

**Financial statements,  
Independent auditor's report  
and Directors' report as at 31 December 2013**

**Société Européenne de Banque  
Société Anonyme  
19-21, boulevard du Prince Henri  
L-1724 Luxembourg**

**R.C.S. Luxembourg: B 13.859**

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31 December 2013

## **Development of the activity**

The world economy development and the international trades increase goes on, even if slowly. Signals of reinforcement in the U.S. economy have been observed, also thanks to a lower uncertainty concerning the budgetary policy. Moreover the decrease in the acquisition of U.S. bonds by the Fedel Reserve did not increase financial markets and foreign exchange volatility.

The emerging markets development goes on too, even risks of decrease persist due to global financial conditions less expansive.

Concerning the Eurozone, a moderate, but still fragile, recovery began. The economic activity remains weak with a moderate evolution of the consumer price index, which keeps real interest rates high and slows down the public and private debt decrease. In relation to such an economic environment, the Board of the European Central Bank (ECB) has reduced interest rates in November highlighting the intention to keep them low for a prolonged period of time. The ECB Board has also confirmed it will adopt all the measures necessary to sustain the monetary policy.

Thanks to growth perspectives, monetary policy, Eurozone governance improvement, financial market situation has improved, but the corporate lending activity has not yet taken an advantage, being negatively influenced by a low demand for investments and by a high credit risk.

The comprehensive assessment of the biggest European Banks performed by the ECB jointly with each local authority, will improve the banking system and increase financial statements transparency, reducing uncertainty concerning the asset quality. The Ministers of Finance Board has achieved an agreement concerning the characteristics of the mechanism to put in place in case of crises. Such a decision will help in completing the process to have a single banking system.

During 2013, Société Européenne de Banque S.A. (the "Bank") has demonstrated its ability to well perform, managing the market environment difficulties and changes, evolving its business and starting an important internal reorganisation to adapt it to the new market conditions and clients requirements.

2013 financial results, in fact, continued their positive trend already shown over the past years and each business unit has reached positive results.

## **Risk Control**

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

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

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

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

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

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

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

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

### **Corporate governance**

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

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

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

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

The Bank participates to a EUR 70 billion medium term notes issuance programme quoted on regulatory markets under the guarantee of its ultimate Parent Company. The notes issued under this programme by the Bank bear a minimum quote of EUR 100.000.

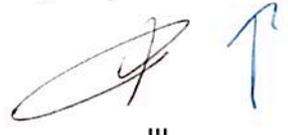
Information on corporate governance and ownership structures in Italy are required by art. 123-bis of the Consolidated Law on Finance. In compliance with this law, Intesa Sanpaolo sets forth a separate report on this matter which can be viewed in the Governance section of the Intesa Sanpaolo website, at [www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com). The group has adopted the Corporate Governance Code available on the Borsa Italiana website (under Borsa italiana/Rules/Corporate Governance).

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

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

### **Subsidiaries and branches**

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



On 31 December 2013, the Bank detains only one fully owned subsidiary, Lux Gest Assets Management S.A., Luxembourg which is active as Management Company for some investment funds.

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

## Perspectives

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

As communicated in the end of 2012, the Bank has sold its corporates domiciliation activity during 2013 and, following the mentioned sale, an internal reorganization of the Bank business units is taking place and a new three years business plan has been provided to the Head Quarter for approval.

## Financial elements for 2013

The total assets as at 31 December 2013 amounted to EUR 14.6 billion (December 2012: EUR 13.9 billion).

The loans and advances to credit institutions (including balances with central banks) amount EUR 10.1 billion as at 31 December 2013, showing an increase if compared to the situation as at 31 December 2012 (EUR 9.7 billion) due to the high volume of investments with the Group. Loans and advances granted to customers other than credit institutions amounted to EUR 1.7 billion.

The financial assets held for trading are composed of derivative financial instruments measured at their fair value and amounted to EUR 34 million at 31 December 2013 (December 2012: EUR 20 million).

They are mainly composed of interest rate swaps and foreign exchange derivative contracts.

The financial assets designated at fair value through profit or loss, which amounted to EUR 21 million as at 31 December 2013 (December 2012: EUR 30 million), are composed of investments in financial debt instruments purchased to be kept in the Bank's portfolio but measured at fair value.

The available-for-sale financial assets, which amounted to EUR 2.7 billion (December 2012: EUR 2.4 billion), were composed of sovereign debt securities (Italian Government) for an amount of EUR 2.2 billion, debt securities issued by Italian credit institutions for an amount of EUR 0.2 billion and debt securities issued by the European Bank of Investments for an amount of EUR 0.3 billion.

Concerning the liability side, the Bank participated to the LTRO mechanism from the Luxembourg Central Bank for an amount of EUR 0.5 billion. To enter into such program, the Bank has pledged in favour of the BCL part of its debts instruments kept in its available for sale portfolio which were eligible for such purpose.

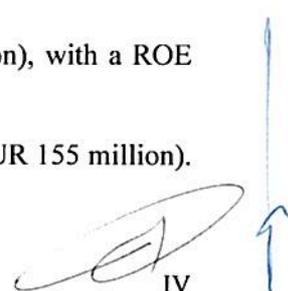
The deposits from customers amounted to EUR 4.1 billion at end of year (December 2012: EUR 3.3 billion). The Bank has also issued debts certificates for an amount of EUR 7.9 billion (December 2012: EUR 7.4 billion) composed as follows:

- certificates of deposits: EUR 5.8 billion (of which EUR 5.8 billion subscribed by Intesa Sanpaolo Holding SA, SEB's parent company);
- non-convertible bonds: EUR 2.1 billion, which are part of the European Commercial Paper program and part of the European Medium Term Notes program described below.

The net profit for the year amounts to EUR 166 million (December 2012: EUR 133 million), with a ROE equal to 13.4%.

The net interest income amounts to EUR 163 million at the end of 2013 (December 2012: EUR 155 million). The interest income and expense reflects increase in the 2013 average volume of liquidities.

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



The net fee and commission income is positive and amounts to EUR 18 million, showing a decrease if compared with December 2012 (EUR 19 million) due to the impact of the corporates domiciliation activity sale (on 1 October 2013) and the reclassification of the related figures as discontinued operation.

The net (un)realised losses on financial assets and liabilities held for trading amount to EUR 7 million as at 31 December 2013 (December 2012: loss of EUR 14 million). The decrease in losses compared to last year is mainly due to the positive fluctuations in the fair value of the assets and liabilities held by the Bank for trading purposes.

The net (un)realised losses on financial assets and liabilities designated at fair value through profit or loss amounts to EUR 0.2 million as at 31 December 2013 (December 2012: gain of EUR 12 million). 2012 profit was mainly due to the gains realised on sales of sovereign debt instruments during the year.

The total administrative expenses amounts to EUR 27 million (December 2012: EUR 33 million). The decrease compared to previous year is mainly due to the disposal of the corporates domiciliation activity and the reclassification of the related figures as discontinued operation.

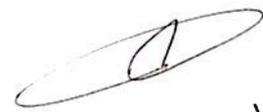
The profit from discontinued operations amounts to EUR 5.5 million and it is related to the sale of the corporates domiciliation activity completed in 2013. The amount includes considerations received for the sale totalling EUR 4.4 million and the quota part of revenues and expenses related to the discontinued activity, respectively EUR 3.6 million and EUR 2.4 million.

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

On the other side, deferred tax assets and deferred tax liabilities generated by temporary differences have been booked as at 31 December 2013.

The net profit of the year available for distribution, including the retained earnings (excluding First Time Adoption "FTA") amounts to EUR 166.285.320. 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 2013:

Net profit of 2013 financial year	€ 166.218.172
Retained profit from previous year	€ 67.148
<b>Amount attributable to shareholders</b>	<b>€ 166.285.320</b>
Allocation to other reserves	€ 66.200.000
Dividend for the financial year	€ 100.000.000
Total	€ 166.200.000
Retained profit carried forward to the next financial year	€ 85.320




## Subsequent events

No significant subsequent events, which could have an impact on the 2013 figures or which could require additional disclosures, happened after 31 December 2013.

## Miscellaneous

The Bank did not purchase own shares during the year 2013. No research and development costs have been sustained during the year 2013.

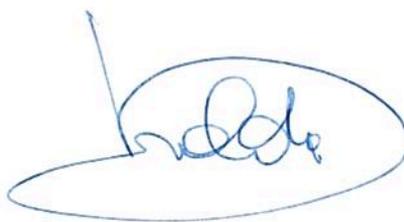
## Conclusion

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

Luxembourg, 26 February 2014



**Gianfranco PIZZUTTO**  
Administrateur Délégué & CEO



Franco Vivaldi  
Chief Financial Officer



**KPMG Luxembourg S.à.r.l.**  
9, allée Scheffer  
L -2520 Luxembourg

Telephone +352 22 51 51 1  
Fax +352 22 51 71  
Internet [www.kpmg.lu](http://www.kpmg.lu)  
Email [info@kpmg.lu](mailto:info@kpmg.lu)

To the Board of Directors of  
Société Européenne de Banque S.A.  
19-21 boulevard du Prince Henri  
L-1724 Luxembourg

## **REPORT OF THE REVISEUR D'ENTREPRISES AGREE**

### *Report on the financial statements*

We have audited the accompanying financial statements of Société Européenne de Banque S.A., which comprise the statement of financial position as at 31 December 2013 and the income statement, the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

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

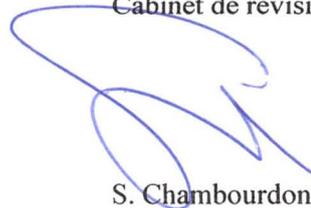
In our opinion, the financial statements give a true and fair view of the financial position of Société Européenne de Banque S.A. as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

***Report on other legal and regulatory requirements***

The management report, which is the responsibility of the Board of Directors, is consistent with the financial statements.

Luxembourg, 28 February 2014

KPMG Luxembourg S.à r.l.  
Cabinet de révision agréé



S. Chambourdon

# SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

## Statement of financial position

31 December 2013

(expressed in EUR)

<u>Assets</u>	Notes	31.12.2013	31.12.2012
<b>Cash and cash balances with central banks</b>	<b>3,4</b>	<b>77,769,428</b>	<b>43,195,898</b>
<b>Financial assets held for trading</b>	<b>3,5</b>	<b>33,779,816</b>	<b>19,854,064</b>
<b>Financial assets at fair value through profit or loss</b>	<b>3,5</b>	<b>21,266,660</b>	<b>30,349,617</b>
<b>Available-for-sale financial assets</b>	<b>3,6</b>	<b>2,738,399,678</b>	<b>2,407,939,904</b>
<b>Loans and advances</b>	<b>3,7</b>		
Loans and advances to credit institutions	4	10,061,631,870	9,701,790,518
Loans and advances to customers		1,682,975,548	1,766,380,894
		<b>11,744,607,418</b>	<b>11,468,171,412</b>
<b>Tangible fixed assets</b>	<b>8</b>	<b>9,288,484</b>	<b>10,003,271</b>
<b>Deferred tax assets</b>	<b>10</b>	<b>5,009,489</b>	<b>5,575,894</b>
<b>Other assets</b>	<b>3,11</b>	<b>15,646,726</b>	<b>12,324,357</b>
<b>Total assets</b>		<b>14,645,767,699</b>	<b>13,997,414,417</b>

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

# SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

## Statement of financial position

31 December 2013

(expressed in EUR)

<u>Liabilities and equity</u>	Notes	31.12.2013	31.12.2012
<b>Deposits from central banks</b>	3,12	500,045,139	1,208,750,000
<b>Financial liabilities held for trading</b>	3	49,857,590	96,774,700
<b>Financial liabilities at fair value through profit or loss</b>	3,13	30,583,592	37,928,724
<b>Financial liabilities measured at amortised cost</b>	3,14		
Deposits from credit institutions		598,977,847	491,101,000
Deposits from customers		4,071,216,732	3,346,755,581
Debts evidenced by certificates		7,906,277,322	7,453,415,207
		<u>12,576,471,901</u>	<u>11,291,271,788</u>
<b>Derivatives held for hedging</b>	3,15	28,617,319	-
<b>Provisions</b>	16	1,266,123	1,389,639
<b>Deferred tax liabilities</b>	10	18,062,314	14,439,293
<b>Other liabilities</b>	11	34,377,875	34,967,726
<b>Total liabilities</b>		<u>13,239,281,853</u>	<u>12,685,521,870</u>
<b>Equity</b>	17		
Share capital		535,091,520	535,091,520
Revaluation reserve		29,845,054	21,469,927
Other reserves and retained earnings		675,331,099	621,818,345
Net profit for the year		166,218,173	133,512,755
<b>Total equity</b>		<u>1,406,485,846</u>	<u>1,311,892,547</u>
<b>Total liabilities and equity</b>		<u>14,645,767,699</u>	<u>13,997,414,417</u>

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

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# SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

## Income statement

For the year ended 31 December 2013

(expressed in EUR)

	Notes	2013	2012
<b>CONTINUING OPERATIONS:</b>	<b>18</b>		
Interest income		328,531,172	324,057,979
Interest expenses		(165,653,268)	(168,638,482)
<b>Net interest income</b>		<b>162,877,904</b>	<b>155,419,497</b>
	<b>19</b>		
Fee and commission income		31,009,429	31,309,663
Fee and commission expenses		(13,356,994)	(12,255,839)
<b>Net fee and commission income</b>		<b>17,652,435</b>	<b>19,053,824</b>
<b>Dividend income</b>	<b>20</b>	<b>2,672,500</b>	<b>2,067,500</b>
<b>Net (un)realised losses on financial assets and liabilities held for trading</b>	<b>21</b>	<b>(6,895,967)</b>	<b>(13,971,847)</b>
<b>Net (un)realised gains/(losses) on financial assets and liabilities at fair value through profit or loss</b>	<b>22</b>	<b>(242,928)</b>	<b>11,936,364</b>
<b>Net realised gains on financial assets and liabilities not at fair value through profit or loss</b>	<b>23</b>	<b>22,175,089</b>	<b>6,811,998</b>
<b>Net other operating expenses</b>	<b>24</b>		
Other operating income		472,199	253,524
Other operating expenses		(7,765,157)	(6,805,496)
		<b>(7,292,958)</b>	<b>(6,551,972)</b>
<b>Administrative expenses</b>	<b>25, 32</b>	<b>(27,259,095)</b>	<b>(33,311,427)</b>
<b>Depreciation and amortisation</b>	<b>8</b>	<b>(810,803)</b>	<b>(971,230)</b>
<b>Provisions</b>	<b>16</b>	<b>191,920</b>	-
<b>Net impairment loss on financial assets</b>	<b>26</b>	<b>(1,663,409)</b>	<b>(9,372,207)</b>
<b>Tax (expense) income related to profit from continuing operation:</b>	<b>10</b>	<b>(731,935)</b>	-
<b>Net profit for the year</b>		<b>160,672,753</b>	<b>131,110,500</b>
<b>DISCONTINUING OPERATIONS:</b>			
<b>Profit from discontinued operations, net of tax</b>	<b>27</b>	<b>5,545,420</b>	<b>2,402,255</b>
<b>NET PROFIT FOR THE YEAR</b>		<b>166,218,173</b>	<b>133,512,755</b>

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

# SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

## Statement of profit or loss and other comprehensive income

For the year ended 31 December 2013

(expressed in EUR)

	<b>2013</b>	<b>2012</b>
<b>Net profit for the year</b>	<b>166,218,173</b>	<b>133,512,755</b>
<b>Items that are or may be reclassified to profit or loss</b>		
Net change in fair value on available-for-sale financial assets	11,832,617	127,672,170
Deferred tax relating to the components of other comprehensive income	(3,457,490)	(8,863,399)
<b>Other comprehensive income for the year</b>	<b>8,375,127</b>	<b>118,808,771</b>
<b>Total comprehensive income for the year</b>	<b><u>174,593,300</u></b>	<b><u>252,321,526</u></b>

# SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

## Statement of changes in equity For the year ended 31 December 2013 (expressed in EUR)

	<u>Reserves</u>					Total Reserve and retained earnings	Profit of the year before appropriation	Total
	Issued share capital	Revaluation reserve on AFS	Legal reserve	Other reserves	Retained earnings			
<b>Balance as at 1<sup>st</sup> January 2012</b>	<b>280,000,000</b>	<b>(97,338,844)</b>	<b>5,250,000</b>	<b>520,794,456</b>	<b>4,860,171</b>	<b>530,904,627</b>	<b>102,610,407</b>	<b>816,176,190</b>
Total comprehensive income	-	118,808,771	-	-	-	-	133,512,755	<b>252,321,526</b>
Transfers and appropriation of prior year's profit	-	-	5,150,000	97,450,000	10,407	102,610,407	(102,610,407)	-
Transfers	-	-	-	5,543	(5,543)	-	-	-
Capital decrease (note 17)	(4,908,480)	-	-	(11,696,690)	-	(11,696,690)	-	<b>(16,605,170)</b>
Capital increase (note 17)	260,000,000	-	-	-	-	-	-	<b>260,000,000</b>
<b>Balance as at 31 December 2012</b>	<b>535,091,520</b>	<b>21,469,927</b>	<b>10,400,000</b>	<b>606,553,309</b>	<b>4,865,035</b>	<b>621,818,344</b>	<b>133,512,755</b>	<b>1,311,892,546</b>
Total comprehensive income	-	8,375,127	-	-	-	-	166,218,173	<b>174,593,300</b>
Transfers and appropriation of prior year's profit	-	-	43,150,000	10,350,000	12,755	53,512,755	(53,512,755)	-
Transfers	-	-	-	-	-	-	-	-
Dividend for the financial year	-	-	-	-	-	-	(80,000,000)	<b>(80,000,000)</b>
Capital decrease	-	-	-	-	-	-	-	-
Capital increase	-	-	-	-	-	-	-	-
<b>Balance as at 31 December 2013</b>	<b>535,091,520</b>	<b>29,845,054</b>	<b>53,550,000</b>	<b>616,903,309</b>	<b>4,877,790</b>	<b>675,331,099</b>	<b>166,218,173</b>	<b>1,406,485,846</b>

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

**SOCIETE EUROPEENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Statement of cash flows**  
For the year ended 31 December 2013  
(expressed in EUR)

	<b>2013</b>	<b>2012</b>
<b>Profit before tax</b>	<b>166,950,108</b>	<b>133,512,755</b>
<b><u>Adjustments:</u></b>		
Depreciation and amortisation	810,802	966,555
Impairment for credit losses	2,204,024	11,424,952
Reversal of loan impairment	(540,614)	(2,052,745)
Provisions and other income/expenses	(123,516)	(49,866)
Fair value adjustments	11,990,970	43,429,508
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>	<b>181,291,774</b>	<b>187,231,159</b>
Net (increase)/decrease in trading financial assets	(3,643,731)	37,767,067
Net (increase)/decrease in loans and advances to credit institutions	(316,525,732)	(414,501,006)
Net (increase)/decrease in loans and advances to customers	81,741,937	(429,085,445)
Net (increase)/decrease in available-for-sale financial assets	(321,299,657)	(891,216,590)
Net (increase)/decrease in financial assets at fair value through profit or loss	1,921,042	107,880,945
Net (increase)/decrease in held-to-maturity investments	-	181,243,752
Net (increase)/decrease in other assets	(3,322,369)	(2,981,581)
Net (increase)/decrease in trading financial liabilities	(39,995,768)	(93,632,303)
Net (increase)/decrease in deposits from credit institutions	107,876,847	(3,739,705,947)
Net (increase)/decrease in deposits from Central bank	(708,704,861)	1,208,750,000
Net increase/(decrease) in deposits from customers	724,461,152	799,641,771
Net increase/(decrease) in other liabilities	(589,851)	(6,777,192)
Dividends received	2,672,500	2,067,500
Dividends paid	(80,000,000)	-
<b>Net cash flows from/(used in) operating activities</b>	<b>(374,116,717)</b>	<b>(3,053,317,870)</b>
Acquisition of property, plant and equipment	(96,015)	(80,173)
Disposal of discontinued operation	3,330,618	-
<b>Net cash flows/(used in) from investing activities</b>	<b>3,234,603</b>	<b>(80,173)</b>
Net increase/(decrease) in bonds issued	452,101,883	3,269,982,673
Increase in share capital	-	260,000,000
<b>Net cash flows/(used in) from financing activities</b>	<b>452,101,883</b>	<b>3,529,982,673</b>
<b>Net increase in cash and cash equivalents</b>	<b>81,219,769</b>	<b>476,584,630</b>

**SOCIETE EUROPEENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Statement of cash flows (continued)**  
For the year ended 31 December 2013  
(expressed in EUR)

	Notes	2013	2012
<b>Cash and cash equivalents at the beginning of the year</b>		<b>649,450,828</b>	<b>172,866,198</b>
Net increase/decrease in cash and cash equivalents		81,219,769	476,584,630
Cash and cash equivalents: exchange rate fluctuations		-	-
<b>Cash and cash equivalents at the end of the year</b>	<b>4</b>	<b><u>730,670,597</u></b>	<b><u>649,450,828</u></b>

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

Notes to the financial statements  
31 December 2013

## *Note 1 – General information*

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

The main activities of the Bank are focused on private banking and corporate business. Until 6 July 2008, the Bank provided services to investment funds such as central administration, transfer agent and custodian. 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.

Following a strategic decision at Group level, the Bank has sold its domiciliation activity to Citco C&T (Luxembourg) S.A. on 1 October 2013 (please see Note 27).

Since 31 December 2012, the Bank prepares consolidated financial statements according to the Transparency Law, as the Bank issues listed bonds and fully controls the company Lux Gest Asset Management S.A. and until 31 March 2013 Intesa Sanpaolo Private Bank (Suisse) S.A.. The Bank is a wholly-owned subsidiary of Intesa Sanpaolo Holding International S.A., which does not object to the Bank not presenting consolidated financial statements. Intesa Sanpaolo Holding International S.A. is fully consolidated in the consolidated financial statements of Intesa Sanpaolo S.p.A. (hereafter the “Group”). Intesa Sanpaolo S.p.A. produces consolidated financial statements available for public use that comply with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

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

These financial statements were authorised for submission to the Shareholders’ Annual General Meeting by the Bank’s Board of Directors on 26 February 2014.

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

## *Note 2 – Significant accounting policies*

### **(a) Basis of preparation**

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

#### **Statement of compliance**

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

#### **(b) Significant accounting judgements, estimates and assumptions**

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

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

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

#### **Fair value of financial instruments**

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

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

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *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 over the life of the instrument but no later than when the valuation is wholly supported by observable data or the transaction is closed out.

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

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

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

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

#### **Impairment losses on loans and advances**

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by the Board of Directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In addition to specific allowance against individually significant loans and advances, the Bank also makes a collective impairment test on exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

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

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

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

Notes to the financial statements (continued)  
31 December 2013

## Note 2 – Significant accounting policies (continued)

- other valuation models.

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

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

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

### (c) Changes in accounting policies

#### (c.1) New standards and amendments to standards applicable as from 1 January 2013

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

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013:

- *Fair value measurement*

In accordance with the transitional provisions of IFRS 13, the Bank has applied the new definition of fair value, as set out in Note 2.b “*Fair value of financial instruments*”, prospectively. The change had not significant impact on the measurements of the Bank’s assets and liabilities. The Bank does not apply any credit value adjustments (CVA), debit value adjustments (DVA) nor any own credit adjustments (OCA) in the valuation of its derivatives and borrowings.

The Bank has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosures requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Bank has provided the relevant comparative disclosures under those standards.

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

#### *- Presentation of items of OCI*

As a result of the amendments of IAS 1, the Bank has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

#### *- Offsetting financial assets and financial liabilities*

As at 31 December 2013, there were no financial assets and financial liabilities that:

- are offset in the Bank's balance sheet; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Therefore, the amendments to IFRS 7 did not require specific disclosures.

#### **(c.2) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

#### *- IFRS 9 Financial instruments (2013) and IFRS 9 Financial instruments (2010) and IFRS 9 Financial instruments (2009) (together IFRS 9)*

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

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

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

IFRS 9 (2013) introduces a new requirement for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting in IAS 39.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted.

The Bank has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### Note 2 – Significant accounting policies (continued)

#### - *Offsetting financial assets and financial liabilities (Amendments to IAS 32)*

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier adoption is permitted.

The Bank is still evaluating the potential effect of the adoption of the amendments to IAS 32.

#### - *IFRIC 21 Levies*

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Bank's financial statements.

### **(d) Summary of significant accounting policies**

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

#### **Foreign currency translation**

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

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

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

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

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

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

#### **Financial assets other than derivatives**

##### *(i) Classification*

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

##### Financial assets at fair value through profit or loss

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

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

##### Loans and advances

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

##### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's Management has the positive intention and ability to hold to maturity. A sale or reclassification of more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

#### Available-for-sale financial assets

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

#### *(ii) Initial recognition and subsequent measurement*

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

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

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

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

#### *(iii) Derecognition*

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

- the rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

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

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

#### **Financial liabilities other than derivatives**

##### *(i) Classification*

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

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

##### *(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 income statement when the liabilities are derecognised as well as through the amortisation process.

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

#### *(iii) Derecognition*

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

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

#### *(iv) Non-derivative financial liabilities designated as hedging instruments*

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

### **Derivative financial instruments**

#### *(i) Classification*

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains and losses on investments held for trading are recognised in the income statement. The Bank assesses whether embedded derivatives are required to be separated from the host contracts when the Bank becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

#### *(ii) Initial recognition and subsequent measurement*

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

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

#### *(iii) Trading*

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### Note 2 – Significant accounting policies (continued)

#### (iv) Hedging

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

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

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

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

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

#### Fair value hedges

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

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

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the income statement.

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

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

#### Cash flow hedges

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

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

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

As at 31 December 2013 and 2012, the Bank has no cash flow hedged transactions.

#### *(v) derecognition*

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

#### **Financial guarantee contracts and loan commitment**

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

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

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

#### **Repurchase agreements and reverse repurchase agreements**

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

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

#### **Offsetting**

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

#### **Impairment of financial assets**

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

Indicators of impairment include:

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

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

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

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

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

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

#### **Tangible fixed assets**

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

The asset's residual value, if not insignificant, and useful lives and methods of depreciation are reviewed and adjusted, if appropriate, at each financial year-end.

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

#### **Intangible assets**

Intangible assets, mainly composed of software acquired by the Bank, are measured on initial recognition at cost. Following initial recognition, they are carried at cost less accumulated amortisation and accumulated impairment losses. The estimated useful lives of softwares are as follows: 4 to 5 years on a straight-line basis.

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

#### **Other assets**

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

Other assets are stated at cost less impairment.

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

#### **Impairment of non financial assets**

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

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

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

#### **Cash and cash equivalents**

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

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

#### **Employee benefits**

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

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

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

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment. The Bank contributes to a defined contribution retirement plan located with an external insurance company.

Yearly contributions to the plan are disclosed under Note 25.

The Bank does not grant any other employee benefits.

#### **Provisions**

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

#### **Other liabilities**

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.

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *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**

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

#### **Fee and commission income**

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

#### **Dividend income**

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

#### **Taxes**

##### *Current income tax*

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.

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 2 – Significant accounting policies (continued)*

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

#### *Deferred income tax*

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

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

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

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

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

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

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 3 – Financial risk management*

#### **(a) Introduction and overview**

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

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

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

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

The Corporate Banking and Credit Risk function provides details, own assessments and complies with regulatory and ultimate Parent Company requirements with regards to credit risk.

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

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

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 3 – Financial risk management (continued)*

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.

#### **(b) Credit risk**

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

Credit risk arises due to:

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

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

- the Bank grants credits in priority to corporate clients who are often also clients of the Group or are part of the Group;
- calculation of the impact on capital requirements is made for all new credit transactions. The objective is to maintain the adequate ratio of the own funds beyond the 8% required by local regulation;
- each new customer relation must be approved by the "Corporate Control Committee" and where applicable by the "Committee of acceptance of new customers and operations";
- the main exposures are toward the ultimate Parent Company;
- a large proportion of the loans are collateralised by pledges (cash or securities);
- the Bank does not systematically require a 100% collateral as a guarantee. It depends on the reputation of the borrower.

Credit risk is assessed by reviewing:

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

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**

31 December 2013

**Note 3 – Financial risk management (continued)**

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

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

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

(in EUR)	<b>Maximum exposure</b>	
	<b>2013</b>	<b>2012</b>
Cash and cash balances with central banks	77,769,428	43,195,898
Financial assets held for trading	33,779,816	19,854,064
Financial assets at fair value through profit or loss	21,266,660	30,349,617
Available-for-sale financial assets	2,738,399,678	2,407,939,904
Loans and advances	11,744,607,418	11,468,171,412
Other assets	15,646,726	12,324,357
<b>Total</b>	<b>14,631,469,726</b>	<b>13,981,835,252</b>
Contingent liabilities	33,895,534	45,364,172
Commitments	135,111,987	107,069,321
<b>Total</b>	<b>169,007,521</b>	<b>152,433,493</b>

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

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

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**Note 3 – Financial risk management (continued)**

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

For classification of non-performing exposures in the various risk categories (doubtful loans, substandard exposures and past due exposures), the Bank applies regulation issued by its ultimate 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)	<b>Performing assets 2013</b>	<b>Doubtful assets 2013</b>	<b>Substandard exposures 2013</b>	<b>Past due exposures 2013</b>	<b>Total 2013</b>
Financial assets held for trading	33,779,816	-	-	-	33,779,816
Financial assets at fair value through profit or loss	21,266,660	-	-	-	21,266,660
Available-for-sale financial assets	2,738,399,678	-	-	-	2,738,399,678
Loans and advances	11,607,876,568	162,025,352	-	-	11,769,901,920
<b>Total</b>	<b>14,401,322,722</b>	<b>162,025,352</b>	-	-	<b>14,563,348,074</b>

(in EUR)	<b>Performing assets 2012</b>	<b>Doubtful assets 2012</b>	<b>Substandard exposures 2012</b>	<b>Past due exposures 2012</b>	<b>Total 2012</b>
Financial assets held for trading	19,854,064	-	-	-	19,854,064
Financial assets at fair value through profit or loss	30,349,617	-	-	-	30,349,617
Available-for-sale financial assets	2,407,939,904	-	-	-	2,407,939,904
Loans and advances	11,338,657,549	154,500,984	-	-	11,493,158,533
<b>Total</b>	<b>13,796,801,134</b>	<b>154,500,984</b>	-	-	<b>13,951,302,118</b>

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### Note 3 – Financial risk management (continued)

#### (iii) Credit quality per class of financial assets

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

(in EUR)	Gross exposure	Individual impairment	Collective impairment	Net exposure
	2013	2013	2013	2013
Performing loans	11,607,876,568	(1,378,480)	(1,607,234)	11,604,890,854
Doubtful loans	162,025,352	(22,308,788)	-	139,716,564
Past due exposures	-	-	-	-
<b>Total</b>	<b>11,769,901,920</b>	<b>(23,687,268)</b>	<b>(1,607,234)</b>	<b>11,744,607,418</b>

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

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

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

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

SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME

**Notes to the financial statements (continued)**

31 December 2013

***Note 3 – Financial risk management (continued)***

As at 31 December 2013, 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 2013, the lending limit amounted to EUR 310 million (2012: EUR 289 million) and - except for intergroup operations and one sovereign risk - no borrower exceeded this amount. The main exposure relates to 13 borrowers or group of borrowers (2012: 22 borrowers or group of borrowers) with financing between EUR 13.6 and EUR 3,029 million each (2012: between EUR 12.5 and EUR 2,411 million).

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

Following the Bank's request, the CSSF has approved an exemption from including in its calculation of the large risk exposures, in accordance with Part XVI, point 24 of the CSSF Circular 06/273, as amended, the risks to which the Bank is exposed with the Intesa Sanpaolo Group. The exposures on related parties are disclosed in Note 28.

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**

31 December 2013

**Note 3 – Financial risk management (continued)**

(v) *Geographical allocation of risks*

As at 31 December 2013 and 2012, the distribution by geographical area of the risks held in the securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(in EUR)	2013		2012	
	Securities (AFS, FVPL)	Loans and advances	Securities (AFS, FVPL)	Loans and advances
Italy	2,431,140,869	10,153,026,271	2,091,804,963	9,249,621,470
USA	-	4,980,161	-	1,088,594
Japan	-	81,314	-	43,381
France	-	15,941,327	-	5,931,132
Spain	-	4,385,837	10,011,708	2,146,797
Luxembourg	1,587,184	223,690,154	1,480,185	474,783,044
Belgium	-	1,340,714	-	1,259,735
Germany	-	19,135,090	-	13,869,042
United Kingdom	-	41,119,672	-	38,230,797
Switzerland	-	25,555,432	-	33,213,174
The Netherlands	21,266,660	8,028,595	30,349,617	7,822,434
Poland	-	2,542,585	-	1,341,494
Panama	-	1,123,288	-	2,091,838
Russia	-	273,996,785	-	485,370,602
Croatia	-	441,438,443	-	670,738,174
Hungary	-	250,232,137	-	250,284,307
Romania	-	210,779,555	-	181,088,943
Supranational	305,671,625	-	304,643,048	-
Slovenia	-	127,291	-	99,581
Portugal	-	94	-	1,545
Nigeria	-	45	-	1,855
Greece	-	38,061	-	193
Ireland	-	335,794	-	114,023
Czech Republic	-	9,044,373	-	8,533,295
Other	-	57,664,400	-	40,495,961
<b>Total</b>	<b>2,759,666,338</b>	<b>11,744,607,418</b>	<b>2,438,289,521</b>	<b>11,468,171,412</b>

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

*Note 3 – Financial risk management (continued)*

(in EUR)	<b>2013</b>		<b>2012</b>	
	<b>Guarantees</b>	<b>Commitments</b>	<b>Guarantees</b>	<b>Commitments</b>
BELGIUM	15,000	-	-	-
CANADA	22,500	-	22,500	-
DOMINICAN REP.	-	-	75,000	-
FRANCE	247,624	-	913,919	-
GERMANY	112,500	-	112,500	-
GREECE	-	-	15,000	-
HONG KONG	315,000	-	-	-
HUNGARY	247,500	-	-	-
IRAN	22,500	-	22,500	-
ISRAEL	30,000	-	-	-
ITALY	2,412,300	100,284,222	1,555,845	59,371,314
LUXEMBOURG	29,581,458	16,700,000	41,229,290	13,750,000
NETHERLAND	-	18,127,765	45,000	18,948,007
PANAMA	-	-	75,000	-
POLAND	-	-	15,000	-
PRINCIPATO DI MONACO	90,000	-	90,000	-
QATAR	30,000	-	7,500	-
ROMANIA	-	-	-	15,000,000
SPAIN	7,500	-	37,500	-
SWITZERLAND	567,152	-	808,618	-
THAILAND	-	-	75,000	-
TURKEY	7,500	-	6,000	-
U.S.A.	30,000	-	193,500	-
UNITED KINGDOM	104,500	-	12,000	-
VIETNAM	30,000	-	30,000	-
CONGO DEM. REPUBLIC	22,500	-	22,500	-
	<b><u>33,895,534</u></b>	<b><u>135,111,987</u></b>	<b><u>45,364,172</u></b>	<b><u>107,069,321</u></b>

**SOCIÉTÉ EUROPÉENNE DE BANQUE**  
**SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**

31 December 2013

**Note 3 – Financial risk management (continued)**

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

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

Republic of Italy

<b>Maturing on :</b>	<b>EUR</b>
2014	695,389,488
2015	947,772,189
2016	216,041,230
2017	250,636,217
2018	73,582,750
<b>Total</b>	<b><u><u>2,183,421,874</u></u></b>

(vi) *Industry sector allocation of risks*

As at 31 December 2013 and 2012, the breakdown by industry sector of the risks held in the securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(in EUR)	2013		2012	
	Securities (AFS, FVPL)	Loans and advances	Securities (AFS, FVPL)	Loans and advances
Financial institutions	554,977,803	10,061,631,870	949,387,096	10,286,869,811
Public sector	2,183,421,875	15,606,294	1,447,060,914	71,056,037
Other industries	21,266,660	835,486,071	41,841,511	293,747,780
Individuals	-	831,883,183	-	816,497,784
<b>Total</b>	<b><u><u>2,759,666,338</u></u></b>	<b><u><u>11,744,607,418</u></u></b>	<b><u><u>2,438,289,521</u></u></b>	<b><u><u>11,468,171,412</u></u></b>

SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME

Notes to the financial statements (continued)  
31 December 2013

*Note 3 – Financial risk management (continued)*

(in EUR)	2013		2012	
	Guarantees	Commitments	Guarantees	Commitments
Financial institutions	29,866,979	51,276,025	41,253,575	47,698,007
Other industries	2,629,778	52,926,331	1,340,239	22,212,226
Individuals	1,398,777	30,909,631	2,770,358	37,159,088
<b>Total</b>	<b>33,895,534</b>	<b>135,111,987</b>	<b>45,364,172</b>	<b>107,069,321</b>

**(c) Liquidity risk**

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

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

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 3 – Financial risk management (continued)*

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

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

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

As at 31 December 2013, the liquidity ratio of the Bank is 90% (2012: 83%), above the regulatory limit of 30%.

SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME

Notes to the financial statements (continued)  
31 December 2013

**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.

<b>31 December 2013</b> (in million EUR)	<b>&lt; 1 month</b>	<b>≥ 1 month &lt; 3 months</b>	<b>≥3 months &lt; 6 months</b>	<b>≥6 months &lt; 1 year</b>	<b>≥1 year &lt; 2 years</b>	<b>≥2 years &lt; 5 years</b>	<b>≥ 5 years</b>	<b>Total</b>
Deposit from central banks	-	500	-	-	-	-	-	<b>500</b>
Financial liabilities held for trading and derivatives held for hedging	16	9	28	9	19	6	1	<b>88</b>
Financial liabilities at fair value through profit or loss	9	1	-	9	2	7	9	<b>37</b>
Financial liabilities measured at amortised cost	2,708	1,576	1,937	1,447	1,553	2,365	989	<b>12,575</b>
<b>Total</b>	<b>2,733</b>	<b>2,086</b>	<b>1,965</b>	<b>1,465</b>	<b>1,574</b>	<b>2,378</b>	<b>999</b>	<b>13,200</b>

**SOCIÉTÉ EUROPÉENNE DE BANQUE**  
**SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**

31 December 2013

**31 December 2012**

(in million EUR)

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

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**Note 3 – Financial risk management (continued)**

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

<b>2013</b>	<b>Government and central banks</b>	<b>Other public entities</b>	<b>Financial institutions</b>	<b>Non financial companies</b>	<b>Other</b>	<b>Total</b>
Deposits from central banks	500,045,139	-	-	-	-	<b>500,045,139</b>
Financial liabilities held for trading and for hedging	-	-	78,426,184	-	48,725	<b>78,474,909</b>
Financial liabilities at fair value through profit or loss	-	-	29,569,658	-	1,013,934	<b>30,583,592</b>
Financial liabilities measured at amortised cost	-	86,142,293	12,209,502,873	118,704,033	162,122,702	<b>12,576,471,901</b>
<b>Total</b>	<b>500,045,139</b>	<b>86,142,293</b>	<b>12,317,498,715</b>	<b>118,704,033</b>	<b>163,185,361</b>	<b>13,185,575,541</b>

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

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**Note 3 – Financial risk management (continued)**

<b>2013</b>	<b>Zone EURO</b>	<b>Other European countries</b>	<b>Other</b>	<b>Total</b>
Deposits from central banks	500,045,139	-	-	<b>500,045,139</b>
Financial liabilities held for trading and for hedging	77,749,345	580,486	145,078	<b>78,474,909</b>
Financial liabilities at fair value through profit or loss	29,569,658	19,000	994,934	<b>30,583,592</b>
Financial liabilities measured at amortised cost	12,270,877,137	54,768,329	250,826,435	<b>12,576,471,901</b>
<b>Total</b>	<b>12,878,241,279</b>	<b>55,367,815</b>	<b>251,966,447</b>	<b>13,185,575,541</b>

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

**(d) Market risk**

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

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

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

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

To assess market risk, the Bank has put in place a reporting addressed to the Management Board, the Chief Financial Officer, the Chief Risk Officer, the General Manager responsible for the market activities, the Internal Audit, the Treasury Department and any other operational service responsible.

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 3 – Financial risk management (continued)*

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

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

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

#### Risk measurements

A Value at Risk (VaR) measurement of the proprietary portfolio is computed by the Ultimate 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 9.5 million.

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**

31 December 2013

**Note 3 – Financial risk management (continued)**

(i) *Interest rate risk*

Average interest rates

The average effective interest rates on financial instruments by main currencies for the year ended 31 December 2013 and 2012 are as follows:

	Assets	Liabilities	Assets	Liabilities
EUR	1.2482%	0.6372%	0,9426 %	0,4083 %
USD	1.6064%	0.7536%	0,6066 %	0,3803 %

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

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

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

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

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

The set of “Shift sensitivity +100bps” limits for the Bank has been approved by the Group Financial Risk Committee on 29 November 2012:

<b>Limits</b>	<b>Limit per time bucket</b>		
	Short term	Medium term	Long term
	0 - 18 months	18 - 5 years	> 5 years
+ / - 24 million	+ / - 15 million	+ / - 18 million	+ / - 18 million

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**Note 3 – Financial risk management (continued)**

In order to measure interest rate risk, the Risk Management Department uses on a daily basis the “shift sensitivity of Fair Value” 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 were as follows:

<b>Bucket</b>	<b>Shift + 100bp per bucket</b>	<b>Shift - 100bp per bucket</b>	<b>Limits</b>
Short term	(10,732,904)	3,906,353	+/- 15 mln
Medium term	(5,318,322)	4,392,224	+/- 18 mln
Long term	(4,148,956)	4,279,726	+/- 18 mln
<b>Total</b>	<b>(20,200,182)</b>	<b>12,578,303</b>	<b>+/- 24 mln</b>

At 31 December 2013, the interest margin sensitivity, which measures movements generated by a parallel shift of the interest rate curve by +/- 100bps assuming an observation period of 12 months, has been as follows:

<b>Shift + 100bps</b>	<b>Shift - 100bps</b>
6,392,575	(3,720,746)

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

SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME

Notes to the financial statements (continued)

31 December 2013

*Note 3 – Financial risk management (continued)*

<b>31 December 2013</b>	<b>&lt; 1</b>	<b>≥ 1 month</b>	<b>≥ 3 months</b>	<b>≥ 6</b>	<b>≥ 1 year</b>	<b>≥ 2 years</b>	<b>≥ 5</b>	<b>Total</b>
(in million of EUR)	<b>month</b>	<b>&lt; 3</b>	<b>&lt; 6 months</b>	<b>months</b>	<b>&lt; 1 year</b>	<b>&lt; 2 years</b>	<b>&lt; 5 years</b>	<b>years</b>
Cash and cash balances with central banks	78	-	-	-	-	-	-	<b>78</b>
Financial assets held for trading and derivatives held for hedging	13	1	6	1	1	12	-	<b>34</b>
Financial assets at fair value through profit or loss	-	-	-	-	-	-	21	<b>21</b>
Available-for-sale financial assets	12	101	196	611	973	846	-	<b>2,739</b>
Loans and advances	2,340	916	656	531	1,084	2,388	3,829	<b>11,744</b>
<b>Total financial assets</b>	<b>2,443</b>	<b>1,018</b>	<b>858</b>	<b>1,143</b>	<b>2,058</b>	<b>3,246</b>	<b>3,850</b>	<b>14,616</b>
Deposits from central banks	-	500	-	-	-	-	-	<b>500</b>
Financial liabilities held for trading and derivatives held for hedging	14	-	34	-	17	13	-	<b>78</b>
Financial liabilities at fair value through profit or loss	2	-	-	8	-	-	20	<b>30</b>
Financial liabilities measured at amortised cost	2,708	1,632	1,882	1,448	1,553	2,365	989	<b>12,577</b>
<b>Total financial liabilities</b>	<b>2,724</b>	<b>2,132</b>	<b>1,916</b>	<b>1,456</b>	<b>1,570</b>	<b>2,378</b>	<b>1,009</b>	<b>13,185</b>

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2013, a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR + 20,200,181 and EUR - 12,578,303 respectively.

SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME

Notes to the financial statements (continued)  
31 December 2013

*Note 3 – Financial risk management (continued)*

<b>31 December 2012</b>	<b>&lt; 1</b>	<b>≥ 1 month</b>	<b>≥ 3 months</b>	<b>≥ 6</b>	<b>≥ 1 year</b>	<b>≥ 2 years</b>	<b>≥ 5</b>	<b>Total</b>
(in million of EUR)	<b>month</b>	<b>&lt; 3 months</b>	<b>&lt; 6 months</b>	<b>&lt; 1 year</b>	<b>&lt; 2 years</b>	<b>&lt; 5 years</b>	<b>years</b>	<b></b>
Cash and cash balances with central banks	43	-	-	-	-	-	-	<b>43</b>
Financial assets held for trading and derivatives held for hedging	15	3	-	-	1	1	-	<b>20</b>
Financial assets at fair value through profit or loss	-	-	-	-	-	-	30	<b>30</b>
Available-for-sale financial assets	510	473	610	208	292	262	53	<b>2,408</b>
Loans and advances	3,998	5,952	1,131	235	1	151	-	<b>11,468</b>
<b>Total financial assets</b>	<b>4,566</b>	<b>6,428</b>	<b>1,741</b>	<b>443</b>	<b>294</b>	<b>414</b>	<b>83</b>	<b>13,969</b>
Deposits from central banks	1,209	-	-	-	-	-	-	<b>1,209</b>
Financial liabilities held for trading and derivatives held for hedging	43	2	3	2	41	4	-	<b>97</b>
Financial liabilities at fair value through profit or loss	-	-	1	8	-	-	29	<b>38</b>
Financial liabilities measured at amortised cost	7,820	2,558	445	247	91	131	-	<b>11,291</b>
<b>Total financial liabilities</b>	<b>9,073</b>	<b>2,560</b>	<b>449</b>	<b>257</b>	<b>132</b>	<b>135</b>	<b>29</b>	<b>12,635</b>

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

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**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 2013 and 2012, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR):

31 December 2013	<u>EUR</u>	<u>USD</u>	<u>Other</u>	<u>Total</u>
Cash and cash balances with central banks	77,683,073	74,998	11,357	<b>77,769,428</b>
Financial assets at fair value through profit or loss and held for trading	1,235,836	8,801,274	45,009,366	<b>55,046,476</b>
Available-for-sale financial assets	2,738,399,678	-	-	<b>2,738,399,678</b>
Loans and advances	10,714,654,993	229,256,428	800,695,997	<b>11,744,607,418</b>
<b>Total financial assets</b>	<b><u>13,531,973,580</u></b>	<b><u>238,132,700</u></b>	<b><u>845,716,720</u></b>	<b><u>14,615,823,000</u></b>
Deposits from central banks	500,045,139	-	-	<b>500,045,139</b>
Financial liabilities at fair value through profit or loss, held for trading and held for hedging	38,636,019	5,113,917	65,308,565	<b>109,058,501</b>
Financial liabilities measured at amortised cost	11,923,790,329	444,090,877	208,590,695	<b>12,576,471,901</b>
<b>Total financial liabilities</b>	<b><u>12,462,471,487</u></b>	<b><u>449,204,794</u></b>	<b><u>273,899,260</u></b>	<b><u>13,185,575,541</u></b>

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**Note 3 – Financial risk management (continued)**

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

**(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 circular 06/273 (as amended) and it comprises two tiers:

- Core capital (Tier 1): main captions included are share capital, other reserves and retained earnings. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the CSSF;
- Supplementary capital (Tier 2): it includes the element of the fair value reserve relating to unrealised gains and losses on instruments classified as available-for-sale assets.

Overall, the supplementary capital is capped at the equivalent of 100% of the core capital and, in term of deductions, the following items are deducted for the purpose of calculating regulatory capital, half from the core capital and half from the supplementary capital: (i) the carrying amounts of investments and credit institutions and finance companies accounted for by the equity method; (ii) the regulatory capital credit institutions and finance companies owned by more than 10%.

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.

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**

31 December 2013

**Note 3 – Financial risk management (continued)**

The Bank's aim is to maintain a strong capital base so as to maintain investors, creditor 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.

Due to the risks arising to sovereign debt and related uncertainties, the regulatory agency of Luxembourg recommended that banks comply with a minimum Tier 1 capital ratio of 9% starting from 30 June 2012. The minimum ratio includes an exceptional and temporary capital buffer against sovereign debt exposures.

The Bank's regulatory position under Basel II at 31 December 2013, excluding income for the current year, is as follows:

	<b>2013</b>	<b>2012</b>
<b>Tier 1 Capital</b>		
Ordinary share capital	535,091,520	535,091,520
Other reserves and retained earnings	675,331,099	621,818,345
less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital	(105,593)	(105,593)
Others deductions	-	-
<b>Total Tier 1</b>	<b>1,210,317,026</b>	<b>1,156,804,272</b>
<b>Tier 2 Capital</b>		
Valuation differences in AFS securities	29,845,054	21,469,928
less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital	(105,593)	(105,593)
<b>Total Tier 2</b>	<b>29,739,461</b>	<b>21,364,335</b>
<b>Total own fund eligible for solvency purposes</b>	<b>1,240,056,487</b>	<b>1,178,168,607</b>

The Lead regulator's approach to measurement of capital adequacy is primarily based on monitoring the relationship of Credit Resources Requirements to available capital resources. The regulator sets individual capital guidance (ICG) for each bank in excess of the minimum Capital Resources Requirement of 8%. A key input to the ICG setting process is the Internal Capital Assessment Process (ICAAP).

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**Note 3 – Financial risk management (continued)**

**Capital requirements and risk weights**

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

	2013		2012	
	Amount of risk weighted assets	Capital requirements	Amount of risk weighted assets	Capital requirements
<b>Credit and counterparty risk</b>	<b>9,310,850,246</b>	<b>744,868,020</b>	<b>10,053,465,518</b>	<b>804,277,241</b>
Central governments and central banks	660,742	52,859	529,420	42,354
Multilateral Development banks	-	-	477,788	38,223
Corporates	548,318,857	43,865,509	841,648,085	67,331,847
Institutions	8,725,875,829	698,070,066	9,175,147,686	734,011,814
Retail	4,556,797	364,544	6,490,017	519,201
Other items	31,438,021	2,515,042	29,172,522	2,333,802
<b>Market risk</b>	-	-	-	-
<b>Operational risk</b>		<b>25,454,087</b>		<b>25,454,087</b>
<b>Total risk weighted assets and capital requirements</b>	<b>9,310,850,246</b>	<b>770,322,107</b>	<b>10,053,465,518</b>	<b>829,731,328</b>
<i>Tier 1 capital ratio</i>		<i>12.57%</i>		<i>11.15%</i>
<i>Tier capital ratio</i>		<i>12.88%</i>		<i>11.36%</i>

**Capital adequacy**

Under the European regulation transposed into national law by the CSSF circular 06/273 (as amended), the Bank is required to comply with the regulatory ratios at all times meaning core capital at least equal to 4% and a regulatory solvency ratio at least equal to 8%.

As at 31 December 2013, the solvency ratio of the Bank is 12.88% (2012: 11.36%), above the regulatory limit of 8%. Over the 2013 year, the higher solvency ratio amounted to 12.88% (December) and the lower amounted to 11.35% (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.

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**

31 December 2013

**Note 3 – Financial risk management (continued)**

As part of the internal assessment process for its capital adequacy (relative to Basel II Pillar 2) the Bank considers that the Pillar 1 (credit, market and operational risks) are sufficiently covered by the regulatory capital under Pillar 1 as at 31 December 2013 and going forward.

***The ICAAP (Internal Capital Assessment Process)***

The second Pillar of Basel II capital framework describes how supervisory authorities and the Bank can effectively assess the appropriate level of regulatory capital. This assessment must cover all risk 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 2013 and 2012, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.

As at 31 December 2013 and 2012, the notional amount and fair value of the derivatives held for trading are as follows (in EUR):

	2013		2012	
	Notional amount	Fair value	Notional amount	Fair value
<b>Assets</b>				
Interest rate instruments	1,052,750,000	1,140,550	3,418,091,065	1,525,524
Currency instruments	1,577,825,363	32,543,980	1,822,447,020	18,328,540
	<u>2,630,575,363</u>	<u>33,684,530</u>	<u>5,240,538,085</u>	<u>19,854,064</u>
<b>Liabilities</b>				
Interest rate instruments	2,600,000,000	939,240	3,862,896,013	1,988,955
Currency instruments	1,977,031,678	48,918,350	2,387,617,354	94,785,745
	<u>4,577,031,678</u>	<u>49,857,590</u>	<u>6,250,513,367</u>	<u>96,774,700</u>

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

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**Note 3 – Financial risk management (continued)**

**(i) Fair values of financial assets and liabilities**

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

	Carrying amount		Fair value	
	2013	2012	2013	2012
<b>Assets</b>				
Loans and advances	11,745	11,468	11,622	11,360
<b>Liabilities</b>				
Financial liabilities measured at amortised cost	12,576	11,291	13,094	12,521

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 ZC 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.

**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 2013 and 2012, 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:

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 3 – Financial risk management (continued)*

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

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

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

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

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

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

#### *(ii) Valuation framework*

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

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

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

The following table analyses financial instruments measured at fair value at year-end, by level 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.

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**Note 3 – Financial risk management (continued)**

<b>31 December 2013</b> (in EUR)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets held for trading	95,286	33,684,530	-	<b>33,779,816</b>
- Derivatives held for trading				
Financial assets at fair value through profit or loss				
- Debt instruments	-	21,266,660	-	<b>21,266,660</b>
Available-for-sale financial assets				
- Equity instruments (other than investments in subsidiaries)	-	1,587,185	-	<b>1,587,185</b>
- Debt instruments	2,736,812,493	-	-	<b>2,736,812,493</b>
<b>Total financial assets</b>	<b><u>2,736,907,779</u></b>	<b><u>56,538,375</u></b>	<b><u>-</u></b>	<b><u>2,793,446,154</u></b>
Financial liabilities held for trading				
- Derivatives held for trading	-	49,857,590	-	<b>49,857,590</b>
Financial liabilities at fair value through profit or loss	-	30,583,590	-	<b>30,583,590</b>
Derivatives held for hedging	-	28,617,319	-	<b>28,617,319</b>
<b>Total financial liabilities</b>	<b><u>-</u></b>	<b><u>109,058,499</u></b>	<b><u>-</u></b>	<b><u>109,058,499</u></b>
<b>31 December 2012</b> (in EUR)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets held for trading				
- Derivatives held for trading	-	19,854,064	-	<b>19,854,064</b>
Financial assets at fair value through profit or loss				
- Debt instruments	-	30,349,617	-	<b>30,349,617</b>
Available-for-sale financial assets				
- Equity instruments (other than investments in subsidiaries)	-	1,480,185	-	<b>1,480,185</b>
- Debt instruments	2,406,459,719	-	-	<b>2,406,459,719</b>
<b>Total financial assets</b>	<b><u>2,406,459,719</u></b>	<b><u>51,683,866</u></b>	<b><u>-</u></b>	<b><u>2,458,143,585</u></b>
Financial liabilities held for trading				
- Derivatives held for trading	-	96,774,700	-	<b>96,774,700</b>
Financial liabilities at fair value through profit or loss	-	37,928,724	-	<b>37,928,724</b>
<b>Total financial liabilities</b>	<b><u>-</u></b>	<b><u>134,703,424</u></b>	<b><u>-</u></b>	<b><u>134,703,424</u></b>

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 3 – Financial risk management (continued)*

During the reporting years ending 31 December 2013 and 31 December 2012, 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 & Financial Engineering division which operates on loans, deposits, securities trading and other transactions with corporate customers. It also includes the corporate finance activities. During 2013, that division was impacted by the disposal of the domiciliation activity (included in the caption "Net other income" in the below tables; details concerning the sale are described in note 27.

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

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

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued) 31 December 2013

### *Note 3 – Financial risk management (continued)*

#### Results by strategic divisions in EUR '000

2013

	Corporate & Financial Engineering	Wealth Management	Financial Markets	Others Financial Institutions	Governance	Total revenues	
Net interest margin	3,899	(42,051)		44,241	156,789	-	162,878
Dividends			2,630	43		-	2,673
Net commission margin	6,868		7,087	3,415	282	-	17,652
Net trading income	(367)		2,789	12,619	(5)	-	15,036
Net other income	(548)		(231)	(13)	-	(6,501)	(7,293)
Profit from discontinuing operations	5,545		-	-	-	-	5,545
Impairment on financial assets	(387)		(45)	-	-	-	(432)
<b>Total area results</b>	<b>15,010</b>	<b>(29,821)</b>		<b>60,305</b>	<b>157,066</b>	<b>(6,501)</b>	<b>196,059</b>
Impairment on financial assets						(1,231)	(1,231)
Depreciation						(811)	(811)
Provision						192	192
Staff and operating expenses						(27,259)	(27,259)
Tax expenses						(732)	(732)
<b>Total operating &amp; extraordinary expenses</b>						<b>(29,841)</b>	<b>(29,841)</b>
<b>RESULTS FOR THE YEAR</b>							<b>166,218</b>

#### Results by strategic divisions in EUR '000

2012

	Corporate & Financial Engineering	Wealth Management	Financial Markets	Others Financial Institutions	Governance	Total revenues	
Net interest margin	3,797		6,769	113,368	33,554	-	157,488
Net commission margin	8,352		6,215	2,536	253	-	17,356
Net trading income	1,372		1,089	2,316	-	-	4,777
Net other income	(427)		(119)	-	-	-	(546)
Profit from discontinuing operation	2,402		-	-	-	-	2,402
Impairment on financial assets	246		(85)	-	-	-	161
<b>Total revenues</b>	<b>15,742</b>	<b>13,869</b>		<b>118,220</b>	<b>33,807</b>		<b>181,638</b>
Impairment on financial assets						(9,533)	(9,533)
Staff and operating expenses						(38,809)	(38,809)
Extraordinary governance expenses						217	217
<b>Total operating &amp; extraordinary expenses</b>						<b>(48,125)</b>	<b>(48,125)</b>
<b>RESULTS FOR THE YEAR</b>							<b>133,513</b>

Data are presented net of inter-division relationships.

**SOCIÉTÉ EUROPÉENNE DE BANQUE**  
**SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**Note 3 – Financial risk management (continued)**

<b>Assets by strategic division in EUR'000</b>	<b>2013</b>				
	<b>Corporate &amp; Financial Engineering</b>	<b>Wealth Management</b>	<b>Financial Markets</b>	<b>Others Financial Institutions</b>	<b>Total</b>
Cash and cash balances with central banks	-	-	77,170	599	<b>77,769</b>
Financial assets held for trading	-	2,325	31,360	95	<b>33,780</b>
Financial assets designated at fair value through profit or loss	-	-	-	21,267	<b>21,267</b>
Available-for-sale financial assets	-	-	-	2,738,400	<b>2,738,400</b>
Held-to-maturity investments	-	-	-	-	<b>-</b>
Loans and advances	<b>1,325,251</b>	<b>41,817</b>	<b>2,497,717</b>	<b>7,879,822</b>	<b>11,744,607</b>
<i>Loans and advances to credit institutions</i>	643	-	2,390,423	7,670,566	<b>10,061,632</b>
<i>Loans and advances to customers</i>	1,324,608	41,817	107,294	209,256	<b>1,682,975</b>
Derivatives held for hedging	-	-	-	-	<b>-</b>
Tangible fixed assets	-	-	-	9,288	<b>9,288</b>
Intangible assets	-	-	-	-	<b>-</b>
Deferred tax assets	-	-	-	5,009	<b>5,009</b>
Other assets	389	377	4,881	10,000	<b>15,647</b>
<b>Total assets</b>	<b>1,325,640</b>	<b>44,519</b>	<b>2,611,128</b>	<b>10,664,480</b>	<b>14,645,767</b>

<b>Assets by strategic division in EUR'000</b>	<b>2012</b>				
	<b>Corporate &amp; Financial Engineering</b>	<b>Wealth Management</b>	<b>Financial Markets</b>	<b>Others Financial Institutions</b>	<b>Total</b>
Cash and cash balances with central banks	-	-	42,983	212	<b>43,195</b>
Financial assets held for trading	-	513	19,341	-	<b>19,854</b>
Financial assets designated at fair value through profit or loss	-	-	-	30,350	<b>30,350</b>
Available-for-sale financial assets	-	-	-	2,407,940	<b>2'407'940</b>
Held-to-maturity investments	-	-	-	-	<b>-</b>
Loans and advances	<b>1,284,129</b>	<b>182,093</b>	<b>1,789,010</b>	<b>8,212,940</b>	<b>11,468,171</b>
<i>Loans and advances to credit institutions</i>	3,988	-	1,545,550	8,152,253	<b>9,701,791</b>
<i>Loans and advances to customers</i>	1,280,141	182,093	243,460	60,687	<b>1,766,380</b>
Derivatives held for hedging	-	-	-	-	<b>-</b>
Tangible fixed assets	-	-	-	10,003	<b>10,003</b>
Intangible assets	-	-	-	-	<b>-</b>
Deferred tax assets	-	-	-	5,576	<b>5,576</b>
Other assets	849	422	1,623	9,430	<b>12,324</b>
<b>Total assets</b>	<b>1,284,978</b>	<b>183,028</b>	<b>1,852,957</b>	<b>10,676,451</b>	<b>13,997,414</b>

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued) 31 December 2013

### *Note 3 – Financial risk management (continued)*

#### Liabilities & Equity by strategic division in EUR'000

2013

	Corporate & Financial Engeneering	Wealth Management	Financial Markets	Others Financial Institutions	Total
<b>Liabilities</b>					
Deposits from central banks	-	-	500,045	-	500'045
Financial liabilities held for trading	-	1,267	48,590	-	49'858
Financial liabilities designated at fair value through profit or loss	20,337	-	10,247	-	30,584
Financial liabilities measured at amortised cost	<b>1,408,498</b>	<b>7,345,001</b>	<b>3,819,182</b>	<b>3,790</b>	<b>12,576,471</b>
<i>Deposits from credit institutions</i>	60	-	598,918	-	598,978
<i>Deposits from customers</i>	1,396,530	1,570,621	1,100,752	3,313	4,071,216
<i>Debts evidenced by certificates</i>	11,908	5,774,380	2,119,512	477	7,906,277
Derivatives held for hedging	-	-	28,617	-	28,617
Provisions	-	-	-	1,266	1,266
Deferred tax liabilities	-	-	-	18,062	18,062
Other liabilities	2'117	154	1,595	30,513	34,379
<b>Total liabilities</b>	<b>1,430,952</b>	<b>7,346,422</b>	<b>4,408,276</b>	<b>53,631</b>	<b>13,239,281</b>
<b>Equity</b>					
Share capital	-	-	-	535,092	535,092
Revaluation reserve	-	-	-	29,845	29,845
Other reserves and retained earnings	399	(1,897)	6,241	670,588	675,331
Net profit for the year	13,529	(29,841)	60,304	122,226	166,218
<b>Total equity</b>	<b>13,928</b>	<b>(31,738)</b>	<b>66,545</b>	<b>1,357,751</b>	<b>1,406,486</b>
<b>Total liabilities and equity</b>	<b>1,444,880</b>	<b>7,314,683</b>	<b>4,474,821</b>	<b>1,411,382</b>	<b>14,645,767</b>

#### Liabilities & Equity by strategic division in EUR'000

2012

	Corporate & Financial Engeneering	Wealth Management	Financial Markets	Others Financial Institutions	Total
<b>Liabilities</b>					
Deposits from central banks	-	-	1,208,750	-	1,208,750
Financial liabilities held for trading	-	1,317	95,458	-	96,775
Financial liabilities designated at fair value through profit or loss	28,729	-	9,200	-	37,929
Financial liabilities measured at amortised cost	<b>1,103,880</b>	<b>7,306,305</b>	<b>2,874,182</b>	<b>6,905</b>	<b>11,291,271</b>
<i>Deposits from credit institutions</i>	186	-	490,915	-	,491,101
<i>Deposits from customers</i>	1,094,971	1,536,655	,708,723	6,406	3,346,755
<i>Debts evidenced by certificates</i>	8,723	5,769,649	1,674,544	499	7,453,415
Derivatives held for hedging	-	-	-	-	-
Provisions	-	-	-	1,390	1,390
Deferred tax liabilities	-	-	-	14,439	14,439
Other liabilities	2,229	395	2,946	29,398	34,968
<b>Total liabilities</b>	<b>1,134,838</b>	<b>7,308,017</b>	<b>4,190,535</b>	<b>52,131</b>	<b>12,685,521</b>
<b>Equity</b>					
Share capital	-	-	-	535,092	535,092
Revaluation reserve	-	-	-	21,470	21,470
Other reserves and retained earnings	399	(1,897)	6,241	617,075	621,818
Net profit for the year	17,869	(32,461)	16,858	131,247	133,513
<b>Total equity</b>	<b>18,268</b>	<b>(34,358)</b>	<b>23,099</b>	<b>1,304,884</b>	<b>1,311,893</b>
<b>Total liabilities and equity</b>	<b>1,153,106</b>	<b>7,273,659</b>	<b>4,213,634</b>	<b>1,357,015</b>	<b>13,997,414</b>

**SOCIÉTÉ EUROPÉENNE DE BANQUE**  
**SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**

31 December 2013

**Note 4 – Cash and cash equivalents**

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

(in EUR)	<b>Net carrying amount</b>	
	<b>2013</b>	<b>2012</b>
Cash and cash balances with central banks	77,769,428	43,195,898
Loans and advances to banks with maturity ≤ 3 months	730,069,280	649,233,461
	<b>807,838,708</b>	<b>692,429,359</b>

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 2013 is EUR 77,168,111 (2012: EUR 42,978,531).

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

(in EUR)	<b>Net carrying amount</b>	
	<b>2013</b>	<b>2012</b>
<b>Financial assets held for trading</b>		
Derivatives held for trading	33,779,816	19,854,064
	<b>33,779,816</b>	<b>19,854,064</b>
<b>Financial assets designated at inception at fair value through profit or loss</b>		
Securities	21,266,660	30,349,617
	<b>21,266,660</b>	<b>30,349,617</b>

The result arising from the sale of some of the securities during 2013 is shown in the income statement in the net (un)realised gains (losses) on financial assets and liabilities at fair value through profit or loss and commented on Note 22.

As at December 2013, the position is represented by a unique structured corporate bonds issued in JPY, maturing in February 2021, and funded by a deposit in the same currency from the Bank's ultimate Parent Company.

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SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**Note 6 – Available-for-sale financial assets**

(in EUR)

	<b>Net carrying amount</b>	
	<b>2013</b>	<b>2012</b>
<b>Quoted debt instruments issued by:</b>		
Financial institutions	553,390,618	644,744,049
Public sector	2,183,421,875	1,751,703,962
Other	-	10,011,708
	<b>2,736,812,493</b>	<b>2,406,459,719</b>

As at 31 December 2013, all the available-for-sale financial assets sold under repurchase agreements have been settled during the year (2012: EUR 207 million).

During 2012, the Bank participated to the LTRO mechanism from the Luxembourg Central Bank for an amount of EUR 1.2 billion. To enter into such program, the Bank has pledged in favour of the Luxembourg Central Bank part of its debts instruments kept in its available for sale portfolio which were eligible for such purpose. On December 2013, the initial deposit received from the Luxembourg Central Bank was reimbursed in advance by the Bank and replaced by a new deposit of EUR 500 million with maturity end of March 2014 (note 12).

As at 31 December 2013 the market value of the assets pledge is equal to EUR 1,436 million.

(in EUR)

	<b>Net carrying amount</b>	
	<b>2013</b>	<b>2012</b>
<b>Not quoted shares issued by:</b>		
Financial institutions	-	-
Corporates	211,185	211,185
Other	1,376,000	1,269,000
	<b>1,587,185</b>	<b>1,480,185</b>

As at 31 December 2013, shares in affiliated undertakings, which are classified in this category, where the Bank held at least 20% are as follows:

<b>Company</b>	<b>Registered office</b>	<b>Percentage owned</b>	<b>Net equity (in EUR)*</b>	<b>Of which the result of the year (in EUR)*</b>
Lux Gest Asset Management S.A.	Luxembourg	100%	3,988,837	3,764,716

\* based on unaudited financial statements as of 31 December 2013

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SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**

31 December 2013

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

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

	<b>Fixed income securities</b>	<b>Floating income securities</b>	<b>Equity</b>	<b>Total</b>
<b>Balance as at 31 December 2012</b>	<b>19,182,055</b>	<b>1,652,862</b>	<b>635,010</b>	<b>21,469,927</b>
Increase (decrease) of unrealised gain	(6,871,219)	9,409,679	107,000	2,645,460
(Increase) decrease of unrealised loss	10,948	9,176,209		9,187,157
Deferred tax	2,004,571	(5,430,797)	(31,264)	(3,457,490)
<b>Balance as at 31 December 2013</b>	<b>14,326,355</b>	<b>14,807,953</b>	<b>710,746</b>	<b>29,845,054</b>

**Note 7 – Loans and advances**

(in EUR)	<b>2013</b>		<b>2012</b>	
	<b>Total net carrying amount</b>	<b>of which: Impairment</b>	<b>Total net carrying amount</b>	<b>of which: Impairment</b>
Unquoted loans and advances to:				
Financial institutions and public sector	10,077,238,164	1,287,747	10,357,925,848	13,130,526
Private customers	831,883,183	10,834,065	816,497,784	10,697,012
Corporate customers	835,486,071	13,172,690	293,747,780	1,159,583
<b>Total</b>	<b>11,744,607,418</b>	<b>25,294,502</b>	<b>11,468,171,412</b>	<b>24,987,121</b>

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**Notes to the financial statements (continued)**  
31 December 2013

**Note 7 – Loans and advances (continued)**

Impairment allowance for loans and advances

As at 31 December 2013, the Bank has determined its collective impairment to EUR 1,607,234 (2012: EUR 1,159,904) and its individual impairment to EUR 23,687,268 (2012: EUR 23,827,217).

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

	<b>2013</b>	<b>2012</b>
Impairment as at 1 <sup>st</sup> January	24,987,120	17,339,854
Charge of the year/Transfers	2,200,070	11,767,167
Recoveries/amounts written off	(1,892,688)	(4,119,900)
<b>Impairment as at 31 December</b>	<b>25,294,502</b>	<b>24,987,121</b>
of which:		
Individual impairment	23,687,268	23,827,217
Collective impairment	1,607,234	1,159,904

Guarantees received as collateral

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

	<b>2013</b>		<b>2012</b>	
	<b>Loans and advances to customers</b>	<b>Loans and advances to credit institutions</b>	<b>Loans and advances to customers</b>	<b>Loans and advances to credit institutions</b>
<b>Net carrying amounts</b>	1,682,975,548	10,061,631,870	1,766,380,894	9,701,790,518
<b>Real guarantees</b>				
Mortgage	-	-	-	-
Securities	24,473,518	-	34,622,616	-
Other real guarantees	951,232,942	-	1,195,439,180	-
<b>Personal guarantees</b>				
Government guarantees			7,651,920	-
Credit institutions guarantees	534,634,199	79,995,614	292,912,723	158,820,202
<b>Total guarantees</b>	<b>1,510,340,659</b>	<b>79,995,614</b>	<b>1,530,626,439</b>	<b>158,820,202</b>

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**Notes to the financial statements (continued)**  
31 December 2013

**Note 8 – Property, plant and equipment**

(in EUR)	<b>Land and building</b>	<b>Office equipment</b>	<b>Other equipment</b>	<b>Total</b>
<b>Cost as at 1<sup>st</sup> January 2013</b>	27,048,974	1,839,721	8,491,217	37,379,912
Additions	12,890	22,655	60,471	96,016
Disposals	(1,444,087)	(213,471)	(931,613)	(2,589,171)
Cost as at 31 December 2013	25,617,777	1,648,905	7,620,075	34,886,757
Accumulated depreciation as at 1 <sup>st</sup> January 2013	(18,310,600)	(1,626,223)	(7,439,818)	(27,376,641)
Depreciation charge	(413,544)	(81,347)	(315,912)	(810,803)
Depreciation reversal	1,444,087	213,471	931,613	2,589,171
Accumulated depreciation as at 31 December 2013	(17,280,057)	(1,494,099)	(6,824,117)	(25,598,273)
<b>Net carrying amount as at 31 December 2013</b>	<b>8,337,720</b>	<b>154,806</b>	<b>795,958</b>	<b>9,288,484</b>

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

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

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SOCIÉTÉ ANONYME

Notes to the financial statements (continued)  
31 December 2013

**Note 9 – Intangible assets**

As at 31 December 2013 and 2012, the intangible assets are fully amortised.

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

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

**Deferred tax assets and liabilities**

(in EUR)

	<b>2013</b>	<b>2012</b>
Deferred tax assets	5,009,489	5,575,894
Deferred tax liabilities	(18,062,314)	(14,439,293)
<b>Net deferred tax assets (liabilities)</b>	<b>(13,052,825)</b>	<b>(8,863,399)</b>

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

(in EUR)	<b>1 January 2013</b>	<b>Income statement</b>	<b>Equity</b>	<b>31 December 2013</b>
Financial assets held for trading	(13,704,195)	(5,125,600)	-	<b>(18,829,795)</b>
Financial assets at fair value through profit or loss	5,438,057	(615,822)	-	<b>4,822,235</b>
Available-for-sale financial assets	(8,863,399)		(3,457,490)	<b>(12,320,890)</b>
Financial liabilities held for trading	7,977,237	4,431,463	-	<b>12,408,700</b>
Financial liabilities at fair value through profit or loss	80,227	454,396	-	<b>534,623</b>
Provisions and value adjustments	208,674	123,628	-	<b>332,302</b>
<b>Net deferred income tax assets/(liabilities)</b>	<b>(8,863,399)</b>	<b>(731,935)</b>	<b>(3,457,490)</b>	<b>(13,052,825)</b>

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
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**Notes to the financial statements (continued)**

31 December 2013

**Note 10 – Tax expense, assets and liabilities (continued)**

As at 31 December 2013, full recognition of deferred tax assets has been performed by the Bank because they have been lower than deferred tax liabilities amount. The deferred tax amount has been, as a consequence, booked into profit or loss in deduction of the profit of the year, even if the Bank does calculate current income in relation to the tax integration with the Bank's Luxembourg Mother Company and its significant tax losses carried forward. The deferred tax expenses presented in profit or loss are related to temporary differences generated by financial instruments fair value changes.

The deferred tax assets/liabilities calculated on the financial assets/liabilities contributing to the other comprehensive income are showing a deferred tax liabilities balance. The deferred tax amount has been consequently shown in deduction from the relative comprehensive income.

**Note 11 – Other assets and other liabilities**

(in EUR)	<u>2013</u>	<u>2012</u>
Prepaid charges	607,702	130,348
VAT	8,010,642	8,876,341
Accrued commission income	382,725	720,450
Other	6,645,657	2,597,218
<b>Other assets</b>	<b><u>15,646,726</u></b>	<b><u>12,324,357</u></b>

The caption "Other" mainly relates to the day count convention alignment applied by the accounting system to calculate the accruals of AFS securities and of the IRS contracts (deposit leg) under hedge accounting.

(in EUR)	<u>2013</u>	<u>2012</u>
Social security charges	507,251	1,070,856
Withholding taxes and VAT	20,914,438	18,164,189
Administrative expenses to be paid	8,943,419	12,027,658
Accrued commission expenses	236,244	168,818
Short term payable and other sundry accounts	3,776,523	3,536,205
<b>Other liabilities</b>	<b><u>34,377,875</u></b>	<b><u>34,967,726</u></b>

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

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**

31 December 2013

***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 to the BCL of eligible bonds as collateral for that purposes.

The LTRO transactions are available by auctions to which the Bank participated early in 2012. The Bank managed to obtain a financing of EUR 1,200,000,000 maturing in 2015, which has been replaced by a new deposit of EUR 500,000,000 in December 2013 with maturity end of March 2014.

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

As at 31 December 2013, the caption is composed of:

- a structured bond issued by the Bank, which is eligible, according to IAS 39, to fair value option. Such item is fair valued using the discounted cash flows method. As at 31 December 2013, the bonds amount to EUR 8,045,238 (2012: EUR 9,199,646), with a nominal value of EUR 7,750,000 (2012: EUR 8,784,000);
- a financial liability which is eligible, according to IAS 39, to fair value option, with a fair value based on the discounted cash flows method. As at 31 December 2013, the fair value of this liability amounts to EUR 20,336,994 (2012: EUR 28,729,079).
- Certificates of deposit issued by the Bank, which are eligible, according to IAS 39, to fair value option. Such items includes foreign exchange options and are fair valued using the quotations of the embedded options available through an external provider. As at 31 December 2013, the fair value of this liability amounts to EUR 2,201,360 (2012: EUR 0).

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
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**Notes to the financial statements (continued)**

31 December 2013

**Note 14 – Financial liabilities measured at amortised cost**

(in EUR)	<b>2013 Carrying amount</b>	<b>2012 Carrying amount</b>
Current accounts and amounts with period of notice	117,739,955	255,840,400
Term deposits	481,237,892	235,260,600
<b>Deposits from credit institutions</b>	<b>598,977,847</b>	<b>491,101,000</b>
Current assets and amounts with period of notice	449,683,218	15,025,500
Term deposits	3,459,461,066	1,483,001,309
<b>Deposits from corporate customers</b>	<b>3,909,144,284</b>	<b>1,498,026,809</b>
Current accounts	79,696,047	380,761,369
Term deposits	82,376,401	1,467,967,403
<b>Deposits from private customers</b>	<b>162,072,448</b>	<b>1,848,728,772</b>
Certificates of deposits	5,786,764,826	5,778,870,830
Bonds	1,665,885,568	1,391,547,677
Commercial paper	453,626,928	282,996,700
<b>Bonds issued and Certificates of deposits</b>	<b>7,906,277,322</b>	<b>7,453,415,207</b>
<b>Total</b>	<b>12,576,471,901</b>	<b>11,291,271,788</b>

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

The ECP and CD (further the “notes”) issued under this programme bear a maturity date under 1 year (short term notes) and are denominated in Euro, US Dollars or any other currency subject to compliance with any applicable legal and regulatory requirements.

The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 30 billion or the equivalent thereof in other currencies.

SOCIÉTÉ EUROPÉENNE DE BANQUE  
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**Notes to the financial statements (continued)**  
31 December 2013

***Note 14 – Financial liabilities measured at amortised cost (continued)***

As at 31 December 2013, such ECP issued by the Bank amount to EUR 418 million (2012: EUR 191 million).

Since November 2011, the Bank is participating as an additional issuer in a new EUR 70 billion Euro Medium Term Notes (EMTN) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The issuance programme is guaranteed by Intesa Sanpaolo S.p.A.. The EMTN (further the “notes”) issued under this programme bear a maturity date at least of 5 years.

The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 70 billion or the equivalent thereof in other currencies. The notes are denominated in any currency subject to compliance with any applicable legal and or regulatory and or central bank requirements.

As at 31 December 2013, such EMTN issued by the Bank amount to EUR 1,666 million (2012: EUR 1,391 million).

***Note 15 – Derivatives held for hedging***

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

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

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

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

**SOCIÉTÉ EUROPÉENNE DE BANQUE**  
**SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**Note 15 – Derivatives held for hedging (continued)**

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

	<b>2013</b>		<b>2012</b>	
	<b>Notional amount</b>	<b>Fair value</b>	<b>Notional amount</b>	<b>Fair value</b>
<b>Liabilities</b>				
Interest rate instruments	750,000,000	28,617,319	-	-
	<b>750,000,000</b>	<b>28,617,319</b>	<b>-</b>	<b>-</b>

Hedged items are as follows (in EUR):

	<b>Fair value</b>	<b>Fair value</b>
Available-for-sale financial assets	740,127,336	

**Note 16 – Provisions**

(in EUR)	<b>Litigations</b>	<b>Other Provisions</b>	<b>Total</b>
Provision as at 1 <sup>st</sup> January 2013	960,770	428,869	<b>1,389,639</b>
Reductions	(15,538)	(9,054)	<b>(24,592)</b>
Additions	-	651,076	<b>651,076</b>
Provision reversed during the year	(750,000)	-	<b>(750,000)</b>
<b>Provisions as at 31 December 2013</b>	<b>195,232</b>	<b>1,070,891</b>	<b>1,266,123</b>
Provisions as at 1 <sup>st</sup> January 2012	1,020,500	419,005	<b>1,439,505</b>
Additions	12,180	9,864	<b>22,044</b>
Amounts used	(71,910)	-	<b>(71,910)</b>
<b>Provisions as at 31 December 2012</b>	<b>960,770</b>	<b>428,869</b>	<b>1,389,639</b>

# SOCIÉTÉ EUROPÉENNE DE BANQUE SOCIÉTÉ ANONYME

## Notes to the financial statements (continued)

31 December 2013

### *Note 17 –Equity*

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 Lugano is ultimately controlled by the same party both before and after the partial demerger.

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

According to the demerger contract concluded through the Bank and its sole shareholder, as published in the draft demerger project in the Luxembourg official newspaper (Memorial), 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.

As at 31 December 2013, the Bank's subscribed and paid-up capital amounts to EUR 535,091,520, represented by 1,719,322 shares with no par value.

#### **Revaluation reserve**

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

#### **Legal reserve**

Under Luxembourg Law, the Bank must appropriate to a legal reserve an amount equivalent to 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 2013, the legal reserve amounts to EUR 53,550,000 (2012: EUR 10,400,000).

SOCIÉTÉ EUROPÉENNE DE BANQUE  
SOCIÉTÉ ANONYME

**Notes to the financial statements (continued)**

31 December 2013

**Note 17 –Equity (continued)**

**Other reserves**

As at 31 December 2013, other reserves amount to EUR 616,903,309 (2012: EUR 606,553,309).

As at 31 December 2013 and 2012, this caption includes an amount of EUR 250 million resulting from the transfer for no consideration of the branch of activity.

**Retained earnings**

As at 31 December 2013, retained earnings including the impact of the first time application (FTA) of IFRS as adopted by the European Union, amount to EUR 4,877,790 (2012: EUR 4,865,035).

**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 166,285,320, which corresponds to a return on equity of circa 13,4% (2012: 14%). It is proposed to the Annual General Shareholders' Meeting approving the financial statements as at 31 December 2013 to allocate the above mentioned amounts as follows (in EUR):

	<b>2013</b>
Net profit of 2013 financial year	166,218,172
Retained profit from previous years (excluding FTA)	67,148
<b>Amount attributable to Shareholders</b>	<b>166,285,320</b>
Allocation to other reserves	66,200,000
Dividend for the financial year	100,000,000
<b>Total</b>	<b>166,200,000</b>
Retained profit carried forward to the next financial year	85,320

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SOCIÉTÉ ANONYME**

**Notes to the financial statements (continued)**  
31 December 2013

**Note 18 – Net interest income**

(in EUR)	<b>2013</b>	<b>2012</b>
	<hr/>	<hr/>
Cash balances with central banks	352,434	423,618
Financial assets held for trading	5,987	17,125
Financial assets at fair value through profit or loss	668,011	5,406,315
Hedging derivatives	10,005,258	615,176
Available-for-sale financial assets	54,518,224	58,304,586
Held-to-maturity investments	-	1,268,748
Loans and advances	262,973,763	257,951,387
Other	7,495	71,024
<b>Total interest and similar income</b>	<b>328,531,172</b>	<b>324,057,979</b>
	<hr/>	<hr/>
(in EUR)	<b>2013</b>	<b>2012</b>
	<hr/>	<hr/>
Hedging derivatives	18,658,925	5,488,645
Financial assets held for trading	3,899	13,355
Financial liabilities measured at amortised cost	146,568,659	162,664,871
Financial liabilities at fair value through profit or loss	421,785	471,611
<b>Total interest expenses and similar charges</b>	<b>165,653,268</b>	<b>168,638,482</b>
	<hr/>	<hr/>
<b>Net interest income</b>	<b>162,877,904</b>	<b>155,419,497</b>
	<hr/>	<hr/>

No interest has been accrued in respect of impaired assets in 2013 and 2012.

**SOCIÉTÉ EUROPÉENNE DE BANQUE  
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**Notes to the financial statements (continued)**  
31 December 2013

**Note 19 – Net fee and commission income**

(in EUR)	<u>2013</u>	<u>2012</u>
Credit activities	749,544	982,665
Asset management	17,316,086	16,884,017
Corporate services	1,907,303	2,996,527
Other	11,036,496	10,446,454
<b>Total fee and commission income</b>	<b><u>31,009,429</u></b>	<b><u>31,309,663</u></b>
Brokerage and clearing fees	5,442,432	4,478,077
Other	7,914,562	7,777,762
<b>Total fee and commission expenses</b>	<b><u>13,356,994</u></b>	<b><u>12,255,839</u></b>
<b>Net fee and commission income</b>	<b><u><u>17,652,435</u></u></b>	<b><u><u>19,053,824</u></u></b>

**Note 20 – Dividend income**

As at 31 December 2013 and 2012, dividend income relates to available-for-sale financial assets.

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

As at 31 December 2013 and 2012, the net un(realised) gains (losses) on financial assets and liabilities held for trading are composed of:

(in EUR)	<u>2013</u>	<u>2012</u>
Equity instruments and linked derivatives	195,453	192,608
Interest rate instruments and linked derivatives	1,077,555	(3,842,381)
Foreign exchange transactions	(8,168,975)	(10,322,074)
	<b><u>(6,895,967)</u></b>	<b><u>(13,971,847)</u></b>

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

As at 31 December 2013 net (un) realised gains (losses) on financial assets and liabilities at fair value through profit or loss are mainly composed of unrealised losses on assets classified at fair value through profit or loss for an amount of EUR 619 thousands and, on liabilities side, from realised gains on debt securities for an amount of EUR 377 thousands.

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

As at 31 December 2013 and 2012, net realised gains on financial assets and liabilities not at fair value through profit or loss are mainly composed of gains realised on the sale of bond instruments held in the available-for-sale portfolio.

*Note 24 – Net other operating expenses*

As at 31 December 2013 and 2012, net other operating expenses are mainly composed of withholding taxes and net worth tax, which are linked to the Bank's business activity.

*Note 25 – Administrative expenses*

(in EUR)

	<b>2013</b>	<b>2012</b>
Wages and salaries	13,131,370	14,559,244
Social security charges	1,804,737	1,822,793
Legal pension and similar expenses	779,596	848,106
Employee benefits	266,717	180,627
Other	105,000	2,597,682
<b>Total staff expenses</b>	<b>16,087,420</b>	<b>20,008,452</b>
Operating expenses	1,829,554	1,793,684
Repair and maintenance	366,422	316,217
Training and moving	861,129	1,149,622
IT outsourcing costs	5,030,632	5,076,926
Legal and professional fees	976,085	2,301,221
Marketing and representation fees	1,576,484	1,578,431
Charges linked to Corporate activity and other charges	531,369	1,086,874
<b>Total general and administrative expenses</b>	<b>11,171,675</b>	<b>13,302,975</b>
<b>Total administrative expenses</b>	<b>27,259,095</b>	<b>33,311,427</b>

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**Note 25 – Administrative expenses (continued)**

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

	<b>2013</b>	<b>2012</b>
Senior Management	4	3
Middle Management	60	69
Employees	102	130
	<b>166</b>	<b>202</b>

The 2013 average number of personnel employed by the Bank is lower than the 2012 average number as a consequence of the above mentioned sale of the corporates' domiciliation activity, which has involved the transfer of 38 employees from the Bank to the buyer.

**Note 26 – Impairment**

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

(in EUR)	<b>2013</b>	<b>2012</b>
Loans and advances	1,663,409	9,372,207
<b>Impairment</b>	<b>1,663,409</b>	<b>9,372,207</b>

**Note 27 – Discontinued operation**

On 1 October 2013, the Bank has sold its corporates' domiciliation activity. The segment was not previously classified as held for sale or as a discontinued operation and the statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

The "Gain on sale of discontinued operation" caption includes the consideration the Bank received in relation to the sale of the domiciliation activity mentioned above. The amount is composed as follows:

- EUR 3.33 million paid at the closing date;
- EUR 1.05 million to be paid 220 days after the closing date.

The contract signed between the parties established that a second post-closing payment is due 400 days after the closing date and it will be calculated as follows:

- $(\text{Target revenues} - \text{Effective revenues}) \times 0.77$  where
  - o Target revenues: EUR 8,25 as defined in the contract;
  - o Effective revenues: revenues generated during 2014 by the perimeter of entities transferred;
  - o 0.77: multiplier defined in the contract.

Contractually, the second post-closing payment cannot be higher than EUR 2.45 million.

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**Notes to the financial statements (continued)**  
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**Note 27 – Discontinued operation (continued)**

Due to the calculation method agreed to define the second post-closing payment, the Bank considered it as a “contingent asset” as at 31 December 2013 and did not book it because its evaluation will depend on the effective revenues that the transferred perimeter of entities will generate during the year 2014 and no sufficient elements were available to obtain an accurate estimation as at the end of 2013.

The “Revenues” caption includes commission incomes earned by the Bank during 2013 (until the closing date) and 2012 (full year) generated by the entities transferred following the sale of the domiciliation activity.

The “Expenses” caption mainly includes personnel expenses sustained by the Bank during 2013 (until the closing date) and 2012 (full year) in relation to the employees transferred to the acquirer following the sale of the domiciliation activity.

**Results of discontinued operations:**

(in EUR)	<u>2013</u>	<u>2012</u>
Revenues	3,585,487	5,753,254
Expenses	(2,420,685)	(3,351,000)
<b>Results from operating activities</b>	<b><u>1,164,802</u></b>	<b><u>2,402,254</u></b>
Gain on sale of discontinued operation	4,380,618	-
<b>Profit (loss) for the period</b>	<b><u><u>5,545,420</u></u></b>	<b><u><u>2,402,254</u></u></b>

The disposal had no effect on the statement of financial position of the Bank.

The Bank does not distinguish between the operating cash flows from continued and discontinued activities. However, the Bank assesses the operating cash flows from discontinued activities as being insignificant.

**Note 28 – Related party disclosures**

**Identity of related parties**

The Bank has a related party relationship with its direct and non direct parent companies, entities of its Group and with its directors and executive officers. All transactions made with related parties are concluded on an arm’s length basis.

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**Note 28 – Related party disclosures (continued)**

The amount of main assets, liabilities, income and expenses as at 31 December 2013 and 2012 concerning Group entities and the parent companies are as follows:

(in EUR)	<u>2013</u>	<u>2012</u>
<b>Assets and liabilities</b>		
Assets held for trading and assets carried at fair value through profit or loss	28,679,235	17,356,732
Available-for-sale financial assets	181,544,506	373,052,172
Loans and advances	10,234,605,957	10,035,115,158
Financial liabilities held for trading and liabilities carried at fair value through profit or loss	64,484,383	117,176,508
Financial liabilities measured at amortised cost	9,999,425,347	9,282,168,268
Hedging derivatives	28,617,319	-
(in EUR)	<u>2013</u>	<u>2012</u>
<b>Income and expenses</b>		
Interest income	206,658,767	218,392,930
Fees and commissions received	2,353,283	3,256,935
Dividend income	2,630,000	2,025,000
Interest expenses	125,451,018	126,906,904
Fees and commissions paid	1,285,491	1,916,610

As at 31 December 2013 and 2012, no impairment loss was recognised on available-for-sale financial assets, loans and advances with related parties.

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

(in EUR)	<u>2013</u>	<u>2012</u>
Administrative bodies	105,000	105,000
Key management personnel	842,000	1,103,195
	<u><b>947,000</b></u>	<u><b>1,208,195</b></u>

As at 31 December 2013 and 2012, the Bank has no obligations related to retirement pensions for former administrative bodies and key management personnel.

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Notes to the financial statements (continued)  
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*Note 28 – Related party disclosures (continued)*

As at 31 December 2013 and 2012, the Bank has not granted advances and credits and has not entered into guarantee commitments for the above mentioned bodies and personnel.

*Note 29 – Commitments and contingent liabilities*

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

	<u>2013</u>	<u>2012</u>
Unused confirmed credits	135,111,987	107,069,321
- out of which towards related parties	-	15,000,000
Guarantees and other direct substitutes for credit	33,895,534	45,364,172
- out of which towards related parties	59,905	848,207

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

(in EUR)	<u>2013</u>		<u>2012</u>	
	<u>Contingent liabilities</u>	<u>Unused confirmed credits</u>	<u>Contingent liabilities</u>	<u>Unused confirmed credits</u>
<b>Amounts</b>	<b>33,895,534</b>	<b>135,111,987</b>	<b>45,364,172</b>	<b>107,069,321</b>
<b>Real guarantees</b>				
Securities	4,230,008	-	1,727,485	
Other real guarantees	24,910,645	100,284,222	27,318,461	37,159,088
<b>Personal guarantees</b>				
Government guarantees	-	-	-	-
Credit institutions guarantees	166,320	18,127,765	279,696	33,948,007
<b>Total guarantees</b>	<b><u>29,306,973</u></b>	<b><u>118,411,987</u></b>	<b><u>29,325,642</u></b>	<b><u>71,107,095</u></b>

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### *Note 30 – Commitments and contingent liabilities (continued)*

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

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

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

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

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

### *Note 31 – Investment management services and underwriting functions*

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

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

Assets managed on behalf of third parties are as follows:

(in EUR)	<b>2013</b>	<b>2012</b>
Custody and administration of transferable securities	10,210,726,576	10,661,775,274
Fiduciary representation	1,387,855,194	291,862,127
Wealth Management	245,454,348	268,392,728

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*Note 32 – Audit fees*

The audit fees and audit related fees for the years ended 31 December 2013 and 2012 are as follows:

(in EUR)	<u>2013</u>	<u>2012</u>
Audit fees	119,000	119,000
Audit related fees	-	-
Other	41,000	41,000
	<u><b>160,000</b></u>	<u><b>160,000</b></u>

*Note 33 – Events after the reporting date*

The Bank is not aware of any adjusting or non-adjusting event that would have been occurred between 31 December 2013 and the date when the present financial statements were authorised for submission, by the Board of Directors, to the Annual General Meeting of Shareholders.