a minimum reserves has also to be hold at De Nederlandsche Bank (DNB). The amount of minimum reserves to be held by each institution is determined in relation to its reserve base, which is defined in relation to elements of its balance sheet. The balance sheet data are calculated by the institutions themselves and reported to DNB within the general framework of the ECB's money and banking statistics.

Employee benefits

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

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

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

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

Share-based payment transactions

Share-based payment transactions are transactions in which an entity receives goods or services from the supplier of these goods and services (including employees) as part of a share-based agreement.

A share-based payment agreement is an agreement between an entity and another party (including employees) which offers the right to receive cash or other corporate assets for amounts based on the price (or value) of equity instruments of the entity or other group entity, providing that the specified vesting conditions, if any, are satisfied.

There are two main categories of share-based payment transactions:

- equity-settled;
- cash-settled.

Equity-settled share-based payment transactions require indirect measurement and each equity instrument granted is measured on its grant date. The impacts of any market conditions and non-vesting conditions are reflected in the grant-date fair value of each equity instrument.

Note 2 – Significant accounting policies (continued)

Any service or non-market performance condition is not reflected in the grant-date fair value of the share-based payment. Instead, an estimate is made of the number of equity instruments for which the service and non-market performance conditions are expected to be satisfied. The product of this estimate is the estimate of the total share-based payment cost. This cost is recognised over the vesting period, with a corresponding entry in equity. The cost is recognised as an expense or capitalised as an asset if the general asset-recognition criteria in IFRS are met. If the payment is not subject to a service condition, then it is recognised immediately. Subsequent to initial recognition and measurement, the estimate of the number of equity instruments for which the service and non-market performance conditions are expected to be satisfied is revised during the vesting period. The cumulative amount recognised at each reporting date is based on the number of equity instruments for which the service and non-market performance conditions are expected to be satisfied. Ultimately, the share-based payment cost is based on the number of equity instruments for which these conditions are satisfied. No adjustments are made in respect of market conditions. Subsequent to initial recognition and measurement, the manner of adjustment for non-vesting period conditions depends on whether there is choice within the condition. Failure to satisfy the following conditions results in accelerated recognition of unrecognised cost:

- non-vesting conditions that the counterparty can choose to meet: e.g. paying contributions towards the purchase (or exercise) price on a monthly basis, or complying with transfer conditions; and
- non-vesting conditions that the entity can choose to meet: e.g. continuing the plan.

A non-vesting condition that neither the entity nor the counterparty can choose to meet (e.g. a target based on a commodity index) has no impact on the accounting if it is not met – i.e. there is neither a reversal of the previously recognised cost nor an acceleration of recognition.

Concerning cash-settled share-based payment transactions, the fair value of the amount payable to employees in respect of share appreciation rights (“SARs”), which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the SARs. Any changes in the liability are recognisd as personnel expenses in profit or loss.

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.

Note 2 – Significant accounting policies (continued)

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.

Interest income and expense

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

The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to:
- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

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

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

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

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

Note 2 – Significant accounting policies (continued)

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

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

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

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

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

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

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

Fee and commission income

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

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

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

Note 2 – Significant accounting policies (continued)

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

For more details on fee and commission income see Note 18.

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

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

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

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

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

Dividend income

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

Income Tax

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

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

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

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

Note 2 – Significant accounting policies (continued)

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Segment reporting

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

Operating leases

At inception of a contract, the Bank assesses whether a contract is (or contains) a lease. A contract is (or contains) a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The policy is applied to contracts entered into (or changed) on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

Note 2 – Significant accounting policies (continued)

The right-of-use is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the Bank's incremental interest rate.

The Bank has developed a methodology for setting the incremental interest rate as an alternative to the implicit interest rate and has decided to adopt the *Funds Transfer Pricing* (FTP) method. This is based on an unsecured and amortising rate curve, which envisages lease payments for the lease contract that are typically constant over the lease term, rather than a single payment upon maturity. The FTP method takes into account the creditworthiness of the lessee, the term of the lease, the nature and quality of the collateral provided and the economic environment in which the transaction takes place and is therefore in line with the requirements of the standard.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

From 1 January 2020, where the basis for determining future lease payments changes as required by interest rate benchmark reform, the Bank remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

The Bank presents the right-of-use assets in "*property plant and equipment*" and lease liabilities in "*financial liabilities at amortised cost*" in the statement of financial position.

Note 2 – Significant accounting policies (continued)

Classification and analysis of lease transactions in light of the applicable regulations
As noted above, the Standard applies to all types of contracts containing a lease, i.e. contracts that give the right to control the use of an identified asset for a particular period of time (period of use) in exchange for consideration.

Once it is established that the underlying asset of the contract is an identified asset, it is necessary to assess whether the entity has the right to control its use because it has both the right to obtain substantially all the economic benefits from the use of the asset and the right to direct the use of the identified asset. For the Bank, the analysis of contracts falling within the scope of this standard concerned those relating to the following cases:

- real estate;
- and vehicles.

Real estate lease contracts include properties designated for use as offices. The contracts normally have a term of more than 12 months and typically have renewal and termination options, that can be exercised by the lessor and the lessee in accordance with the law or specific contractual provisions. These contracts do not include significant restoration costs for the Bank at the end of the lease.

For vehicles, there are long-term rental contracts relating to the company fleet made available to employees (mixed use) in Luxembourg and to the organisational structure of the branch in Amsterdam. They have a multi-year term, with no renewal options, and these contracts do not include the option to purchase the asset.

IT equipment has also been excluded from the scope of IFRS 16 and is therefore accounted for in accordance with IAS 38 and its requirements.

Short-term and leases of low-value assets
The Bank has elected not to recognise right-of-use assets and lease liabilities for contracts with a remaining lease term of 12 months or less (“short-term”).

The Bank has also decided not to apply the new standard to contracts with a value of the underlying asset, when new, of EUR 5,000 or less (“low value”).

The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term or on another systematic basis if that basis is more representative of the pattern of the lessee’s benefit.

Note 3 – Financial risk management

(a) Introduction and overview

The Parent Company governing body (Board of Directors), supported by specific Committees, defines 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 controls 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 Assets/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's credit risk management is based on the commercial and risk strategy drawn up by the Management and validated by the Board of Directors. The main principles are as follows:
- the Bank grants credits in priority to corporate clients who are often also clients of the Group or are part of the Group;
- calculation of the impact on capital requirements is made for all new credit transactions. The objective is to maintain the adequate ratio of the own funds beyond the 10.5% required by local regulation;
- each new customer relation must be approved by the "Client Control Committee" and where applicable by the "Committee of acceptance of new customers and operations";
- the main exposures are toward the ultimate Parent Company;
- the Bank does not systematically require a 100% collateral as a guarantee. It depends on the reputation of the borrower.

Credit risk is assessed by reviewing:
- large exposure;
- credit limits and collaterals;
- credit lines;
- financial analysis;
- ratings.

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

(i) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, financial assets measured at FVTOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantees contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

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

Note 3 – Financial risk management (continued)

The table below details the amount of loss allowances by stage and type of exposure as at 31 December 2020 and 2019 :

	2020			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances	15,259,250	28,944,641	-	**44,203,891**
Off balance sheet exposures	2,687,192	2,204,597	-	**4,891,789**
Financial assets at FVTOCI	711,565	260,041	-	**971,606**
IFRS 9 Loss allowance	**18,658,007**	**31,409,279**	**-**	**50,067,286**

	2019			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances	9,231,484	6,325,632	11,936,964	**27,494,080**
Off balance sheet exposures	1,146,515	1,483,259	-	**2,629,774**
Financial assets at FVTOCI	612,636	464,150	-	**1,076,786**
IFRS 9 Loss allowance	**10,990,635**	**8,273,041**	**11,936,964**	**31,200,640**

The following table shows the distribution of loss allowance calculated on loans and advances as at 31 December 2020 and 2019 by level of risk and stages, specifying the amount of impairment calculated in relation to each bucket.

	2020			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans & advances to credit Institutions at AC				
Grades A: Low-fair risk	7,637,386,379	18,785,759	-	**7,656,172,138**
Grades B: Medium risk	-	2,576	-	**2,576**
Grades C: Higher risk	-	-	-	**-**
Grades D: UR (“Unrated”)	27,782,234	235,638	-	**28,017,872**
Grades E: Credit impaired	-	-	-	**-**
Loss allowance	(4,069,451)	(135,093)	-	**(4,204,544)**
Carrying amount	**7,661,099,162**	**18,888,880**	**-**	**7,679,988,042**

Note 3 – Financial risk management (continued)

(in EUR)	2020 Stage 1	Stage 2	Stage 3	Total
Loans & advances to customers at AC				
Grades A: Low-fair risk	5,176,313,988	282,481,472	-	**5,458,795,460**
Grades B: Medium risk	722,577,964	1,066,603,193	-	**1,789,181,157**
Grades C: Higher risk	-	243,417,225	-	**243,417,225**
Grades D: UR ("Unrated")	679,960,794	248,454,192	-	**928,414,986**
Grades E: Credit impaired	-	-	-	**-**
Loss allowance	(11,189,799)	(28,809,548)	-	**(39,999,347)**
Carrying amount	**6,567,662,947**	**1,812,146,534**	**-**	**8,379,809,481**
Total amount loans and advances				**16,059,797,523**
Including loss allowances:				*(44,203,891)*

(in EUR)	2019 Stage 1	Stage 2	Stage 3	Total
Loans and advances to credit institutions at AC				
Grades A: Low-fair risk	8,561,916,901	24,933	-	**8,561,941,834**
Grades B: Medium risk	-	3,632	-	**3,632**
Grades C: Higher risk	-	28,209	-	**28,209**
Grades D: UR ("Unrated")	3,780	235,344	-	**239,124**
Grades E: Credit impaired	-	-	-	**-**
Loss allowance	(3,776,206)	(909)	-	**(3,777,115)**
Carrying amount	**8,558,144,475**	**291,209**	**-**	**8,558,435,684**

(in EUR)	2019 Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at AC				
Grades A: Low-fair risk	7,771,275,055	358,530,616	-	**8,129,805,671**
Grades B: Medium risk	810,197,723	306,309,947	-	**1,116,507,670**
Grades C: Higher risk	-	202	-	**202**
Grades D: UR ("Unrated")	476,962,694	842,994,199	281	**1,319,957,174**
Grades E: Credit impaired	-	-	44,341,058	**44,341,058**
Loss allowance	(5,455,278)	(6,324,723)	(11,936,964)	**(23,716,965)**
Carrying amount	**9,052,980,194**	**1,501,510,241**	**32,404,375**	**10,586,894,810**
Total amount loans and advances				**19,145,330,494**
Including loss allowances:				*(27,494,080)*

Note 3 – Financial risk management (continued)

The following table shows the distribution of loss allowances calculated on guarantees, loan commitments and uncommitted off balance sheet items as at 31 December 2020 and 2019 by level of risk and stages, specifying the amount of impairment calculated in relation to each bucket.

	2020			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees, loan commitments and uncommitted credit lines				
Grades A: Low-fair risk	4,919,375,057	649,499,061	-	**5,568,874,118**
Grades B: Medium risk	530,323,581	47,733,643	-	**578,057,224**
Grades C: Higher risk	536,256	29,828,451	-	**30,364,707**
Grades D: UR ("Unrated")	1,441,201,976	529,039,808	-	**1,970,241,784**
Grades E: Credit impaired	-	-	-	-
Loss allowance	(2,687,192)	(2,204,597)	-	**(4,891,789)**
Carrying amount	**6,888,749,678**	**1,253,896,366**	**-**	**8,142,646,044**

Financial guarantees, loan commitments and uncommitted credit lines	**8,147,537,833**
Uncommitted off balance sheet items	(3,339,896,242)
Financial guarantees and loan commitments	**4,807,641,591**

	2019			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees, loan commitments and uncommitted credit lines				
Grades A: Low-fair risk	5,853,246,300	557,944,622	-	**6,411,190,922**
Grades B: Medium risk	459,711,341	12,130,915	-	**471,842,256**
Grades C: Higher risk	-	5,004,601	-	**5,004,601**
Grades D: UR ("Unrated")	749,971,999	409,456,232	-	**1,159,428,231**
Grades E: Credit impaired	-	-	2	**2**
Loss allowance	(1,146,515)	(1,483,259)	-	**(2,629,774)**
Carrying amount	**7,061,783,125**	**983,053,111**	**2**	**8,044,836,238**

Financial guarantees, loan commitments and uncommitted credit lines	**8,047,466,012**
Uncommitted off balance sheet items	(3,091,695,513)
Financial guarantees and loan commitments	**4,955,770,499**

Note 3 – Financial risk management (continued)

The following table sets out the credit quality of financial assets at FVTOCI. The analysis has been based on external ratings.

	2020			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at FVTOCI				
A-	316,864,623	-	-	**316,864,623**
A+	23,430,025	20,717,663	-	**44,147,688**
A3	5,032,868	-	-	**5,032,868**
AA	92,878,280	12,283,261	-	**105,161,541**
AA+	15,218,174	-	-	**15,218,174**
AA-	35,323,712	-	-	**35,323,712**
Aa2	20,346,734	-	-	**20,346,734**
Aa3	7,575,900	-	-	**7,575,900**
AAA	623,287,359	55,233,763	-	**678,521,122**
Baa1	12,669,661	10,189,048	-	**22,858,709**
BB	4,900,262	-	-	**4,900,262**
BBB+	714,741,590	-	-	**714,741,590**
BBB-	25,227,242	-	-	**25,227,242**
Loss allowance	(711,565)	(260,041)	-	**(971,606)**
	1,896,784,865	98,163,694	-	**1,994,948,559**

Loss allowance calculated on loan at FVTOCI amounted to EUR 2,754 as at 31 December 2019 and its fair value amounted to EUR 7,040,755. The concerned loan has been sold in 2020.

	2019			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at FVTOCI				
A	-	-	-	-
A-	424,671,057	-	-	**424,671,057**
A+	26,358,268	-	-	**26,358,268**
AA	73,740,222	-	-	**73,740,222**
AA-	55,277,575	-	-	**55,277,575**
Aa2	20,245,127	-	-	**20,245,127**
Aa3	26,773,314	-	-	**26,773,314**
Aaa	32,738,255	-	-	**32,738,255**
AAA	438,744,849	41,579,961	-	**480,324,810**
Baa1	12,374,898	10,156,972	-	**22,531,870**
BB	14,983,554	-	-	**14,983,554**
BBB	952,437,327	94,133,848	-	**1,046,571,175**
BBB+	11,399,221	-	-	**11,399,221**
BBB-	22,499,464	-	-	**22,499,464**
Loss allowance	(609,882)	(464,150)	-	**(1,074,032)**
	2,111,633,249	**145,406,631**	-	**2,257,039,880**

Note 3 – Financial risk management (continued)

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

	Transfers between Stage 1 & 2		**Transfers between Stage 2 & 3**		**Transfers between Stage 1 & 3**		**No transfers**	**Total**
	To 2 From 1	**To 1 From 2**	**To 3 From 2**	**To 2 From 3**	**To 3 From 1**	**To 1 From 3**		
Balance at 1 January 2020								**31,200,640**
New financial assets originated or purchased	-	-	-	-	-	-	20,348,823	**20,348,823**
Remeasurement of loss allowance – increase	12,770,597	-	-	-	-	-	10,058,756	**22,829,353**
Remeasurement of loss allowance – decrease	(3,719)	(999)	-	-	-	-	(2,553,011)	**(2,557,729)**
Write offs and assets derecognized	-	-	-	-	-	-	(21,753,801)	**(21,753,801)**
Balance at 31 December 2020								**50,067,286**

During the year, due to the pandemic crisis, a reassessment of the model was performed to imply the consideration of new forward-looking elements, resulting in significant increase of exposures from stage 1 to stage 2 (and therefore increase in ECL) as shown in the table above.

Note 3 – Financial risk management (continued)

	Transfers between Stage 1 & 2		**Transfers between Stage 2 & 3**		**Transfers between Stage 1 & 3**		**No transfers**	**Total**
	To 2 From 1	**To 1 From 2**	**To 3 From 2**	**To 2 From 3**	**To 3 From 1**	**To 1 From 3**		
Balance at 1 January 2019								**23,137,046**
New financial assets originated or purchased	-	-	-	-	-	-	14,615,257	**14,615,257**
Remeasurement of loss allowance – increase	1,345,268	1,412	-	440	-	-	634,030	**1,981,150**
Remeasurement of loss allowance – decrease	(525)	(3,909)	-	-	-	-	(1,234,790)	**(1,239,224)**
Write offs and assets derecognized	-	-	-	-	-	-	(7,293,589)	**(7,293,589)**
Balance at 31 December 2019								**31,200,640**

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

Note 3 – Financial risk management (continued)

Inputs, assumptions and methodology used for estimating impairment

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

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

In particular:

- the impairment model methodology has been established for the tracking of the credit quality of the positions included in the portfolios of financial assets measured at amortised cost and at fair value through other comprehensive income;
- the parameters have been established for determining the significant increase in credit risk, for the correct allocation of performing exposures to stage 1 or stage 2. With regard to impaired exposures, on the other hand, the alignment of the definitions of accounting and regulatory default – already currently present – means that the current criteria for the classification of exposures as "non-performing/impaired" can be considered the same as the classification criteria for exposures within stage 3;
- the models have been produced – which include the forward-looking information – to be used for the stage allocation (based on the lifetime PD) and for the calculation of the 12-month expected credit loss (ECL) (to be applied to stage 1 exposures) and the lifetime ECL (to be applied to stage 2 and stage 3 exposures). To take into account forward-looking information and the macroeconomic scenarios in which the Bank may have to operate, it was decided to adopt, as reported in greater detail below, the so-called "most likely scenario + Add-on" approach.

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

Note 3 – Financial risk management (continued)

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

- the variation (beyond set thresholds) of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a "relative" basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have "significantly increased" and, the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);
- the presence of forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those whose credit risk has "significantly increased" since initial recognition;
- lastly, for banks belonging to the international scope, some of the indicators from the credit monitoring systems specifically used by each bank are considered for the purposes of the transfer between "stages" where appropriate;
- this refers in particular to the watch lists, i.e. the credit monitoring systems that, based on the current credit quality of the borrower, identify performing exposures above a certain level of risk.

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

For more information on the most-likely scenario please refer to: *Definition of the most-likely macroeconomic scenario*.

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

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

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

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

As required by IFRS 9, the effects of the forward-looking scenario on LGD estimates pegged to the current conditions must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

Including “forward-looking” information

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

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

- consistency with the other corporate processes (e.g. business plan/budget/ICAAP);
- greater comprehensibility and comparability of results over time;
- greater governance and control over process metrics;

Note 3 – Financial risk management (continued)

- possibility of calculating the add-on outside the accounting cycle/calendar hence within a time frame compatible with fast closing, as required by Regulators;
- ability to monitor more closely the natural volatility of expected losses;
- greater possibility of performing back-testing with period-end data to progressively improve the accuracy of estimates.

Briefly stated, this methodology provides that:

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

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

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

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

Note 3 – Financial risk management (continued)

Determination of forward-looking scenarios

<u>*Definition of the Most-likely + Add-on model*</u>

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

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

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

Forward looking – quantitative analysis

The methodology for estimating Expected Credit Loss (ECL) adopted for the purpose of determining impairment losses on loans in accordance with IFRS 9 is carried out, at the level of individual transactions or tranches of securities, starting from the IRB modeling of the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) parameters, on which appropriate corrective actions are done to ensure coherence with the specific requirements of the principle.

A detailed description of the methods adopted by the Intesa Sanpaolo Group is included in the Group Accounting Policies and, in particular, provided in Section "*A. 2 - Part relating to the main items of the Balance Sheet*" – paragraph "*Methods for determining impairment losses*" to which reference is made.

In particular, the valuation of financial assets reflects the best estimation of the effects of future conditions, first of all those relating to the economic context, on the basis of which PD and LGD forward looking are conditioned. In the context of IFRS 9, also on the basis of the guidelines of the international Regulators, informations on future macroeconomic scenarios in which the Bank may find itself operating and which significantly have an influence on the situation of debtors with reference to both the "risk" of migration of exposures to lower quality classes (i.e. staging) and the recoverable amounts (i.e. the determination of the expected loss on exposures) are to become particularly important.

Note 3 – Financial risk management (continued)

From a methodological point of view, several possible alternative approaches have been analysed in order to take these elements into account. With respect to the various alternatives considered, the approach that the Intesa Sanpaolo Group has decided to adopt is the so-called "Most likely scenario + Add-on". According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a base scenario ("Most Likely", consistent with what is used for other business purposes such as, for example, budgets and business plans) and then adjusted with an Add-On aimed at including any differences with respect to worst and best scenarios. If the impact of the Add-On is positive overall on the risk parameters, it has been chosen to sterilize its effect both for staging and ECL calculation purposes.

The macroeconomic scenario is determined by the Bank's Studies and Research Department using forecasting models also taking into account the forecasts of the main national and international bodies and institutions. The alternative improving and worsening scenarios are determined by stressing the input variables in the forecast models.

In the period 2021-23, the macroeconomic variables most relevant for the determination of the ECL and used for the Most likely scenario have compound annual growth rates for the period (CAGR) of +3.50% in 2021 for Real GDP Italy and -2.0% for Real Estate Prices Italy in 2021. The unemployment rate for Italy is expected to be 9.97% on average for the period. Forecasts for the financial markets show compound annual growth rates for the period of +4.60% for the DJ Eurostoxx50 in 2021.

The table below shows these variables together with estimations according to the improving and worsening scenarios described above:

Macroeconomic variables		Most-likely scenario			Improving scenario			Worsening scenario		
		2021	2022	2023	2021	2022	2023	2021	2022	2023
Italia	Real GDP Italy	3.50%	3.80%	2.30%	6.20%	2.50%	1.90%	-0.50%	2.60%	1.70%
	Consumer Price Index Italy	0.50%	0.90%	1.20%	0.60%	1.20%	1.40%	-0.30%	0.40%	1.00%
	Residential Property Italy	-2.00%	0.50%	1.00%	0.30%	2.00%	3.10%	-5.00%	-2.70%	-1.70%
	BTP-Bund Spread 10Y	1.30%	1.50%	1.60%	1.30%	1.50%	1.60%	1.60%	1.80%	2.10%
	Italian Unemployment	10.40%	10.00%	9.50%	10.20%	9.90%	9.50%	11.60%	11.80%	11.50%
Euro Area	Real GDP EUR	3.90%	4.20%	2.10%	6.00%	4.30%	2.10%	0.40%	3.00%	2.90%
	Equity EUROSTOXX 50	4.60%	4.00%	2.90%	12.00%	3.60%	3.30%	-5.20%	-7.00%	-4.70%

** The macroeconomic forecasts produced by the Group were made in line with the forecasts provided by the regulators. This alignment was requested by the ECB in its letter "Identification and measurement of credit risk in the context of coronavirus (Covid-19) pandemic" dated 4 December 2020 and the forecasts referred to are those published by the ECB itself on 10 December 2020 (for the euro area) "Eurosystem staff macroeconomic projections" and by Banca d'Italia (for Italy) on 11 December 2020 "Proiezioni macroeconomiche per l'economia italiana".*

The estimations of the prospective improving and worsening scenarios compared with the most Likely scenario show the following differences: Real GDP Italy +270 bps for the improving scenario in 2021 and -400 bps for the worsening scenario, Price of real estate Italy +230 bps for the improving scenario and -300 bps for the worsening scenario, Unemployment rate Italy -20 bps for the improving scenario and +120 bps for the worsening scenario, DJ Eurostoxx stock index 50 +740 bps for the improving scenario and -980 bps for the worsening scenario.

Note 3 – Financial risk management (continued)

In consideration of the high level of uncertainty that has characterized the economic and financial environment in 2020, highlighted by the extreme volatility of the above-mentioned scenarios, the Bank's Expected Credit Loss (ECL) for 2020, determined according to the logic of IFRS 9, was subject to sensitivity analysis in order to analyse the variability with regard to the individual alternative scenarios, also in the light of the strengthening of the indications provided in this sense by the regulators in 2020, aimed at sensitising financial institutions to include in their Financial Statements adequate disclosure to allow stakeholders to interprete possible evolutions and potential impacts of credit risk in the short/medium term.

This analysis was carried out on the performing loans portfolio (Stage 1 & Stage 2) in relation to the Group's representative perimeter (Parent Company and banks in the CIB Division, which account for approximately 80% of the Group's total exposure), taking as a reference scenarios the individual alternative scenarios (better and worse) used for the purposes of determining the add-on, instead of the most-likely scenario, keeping active the effects deriving from the adoption of managerial adjustments and overlays, used to take into account – in a context of exceptionality such as the Covid scenario – the specific elements that make the estimates of expected losses more consistent.

The sensitivity of the Bank portfolio to the worst-case scenario would see a significant slippage of counterparties in Stage 2, whose exposure would undergo a potential increase of 45%, with a consequent increase in the 2020 ECL estimated at around 10%, and a higher average coverage of around 4 bps.

Conversely, the sensitivity analysis of the Bank portfolio to the best-case scenario would see a significant reduction in the stock of Stage 2 positions, which would be reduced by 27%, with a potential economic benefit on the ECL 2020 decreasing by 34%, and a consequent decrease in the coverage ratio of approximately 14 bps.

For the Group companies included in the roll-out plan *(modification of the approach adopted switching from indirect methodology to direct methodology that strips out the expected loss directly from the cash flow generated by the activities in the portfolio of the Bank sensitive to change in interest rates)* and involving the Bank too, the internal rating models, EAD and LGD components are subject to an independent validation process carried out by the Validation function and to third level control by the Internal Audit function. At the end of the activities, a report on the compliance of the models with the supervisory regulations is produced for the Supervisory Authorities, which also verifies the effective deviation between the assumptions made ex-ante and the actual values realised ex-post. The report, to be approved by the Board of Directors of Intesa Sanpaolo S.p.A., certifies the on-going/perpetual compliance requirements.

The effectiveness of IFRS 9 models is also monitored by the Validation function at least once a year on risk parameters (staging criteria, PD, LGD and haircut models), both through model performance tests and in terms of model design and data treatment. The results are shown, similarly to what described above, in the annual report on internal models for management purposes. With regard to the analyses carried out during 2020, no particular critical issues emerged and an opinion of general adequacy was expressed with respect to the areas under analysis.

Note 3 – Financial risk management (continued)

Definition of the Most-likely macroeconomic scenario

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

- March scenario, which includes largely complete historical data on the previous year and it usually allows significant improvements to the forecasts for the current year, to be used to condition the calculation parameters for preparing the half-year report and the third quarter report;
- September scenario, used to support other corporate processes (i.e. budget, business plan) and to determine other balance sheet parameters (e.g. goodwill), to be used to condition the calculation parameters for preparation of the year-end financial statements and the first quarter report.

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

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

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

Definition of alternative paths to calculate Add-on

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

(ii) 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)	**2020**	**2019**
Cash and cash balances with central banks	538,213,036	726,382,833
Financial assets held for trading	54,712,261	30,193,047
Financial assets mandatorily measured at FVTPL	499,954	613,898
Financial assets measured at FVTOCI	1,996,131,350	2,265,365,852
Loans and advances	16,059,797,523	19,145,330,494
Derivatives held for hedging	-	2,111,798
Other assets	22,008,614	35,638,829
Total	**18,671,362,738**	**22,205,636,751**
Guarantees	323,660,200	316,141,594
Commitments	4,483,981,391	4,639,628,905
Total	**4,807,641,591**	**4,955,770,499**

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.

(iii) Credit quality per class of financial assets

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

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

(in EUR)	**Performing assets 2020**	**Doubtful assets 2020**	**Unlikely to Pay 2020**	**Past due exposures 2020**	**Total 2020**
Financial assets held for trading	54,712,261	-	-	-	**54,712,261**
Financial assets mandatorily measured at FVTPL	499,954	-	-	-	**499,954**
Financial assets at FVTOCI	1,996,131,350	-	-	-	**1,996,131,350**
Loans and advances	16,104,001,414	-	-	-	**16,104,001,414**
Total	**18,155,344,979**	**-**	**-**	**-**	**18,155,344,979**

Note 3 – Financial risk management (continued)

(in EUR)	Performing assets 2019	Doubtful assets 2019	Unlikely to Pay 2019	Past due exposures 2019	Total 2019
Financial assets held for trading	30,193,047	-	-	-	**30,193,047**
Financial assets designated at fair value	-	-	-	-	-
Financial assets mandatorily measured at FVTPL	613,898	-	-	-	**613,898**
Financial assets at FVTOCI	2,265,365,852	-	-	-	**2,265,365,852**
Loans and advances	19,128,483,235	-	44,341,339	-	**19,172,824,574**
Total	**21,424,656,032**	**-**	**44,341,339**	**-**	**21,468,997,371**

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

(in EUR)	Gross exposure 2020	Individual impairment 2020	Collective impairment 2020	Total 2020
Performing loans	16,104,001,414	-	44,203,891	**16,059,797,523**
Doubtful loans	-	-	-	-
Unlikely to Pay	-	-	-	-
Total	**16,104,001,414**	**-**	**44,203,891**	**16,059,797,523**

(in EUR)	Gross exposure 2019	Individual impairment 2019	Collective impairment 2019	Total 2019
Performing loans	19,128,483,235	-	(15,557,116)	**19,112,926,119**
Doubtful loans	-	-	-	-
Unlikely to Pay	44,341,339	(11,936,964)	-	**32,404,375**
Total	**19,172,824,574**	**(11,936,964)**	**(15,557,116)**	**19,145,330,494**

As at 31 December 2019 and 2020, there is no credit position that could qualify for loan forbearance as defined by the ESMA (European Security and Market Authority).

(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 2020, the lending limit amounted to EUR 656 million (2019: EUR 631 million) and no borrower exceeded this amount after the application of credit risk mitigation. The main exposures relates to 107 borrowers or group of borrowers (2019: 105 borrowers or group of borrowers) with financing between EUR 8.5 billion and EUR 12.7 million each (2019: between EUR 12 billion and EUR 15 million).

Note 3 – Financial risk management (continued)

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 26.

(v) Geographical allocation of risks

As at 31 December 2020 and 2019, 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)	2020		2019	
	Investment Securities (FVTOCI, FVTPL)	**Loans and advances**	**Investment Securities (FVTOCI, FVTPL)**	**Loans and advances**
Italy	767,354,477	7,778,261,440	1,057,344,024	8,885,426,471
USA	-	41,454,983	-	84,287,344
Japan	-	103,610	-	23,231
France	146,478,717	498,271	133,098,898	3,798,009
Spain	299,347,551	32,075,538	431,105,112	133,680,344
Luxembourg	160,621,411	1,294,689,111	132,426,544	1,533,592,629
Belgium	27,641,253	304,300,411	26,773,314	136,813,862
Germany	101,339,381	291,124,462	95,138,248	326,573,589
United Kingdom	16,564,903	287,115,542	16,379,620	315,202,388
Switzerland	-	65,251,000	-	273,467,849
The Netherlands	151,962,551	625,154,334	118,974,132	590,181,612
Poland	-	3,689,505	-	11,722
Qatar	-	704,583,732	-	429,482,907
Russia	-	2,702,124,551	-	4,753,253,244
Hungary	-	424,944	-	154,814
Romania	-	120,293,405	-	120,342,733
Supranational	173,008,278	-	187,403,846	-
Slovenia	-	-	-	-
South Africa	-	236,649,717	-	282,581,478
Ireland	20,494,821	56,540,595	10,310,603	29,314,783
Czech Republic	-	97	-	4
Denmark	-	114,639	-	10,321
Norway	18,169,339	151,046	2,549,733	45,697
Canada	46,760,155	12,128	37,456,273	1,059,235
Austria	7,108,624	415,146,054	-	32,404,235
Sweden	33,217,414	42,296	-	40,170
Cyprus	-	83,233,528	-	151,300,878
Azerbaijan	-	79,699,702	-	147,575,869
Man Island	20,474,162	-	9,978,648	-
Egypt	-	175,136,185	-	-
Ghana	-	47,639,412	-	-
Brazil	-	51,017,983	-	-
India	-	587,590,925	7,040,755	136,381,591
Lituania	6,088,267	-	-	-
Saudi Arabia	-	73,418,877	-	613,178,560
Thailand	-	1,999,352	-	997,885
Other	-	260,148	-	164,147,040
Total	**1,996,631,304**	**16,059,797,523**	**2,265,979,750**	**19,145,330,494**

Note 3 – Financial risk management (continued)

(in EUR)	2020		2019	
	Guarantees	**Commitments**	**Guarantees**	**Commitments**
Belgium	101,866,188	433,475,328	111,269,361	414,801,937
Cyprus	90,000	1	90,000	-
France	-	-	70,000	-
Germany	-	66,497,287	-	66,497,287
Tunisia	135,308	-	10,000	-
Ghana	-	20,780,702	-	1
Hungary	110,000	-	110,000	-
Italy	74,642,290	106,202,813	49,533,233	119,078,150
Luxembourg	48,402,159	780,808,579	52,289,825	484,934,897
The Netherlands	15,433,485	1,269,128,559	18,967,112	1,321,121,311
Kuwait	-	61,119,713	-	133,523,233
Principality of Monaco	60,000	-	80,000	-
Qatar	-	631,509,576	-	724,249,504
Spain	-	6,900,000	-	40,778,200
Switzerland	536,256	32,921,049	585,758	28,648,834
Turkey	10,000	-	10,000	-
USA	1,273,514	1	2,655,305	1
United Kingdom	80,302,000	116,978,699	80,292,000	51,467,137
Venezuela	40,000	-	40,000	-
Congo Dem. Republic	30,000	-	30,000	-
South Africa	-	66,632,655	-	78,161,748
Russia	-	510,085,137	-	654,228,237
Azerbaijan	-	-	-	1
India	-	13,660,392	-	522,138,427
Israel	9,000	-	9,000	-
Brazil	10,000	-	10,000	-
British Virgin Isl.	50,000	-	50,000	-
Hong Kong	600,000	-	-	-
Abu Dhabi	20,000	-	-	-
Egypt	-	304,780,900	-	-
Curacao	-	62,500,000	-	-
Lebanon	40,000	-	40,000	-
Total	**323,660,200**	**4,483,981,391**	**316,141,594**	**4,639,628,905**

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

Note 3 – Financial risk management (continued)

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

Maturing On	Fair Value (Eur)
2021	100,547,209
2022	131,873,607
2023	102,810,014
2024	133,025,522
2025	88,167,957
2026	54,380,132
2027	56,599,655
2028	56,653,261
	724,057,357

(vi) Industry sector allocation of risks

As at 31 December 2020 and 2019, 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)	2020		2019	
	Investment Securities (FVTPL, FVTOCI)	**Loans and advances**	**Investment Securities (FVTPL, FVTOCI)**	**Loans and advances**
Financial institutions	492,465,354	7,679,988,042	369,352,846	8,558,435,684
Public sector	1,503,954,765	651,193,314	1,888,972,251	921,794,790
Other industries	211,185	7,716,779,046	7,654,653	9,655,017,330
Individuals	-	11,837,121	-	10,082,690
Total	**1,996,631,304**	**16,059,797,523**	**2,265,979,750**	**19,145,330,494**

(in EUR)	2020		2019	
	Guarantees	**Commitments**	**Guarantees**	**Commitments**
Financial institutions	246,039,573	5,000,000	195,775,496	5,000,000
Public sector	-	936,290,475	-	724,249,505
Other industries	76,321,108	3,542,690,916	119,559,251	3,910,379,400
Individuals	1,299,519	-	806,847	-
Total	**323,660,200**	**4,483,981,391**	**316,141,594**	**4,639,628,905**

Note 3 – Financial risk management (continued)

(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 policy defines the rules, measurement methodologies, behavioural parameters for the Bank, according to the Intesa Sanpaolo Group Guidelines. Liquidity risk is subject to supervisory requirements in compliance with the applicable regulation and to internal limits as set in the Bank's Risk Appetite Framework (RAF).

In accordance with the 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 2020, the Liquidity Coverage Ratio of the Bank as defined in the article 416 of EU Regulation No 575/2013 and Delegated Regulation EU No 2015/61 was 186% (2019: 277%).

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 2020 (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	-	-	-	-	-	800	-	**800**
Financial liabilities at FVTPL and derivatives held for hedging	1,295	189	28	5	4	25	57	**1,603**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	**-**
Financial liabilities measured at amortised cost	4,177	1,452	1,051	3,407	3,115	1,811	211	**15,224**
Total	**5,472**	**1,641**	**1,079**	**3,412**	**3,119**	**2,636**	**268**	**17,627**

31 December 2019 (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	-	-	810	-	-	-	-	**810**
Financial liabilities held for trading and derivatives held for hedging	4,131	570	969	433	768	1,615	954	**9,440**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	**-**
Financial liabilities measured at amortised cost	2,959	2,199	3,238	2,627	4,372	3,159	215	**18,769**
Total	**7,090**	**2,769**	**5,017**	**3,060**	**5,140**	**4,774**	**1,169**	**29,019**

Note 3 – Financial risk management (continued)

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

2020	**Government and central banks**	**Other public entities**	**Financial institutions**	**Non financial companies**	**Other**	**Total**
Deposits from central banks	799,977,778	-	-	-	-	**799,977,778**
Financial liabilities held for trading and for hedging	-	-	101,177,076	102	4,290,171	**105,467,349**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	**-**
Financial liabilities measured at amortised cost	-	512,042,960	3,273,784,026	2,530,046,784	8,908,606,810	**15,224,480,580**
Total	**799,977,778**	**512,042,960**	**3,374,961,102**	**2,530,046,886**	**8,912,896,981**	**16,129,925,707**

2019	**Government and central banks**	**Other public entities**	**Financial institutions**	**Non financial companies**	**Other**	**Total**
Deposits from central banks	809,894,291	-	-	-	-	**809,894,291**
Financial liabilities held for trading and for hedging	-	-	163,566,999	1,361	15,374,355	**178,942,715**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	**-**
Financial liabilities measured at amortised cost	-	153,458,317	3,916,727,803	1,206,255,562	13,492,614,705	**18,769,056,387**
Total	**809,894,291**	**153,458,317**	**4,080,294,802**	**1,206,256,923**	**13,507,989,060**	**19,757,893,393**

Note 3 – Financial risk management (continued)

2020	Zone EURO	Other European countries	Other	Total
Deposits from central banks	799,977,778	-	-	**799,977,778**
Financial liabilities held for trading and for hedging	105,462,081	5,234	34	**105,467,349**
Financial liabilities at fair value through profit or loss	-	-	-	**-**
Financial liabilities measured at amortised cost	14,569,944,568	526,742,739	127,793,273	**15,224,480,580**
Total	**15,475,384,427**	**526,747,973**	**127,793,307**	**16,129,925,707**

2019	Zone EURO	Other European countries	Other	Total
Deposits from central banks	809,894,291	-	-	**809,894,291**
Financial liabilities held for trading and for hedging	178,732,504	180,389	29,822	**178,942,715**
Financial liabilities at fair value through profit or loss	-	-	-	**-**
Financial liabilities measured at amortised cost	17,788,852,353	691,508,262	288,695,772	**18,769,056,387**
Total	**18,777,479,148**	**691,688,651**	**288,725,594**	**19,757,893,393**

(d) Market risk

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

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

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

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

To assess market risk, the Bank has put in place a reporting addressed to the 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.

Note 3 – Financial risk management (continued)

Risk measurements

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

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

The approach used for the VaR computation is characterised by:
- a model of historical simulation using the platform Mark-to-Future (Algorithmics);
- a confidence interval of 99-th percentile;
- a considered holding period of 1 day;
- a full revaluation of positions.

A daily VaR limit is fixed at EUR 19 million.

Interest rate risk

Average interest rates

The average effective interest rates on financial instruments by main currencies for the year ended 31 December 2020 and 2019 are as follows:

	2020		**2019**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
EUR	0.3443%	0.1948%	0.4804%	0.2604%
USD	1.4461%	0.7153%	3.0374%	2.2539%

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.

Note 3 – Financial risk management (continued)

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 have been approved by the Group Financial Risk Committee and by the Bank Board on 15 December 2017 and updated on 23 October 2020:

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

In addition a shift sensitivity +100bps limit for USD currency has been introduced and equal to +/- 3.5 million.

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

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

Bucket	**Shift +100p per bucket**	**Shift -100p per bucket**	**Limits**
Short term	(11,106,737)	(234,353)	+8/-17 mln
Medium term	(3,249,310)	778,499	+14/-14 mln
Long term	(1,811,073)	289,235	+8/-10 mln
Total	**(16,167,120)**	**833,381**	**+18/-24 mln**

At 31 December 2020, 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:

-50 bps	**+50 bps**
(19,164,819)	**12,855,356**

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 2020 (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	538	-	-	-	-	-	-	**538**
Financial assets held for trading derivatives held for hedging and financial assets mandatorily at FVTPL	5	-	14	13	10	13	-	**55**
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	**-**
Financial assets at FVTOCI	-	80	79	75	165	991	606	**1,996**
Loans and advances	4,624	1,427	1,079	2,602	585	3,865	1,878	**16,060**
Total financial assets	**5,167**	**1,507**	**1,172**	**2,690**	**760**	**4,869**	**2,484**	**18,649**
Deposits from central banks	-	-	-	-	-	800	-	**800**
Financial liabilities held for trading and derivatives held for hedging	4	1	2	-	8	41	49	**105**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	**-**
Financial liabilities measured at amortised cost	4,177	1,452	1,051	3,407	3,115	1,811	211	**15,224**
Total financial liabilities	**4,181**	**1,453**	**1,053**	**3,407**	**3,123**	**2,652**	**260**	**16,129**

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2020, a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR (16,167,120) and EUR 833,381 respectively.

Note 3 – Financial risk management (continued)

31 December 2019 (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	726	-	-	-	-	-	-	**726**
Financial assets held for trading derivatives held for hedging and financial assets mandatorily at FVTPL	15	8	-	-	8	1	1	**33**
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	**-**
Financial assets at FVTOCI	14	175	25	91	131	992	837	**2,265**
Loans and advances	2,543	1,875	2,537	1,775	4,654	4,265	1,496	**19,145**
Total financial assets	**3,298**	**2,058**	**2,562**	**1,866**	**4,793**	**5,258**	**2,334**	**22,169**
Deposits from central banks	-	-	810	-	-	-	-	**810**
Financial liabilities held for trading and derivatives held for hedging	16	1	-	28	25	39	70	**179**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	**-**
Financial liabilities measured at amortised cost	2,960	2,200	3,236	2,627	4,372	3,159	215	**18,769**
Total financial liabilities	**2,976**	**2,201**	**4,046**	**2,655**	**4,397**	**3,198**	**285**	**19,758**

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2019, a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR (7,019,938) and EUR 5,009,343 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 2020 and 2019, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR):

31 December 2020	**EUR**	**USD**	**Other**	**Total**
Cash and cash balances with central banks	538,208,600	1,059	3,377	**538,213,036**
Financial assets at fair value through profit or loss and held for trading	-	44,621,722	10,090,539	**54,712,261**
Financial assets at FVTOCI	1,996,131,350	-	-	**1,996,131,350**
Loans and advances	13,366,054,795	2,253,123,561	440,619,167	**16,059,797,523**
Total financial assets	**15,900,394,745**	**2,297,746,342**	**450,713,083**	**18,648,854,170**
Deposits from central banks	799,977,778	-	-	**799,977,778**
Financial liabilities held for trading and held for hedging	87,880,524	9,766,453	7,820,372	**105,467,349**
Financial liabilities at fair value through profit or loss	-	-	-	**-**
Financial liabilities measured at amortised cost	13,468,356,375	1,617,836,441	138,287,764	**15,224,480,580**
Total financial liabilities	**14,356,214,677**	**1,627,602,894**	**146,108,136**	**16,129,925,707**

31 December 2019	**EUR**	**USD**	**Other**	**Total**
Cash and cash balances with central banks	726,365,857	3,805	13,171	**726,382,833**
Financial assets at fair value through profit or loss and held for trading	-	27,147,799	3,045,248	**30,193,047**
Financial assets at FVTOCI	2,258,325,097	7,040,755	-	**2,265,365,852**
Loans and advances	16,065,207,311	2,650,018,509	430,104,674	**19,145,330,494**
Total financial assets	**19,049,898,265**	**2,684,210,868**	**433,163,093**	**22,167,272,226**
Deposits from central banks	809,894,291	-	-	**809,894,291**
Financial liabilities held for trading and held for hedging	96,451,824	75,916,358	6,574,533	**178,942,715**
Financial liabilities at fair value through profit or loss	-	-	-	**-**
Financial liabilities measured at amortised cost	17,255,412,950	1,175,996,234	337,647,203	**18,769,056,387**
Total financial liabilities	**18,161,759,065**	**1,251,912,592**	**344,221,736**	**19,757,893,393**

Note 3 – Financial risk management (continued)

(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.

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 2020, excluding income for the current year, is as follows:

	2020	**2019**
Tier 1 Capital		
Ordinary share capital	1,389,370,555	1,389,370,555
Share premium	7,720,692	7,720,692
Other reserves and retained earnings	1,017,286,439	934,051,636
less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital	-	-
Others deductions	(2,964,438)	(5,533,853)
Total Tier 1	**2,411,413,248**	**2,325,609,030**

Note 3 – Financial risk management (continued)

	2020	2019
Tier 2 Capital		
General credit risk adjustments	12,029,870	-
Subordinated loan	200,000,000	200,000,000
Total Tier 2	**212,029,870**	**200,000,000**
Total own fund eligible for solvency purposes	**2,623,443,118**	**2,525,609,030**

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.

	2020 Amount of risk weighted assets	2019 Amount of risk weighted assets
Credit and couterparty risk	**8,463,896,439**	**8,173,661,171**
Central governments and central banks	3,005,336	13,788,761
Regional governments or local authorities	2,039,862	-
Public Sector Entities	-	266,181,945
Corporates	4,277,065,566	4,404,058,244
Institutions	4,012,529,139	3,233,233,294
Retail	1,647,364	1,502,204
Exposures in default	-	140
Equity exposures	37,677,271	38,214,814
Other items	30,731,774	48,722,842
Covered bonds	96,411,826	135,052,187
Collective investments undertakings (CIU)	2,788,301	32,906,740
Market risk	**-**	**-**
Operational risk	**365,699,892**	**377,498,367**
Credit Valuation Adjustment	**1,391,950**	**4,247,864**
Total risk weighted assets and capital requirements	**8,830,988,281**	**8,555,407,402**
Tier 1 capital ratio	*27.31%*	*27.18%*
Total capital ratio	*29.71%*	*29.52%*

Note 3 – Financial risk management (continued)

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 2020, the solvency ratio of the Bank is 29.71% (2019: 29.52%), above the regulatory limit of 8% and above the regulatory limit including conservation buffer limit of 10.5%. Over the year 2020, the higher solvency ratio amounted to 31.62% (June) and the lower amounted to 26.40% (March).

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 2020 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 2020 and 2019, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.

Note 3 – Financial risk management (continued)

As at 31 December 2020 and 2019, the notional amount and fair value of the derivatives held for trading are as follows (in EUR):

	2020		2019	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	-	-	-	-
Currency instruments	1,473,643,847	54,712,261	2,870,722,666	30,193,047
	1,473,643,847	**54,712,261**	**2,870,722,666**	**30,193,047**
Liabilities				
Interest rate instruments	-	-	35,000,000	660,551
Currency instruments	1,099,924,625	12,830,805	3,544,863,548	80,040,342
	1,099,924,625	**12,830,805**	**3,579,863,548**	**80,700,893**

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	
	2020	**2019**	**2020**	**2019**
Assets				
Loans and advances	16,060	19,145	16,231	18,903
Liabilities				
Financial liabilities measured at amortised cost	15,224	18,769	16,189	19,723

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

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

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

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 2020 and 2019, 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 2020 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value through profit or loss (FVTPL):				
- Financial assets held for trading	-	54,712,261	-	**54,712,261**
- Financial assets mandatorily measured at fair value	499,954	-	-	**499,954**
- Financial assets designated at fair value	-	-	-	**-**
Financial assets measured at FVTOCI				
- Equity instruments (other than investments in subsidiaries)	-	211,185	-	**211,185**
- Debt instruments	1,995,920,165	-	-	**1,995,920,165**
- Loans	-	-	-	**-**
Derivatives held for hedging	-	-	-	**-**
Total financial assets	**1,996,420,119**	**54,923,446**	**-**	**2,051,343,565**
Financial liabilities held for trading				
- Derivatives held for trading	-	12,830,805	-	**12,830,805**
- Short positions	-	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	**-**
Derivatives held for hedging	-	92,636,544	-	**92,636,544**
Total financial liabilities	**-**	**105,467,349**	**-**	**105,467,349**

Note 3 – Financial risk management (continued)

31 December 2019 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value through profit or loss (FVTPL):				
- Financial assets held for trading	-	30,193,047	-	**30,193,047**
- Financial assets mandatorily measured at fair value	613,898	-	-	**613,898**
- Financial assets designated at fair value	-	-	-	**-**
Financial assets measured at FVTOCI:				
- Equity instruments (other than investments in subsidiaries)	-	211,185	-	**211,185**
- Debt instruments	2,258,113,912	-	-	**2,258,113,912**
- Loans			7,040,755	**7,040,755**
Derivatives held for hedging	-	2,111,798	-	**2,111,798**
Total financial assets	**2,258,727,810**	**32,516,030**	**7,040,755**	**2,298,284,595**
Financial liabilities held for trading				
- Derivatives held for trading		80,700,893		**80,700,893**
- Short positions	-	-	-	**-**
Financial liabilities at fair value through profit or loss	-	-	-	-
Derivatives held for hedging	-	98,241,822	-	**98,241,822**
Total financial liabilities	**-**	**178,942,715**	**-**	**178,942,715**

During the reporting years ending 31 December 2020 and 31 December 2019, 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. The Other Financial Institutions division is related to the loans operations with the other entities of the Group.

Information regarding the result 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 for evaluating the achievement of the strategic divisions.

Note 3 – Financial risk management (continued)

Results by strategic division in EUR '000	**2020**					
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Governance**	**Total revenues**
Net interest margin	99,295	771	43,305	(13,271)	-	**130,100**
Dividends	-	-	-	-	-	**-**
Net commission margin	33,527	3,081	10,815	130	-	**47,553**
Net trading income	(40,445)	296	(28,422)	54,273	-	**(14,298)**
Net other expenses	(125)	25	(26)	(2,059)	-	**(2,185)**
Impairment on financial assets	(25,484)	(25)	(745)	(56)		**(26,310)**
Total area results	**66,768**	**4,148**	**24,927**	**39,017**	**-**	**134,860**
Depreciation					(2,296)	**(2,296)**
Provision					(2,431)	**(2,431)**
Staff and operating expenses					(43,304)	**(43,304)**
Tax expenses					(4,235)	**(4,235)**
Total operating & extraordinary expenses					**(52,266)**	**(52,266)**
RESULTS FOR THE YEAR						82,594

Results by strategic division in EUR '000	**2019**					
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Governance**	**Total revenues**
Net interest margin	81,569	1,746	80,776	(10,010)	-	**154,081**
Dividends	-	-	51	-	-	**51**
Net commission margin	23,003	2,909	9,281	157	-	**35,350**
Net trading income	(1,355)	369	(30,952)	(1,966)	-	**(33,904)**
Net other operating expenses	(18)	(312)	(1)	(1,335)	-	**(1,666)**
Impairment on financial assets	(6,316)	(22)	(987)	734	-	**(6,591)**
Total area results	**96,883**	**4,690**	**58,168**	**(12,420)**	**-**	**147,321**
Depreciation					(2,236)	**(2,236)**
Provision					(1,172)	**(1,172)**
Staff and operating expenses					(43,204)	**(43,204)**
Tax expenses					(6,626)	**(6,626)**
Total operating & extraordinary expenses					**(53,238)**	**(53,238)**
RESULTS FOR THE YEAR						94,083

Note 3 – Financial risk management (continued)

Assets by strategic division in EUR'000	**2020**				
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Cash and cash balances with central banks	-	-	537,968	245	**538,213**
Financial assets held for trading	-	350	50,673	3,689	**54,712**
Financial assets designated at fair value through profit or loss	-	-	-	-	**-**
Financial assets mandatorily measured at fair value	-	-	500	-	**500**
Financial assets measured at FVTOCI	-	-	1,995,920	211	**1,996,131**
Loans and advances	8,550,370	14,564	7,127,695	367,169	**16,059,798**
Loans and advances to credit institutions	*186,086*	*-*	*7,126,753*	*367,149*	***7,679,988***
Loans and advances to customers	*8,364,284*	*14,564*	*942*	*20*	***8,379,810***
Derivatives held for hedging	-	-	-	-	**-**
Tangible fixed assets	331	-	-	2,294	**2,625**
Intangible assets	-	-	-	-	**-**
Tax assets	7,134	-	-	1,202	**8,336**
Other assets	3,714	73	4,992	13,230	**22,009**
Total assets	**8,561,549**	**14,987**	**9,717,748**	**388,040**	**18,682,324**

Assets by strategic division in EUR'000	**2019**				
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Cash and cash balances with central banks	-	-	725,910	473	**726,383**
Financial assets held for trading	-	117	29,497	579	**30,193**
Financial assets designated at fair value through profit or loss	-	-	-	-	**-**
Financial assets mandatorily measured at fair value	-	-	614	-	**614**
Financial assets measured at FVTOCI	7,041	-	2,258,114	211	**2,265,366**
Loans and advances	10,715,284	12,794	8,089,738	327,514	**19,145,330**
Loans and advances to credit institutions	*142,263*	*-*	*8,088,691*	*327,481*	***8,558,435***
Loans and advances to customers	*10,573,021*	*12,794*	*1,047*	*33*	***10,586,895***
Derivatives held for hedging	-	-	2,112	-	**2,112**
Tangible fixed assets	556	-	-	4,053	**4,609**
Intangible assets	-	-	-	-	**-**
Tax assets	8,969	-	-	5,755	**14,724**
Other assets	11,751	84	8,072	15,732	**35,639**
Total assets	**10,743,601**	**12,995**	**11,114,057**	**354,317**	**22,224,970**

Note 3 – Financial risk management (continued)

Liabilities & Equity by strategic division in EUR'000 **2020**

Liabilities	**Corporate & Financial Institutions**	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Deposits from central banks	-	-	799,978	-	**799,978**
Financial liabilities held for trading	-	840	11,991	-	**12,831**
Financial liabilities designated at fair value through profit or loss	-	-	-	-	**-**
Financial liabilities measured at amortised cost	**2,366,256**	**673,299**	**11,978,793**	**206,133**	**15,224,481**
Deposits from credit institutions	*14,824*	*1*	*3,258,384*	-	***3,273,209***
Deposits from customers	*2,349,757*	*673,298*	*1,035,214*	*205,597*	***4,263,866***
Debts evidenced by certificates	*1,675*	-	*7,685,195*	*536*	***7,687,406***
Derivatives held for hedging	-	-	88,570	4,066	**92,636**
Provisions	4,839	20	17	1,657	**6,533**
Tax liabilities	5,740	-	-	3,530	**9,270**
Other liabilities	7,371	55	4,419	17,928	**29,773**
Total liabilities	**2,384,206**	**674,214**	**12,883,768**	**233,314**	**16,175,502**
Equity					
Share capital and share premium	-	-	-	1,397,092	**1,397,092**
Revaluation reserve	-	-	7,883	(1,966)	**5,917**
Other reserves and retained earnings	399	273	(14,399)	1,034,946	**1,021,219**
Net profit for the year	156,564	2,857	(38,474)	(38,353)	**82,594**
Total equity	**156,963**	**3,130**	**(44,990)**	**2,391,719**	**2,506,822**
Total liabilities and equity	**2,541,169**	**677,344**	**12,838,778**	**2,625,033**	**18,682,324**

Liabilities & Equity by strategic division in EUR'000 **2019**

Liabilities	**Corporate & Financial Institutions**	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Deposits from central banks	-	-	809,894	-	**809,894**
Financial liabilities held for trading	-	247	80,454	-	**80,701**
Financial liabilities designated at fair value through profit or loss	-	-	-	-	**-**
Financial liabilities measured at amortised cost	**1,296,378**	**819,836**	**16,440,172**	**212,670**	**18,769,056**
Deposits from credit institutions	*158,172*	-	*2,716,690*	-	***2,874,862***
Deposits from customers	*1,136,533*	*819,836*	*995,585*	*212,082*	***3,164,036***
Debts evidenced by certificates	*1,673*	-	*12,727,897*	*588*	***12,730,158***
Derivatives held for hedging	-	-	95,791	2,451	**98,242**
Provisions	2,576	53	1	1,748	**4,378**
Tax liabilities	6,704	-	-	3,581	**10,285**
Other liabilities	10,746	115	5,915	22,846	**39,622**
Total liabilities	**1,316,404**	**820,251**	**17,432,227**	**243,296**	**19,812,178**
Equity					
Share capital and share premium	-	-	-	1,397,091	**1,397,091**
Revaluation reserve	18	-	(6,913)	1,724	**(5,171)**
Other reserves and retained earnings	398	273	(14,747)	940,865	**926,789**
Net profit for the year	183,287	(551)	(65,046)	(23,607)	**94,083**
Total equity	**183,703**	**(278)**	**(86,706)**	**2,316,073**	**2,412,792**
Total liabilities and equity	**1,500,107**	**819,973**	**17,345,521**	**2,559,369**	**22,224,970**

Note 3 – Financial risk management (continued)

(k) Return on assets ("ROA")

The Bank return on assets is as follow:

	2020	2019
Total assets	18,682,323,825	22,224,969,767
Net profit for the year	82,594,316	94,082,728
Return on assets	**0.44%**	**0.42%**

(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.

The Benchmark Regulation

On 29 June 2016, Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the "Regulation") was published in the Official Journal of the European Union (OJEU) and entered into force on 30 June 2016.

The Regulation sets out to establish a common regulatory framework at the EU level under which benchmarks are provided, produced and used, and to restore trust in indices used as financial benchmarks. The aim of this Regulation is to enhance the benchmark-setting process, improve transparency and prevent conflicts of interest in order to enhance the robustness and reliability of benchmarks, thereby strengthening confidence in financial markets.

According to the Regulation, a benchmark is any index by reference to which the amount payable under a financial instrument or a financial contract, or the value of financial instrument is determined, or an index that is used to measure the performance of an investment fund with the purpose of tracking the return of such index, of defining the asset allocation of a portfolio or of computing the performance fee.

Note 3 – Financial risk management (continued)

The Regulation has the following objectives:
- Improving governance and controls over the benchmark process, in particular to ensure that administrators avoid conflicts of interest, or at least manage them appropriately;
- Improving the quality of input data and methodologies used by benchmark administrators;
- Ensuring that contributors to benchmarks and the data they provide are subject to adequate controls, in particular to avoid conflicts of interest. Therefore, a legally-binding code of conduct is introduced to contributors specifying their responsibilities with respect to the contribution of input data;
- Protecting consumers and investors through greater transparency and adequate rights of redress.

Benchmarks have been classified in three categories:
- Critical Benchmarks;
- Significant Benchmarks;
- Non-significant Benchmarks.

And they are subjected to requirements appropriate to their size and nature, while at the same time respecting a core set of minimum requirements in line with the internationally agreed principles of the International Organization of Securities Commission (IOSCO).

With reference to those Benchmarks for European short term rates classified as “Critical”, it has been necessary to issue new rules concerning:

- **Euribor**: starting from November 2019, it has been fully applied the reviewed method by the EMMI (European Money Market Institute) to fix the Euribor (hybrid methodology), using a hierarchical approach consisting of three levels, applied progressively.
    - Under level 1, panel bank contributions are based solely on eligible transactions for that particular tenor.
    - Level 2 looks at contributions based on transactions across the maturity spectrum using a calculation technique provided by EMMI.
    - Finally, under level 3, contributions are based on transactions and/or data from a range of markets closely related to the unsecured euro money market, using a combination of modelling techniques and/or panel bank judgment.

  The new method has been checked during the last part of 2020 as stated by the Benchmark Regulation and some details will be analysed during 2021 to strengthen more and more the hybrid method.

- **Eonia**: stating from October 2019 EONIA has been replaced as Euro risk-free rate benchmark for all products and contracts by the €STR (Euro short-term rate), which is calculated by the European Central Bank (ECB) and is based on the money market statistical reporting of the Eurosystem. Eonian fixing will be published until 3 January 2022 and then it will definitively be replaced by the €STR. The €STR rate constitutes also the reference to fix the Euribor fallback rate, which has to be mentioned in each contract and it has to be used once Euribor will be permanently no more published.

Note 3 – Financial risk management (continued)

- **Libor USD**: LIBOR is an indicative measure of the average interest rate at which major global banks could borrow from one another. LIBOR is quoted in multiple currencies and multiple time frames using data reported by private-sector banks. LIBOR is used extensively in the U.S. and globally as a "benchmark" or "reference rate" for various commercial and financial contracts, including corporate and municipal bonds and loans, floating rate mortgages, asset-backed securities, consumer loans, and interest rate swaps and other derivatives. It is expected that a number of private-sector banks currently reporting information used to set LIBOR will stop doing so after 2021 when their current reporting commitment ends, which could either cause LIBOR to stop publication immediately or cause LIBOR's regulator to determine that its quality has degraded to the degree that it is no longer representative of its underlying market. As regulators and market participants seek to avoid business and market disruptions resulting from the expected discontinuation of LIBOR, implementing alternative reference rates in advance of the discontinuation has taken on urgency. The U.S. and other countries are currently working to replace LIBOR with alternative reference rates.

The Benchmarks Project in Intesa Sanpaolo Group

The Group paid a lot of attention on the evolution in terms of Benchmarks Regulation, starting a dedicated project since 2016 involving many functions. Several updates have been provided to the Group Risk Committee, Board of Directors, Italian Regulators and the topic has been also discussed with the JST during their periodical meetings with the Chief Financial Officer and the Chief Risk Officer of the Group.

The Group was also involved actively in some working groups organized by EMMI and European Central Bank.

With specific reference to the last one, being voting member, the Group participated to the Working Group on risk free rates, where among the main tasks it appointed the €STR as new benchmark for the short term money market and published recommendations to manage the transition period from Eonia to €STR.

The main interventions covered by the Benchmark project at Group level can be summarized as follows:

- Risk and Valuation Assessment:
    - Of the main impacts generated by transition from Eonia to €STR;
    - On risk valuation on trading and banking book financial instruments;
    - On impacts given by the new Benchmarks fixing methodology on NII and EVE;
    - Of the impacts on counterparty risks, operational one and liquidity;
- Screening of the existing contracts based on Euribor, Eonia and Libor, analysing terms and conditions and updating/adding fallback conditions; updates issued by ISDA have been also analysed and external legal opinions have been required if necessary;
- Contributions to benchmarks with methodology update, processes and procedures update to fix Euribor and blocking the contribution to Eonia;
- Organization of internal training seminars;
- Internal newsletters and external communication to inform customers on Euribor new regulation when issuing their 31 December 2020 bank account statement;
- Accounting impacts analysis in terms of hedge accounting and involvement on dedicated meetings organized by the IASB Committee;

Note 3 – Financial risk management (continued)

- Screening of the Operation and IT impacts on the whole procedures following the adoption of the new benchmarks, issuing updates concerning Eonia/€STR/Euribor since 2019 and planning further actions on Libor in 2020-2021.

During 2020 the Benchmark project team went on working on the topic, focusing the attention in particular to:
- discounting switch from Eonia to €STR concerning transactions under clearing, respecting the deadlines given by European and US Clearing Houses (July and October 2020);
- start bilateral negociations with counterparties to switch Credit Support Annex (CSA) from Eonia to €STR;
- progressive adoption of derivatives against €STR rate to hedge relationships;
- global activities implementation to assure progressive transaction from Libor to new risk free rates, also through a Benchmark Libor project stronger governance to cover each regulatory and business topic. It has strengthened HUB foreign branches participation to the project, taking into consideration that they use those benchmarks significantly.

Benchmark Regulation: focus on Intesa Sanpaolo Bank Luxembourg S.A.

Intesa Sanpaolo Bank Luxembourg S.A. has analysed its financial instruments to identify connections with the above mentioned rates. The outcomes are presented as follows in dedicated tables as at 31 December 2020.

Hedging derivatives (€ mio - nominal)		**Maturity**				**Total**
Benchmark	**Hedging type**	**2021**	**2022**	**2023 2025**	**2026 & more**	
EURIBOR	FVH	130	190	913	556	**1,789**
	Macro FVH	-	-	-	-	-
	CFH	-	-	-	-	-
	Macro CFH	-	-	-	-	-
Total EURIBOR		**130**	**190**	**913**	**556**	**1,789**
Libor USD	FVH	-	-	**33**	-	**33**
	Macro FVH	-	-	-	-	-
	CFH	-	-	-	-	-
	Macro CFH	-	-	-	-	-
Total LIBOR USD		-	-	33	-	**33**
Libor GBP	FVH	-	-	-	-	-
	Macro FVH	-	-	-	-	-
	CFH	-	-	-	-	-
	MacroCFH	-	-	-	-	-
Total LIBOR GBP		-	-	-	-	-
Other benchmarks affected by the reform	FVH	-	-	**20**	277	**297**
	Macro FVH	-	-	-	-	-
	CFH	-	-	-	-	-
	MacroCFH	-	-	-	-	-
Total other benchmarks		-	-	**20**	**277**	**297**
Total		**130**	**190**	**966**	**833**	**2,119**

Note 3 – Financial risk management (continued)

Trading derivatives (€ mio - nominal) Benchmark	**Leg type**	**Maturity 2021**	**2022**	**2023 2025**	**2026 & more**	**Total**
EURIBOR	Placement	791	247	429	-	**1,467**
	Deposit	-	-	-	-	-
Libor USD	Placement	-	-	-	-	-
	Deposit	733	236	122	-	**1,091**
Other benchmarks	Placement	-	-	-	-	-
	Deposit	-	-	298	-	**298**
Fix rates	Placement	-	-	-	-	-
	Deposit	-	-	-	-	-
Total	**Placement**	**791**	**247**	**429**	**-**	**1,467**
	Deposit	**733**	**236**	**420**	**-**	**1,389**

Financial assets valued at amortized cost (€ mio)	**Rate type Floating**	**Fix**	**Total**
Loans and advances to credit institutions	1,043	6,637	**7,680**
Euribor	*821*		***821***
Libor USD	*212*		***212***
Libor GBP	*1*		***1***
Other	*9*		***9***
Loans and advances to customers	7,255	1,125	**8,380**
Euribor	*5,636*		***5,636***
Libor USD	*1,587*		***1,587***
Libor GBP	*1*		***1***
Other	*31*		***31***
Financial assets valued at amortized cost	**8,298**	**7,762**	**16,060**

Financial assets measured at FVTOCI (€ mio)	**Rate type Floating**	**Fix**	**Zero C.**	**Total**
Debt securities	192	1,729	75	**1,996**
Euribor	*192*			***192***
Financial assets measured at FVTOCI	**192**	**1,729**	**75**	**1,996**

Note 3 – Financial risk management (continued)

Financial liabilities measured at amortized cost (€ mio)	**Rate type**		**Total**
	Floating	**Fix**	
Deposits from credit institutions	2,800	473	**3,273**
Euribor	*2,218*		***2,218***
Libor USD	*581*		***581***
Libor GBP	*-*		***-***
Other	*1*		***1***
Deposits from customers	2,880	1,384	**4,264**
Euribor	*2,675*		***2,675***
Libor USD	*147*		***147***
Libor GBP	*14*		***14***
Other	*44*		***44***
Debts evidenced by certificates	5,125	2,562	**7,687**
Euribor	*5,124*		***5,124***
Libor USD	*1*		***1***
Libor GBP	*-*		***-***
Other	*-*		***-***
Financial liabilities measured at amortized cost	**10,805**	**4,419**	**15,224**

Cash balances with Central Banks and Deposits from Central Banks are not influenced by the Benchmark Regulation being regulated on a fixed rate basis.

Note 4 – Cash and cash equivalents measured at amortized cost

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

	Net carrying amount	
(in EUR)	**2020**	**2019**
Cash and cash balances with central banks	538,213,036	726,382,833
Loans and advances to credit institutions with maturity <= 3 months	5,536,219,428	3,618,873,691
	6,074,432,464	**4,345,256,524**

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 2020 is EUR 520,608,776 (2019: EUR 719,612,098).

Concerning the branch of the Bank in Amsterdam, the mandatory reserve as at 31 December 2020 at De Nederlandsche Bank amounts to EUR 17,358,928 (2019: EUR 6,297,698).

Note 5 – Financial assets at fair value through profit or loss ("FVTPL")

	Net carrying amount	
(in EUR)	**2020**	**2019**
Financial assets at fair value through profit or loss ("FVTPL")	**54,712,261**	**30,193,047**
Derivatives held for trading	54,712,261	30,193,047
Investment securities mandatorily measured at fair value through profit or loss ("FVTPL")	**499,954**	**613,898**
Mutual funds shares	-	-
Securities	499,954	613,898
	55,212,215	**30,806,945**

Note 6 – Financial assets measured at Fair Value through Other Comprehensive Income ("FVTOCI")

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

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

	Net carrying amount	
(in EUR)	**2020**	**2019**
Quoted debt instruments issued by:		
Financial institutions	491,965,399	369,141,661
Public sector	1,503,954,766	1,888,972,251
	1,995,920,165	**2,258,113,912**

	Net carrying amount	
(in EUR)	**2020**	**2019**
Loans and receivables granted to:		
Non Financial companies	-	7,040,755
	-	**7,040,755**

During the last part of 2019 the Bank concluded one *originate to share* deal, which belonged to the Hold to Collect and Sale business model and classified in the FVTOCI portfolio for the part of the loan designated to be sold.

The loan was valued for the first time at its fair value at the end of December 2019 and the NPV adjustment booked amounts to EUR 18,452.

Given that the mentioned deal was still in the primary syndication phase, the fair value was kept at par plus accrued interests.

Note 6 – Financial assets measured at Fair Value through Other Comprehensive Income ("FVTOCI") (continued)

The deal was disposed during the first part of 2020 and no other *originate to share* deals were concluded during the year.

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 was reimbursed and a new TLTRO mechanism (TLTRO II) was subscribed for an amount equal to EUR 821,440,000.

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

During 2020 the amount received in relation to TLTRO II matured and the Bank decided to participate to the new TLTRO III mechanism (TLTRO III) for an amount of EUR 800,000,000.

The last deposit still alive is collateralised by eligible securities for an amount of EUR 820,113,314.

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

	Net carrying amount	
(in EUR)	**2020**	**2019**
Quoted & not quoted shares issued by:		
Corporates	211,185	211,185
	211,185	**211,185**

As at 31 December 2020, shares in affiliated undertakings, which are classified in this category, where the Bank held at least 20% are as follows:

	Registered Office	Percentage Owned	Net equity (in EUR)*	Of which Profit of the year (in EUR)*
Company:				
Lux Gest Asset Management S.A.	Luxembourg	100%	219,867	(237,139)

* Based on unaudited figures

At 1 January 2018, the Bank designated the investment shown in the table above as equity security at FVTOCI and designation was made because the investment is expected to be held for the long term for strategic purposes.

Note 6 – Financial assets measured at Fair Value through Other Comprehensive Income ("FVTOCI") (continued)

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

The below table describes the movements on the revaluation reserve related to the investment securities and loans measured at FVTOCI per type of financial asset:

(in EUR)	Fixed Inc. securities	Floating Inc. securities	Loans HTCS	Total
Balance as at 31 December 2019	**(3,861,692)**	**(1,325,612)**	**16,605**	**(5,170,699)**
Increase (decrease) of unrealised gain	1,543,466	297,817	-	1,841,283
(Increase) decrease of unrealised loss	9,795,254	2,277,682	-	12,072,936
Amount reclassified from equity to profit or loss for the year	(270,074)	80,647	(18,452)	(207,879)
Unrealised fair value gain made on assets bought during the year	1,173,416	-	-	1,173,416
Loss allowance movement	17,717	(120,143)	(2,754)	(105,180)
Deferred taxes	(3,057,589)	(633,587)	4,601	(3,686,575)
Balance as at 31 December 2020	**5,340,498**	**576,804**	**-**	**5,917,302**

Note 7 – Loans and advances

(in EUR)	2020		2019	
	Total Net carrying amount	**Of which: Impairment**	**Total Net carrying amount**	**Of which: Impairment**
Unquoted loans and advances to:				
Financial institutions and public sector	8,331,181,356	5,146,007	9,480,231,094	5,142,088
Private customers	11,837,121	36,016	10,082,070	27,741
Corporate customers	7,716,779,046	39,021,868	9,655,017,330	22,324,251
Total	**16,059,797,523**	**44,203,891**	**19,145,330,494**	**27,494,080**

Impairment allowance for loans and advances

As at 31 December 2020, the Bank has no individual impairment (2019: EUR 11,936,964) and a collective provision amounting to EUR 44,203,891 (2019: EUR 15,557,116).

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

(in EUR)	2020	2019
Impairment as at 1st January	27,494,080	21,188,084
Charge of the year	37,066,853	13,099,161
Recoveries/amounts written off	(20,357,042)	(6,793,165)
Impairment as at 31 December	**44,203,891**	**27,494,080**
of which:		
Individual impairment	-	11,936,964
Collective impairment	44,203,891	15,557,116

Note 7 – Loans and advances (continued)

Guarantees received as collateral

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

(in EUR)	2020		2019	
	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	**8,379,809,481**	**7,679,988,042**	**10,586,894,810**	**8,558,435,684**
Real guarantees				
Securities	599,870,891	-	400,000,000	-
Other real guarantees	70,680,282	36,661,083	224,797,713	38,062,077
Other guarantees				
Government guarantees	1,339,112,775	-	1,641,882,285	-
Credit institutions guarantees	516,571,435	-	2,971,384,136	-
Total guarantees	**2,526,235,383**	**36,661,083**	**5,238,064,134**	**38,062,077**

Note 8 – Property and equipment

(in EUR)	**Land & building**	**Office equipment**	**Other equipment**	**Total**
Carrying value before depreciation as at 1st January 2020	**5,676,037**	**1,413,822**	**2,588,189**	**9,678,048**
Additions	51,901	-	260,403	**312,304**
Disposals/Transfers	-	-	-	**-**
Cost as at 31 December 2020	5,727,938	1,413,822	2,848,592	**9,990,352**
Accumulated depreciation as at 1st January 2020	(1,950,532)	(1,263,222)	(1,855,690)	**(5,069,444)**
Depreciation charge	(1,838,419)	(33,370)	(423,686)	**(2,295,475)**
Depreciation reversal	-	-	-	**-**
Accumulated depreciation as at 31 December 2020	(3,788,951)	(1,296,592)	(2,279,376)	**(7,364,919)**
Net carrying amount as at 31 December 2020	**1,938,987**	**117,230**	**569,216**	**2,625,433**

(in EUR)	**Land & building**	**Office equipment**	**Other equipment**	**Total**
Carrying value before depreciation as at 1st January 2019	**5,521,097**	**1,419,774**	**2,300,634**	**9,241,505**
Additions	154,940	834	332,620	**488,394**
Disposals/Transfers	-	(6,786)	(45,065)	**(51,851)**
Cost as at 31 December 2019	5,676,037	1,413,822	2,588,189	**9,678,048**
Accumulated depreciation as at 1st January 2019	(155,091)	(1,234,472)	(1,497,181)	**(2,886,744)**
Depreciation charge	(1,795,441)	(35,536)	(403,574)	**(2,234,551)**
Depreciation reversal	-	6,786	45,065	**51,851**
Accumulated depreciation as at 31 December 2019	(1,950,532)	(1,263,222)	(1,855,690)	**(5,069,444)**
Net carrying amount as at 31 December 2019	**3,725,505**	**150,600**	**732,499**	**4,608,604**

Note 9 – Intangible assets

(in EUR)	**2020**
Cost as at 1st January 2020	**4,968**
Additions	-
Disposals/Transfers	-
Cost as at 31 December 2020	4,968
Accumulated depreciation as at 1st January 2020	(4,499)
Depreciation charge	(469)
Accumulated depreciation as at 31 December 2020	(4,968)
Net carrying amount as at 31 December 2020	**-**

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

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

(in EUR)	**2020**	**2019**
Current tax assets	7,133,520	8,969,210
Current tax liabilities	(5,847,920)	(6,760,165)
Net current tax assets (liabilities)	**1,285,600**	**2,209,045**

In relation to the Luxembourg entity, instead, no current taxes are recorded considering the tax integration since 2002 with the Luxembourg Bank's local shareholder Intesa Sanpaolo Holding International S.A.. The income from the Branch in the Netherlands is subject to the local income tax (25% as at 31 December 2020).

Deferred tax assets and liabilities

	2020	**2019**
Deferred tax assets	1,202,134	5,754,733
Deferred tax liabilities	(3,422,486)	(3,524,440)
Tax assets (liabilities)	**(2,220,352)**	**2,230,293**

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 2020	Statement of profit or loss	Equity	31 December 2020
Financial assets held for trading	(23,760,787)	2,044,840	-	**(21,715,947)**
Financial assets mandatorily measured at fair value	138,075	28,417	-	**166,492**
Financial assets designated at fair value through profit or loss	-	-	-	-
Financial assets measured at FVTOCI	1,670,197	(3,493)	(3,686,575)	**(2,019,871)**
Financial liabilities held for trading	23,467,042	(2,326,742)	-	**21,140,300**
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Provisions and value adjustments	208,674	-	-	**208,674**
IFRS 9 – FTA	507,092	(507,092)	-	-
Net deferred income tax assets/(liabilities)	**2,230,293**	**(764,070)**	**(3,686,575)**	**(2,220,352)**

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

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

The deferred tax assets calculated on financial assets at fair value through other comprehensive income are showing a net deferred tax asset balance. The deferred tax amount has been consequently shown in deduction of the relative comprehensive income.

The deferred tax assets calculated on the IFRS 9 First Time Adoption contributing to the other comprehensive income have been reversed for an amount related to underlying assets arrived at maturity during 2019 and 2020 and no more part of financial assets at 31 December 2020.

Note 11 – Other assets and other liabilities

(in EUR)	2020	2019
Prepaid charges	1,662,731	3,013,032
Taxes	10,075,722	12,574,711
Accrued commission income	544,889	7,305,977
Other	9,725,272	12,745,109
Other assets	**22,008,614**	**35,638,829**

(in EUR)	2020	2019
Social security charges	1,308,951	680,913
Withholding taxes and VAT	5,586,896	13,014,673
Administrative expenses to be paid	16,091,739	18,525,725
Accrued commission expenses	4,217,960	5,255,804
Short term payable and other sundry accounts	2,567,425	2,144,866
Other liabilities	**29,772,971**	**39,621,981**

Note 12 – Deposits from central banks

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

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

During 2016, EUR 90,000,000 was reimbursed and a new TLTRO mechanism (TLTRO II) was subscribed for an amount equal to EUR 821,440,000.

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

During 2020 the amount received in relation to TLTRO II matured and the Bank decided to participate to the new TLTRO III mechanism (TLTRO III) for an amount of EUR 800,000,000.

The last deposit still alive is collateralised by eligible securities for an amount of EUR 820,113,314.

TLTRO III (Targeted Longer Term Refinancing Operation) aims to stimulate bank lending to the real economy and strengthen the transmission of monetary policy.

Some parameters initially defined by European Central Bank (“ECB”) on 6 June 2020 have been favourably reviewed on 10 December 2020, following impacts on the global markets due to the pandemic situation generated by Covid-19 virus.

Similarly to TLTRO II, the applied interest rate to TLTRO III is linked to the participating banks lending patterns. The more loans participating banks issues to non-financial corporations and households (except loans to households for house purchases), the lower the interest rate on their TLTRO III borrowing becomes within a specified range.

Each operation is planned quarterly, starting from September 2019 and each one matures in three years.

The interest rate for each operation is targeted to the average of the main refinancing operations in the Euro-zone (MRO), currently equal to 0%, with the exception of the period between 24 June 2020 and 23 June 2023 (*special interest rate period*) during which a -0.5% rate will be applied.

The banks that lend eligible loans above a define benchmark, will qualify to receive more favourable conditions in terms of ECB main refinancing rate, currently fixed at -0.5% during the whole period of the related operations, with the only exception of the *special interest rate period* when a further -0.5% will be added.

Interests are paid at maturity of each TLTRO operation or in case of deposit pre-reimbursement.

Taking into consideration re-financing conditions defined by ECB in terms of market pricing in the context of monetary policy measures of the Eurosystem, the Bank, in line with Intesa Sanpaolo Group decisions, applied IFRS 9 accounting treatment to TLTRO III operations.

Note 12 – Deposits from central banks (continued)

According to Intesa Sanpaolo Group Accounting Policies and to IFRS 9 principle, favourable interest rates applied during the period 24 June 2020 – 28 June 2023 have been considered as floating rates because ECB could modify TLTRO III interest rates prospectively at any time and if there were a subsequent change in the banks estimate regarding its lending targets, the Bank would apply IFRS 9 revision of estimates guidance.

The TLTRO mechanism carrying amount is EUR 799,977,778 as at 31 December 2020, of which total negative accrued interests amount to EUR 2,122,222, composed by EUR 22,222 reflected in the amount of deposits from central banks and EUR 2,100,000 classified in loans and advances to credit institutions.

Note 13 – Financial liabilities measured at amortised cost

(in EUR)	2020 Carrying amount	2019 Carrying amount	Variation in EUR	in %
Deposits from credit institutions				
Current accounts and amounts with period of notice	387,810,471	615,198,776	(227,388,305)	(37%)
Term deposits	2,885,398,778	2,259,663,547	625,735,231	28%
Total	**3,273,209,249**	**2,874,862,323**	**398,346,926**	**14%**
Corporate customers				
Current accounts and amounts with period of notice	2,585,948,459	1,253,110,243	1,332,838,216	106%
Term deposits	1,519,587,530	1,755,041,294	(235,453,764)	(13%)
Total	**4,105,535,989**	**3,008,151,537**	**1,097,384,452**	**36%**
Private customers				
Current accounts and amounts with period of notice	100,203,268	97,743,760	2,459,508	3%
Term deposits	58,126,394	58,140,721	(14,327)	0%
Total	**158,329,662**	**155,884,481**	**2,445,181**	**2%**
Debts evidenced by certificates				
Certificates of deposits	3,892,719,998	5,454,880,667	(1,562,160,669)	(29%)
Term notes	1,231,612,176	3,533,001,234	(2,301,389,058)	(65%)
Commercial paper	2,563,073,506	3,742,276,145	(1,179,202,639)	(32%)
Total	**7,687,405,680**	**12,730,158,046**	**(5,042,752,366)**	**(40%)**
Financial liabilities measured at amortised cost	**15,224,480,580**	**18,769,056,387**	**(3,544,575,807)**	**(19%)**

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 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 2020, such notes issued by the Bank amount to EUR 1,232 million (2019: EUR 3,533 million).

Note 13 – Financial liabilities measured at amortised cost (continued)

Commercial Paper:
Since March 2011, the Bank participates as an additional issuer in a EUR 30 billion Euro Commercial Paper (ECP) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The ECP (further the "notes") issued under this programme bear a maturity date under 1 year (short term notes) and are denominated in Euro, US Dollars or any other currency subject to compliance with any applicable legal and regulatory requirements. The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 30 billion or the equivalent thereof in other currencies. As at 31 December 2020, such ECP issued by the Bank amount to EUR 2,563 million (2019: EUR 3,742 million).

Note 14 – Derivatives held for hedging

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

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

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

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

(in EUR)	2020		2019	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	-	-	1,050,474,479	2,111,798
	-	**-**	**1,050,474,479**	**2,111,798**
Liabilities				
Interest rate instruments	2,118,870,269	92,636,544	1,948,906,195	98,241,822
	2,118,870,269	**92,636,544**	**1,948,906,195**	**98,241,822**

Note 14 – Derivatives held for hedging (continued)

Hedged items are as follows (in EUR):

	2020	**2019**
	Carrying value	**Carrying value**
Financial assets at fair value through other comprehensive income	1,666,769,527	1,807,492,881
Loans and advances	541,170,269	522,080,675
Deposits from central banks	-	821,440,000
Deposits from customers	-	155,000,000
Total	**2,207,939,796**	**3,306,013,556**

Note 15 – Provisions

(in EUR)	**2020**	**2019**
Financial guarantee contracts issued	352,719	264,227
Loan commitments issued and uncommitted credit lines	4,539,070	2,365,547
Other provisions	1,641,027	1,748,185
Total	**6,532,816**	**4,377,959**

Financial guarantee contracts, loan commitments issued and uncommitted credit lines

As at 31 December 2020, the amount in respect of financial guarantee contracts issued, loan commitments issued and uncommitted credit lines represent the sum of ECL provisions calculated following IFRS 9 implementation.

Other provisions

The following table sets out other provisions.

(in EUR)	**2020**
Provision as at 1st January 2020	1,748,185
Additions	34,282
Forex impact	(141,440)
Provisions as at 31 December 2020	**1,641,027**

(in EUR)	**2019**
Provision as at 1st January 2019	1,749,385
Reduction	-
Forex impact	22,170
Provision reversed during the year	(23,370)
Provisions as at 31 December 2019	**1,748,185**

Note 15 – Provisions (continued)

The above table shows provisions movements from 31 December 2019 to 31 December 2020. Increase in value has been mainly generated by provision for charges linked to Covid-19 and decrease in value by foreign exchange movements (linked to some provisions in foreign currency).

Note 16 – 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.

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 2020, the subscribed capital was therefore EUR 1,389,370,555.36 represented by 4,464,237 shares (integrally subscribed).

Note 16 – Equity (continued)

Revaluation reserve

Revaluation reserve caption is composed of the cumulative net change in fair value of debt securities measured at FVTOCI until the assets are derecognised or reclassified and it amounts to EUR 5,917,302. This amount includes the ECL loss allowance equal to EUR 971,606 (gross of deferred taxes equal to EUR 242,319). FTA revaluation reserve calculated as at 1 January 2018 following the IFRS 9 implementation has been recorded in Retained Earnings.
These revaluation reserves are not distributable.

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 2020, the legal reserve amounts to EUR 76,319,276 (2019: EUR 71,615,139). As a consequence of the share capital increase the Bank had during 2017, it has been increased by EUR 4,704,137 during 2020.

Net Wealth Tax

During 2020, the Bank allocated to the Net Wealth tax reserve an amount equal to EUR 17,256,550, which constitutes an unavailable reserve.

Other reserves

As at 31 December 2020, other reserves amount to EUR 858,524,577 (2019: EUR 841,268,027).

Retained earnings

As at 31 December 2020, retained earnings amount to EUR 86,375,207 (2019: EUR 13,905,387) and mainly include :

- the impact of the implementation (FTA) of IFRS 9 as adopted by the European Union (EUR -15,082,330);
- the impact of the first time adoption (FTA) of IAS/IFRS standards as adopted by the European Union (EUR 4,850,848);
- the impact of the disposal of the functional property carried at fair value (EUR 24,513,535);
- the impact of other retained earnings (-EUR 6,846);
- the impact of 2019 dividends not distributed in 2020 as per consequence of the pandemic situation generated by Covid-19 and recommendations issued by European Central Bank (EUR 72,100,000).

Note 16 – Equity (continued)

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 154,728,175, which corresponds to a return on equity of circa 3.41% (2019: 6.38%). It is proposed to the Annual General Shareholders' Meeting approving the financial statements as at 31 December 2020 to allocate the above mentioned amounts as follows (in EUR):

	2020
Net profit of 2020 financial year	82,594,316
Retained profit from previous year (excluding FTA and reclassification from revaluation reserves)	72,133,859
Amount attributable to Shareholders	**154,728,175**
Allocation to legal reserve (5% Net profit)	4,129,716
Allocation to the NWT reserve	18,000,000
Dividend carried forward (86% rounded up)	132,598,459
Total	**154,728,175**

In accordance with ECB guidelines issued in light of Covid-19 crisis, CSSF issued two circulars in July and December on restriction of distributions during the Covid-19 pandemic situation, inviting banks in taking into consideration the non-distribution of dividends at least until 30 September 2021.

Note 17 – Net interest income

(in EUR)	**2020**	**2019**
Financial assets held for trading	703,124	424,434
Financial assets at fair value through profit or loss	-	44,487
Hedging derivatives	903,273	1,574,235
Financial assets at FVTOCI	18,242,593	19,870,233
Loans and advances	186,228,030	248,041,782
Interest income on liabilities	12,249,667	7,693,994
Other	-	-
Total interest and similar income	**218,326,687**	**277,649,165**

(in EUR)	**2020**	**2019**
Hedging derivatives	20,471,662	25,851,502
Financial liabilities held for trading	132,644	172,261
Financial liabilities measured at amortised cost	67,583,575	97,507,917
Financial liabilities at fair value through profit or loss	38,895	36,001
Interest expenses on assets	-	-
Total interest expenses and similar charges	**88,226,776**	**123,567,681**
Net interest income	**130,099,911**	**154,081,484**

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

Note 18 – Net fee and commission income

A. Disaggregation of fee and commission income

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

(in EUR)	2020	2019
Credit activities	44,692,529	71,008,020
Wealth management and Treasury activities	23,059,658	20,576,873
Corporate services	290,111	726,013
Other	3,766,501	2,744,270
Total fee and commission income	**71,808,799**	**95,055,176**
Credit activities	9,608,574	49,284,733
Brokerage and clearing fees	8,146,183	7,165,320
Other	6,500,350	3,254,854
Total fee and commission expenses	**24,255,107**	**59,704,907**
Net fee and commission income	**47,553,692**	**35,350,269**

Note 18 – Net fee and commission income (continued)

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

(in EUR)	2020	2019
Wealth management and Treasury activities	23,059,658	20,576,873
Structuring fees	2,863,686	29,700,000
Commitment fees	17,895,981	14,006,274
Commission income on limited recourse transactions	81,032	1,864,386
Upfront fees	4,098,662	9,767,153
Arrangement fees	16,730,161	9,435,579
Cash management fees	164,571	733,032
Amendment fees	492,544	1,580,773
Participation fees	774,855	1,878,219
Corporate services fees	290,111	513,421
Credit activities – other	1,113,039	1,071,208
Commission income on guarantees	595,081	659,819
Buy out fees	-	212,592
Other	3,649,418	3,055,847
Total fee and commission income	**71,808,799**	**95,055,176**
Structuring fees	-	29,700,000
Brokerage and clearing fees	8,146,183	7,165,320
Servicing fees	3,424,761	8,319,838
Credit activities – other	3,681,941	4,774,545
Commitment fees	638,525	1,400,635
Upfront fees	2,558,611	3,545,866
Arrangement fees	1,021,141	2,096,413
Other	4,783,945	2,702,290
Total fee and commission expenses	**24,255,107**	**59,704,907**
Net fee and commission income	**47,553,692**	**35,350,269**

Note 18 – Net fee and commission income (continued)

In the following table, fee and commission income from contracts with customers in the scope of IFRS15 is disaggregated by origin:

(in EUR)	2020	2019
LUXEMBOURG	12,319,880	11,499,192
ITALY	3,204,417	6,218,029
NETHERLAND	6,450,875	6,870,710
QATAR	4,298,254	4,188,587
U.S.A.	3,772,900	3,344,318
FRANCE	1,805,070	1,320,437
UNITED KINGDOM	4,082,619	1,708,657
GERMANY	853,662	721,420
SOUTH AFRICA	1,705,758	1,856,675
SPAIN	577,325	2,759,095
BELGIUM	1,275,542	971,728
IRELAND	1,953,618	1,258,968
RUSSIA	6,546,825	38,004,764
CYPRUS REP.	20,225	76,394
HONG KONG	1,357,980	1,385,762
JAPAN	684,712	708,215
GHANA	878,993	548,611
SWITZERLAND	516,053	844,339
SOUTH KOREA	485,191	395,875
CHINA	349,924	433,463
KUWAIT	328,304	521,219
CAYMAN ISL	596,639	509,687
TAIWAN	408,187	235,426
AUSTRIA	10,104,439	57,568
CANADA	114,962	225,402
INDIA	559,046	6,130,389
PAKISTAN	11,539	31,217
NIGERIA	39,679	69,877
MONACO	73,732	86,783
BRAZIL	238,816	481,339
SAUDI ARABIA	329,125	104,010
OTHER COUNTRIES	5,864,508	1,487,020
Total fee and commission income	**71,808,799**	**95,055,176**

Note 18 – Net fee and commission income (continued)

(in EUR)	2020	2019
UNITED KINGDOM	3,782,539	33,762,093
ITALY	8,138,914	16,573,779
U.S.A.	1,227,345	1,180,058
LUXEMBOURG	632,990	3,813,466
FRANCE	913,562	861,372
RUSSIA	1,404,332	517,246
CYPRUS REP.	4	267,369
GERMANY	4,637,475	163,181
JAPAN	208,486	231,816
SOUTH KOREA	259,838	199,090
IRELAND	218,616	182,362
CHINA	259,409	228,246
SWITZERLAND	83,107	44,356
INDIA	277,278	152,194
TAIWAN	223,899	143,210
CAYMAN ISL	352,562	219,476
SOUTH AFRICA	103,626	100,987
HONG KONG	239,840	199,287
NETHERLAND	158,956	90,480
CANADA	39,009	83,573
OTHER COUNTRIES	1,093,320	691,266
Total fee and commission expenses	**24,255,107**	**59,704,907**
Net fee and commission income	**47,553,692**	**35,350,269**

B. Contract balances

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

C. Performance obligations and revenue recognition policies

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

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

Note 18 – Net fee and commission income (continued)

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

Note 19 – Dividend income

As at 31 December 2020 no dividend income were received. 2019 amount relates to financial assets mandatorily measured at fair value.

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

As at 31 December 2020 and 2019, the net (un)realised (losses) on financial assets and liabilities held for trading are composed of:

(in EUR)	**2020**	**2019**
Equity instruments and linked derivatives	149,220	(116,727)
Interest rate instruments and linked derivatives	(8,953,671)	(8,886,285)
Foreign exchange transactions	(7,772,753)	(30,044,680)
	(16,577,204)	**(39,047,692)**

As at 31 December 2020 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 -4.2 million (of which EUR -1.5 million paid in relation to their NPV and EUR -2.7 million paid in relation to interest rate differentials); as at 31 December 2019 corresponding figures were respectively EUR -2.9 million, EUR -0.2 million and EUR -2.7 million.
  Those contracts have been unwinded in relation to the sale of bond instruments disclosed in note 22;
- Losses unrealised on Cross Currency Interest rate swap contracts for an amount of EUR -13.7 million, of which EUR 2.8 million of gains linked to their NPV and EUR -16.5 million of losses linked to the interest rate differentials related to the hedging of forex exposures; as at 31 December 2019 corresponding figures were respectively EUR -48.5 million, EUR 3.9 million and EUR -52.4 million.
- Global positive impact generated by foreign translation differences for an amount of EUR 6 million (2019: EUR 18 million).

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

As at 31 December 2020 the net (un)realised gains on financial assets and liabilities at fair value through profit or loss are mainly composed of unrealised losses on assets classified at fair value through profit or loss for an amount of EUR 114 thousands (2019: EUR 251 thousands) and no unrealised gains (2019: EUR 296 thousands).

Note 22 – Net realised gains on financial assets and liabilities not at fair value through profit or loss

As at 31 December 2020 net realised gains on financial assets and liabilities not at fair value through profit or loss are mainly composed of net gains realised on the sale of bond instruments measured at FVTOCI for an amount of EUR 2.3 million (2019: EUR 5.3 million).

(in EUR)	2020			2019		
	Profits	**Losses**	**Net**	**Profits**	**Losses**	**Net**
Due from banks and customers	1,234,414	(710,881)	523,533	37,048	-	37,048
Financial assets measured at FVTOCI	3,946,381	(2,146,599)	1,799,782	6,381,243	(1,162,536)	5,218,707
Debt securities	*3,946,381*	*(2,146,599)*	*1,799,782*	*6,381,243*	*(1,158,543)*	*5,222,700*
Equities	-	-	-	-	*(3,993)*	*(3,993)*
Total assets	**5,180,795**	**(2,857,480)**	**2,323,315**	**6,418,291**	**(1,162,536)**	**5,255,755**
Securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-
Net realised gains and losses	**5,180,795**	**(2,857,480)**	**2,323,315**	**6,418,291**	**(1,162,536)**	**5,255,755**

Note 23 – Net other expenses

As at 31 December 2020 and 2019, net other expenses are mainly composed of withholding taxes which are linked to the Bank's business activity and VAT.

Note 24 – Administrative expenses

(in EUR)	**2020**	**2019**
Wages and salaries	14,551,814	14,520,032
Social security charges	2,346,415	2,185,206
Legal pension and similar expenses	786,166	862,716
Employee benefits	1,619,701	1,776,381
Other	1,602,883	736,650
Total staff expenses	**20,906,979**	**20,080,985**
Operating expenses	7,194,841	8,145,257
Repair and maintenance	392,608	241,127
Training and moving	878,515	1,037,564
IT outsourcing costs	8,989,409	9,116,627
Legal and professional fees	1,537,693	1,499,188
Marketing and representation fees	2,116,088	1,551,815
Charges linked to Corporate activity and other charges	1,287,955	1,531,352
Total general and administrative expenses	**22,397,109**	**23,122,930**
Total administrative expenses	**43,304,088**	**43,203,915**

Note 24 – Administrative expenses (continued)

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

	2020	2019
Senior Management	3	4
Middle Management	53	53
Employees	111	112
	167	**169**

Note 25 – Net impairment result on financial assets

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

(in EUR)	2020			2019
	Write-downs	**Write-backs**	**Total**	**Total**
Loans and advances	(47,967,594)	22,083,786	(25,883,808)	(6,103,307)
Debt securities	(667,540)	241,148	(426,392)	(487,741)
Impairment	**(48,635,134)**	**22,324,934**	**(26,310,200)**	**(6,591,048)**

Note 26 – Related party disclosures

Identity of related parties

The Bank has a related party relationship with its direct and non-direct parent companies, entities of its Group and with its directors (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 2020 and 2019 concerning Group entities and the parent companies are as follows:

(in EUR)	2020	2019
Assets and liabilities		
Assets held for trading and assets carried at fair value through profit or loss	52,740,430	27,885,550
Investment securities mandatorily measured at FVTPL	499,954	613,898
Investment securities at FVTOCI	211,185	211,185
Loans and advances	7,501,882,787	8,410,988,691
Hedging derivatives – Assets	-	2,111,798
Tangible assets*	1,615,774	3,298,698
Financial liabilities held for trading and liabilities carried at fair value through profit or loss	8,483,893	65,084,904
Financial liabilities measured at amortised cost*	7,416,516,706	7,555,827,031
Hedging derivatives – Liabilities	92,636,544	98,241,822
Provisions	77,602	36,956

Note 26 – Related party disclosures (continued)

(in EUR)	2020	2019
Income and expenses		
Interest income*	20,322,604	51,214,474
Fees and commissions income	547,118	757,693
Dividend income	-	50,878
Net (un)realised gains and losses on financial assets and liabilities held for trading	121,448,890	(84,549,073)
Net unrealised losses on financials assets and liabilities held for hedging	(15,736,647)	(33,643,116)
Net (un)realised gains and losses on financials assets and liabilities at fair value through profit or loss	(113,944)	296,312
Net realised gains and losses on financials assets and liabilities not at fair value through profit or loss	279,363	(2,896)
Interest expenses*	(62,748,705)	(75,800,052)
Fees and commissions expenses	(9,883,335)	(16,537,939)
Impairment	(386,488)	265,791
Administrative expenses	(12,452,900)	(12,081,912)
Other income and expenses	(1,777,371)	(1,446,823)
Depreciation*	(1,653,991)	(1,073,524)

**Tangible assets amount (and the related amount booked in caption "Depreciation") relates to real estate operating lease contract subscribed by the Bank with its parent company Intesa Sanpaolo Holding International S.A. (ISPH); concerning financial liabilities measured at AC, the amount includes EUR 214 mio of deposits and EUR 3,818 mio of debt certificates with ISPH. In relation to Income and expenses captions, interest expenses related to transactions with ISPH amounted to EUR 20 mio.*

Key management personnel

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

(in EUR)	2020	2019
Administrative bodies	137,486	200,946
Other key management personnel	1,060,997	1,317,188
	1,198,483	**1,518,134**

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

As at 31 December 2020 and 2019, the Bank has no obligations related to retirement pensions for former administrative bodies and key management personnel.

As at 31 December 2020 and 2019, the Bank has not granted advances and credits and has not entered into guarantee commitments for the above mentioned bodies and personnel.

During 2020 the Bank has paid bonuses to other key management personnel for an amount of EUR 100,000 (2019: EUR 280,000).

Note 26 – Related party disclosures (continued)

Share-based payment transactions

On 30 April 2019 and on 17 March 2020 the Bank granted share appreciation rights (SARs) to employees identified as *Group Risk Takers* that entitle the employees to a cash and shares payment. The amount of the shares payment is determined based on the increase/decrease in the share price of the Ultimate Parent Company shares between grant date and the time of exercise.
The terms and conditions of the grants are as follows:

Grant date	**Number of instruments**	**Vesting conditions**
SARs granted at 30 April 2019	25,706	3 years services
SARs granted at 17 March 2020	32,862	2 years services
	58,568	

Details of liabilities arising from SARs are as follows:

(in EUR)	**2020**	**2019**	**Total**
Total carrying amount of liabilities	132,856	109,168	242,024
- *Cash*	*70,000*	*60,000*	*130,000*
- *Shares*	*62,856*	*49,168*	*112,024*

Note 27 – Commitments and contingent liabilities

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

(in EUR)	**2020**	**2019**
Unused confirmed credits	4,483,981,391	4,639,628,905
- out of which towards related parties	-	-
Guarantees and other direct substitutes for credit	323,660,200	316,141,594
- out of which towards related parties	*143,662,193*	*83,945,442*

Note 27 – 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)	2020		2019	
	Contingent liabilities	**Unused confirmed credits**	**Contingent Liabilities**	**Unused confirmed credits**
Net carrying amounts	**323,660,200**	**4,483,981,391**	**316,141,594**	**4,639,628,905**
Real guarantees				
Securities	200,002,228	-	2,893,810	-
Other real guarantees	46,532,984	17,509,053	40,707,113	15,290,523
Personal guarantees				
Government guarantees	-	1,054,640,551	-	873,327,084
Credit institutions guarantees	-	87,525,012	-	2,999,970
Total guarantees	**246,535,212**	**1,159,674,616**	**43,600,923**	**891,617,577**

Note 28 – 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 2026 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States. This amount will be collected from the credit institutions through annual contributions during the years 2015 to 2024.

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

Since the level of 0.8% was 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 29 – Investment management services and underwriting functions

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

- Private Banking;
- Corporate services;
- Custody.

Assets managed on behalf of third parties are as follows:

(in EUR)	2020	2019
Custody and administration of transferable securities	9,813,412,470	8,838,417,094
Wealth Management	203,015,704	161,141,167

Note 30 – Audit fees

The audit fees and audit related fees for the years ended 31 December 2020 and 2019 are as follows:

(in EUR)	2020	2019
Audit fees	200,500	200,500
Audit related fees	350,500	350,500
Other	25,000	25,000
	576,000	**576,000**

Note 31 – Encumbered assets

In 2020 and 2019 the Bank participated to the Long Term Refinancing Operation mechanism organised by the Banque centrale du Luxembourg for an amount of EUR 800 million (2019: EUR 812 million). Those deposits are collateralised by eligible securities classified in the securities at fair value through OCI portfolio for an amount of EUR 820 million (2019: EUR 842 million).

ASSET ENCUMBRANCE

	ENCUMBERED		**UNENCUMBERED**		**CARRYING AMOUNT**	
(in EUR)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**2020**	**2019**
Cash and cash equivalents	-	-	6,074,432,464	-	6,074,432,464	4,345,256,524
Debt securities	820,113,314	820,113,314	1,175,806,851	1,175,806,851	1,995,920,165	2,258,113,912
Equities	-	-	711,139	711,139	711,139	825,083
Loans and advances	55,470,000	-	10,468,108,095	-	10,523,578,095	15,533,497,558
Other financial assets	-	-	54,712,261	-	54,712,261	32,304,845
Non financial assets	-	-	32,969,701	-	32,969,701	54,971,845
Total 2020	**875,583,314**	**820,113,314**	**17,806,740,511**	**1,176,517,990**	**18,682,323,825**	**22,224,969,767**

Note 32 – Analysis of changes in financing during the year

	Liabilities		Equity			
In EUR	Debt Securities	Subordinated Liabilities	Ordinary Shares	Share Premium	Retained Earnings	Total
Opening balance at 1 January 2020	**7,275,277,379**	**200,000,000**	**1,389,370,555**	**7,720,692**	**13,905,387**	**8,886,274,013**
Changes from financing cash flows						
Proceeds from issue of debt securities	2,703,301,892					2,703,301,892
Repayment of debt securities	(6,182,029,009)					(6,182,029,009)
Proceeds from issue of subordinated loans						
Proceeds from disposal of assets						
Total changes from financing cash flow	(3,478,727,117)					(3,478,727,117)
Other changes	(1,864,580)				347,779	(1,516,801)
Allocation of 2019 result					72,122,041	72,122,041
Balance at 31 December 2020	**3,794,685,682**	**200,000,000**	**1,389,370,555**	**7,720,692**	**86,375,207**	**5,478,152,136**

	Liabilities		Equity			
In EUR	Debt Securities	Subordinated Liabilities	Ordinary Shares	Share Premium	Retained Earnings	Total
Opening balance at 1 January 2019	**5,338,752,423**	**200,000,000**	**1,389,370,555**	**7,720,692**	**13,995,691**	**6,949,839,361**
Changes from financing cash flows						
Proceeds from issue of debt securities	6,596,197,971	-	-	-	-	6,596,197,971
Repayment of debt securities	(4,659,344,538)	-	-	-	-	(4,659,344,538)
Proceeds from issue of subordinated loans	-	-	-	-	-	-
Proceeds from disposal of assets	-	-	-	-	-	-
Total changes from financing cash flow	1,936,853,433	-	-	-	-	1,936,853,433
Allocation of 2019 result	-	-	-	-	(2,705)	(2,705)
Other changes	(328,477)	-	-	-	(87,599)	(416,076)
Balance at 31 December 2019	**7,275,277,379**	**200,000,000**	**1,389,370,555**	**7,720,692**	**13,905,387**	**8,886,274,013**

Note 33 – Operating leases

The Bank leases cars and office premises under operating leases.

Right-of-use-assets
Right-of-use-assets mainly relate to leased branch and office premises that are presented within property and equipment (see Note 8).

(in EUR)	Right-of-use assets
Balance at 1 January 2020	**4,034,747**
Depreciation charge of the year	*(2,049,269)*
Indexing	*22,205*
Additions	*259,205*
Balance at 31 December 2020	**2,266,888**

As at 31 December 2020, the future minimum lease payments under non-cancellable operating leases are mainly composed of Luxembourg real estate location contract, which will arrive at maturity at the end of December 2021.

Lease liabilities

Lease liabilities mainly relate to real estate operating leases of the branch and of the office premises.

(in EUR)	Lease liabilities
Balance at 1 January 2020	**4,086,225**
Reductions	*(1,978,764)*
Additions	*259,205*
Balance at 31 December 2020	**2,366,666**

Amounts recognised in profit or loss

(in EUR)	2020
Interest on lease liabilities	(4,723)
Depreciation charge of the year	(2,049,269)
Expenses relating to short-term leases	(55,498)
Expenses relating to leases of low-value assets	(23,209)
Total amount	**(2,132,699)**

As at 31 December 2020, the future minimum lease payments under non-cancellable operating leases were payable as follows:

In EUR	Motor vehicles	Real estate location contracts	Total
Within 1 year	201,277	1,760,434	1,961,711
1 to 5 years	141,280	69,173	210,453
Over 5 years	-	-	
Total	**342,557**	**1,829,607**	**2,172,164**

Note 34 – Impacts of macroeconomic factors on the financial statements

On 31 December 2020, the transition period for the United Kingdom (U.K.) to withdraw from the European Union (EU), otherwise known as "Brexit", officially came to an end. This marked the end of a years-long process that was overseen by two different Prime Ministers, included several delays and extensions, and left the U.K. divided.

The Bank did not expect and will not expect significant impacts on its performance and financial stability due to the Brexit.

The above conclusion was reached by analysing the different types of risks Brexit will generate on markets.

Exchange rate volatility:
At the start of 2021, the pound was approximately 15% weaker relative to the euro than it was on the eve of the referendum on the U.K.'s membership of the Eurpean Union in June 2016. Taking into consideration the structure of exchange rate risk of the Bank, no significant impacts on assets and liabilities have been observed.

Industry sectors:
The Bank has analysed the type of activities performed by its clients, and no major issues related to Brexit have been identified and observed so far.

Securities issued by the Bank:
Intesa Sanpaolo London S.p.A. acts as one of the dealers used by the Bank to place its issuance. Following the Brexit, the Bank may engage a new dealer without any impact to the ECP/EMTN issuance program. No changes have been adopted so far.

Involvement of Group entities located in UK in the Bank corporate lending activity:
From time to time the Bank interacts with entities of the Group located in London (Banca IMI London Branch or ISP London Branch) to finalize its corporate lending activities. Following the Brexit, the Bank is interacting with the Group to achieve the same goals and have no impacts.

Positive impact of Brexit:
Following the Brexit, Luxembourg market is going to take advantage of a favourable impact following the transfer of activities and entities. As per consequence, the Bank increased exchanges with the Group to develop strategies aimed to capture opportunities to go on developing its business.

Note 35 – Events after the reporting date

The Bank is not aware of any adjusting event that would have occurred between 31 December 2020 and the date when the present financial statements were authorised for submission by the Board of Directors to the Annual General Meeting of Shareholders.

<u>COVID 19</u>
Since the beginning of the crisis, when the World Health Organization declared Covid-19 to be a public health emergency on 30 January 2020, the Bank has been fully engaged to face actively and effectively the new difficult situation.

Each solution and decision adopted has been taken in connection and coordination with the relevant structures of the Ultimate Parent Company and with the Regulators.

Note 35 – Events after the reporting date (continued)

Processes and activities were assured thanks to dedicated expenses and investments of time /resources and the main solutions adopted helped the Bank in:

- Facing each emergency;
- Reacting promptly to any change;
- Mitigating risks
- Assuring services going concern.

In terms of solutions adopted, the Bank was able to:

- Organize promptly a dedicated Crises Unit since February 2020 for the identification and management of all operational risks; the Crises Unit supervised and implemented all operational solutions to assure a proper performance of all the activities, implement Government decisions and Regulators suggestion and guarantee an healthy and safe environment for each employee;
- Extend smart working for all the employees as of March 2020;
- Increase and speed up processes digitalization;
- Strengthen liquidity management in strict coordination with the Parent Company;
- Implement an overall and continuous assessment of the whole activities to identify any potential new impact and adopt solutions to react promptly.

Since 31 December 2020, COVID 19 has not resulted in any subsequent event having an impact of the financial statements of the Bank.

Subsequent non adjusting events
In relation to non-adjusing events which could happen after the reporting date, the Bank would like to draw your attention to the following ones:

1) Amsterdam branch transfer to Intesa Sanpaolo S.p.A.;
2) Private Banking department transfer to Fideuram Bank (Luxembourg) S.A..

Those events do not classify as discontinued operations at 31 December 2020 because of the lack of relevant information not yet available or not yet defined as at the end of the year; as per consequence, they are disclosed as subsequent events without any impact on the 2020 primary statements.

Amsterdam branch transfer to Intesa Sanpaolo S.p.A.

At the end of 2020, IMI Corporate & Investment Banking Division (“IMI CIB”) launched a project aimed at the reorganization and growth of the Division’s international activities.

Among the initiatives planned by the project to implement the pillars of the new strategy, it has been proposed the transfer of Intesa Sanpaolo Bank Luxembourg S.A.’s (“the Bank” or “ISPBL”) Amsterdam branch to its ultimate Parent Company Intesa Sanpaolo S.p.A. (“ISP S.p.A.”), including it in the coordination of the new Hub in Milan.

The project has been presented to the Board of Directors of the Bank in December 2020 and it resolved to approve the start of the process related to the transfer of the Bank Amsterdam Branch to ISP S.p.A..

The Board of Directors also resolved to give mandate to all members of the Authorized Management of ISPBL to perform the tasks necessary to implement the transfer including the engagement of the advisors.

Note 35 – Events after the reporting date (continued)

Activities started in the end of 2020 with the support of external advisors to analyse any legal, regulatory and fiscal aspects in order to complete the transfer by the end of 2021.

As at today, the Bank is still waiting for final approval by European Central Bank.

The following table presents the main figures of the branch as at 31 December 2020 on a stand-alone basis:

(in EUR'000)	**2020**
Deposits from customers	1,402,626
Loans & advances to corporate customers	570,912
Net interest margin	6,743
Net commission margin	7,157
Operating costs	(2,301)
Net profit after taxes	7,496

Private Banking transfer to Fideuram Bank S.A.

Intesa Sanpaolo Bank Luxembourg S.A. ("the Bank" or "ISPBL") is negociating with Fideuram Bank (Luxembourg) S.A. ("Fideuram") the transfer of its private banking business which should be finalized during the year 2021.

As at 31 December 2020, from an organisational point of view, some significant elements like the perimeter of resources to be transferred or the precise definition of assets and liabilities to be included in the above mentioned business still have to be defined. Even if the perimeter of resources to be transferred has not yet been defined, the Bank has not foreseen to apply any dismissal.

As per consequence, the cash consideration has not been yet agreed between the parties, who are also waiting for the final approval by Regulators.

The following table presents the estimated main figures of the private banking business as at 31 December 2020 on a stand-alone basis:

(in EUR'000)	**2020**
Loans to customers	14,564
Deposits from customers	673,298
Net interest margin	771
Net commission margin	3,081
Personnel expenses	(1,178)
Assets under management	1,143,321