Financial statements,
Independent auditor's report
and Directors' report as at 31 December 2014

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

R.C.S. Luxembourg: B 13.859

Directors' report
31 December 2014

Development of the activity

Even if the improvement of the U.S. economic situation was better than expected, a certain level of incertitude in relation to of short and medium term economic outlook remains due to for a number of reasons such as the weakness impacting the Euro area and Japan, a prolonged slowdown of Chinese economic growth and the economic crisis in Russia. The oil price drop may help to sustain economic growth, but there are still some risks for exporting countries.

Further to the political elections organized in Greece in January, the Euro area financial market volatility increased significantly in the light of the risk of change in Greek economic policies and forGreek public debt management. Moreover, after a fall in financial market prices, risk premiums on Government securities remain stable, probably due to the policy interventions the ECB will take in the near future (TLTROs). In effect, the ECB confirmed the intention to increase the magnitude of the Euro area balance sheet to bring it towards the levels observed in March 2012. The ECB Board will analyse the situation by the end of January 2015, in order to decide on the most appropriate actions to take. It is important to underline that even if consumer prices and oil prices have markedly decreased, which factors could substantially sustain the economy, there could be the risk of an increase in interest rates with effects on those entities requiring funding. Concerning the granting of financing to the industrial sector, it a decrease in average interest rates has been observed.

During 2014, Société Européenne de Banque S.A. (the "Bank") has demonstrated its ability to perform well, handling with success the difficulties of and the changes to the market environment; moreover, important decisions have been taken in terms of Bank organization and services to be provided in order to adapt the Bank to the new market conditions and clients requirements. A description of the internal reorganisation project is provided in the "Perspectives" paragraph below. 2014 financial results continued the positive trend already shown over the past years and each business unit has reached positive results.

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

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

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 is an issuer under a EUR 70 billion medium term note issuance programme quoted on regulated markets under the guarantee of the Parent Company. The notes issued under this programme by the Bank are of a minimum quota of EUR 100.000.

Information on corporate governance and ownership structures in Italy are required under art. 123-bis of the Italian Consolidated Law on Banking. In compliance with this law, the Parent Company produces a separate report on this matter which can be viewed in the Governance section of the Intesa Sanpaolo website, at www.group.intesasanpaolo.com. The Intesa Sanpaolo Banking Group has also adopted 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 applies CSSF circular 12/552 as subsequently modified.

In view of the Bank's size, the nature and particulars of the medium term notes issued, the Bank has not decided to adopt a Corporate Governance Charter or to establish a nomination committee within the Bank's Board of Directors.

Risk Control

The risk management process, developed in connection with local requirements and 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, Assets/Liabilities mismatching and the liquidity policy. Its main purpose is to ensure that the risk profiles remain at the sustainable limit fixed for the Bank.

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

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

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

Subsidiaries and branches

In June 2012, the Bank transferred the ownership of Intesa Sanpaolo Private Banking (Suisse), Lugano, to its local shareholder, Intesa Sanpaolo Holding International S.A., Luxembourg, through a partial demerger.
On 31 December 2014, the Bank holds only one fully owned subsidiary, Lux Gest Asset Management S.A., Luxembourg, which is active as a management company for investment funds.

The Bank 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 worldwide business strategy of the Intesa Sanpaolo Banking Group-.

During 2013 the Bank sold its corporate domiciliation activity and, following such sale, an internal reorganization of the Bank's business units is underway in order to reflect the Bank's business plan which will be implemented during the period 2014-2017.

The aim of the plan is to reinforce Bank activities, reviewing its business model in order to achieve a stronger integration of the Bank within the business model of its Parent Company.

The plan notably includes:

1 The implementation of a new business and organisational model in line with the ones adopted by foreign entities of the Corporate Investment Bank ("CIB") division of the Parent Company;
2 The transfer of the Amsterdam branch from the Parent Company to the Bank;
3 The start-up of a new branch of the Bank in Brussels;
4 The change of the Bank's name to ISP Benelux (the new name remains to be confirmed).

The goal of the above mentioned business model is to transform the "new" ISP Benelux into the bank of the Intesa Sanpaolo Banking Group in charge of corporate, private and wealth management activities in the Benelux area, developing, as a consequence, high added value services (International Loans Unit, Trade and Structured Export Finance, Capital Markets and Transactional Services) in cooperation with the CIB Division and all the other entities of the Group.

The main objectives of the plan are to:

5 Increase business with existing clients operating in the BeNeLux area, transferring to ISP Benelux relationship coverage, currently managed directly by the Parent Company;
6 Increase the number of customers and new relationships, thanks to the Intesa Sanpaolo brand name and operating desks with higher specialisation and skills;
7 Increase the private/wealth management business in coordination with Group wealth management;
8 Establish a more diversified balance sheet structure, which is currently concentrated on intra-group transactions and proprietary portfolio;
9 Create the premises to develop ISP Benelux activities in Northern Europe.

Financial elements for 2014

Total assets as at 31 December 2014 stood at EUR 12.9 billion (31 December 2013: EUR 14.6 billion).

Loans and advances to credit institutions (including balances with central banks) amount to EUR 7.6 billion as at 31 December 2014, showing a decrease if compared to the situation as at 31 December 2013 (EUR 10.1 billion). Loans and advances granted to customers other than credit institutions amounted to EUR 2.2 billion.

Financial assets held for trading are composed of derivative financial instruments measured at their fair value and amounted to EUR 104 million at 31 December 2014 (31 December 2013: EUR 34 million).
These are mainly composed of interest rate swaps and foreign exchange derivative contracts.

Financial assets designated at fair value through profit or loss, which amounted to EUR 18.9 million as at 31 December 2014 (31 December 2013: EUR 21 million), are composed of investments in financial debt instruments purchased to be kept in the Bank's portfolio but measured at fair value.

Available-for-sale financial assets, which amounted to EUR 2.8 billion (31 December 2013: EUR 2.7 billion), are composed of sovereign debt securities (Italian Government) for an amount of EUR 2.5 billion, debt securities issued by Italian credit institutions for an amount of EUR 0.03 billion and debt securities issued by the European Investment Bank for an amount of EUR 0.3 billion.

Concerning the liability side of the balance sheet, the Bank participated in the LTRO mechanism with the Luxembourg Central Bank ("BCL") for an amount of EUR 90 million. To enter into such program, the Bank pledged in favour of the BCL part of its debt instruments kept in its available for sale portfolio which were eligible for such purpose.

Deposits from customers amounted to EUR 3.5 billion at end of year (31 December 2013: EUR 4.1 billion). The Bank has also issued debt certificates for an amount of EUR 6.8 billion (31 December 2013: EUR 7.9 billion) composed as follows:

- certificates of deposit: EUR 5,9 billion (of which EUR 5,8 billion subscribed by Intesa Sanpaolo Holding SA, SEB's local parent company);
- non-convertible bonds: EUR 989 million, which are part of a European Commercial Paper program and of the European Medium Term Notes program describedherein.

The net profit for the year amounts to EUR 163 million (2013: EUR 166 million), with a ROE equal to 12.92%.

Net interest income amounts to EUR 152 million at the end of 2014 (End 2013: EUR 163 million). Interest income and expense reflects the increase in the 2013 average volume of liquidities.

Net fee and commission income is positive and amounts to EUR 17 million, showing a decrease when compared with 2013 (EUR 18 million) due to the impact of the corporate domiciliation activity sale (on 1 October 2013) and the reclassification of the related figures as discontinued operations.

Net (un)realised losses on financial assets and liabilities held for trading amount to EUR 8 million as at 31 December 2014 (31 December 2013: loss of EUR 7 million). The lower loss 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.

Net (un)realised losses on financial assets and liabilities designated at fair value through profit or loss amount to EUR 0.09 million as at 31 December 2014 (31 December 2013: gain of EUR 0.2 million). 2013 profit was mainly due to gains realised on sales of sovereign debt instruments during the year.

Total administrative expenses amount to EUR 27 million substantially equal to the previous year.

2013 profit from discontinued operations was related to the sale of the corporate domiciliation activity completed in 2013. The amount included consideration 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 by virtue of the application of local rules on the consolidation of taxable results with the ones generated by its direct shareholder in Luxembourg.

However, deferred tax assets and deferred tax liabilities generated by temporary differences have been booked as at 31 December 2014.

The net profit of the year available for distribution, including retained earnings (but excluding First Time Adoption "FTA") amounts to EUR 163.576.933. 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 2014:

Net profit of 2014 financial year Retained profit from previous year	€ 163.491.613 € 85.320
Amount attributable to shareholders	**€ 163.576.933**
Allocation to other reserves Dividend for the financial year	€ 63.570.000 € 100.000.000
Total	€ 163.570.000
Retained profit carried forward to the next financial year	€ 6.933

Subsequent events

No significant subsequent events, which could have an impact on the 2014 figures or which could require additional disclosures, occurred after 31 December 2014.

Miscellaneous

The Bank did not purchase own shares during the year 2014. No research and development costs have been sustained during the year 2014.

Conclusion

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

Luxembourg, 24 February 2015

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the financial statements

We have audited the accompanying financial statements of Société Européenne de Banque S.A., which comprise the statement of financial position as at 31 December 2014 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 notes, comprising 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 2014, 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, 24 February 2015

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

S. Chambourdon

SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

Statement of financial position
31 December 2014
(expressed in EUR)

Assets	Notes	31.12.2014	31.12.2013
Cash and cash balances with central banks	3,4	**52,070,466**	**77,769,428**
Financial assets held for trading	3,5	**104,144,024**	**33,779,816**
Financial assets at fair value through profit or loss	3,5	**18,945,337**	**21,266,660**
Available-for-sale financial assets	3,6	**2,837,450,200**	**2,738,399,678**
Loans and advances	3,7		
Loans and advances to credit institutions	4	7,612,872,355	10,061,631,870
Loans and advances to customers		2,273,985,451	1,682,975,548
		9,886,857,806	**11,744,607,418**
Tangible fixed assets	8	**9,363,129**	**9,288,484**
Deferred tax assets	10	**5,161,068**	**5,009,489**
Other assets	3,11	**14,444,751**	**15,646,726**
Total assets		**12,928,436,780**	**14,645,767,699**

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

SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

Statement of financial position
31 December 2014
(expressed in EUR)

Liabilities and equity

	Notes	31.12.2014	31.12.2013
Deposits from central banks	3,12	**90,925,683**	**500,045,139**
Financial liabilities held for trading	3	**22,449,510**	**49,857,590**
Financial liabilities at fair value through profit or loss	3,13	**18,209,510**	**30,583,592**
Financial liabilities measured at amortised cost	3,14		
Deposits from credit institutions		854,841,280	598,977,847
Deposits from customers		3,519,055,313	4,071,216,732
Debts evidenced by certificates		6,857,353,225	7,906,277,322
		11,231,249,818	**12,576,471,901**
Derivatives held for hedging	3,15	**57,030,583**	**28,617,319**
Provisions	16	**2,282,011**	**1,266,123**
Deferred tax liabilities	10	**14,271,075**	**18,062,314**
Other liabilities	11	**38,369,956**	**34,377,875**
Total liabilities		**11,474,788,145**	**13,239,281,853**
Equity	17		
Share capital		535,091,520	535,091,520
Revaluation reserve		13,516,230	29,845,054
Other reserves and retained earnings		741,549,272	675,331,099
Net profit for the year		163,491,613	166,218,173
Total equity		**1,453,648,635**	**1,406,485,846**
Total liabilities and equity		**12,928,436,780**	**14,645,767,699**

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

SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

Income statement

For the year ended 31 December 2014

(expressed in EUR)

	Notes	2014	2013
CONTINUING OPERATIONS:	**18**		
Interest income		302,302,138	328,531,172
Interest expenses		(150,202,931)	(165,653,268)
Net interest income		**152,099,207**	**162,877,904**
	19		
Fee and commission income		29,868,597	31,009,429
Fee and commission expenses		(13,199,095)	(13,356,994)
Net fee and commission income		**16,669,502**	**17,652,435**
Dividend income	**20**	**3,802,500**	**2,672,500**
Net (un)realised losses on financial assets and liabilities held for trading	**21**	**(8,078,285)**	**(6,895,967)**
Net (un)realised gains/(losses) on financial assets and liabilities at fair value through profit or loss	**22**	**94,578**	**(242,928)**
Net realised gains on financial assets and liabilities not at fair value through profit or loss	**23**	**38,955,153**	**22,175,089**
Net other operating expenses	**24**		
Other operating income		1,076,402	472,199
Other operating expenses		(11,111,620)	(7,765,157)
		(10,035,218)	**(7,292,958)**
Administrative expenses	**25, 32**	**(27,038,546)**	**(27,259,095)**
Depreciation and amortisation	**8**	**(716,164)**	**(810,803)**
Provisions	**16**	**(797,496)**	**191,920**
Net impairment loss on financial assets	**26**	**1,334,568**	**(1,663,409)**
Tax (expense) income related to profit from continuing operation:	**10**	**(2,798,186)**	**(731,935)**
Net profit for the year		**163,491,613**	**160,672,753**
DISCONTINUING OPERATIONS:			
Profit from discontinued operations, net of tax	**27**	**-**	**5,545,420**
NET PROFIT FOR THE YEAR		**163,491,613**	**166,218,173**

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

31 December 2014

(expressed in EUR)

	2014	2013
Net profit for the year	**163,491,613**	**166,218,173**
Items that are or may be reclassified to profit or loss		
Net change in fair value on available-for-sale financial assets	(23,069,822)	11,832,617
Deferred tax relating to the components of other comprehensive income	6,740,998	(3,457,490)
Other comprehensive income for the year	**(16,328,824)**	**8,375,127**
Total comprehensive income for the year	**147,162,789**	**174,593,300**

SOCIETE EUROPEENNE DE BANQUE
Société Anonyme

Statement of change in equity
For the year ended 31 December 2014
(expressed in EUR)

			Reserves					
	Issued share capital	**Revaluation reserve on AFS**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Total Reserve and retained earnings**	**Profit of the year before appropriation**	**Total**
Note	**17**	**17**	**17**	**17**	**17**		**17**	
Balance as at 1st January 2013	**535,091,520**	**21,469,927**	**10,400,000**	**606,553,309**	**4,865,035**	**621,818,344**	**133,512,755**	**1,311,892,546**
Total comprehensive income	-	8,375,127	-	-	-	-	166,218,173	**174,593,300**
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)	**(80,000,000)**
Capital decrease	-	-	-	-	-	-	-	-
Capital increase	-	-	-	-	-	-	-	-
Balance as at 31 December 2013	**535,091,520**	**29,845,054**	**53,550,000**	**616,903,309**	**4,877,790**	**675,331,099**	**166,218,173**	**1,406,485,846**
Total comprehensive income	-	(16,328,824)	-	-	-	-	163,491,613	**147,162,789**
Transfers and appropriation of prior year's profit	-	-	-	66,200,000	18,172	66,218,173	(66,218,173)	,
Transfers	-	-	-	-	-	-	-	-
Dividend for the financial year	-	-	-	-	-	-	(100,000,000)	**(100,000,000)**
Capital decrease	-	-	-	-	-	-	-	-
Capital increase	-	-	-	-	-	-	-	-
Balance as at 31 December 2014	**535,091,520**	**13,516,230**	**53,550,000**	**683,103,309**	**4,895,963**	**741,549,272**	**163,491,613**	**1,453,648,635**

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

SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

Statement of cash flows
31 December 2014
(expressed in EUR)

	Notes	2014	2013
Profit before tax		**166,289,799**	**166,950,108**
Adjustments:			
Depreciation and amortisation	8	716,164	810,802
Impairment for credit losses	26	531,446	2,204,024
Reversal of loan impairment	26	(1,866,013)	(540,614)
Provisions		1,015,888	(123,516)
Fair value adjustments		(34,058,866)	11,990,970
Cash flows from operating profits before changes in operating assets and liabilities		**132,628,418**	**181,291,774**
Net (increase)/decrease in trading financial assets		(1,662,242)	(3,643,731)
Net (increase)/decrease in loans and advances to credit institutions		1,801,966,051	(316,525,732)
Net (increase)/decrease in loans and advances to customers		(589,675,336)	81,741,937
Net (increase)/decrease in available-for-sale financial assets		(125,922,849)	(321,299,657)
Net (increase)/decrease in financial assets at fair value through profit or loss		1,993,075	1,921,042
Net (increase)/decrease in other assets		1,201,975	(3,322,369)
Net (increase)/decrease in trading financial liabilities		(33,444,079)	(39,995,768)
Net (increase)/decrease in deposits from credit institutions		255,863,433	107,876,847
Net (increase)/decrease in deposits from Central bank		(409,119,456)	(708,704,861)
Net increase/(decrease) in deposits from customers		(552,161,418)	724,461,152
Net increase/(decrease) in financial liabilities at fair value through profit and loss & other liabilities		1,999,005	(589,851)
Dividends received	20	3,802,500	2,672,500
Dividends paid	17	(100,000,000)	(80,000,000)
Net cash flows from/(used in) operating activities		**387,469,077**	**(374,116,717)**
Acquisition and disposal of property and equipment	27	(790,809)	(96,015)
Disposal of discontinued operation			3,330,618
Net cash flows/(used in) from investing activities		**(790,809)**	**3,234,603**
Net increase/(decrease) in debts evidenced by certificates		(1,059,170,695)	452,101,883
Net cash flows/(used in) from financing activities		**(1,059,170,695)**	**452,101,883**
Net (decrease)/increase in cash and cash equivalents		**(672,492,427)**	**81,219,769**

SOCIETE EUROPEENNE DE BANQUE
SOCIÉTÉ ANONYME

Statement of cash flows (continued)
For the year ended 31 December 2014
(expressed in EUR)

	Notes	2014	2013
Cash and cash equivalents at the beginning of the year		**730,670,597**	**649,450,828**
Net increase/(decrease) in cash and cash equivalents		(672,492,427)	81,219,769
Cash and cash equivalents: exchange rate fluctuations			
Cash and cash equivalents at the end of the year	4	**58,178,170**	**730,670,597**

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

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 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 Company and other entities of the Intesa Sanpaolo Group.

These financial statements were authorised for submission to the Shareholders' Annual General Meeting by the Bank's Board of Directors on 24 February 2015.

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.

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.

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;

Note 2 – Significant accounting policies (continued)

- expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models

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

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 2014

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 2014:

- *IFRS 10* which provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. *IFRS 10* replaces *IAS 27 – Consolidated and Separate financial statements* and *SIC 12 – Consolidation – Special Purposes Entities.* The Bank has also adopted the amendments to *IFRS 10* which provide an exemption from consolidation of subsidiaries under IFRS for entities which meet the definition of an investment entity;
- *IFRS 11* which establishes principles for the financial reporting by parties to a joint arrangement and supersedes *IAS 31 – Interests in Joint Ventures* and *SIC 13 – Jointly controlled entities – Non monetary Contributions by Ventures*;

Note 2 – Significant accounting policies (continued)

- *IFRS 12* which establishes principles for disclosures of Interests in other entities such as unconsolidated structured entity. *IFRS 12* combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

Adoption of these revised standards did not have any effect on the financial performance or position of the Bank.

- *Offsetting financial assets and financial liabilities*

As at 31 December 2014, 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 stamen of financial position.

The change did not have material impact on the Bank's financial statements.

- *IFRIC 21 Levies*

- As a result of IFRIC 21 *Levies*, the Bank has changed its accounting policy on accounting for a liability to pay a levy that is a liability in the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

The change did not have material impact on the Bank's financial statements.

(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 2014, 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*

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

Note 2 – Significant accounting policies (continued)

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

- *IFRS 15 Revenue from Contracts with customers*

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

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

The following new or amended standards are not expected to have a significant impact of the Bank’s financial statements:

- *Defined Benefit Plans: Employees Contributions (Amendments to IAS 19).*
- *Annual Improvements to IFRSs 2010-2012 Cycle.*
- *Annual Improvements to IFRSs 2011-2013 Cycle.*
- IFRS 14 *Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41).*
- *Equity Method and Separate Financial Statements (Amendments to IAS 27).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *Annual improvements to IFRSs 2012-2014 Cycle – various standards.*

Note 2 – Significant accounting policies (continued)

(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.

Financial assets other than held for trading and hedging

(i) Classification

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

Note 2 – Significant accounting policies (continued)

Financial assets at fair value through profit or loss

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

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

Loans and advances

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

Available-for-sale financial assets

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

(ii) Initial recognition and subsequent measurement

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

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

Note 2 – Significant accounting policies (continued)

Available-for-sale financial assets except for non-listed investments in subsidiaries and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and advances investments are carried at amortised cost using the effective interest method less impairment. Non quoted investments in subsidiaries that are not classified as held for sale are classified in the available-for-sale portfolio and are accounted for at cost less impairment. Gains and losses arising from changes in the fair value of the financial assets measured at fair value through profit or loss are included in the 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.

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.

Note 2 – Significant accounting policies (continued)

Financial liabilities other than held for trading and hedging

(i) Classification

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

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring liabilities or 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.

(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.

Note 2 – Significant accounting policies (continued)

Derivative financial instruments

(i) Classification

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

(ii) Initial recognition and subsequent measurement

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

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

(iii) Trading

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

(iv) Hedging

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

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%.

Note 2 – Significant accounting policies (continued)

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

Fair value hedges

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

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

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

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

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

(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.

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.

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.

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.

Other assets

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

Impairment of non-financial assets

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

Note 2 – Significant accounting policies (continued)

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.

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.

Note 2 – Significant accounting policies (continued)

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.

Discontinued operations

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

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

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

Note 2 – Significant accounting policies (continued)

Interest income and expense

For all instruments measured at amortised cost, interest income and expense are recognised in the 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.

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

Deferred income tax

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

Note 2 – Significant accounting policies (continued)

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

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

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

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

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

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

Note 3 – Financial risk management

(a) 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.

Note 3 – Financial risk management (continued)

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

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

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

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

(b) Credit risk

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

Credit risk arises due to:

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

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

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

Credit risk is assessed by reviewing:

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

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.

	Maximum exposure	
(in EUR)	**2014**	**2013**
Cash and cash balances with central banks	52,070,466	77,769,428
Financial assets held for trading	104,144,024	33,779,816
Financial assets at fair value through profit or loss	18,945,337	21,266,660
Available-for-sale financial assets	2,837,450,200	2,738,399,678
Loans and advances	9,886,857,806	11,744,607,418
Other assets	14,444,751	15,646,726
Total	**12,913,912,584**	**14,631,469,726**
Guarantees	43,279,003	33,895,534
Commitments	277,976,392	135,111,987
Total	**321,255,395**	**169,007,521**

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.

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 rules laid down by its ultimate Parent Company.

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

(in EUR)	Performing assets 2014	Doubtful assets 2014	Substandard exposures 2014	Past due exposures 2014	Total 2014
Financial assets held for trading	104,144,024	-	-	-	**104,144,024**
Financial assets at fair value through profit or loss	18,945,337	-	-	-	**18,945,337**
Available-for-sale financial assets	2,837,450,200	-	-	-	**2,837,450,200**
Loans and advances	9,756,696,033	152,292,069	-	-	**9,908,988,102**
Total	**12,717,235,594**	**152,292,069**	**-**	**-**	**12,869,527,663**

(in EUR)	Performing assets 2013	Doubtful assets 2013	Substandard exposures 2013	Past due exposures 2013	Total 2013
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**
Total	**14,401,322,722**	**162,025,352**	**-**	**-**	**14,563,348,074**

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 2014	Individual impairment 2014	Collective impairment 2014	Net exposure 2014
Performing loans	9,756,696,033	(867,029)	(1,422,114)	9,754,406,889
Doubtful loans	152,292,069	(19,841,152)	-	132,450,917
Past due exposures	-	-	-	-
Total	**9,908,988,102**	**(20,708,182)**	**(1,422,114)**	**9,886,857,806**

(in EUR)	Gross exposure 2013	Individual impairment 2013	Collective impairment 2013	Net exposure 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	-	-	-	-
Total	**11,769,901,920**	**(23,687,268)**	**(1,607,234)**	**11,744,607,418**

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

Collective measurement occurs for homogeneous loan 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.

Note 3 – Financial risk management (continued)

As at 31 December 2014, 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 2014, the lending limit amounted to EUR 320 million (2013: EUR 310 million) and - except for intergroup operations and one sovereign risk (Government of Italy) - no borrower exceeded this amount. The main exposure relates to 23 borrowers or group of borrowers (2013: 13 borrowers or group of borrowers) with financing between EUR 10 and EUR 1,9 million each (2013: between EUR 13,6 and EUR 3,0 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.

Note 3 – Financial risk management (continued)

(v) Geographical allocation of risks

As at 31 December 2014 and 2013, the distribution by geographical area of the risks held in securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(in EUR)	**2014**		**2013**	
	Securities (AFS, FVPL)	**Loans and advances**	**Securities (AFS, FVPL)**	**Loans and advances**
Italy	2,529,683,729	8,473,403,878	2,431,140,869	10,153,026,271
USA	-	29,898,917	-	4,980,161
Japan	-	355,952	-	81,314
France	-	19,559,102	-	15,941,327
Spain	-	6,728,554	-	4,385,837
Luxembourg	1,707,185	387,597,852	1,587,184	223,690,154
Belgium	-	1,438,160	-	1,340,714
Germany	-	27,076,654	-	19,135,090
United Kingdom	-	19,882,668	-	41,119,672
Switzerland	-	24,350,384	-	25,555,432
The Netherlands	18,945,337	9,137,208	21,266,660	8,028,595
Poland	-	6,857,730	-	2,542,585
Panama	-	1,244,536	-	1,123,288
Russia	-	192,980,727	-	273,996,785
Croatia	-	320,541,346	-	441,438,443
Bosnia-Erzegovina	-	-	-	-
Hungary	-	273,269	-	250,232,137
Romania	-	164,702,536	-	210,779,555
Supranational	306,059,285	-	305,671,625	-
Slovenia	-	4,099,419	-	127,291
Portugal	-	444,622	-	94
Nigeria	-	-	-	45
Greece	-	200,898	-	38,061
Ireland	-	100,395,189	-	335,794
Czech Republic	-	11,671,746	-	9,044,373
Other	-	84,016,458	-	57,664,400
Total	**2,856,395,537**	**9,886,857,806**	**2,759,666,338**	**11,744,607,418**

Note 3 – Financial risk management (continued)

	2014		2013	
(in EUR)	**Guarantees**	**Commitments**	**Guarantees**	**Commitments**
BELGIUM	-	-	15,000	-
CANADA	15,000	-	22,500	-
DOMINICAN REP.	-	-	-	-
FRANCE	107,729	-	247,624	-
GERMANY	-	-	112,500	-
GREECE	-	-	-	-
HONG KONG	-	-	315,000	-
HUNGARY	247,500	-	247,500	-
IRAN	22,500	-	22,500	-
ISRAEL	30,000	-	30,000	-
ITALY	11,734,800	277,002,798	2,412,300	100,284,222
LUXEMBOURG	30,246,976	-	29,581,458	16,700,000
NETHERLAND	-	973,594	-	18,127,765
PANAMA	-	-	-	-
POLAND	-	-	-	-
PRINCIPATO DI MONACO	90,000	-	90,000	-
QATAR	30,000	-	30,000	-
ROMANIA	-	-	-	-
SPAIN	-	-	7,500	-
SWITZERLAND	631,998	-	567,152	-
THAILAND	-	-	-	-
TURKEY	3,000	-	7,500	-
U.S.A.	-	-	30,000	-
UNITED KINGDOM	97,000	-	104,500	-
VIETNAM	-	-	30,000	-
CONGO DEM. REPUBLIC	22,500	-	22,500	-
	43,279,003	**277,976,392**	**33,895,534**	**135,111,987**

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.

Note 3 – Financial risk management (continued)

Republic of Italy

Maturing on :	**EUR**
2015	599,446,880
2016	976,552,435
2017	343,777,981
2018	533,148,812
2019	50,974,953
Total	**2,503,901,060**

(vi) Industry sector allocation of risks

As at 31 December 2014 and 2013, the breakdown by industry sector of the risks held in securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(in EUR)	**2014**		**2013**	
	Securities (AFS, FVPL)	**Loans and advances**	**Securities (AFS, FVPL)**	**Loans and advances**
Financial institutions	331,841,954	7,612,872,355	554,977,803	10,061,631,870
Public sector	2,503,901,060	853,192	2,183,421,875	15,606,294
Other industries	20,652,523	1,469,615,428	21,266,660	835,486,071
Individuals	-	803,516,831	-	831,883,183
Total	**2,856,395,537**	**9,886,857,806**	**2,759,666,338**	**11,744,607,418**

Note 3 – Financial risk management (continued)

	2014		2013	
(in EUR)	**Guarantees**	**Commitments**	**Guarantees**	**Commitments**
Financial institutions	40,256,215	10,432,733	29,866,979	51,276,025
Other industries	2,096,155	266,782,164	2,629,778	52,926,331
Individuals	926,633	761,494	1,398,777	30,909,631
Total	**43,279,003**	**277,976,392**	**33,895,534**	**135,111,987**

(c) Liquidity risk

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

As at 31 December 2014, the liquidity ratio of the Bank is 88% (2013: 90%), above the regulatory limit of 30%.

Note 3 – Financial risk management (continued)

The tables below present the cash flows payable by the Bank under non-derivative and derivative financial liabilities held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position.

31 December 2014 (in million EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥3 months < 6 months**	**≥6 months < 1 year**	**≥1 year < 2 years**	**≥2 years < 5 years**	**≥ 5 years**	**Total**
Deposit from central banks	0	0	0	0	0	91	0	91
Financial liabilities held for trading and derivatives held for hedging	32	10	8	17	24	22	0	113
Financial liabilities at fair value through profit or loss	0	1	0	2	2	7	6	18
Financial liabilities measured at amortised cost	3,284	1,047	550	512	703	4,557	578	11,231
Total	**3,316**	**1,058**	**558**	**531**	**729**	**4,677**	**584**	**11,453**

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

Note 3 – Financial risk management (continued)

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

2014	**Government and central banks**	**Other public entities**	**Financial institutions**	**Non financial companies**	**Other**	**Total**
Deposits from central banks	90,925,683	-	-	-	-	**90,925,683**
Financial liabilities held for trading and for hedging	-	-	79,261,945	-	218,148	**79,480,093**
Financial liabilities at fair value through profit or loss	-	-	18,209,510	-	-	**18,209,510**
Financial liabilities measured at amortised cost	-	50,480,012	10,952,456,482	110,483,373	117,829,953	**11,231,249,819**
Total	**90,925,683**	**50,480,012**	**11,049,927,937**	**110,483,373**	**118,048,101**	**11,419,865,105**

Note 3 – Financial risk management (continued)

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

Note 3 – Financial risk management (continued)

2014	Zone EURO	Other European countries	Other	Total
Deposits from central banks	90,925,683	-	-	**90,925,683**
Financial liabilities held for trading and for hedging	78,808,036	382,305	289,752	**79,480,093**
Financial liabilities at fair value through profit or loss	18,209,510	-	-	**18,209,510**
Financial liabilities measured at amortised cost	10,895,612,981	259,817,088	75,819,749	**11,231,249,818**
Total	**11,083,556,209**	**260,199,393**	**76,109,501**	**11,419,865,103**

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

(d) Market risk

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

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

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

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

Note 3 – Financial risk management (continued)

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

The Risk Management unit together with the Chief Executive Officer carry out their own analyses and assessments and the results are communicated periodically to the Management 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 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.

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 2014 and 2013 are as follows:

	2014		**2013**	
	Assets	Liabilities	Assets	Liabilities
EUR	1.2973%	0.5836%	1.2482%	0.6372%
USD	1.8803%	0.2624%	1.6064%	0.7536%

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

In order to measure interest rate risk, the Risk Management Department uses on a daily basis the "shift sensitivity of Fair Value" 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:

Bucket	**Shift + 100bp per bucket**	**Shift - 100bp per bucket**	**Limits**
Short term	(12,519,975)	1,812,696	+/- 17 mln
Medium term	(5,615,287)	727,735	+/- 18 mln
Long term	(1,628,042)	776,342	+/- 8 mln
Total	**(19,763,305)**	**3,316,773**	**+/- 24 mln**

At 31 December 2014, 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:

Shift + 100bps	**Shift - 100bps**
4,506,782	(1,652,812)

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

Note 3 – Financial risk management (continued)

31 December 2014 (in million of EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥ 3 months < 6 months**	**≥ 6 months < 1 year**	**≥ 1 year < 2 years**	**≥ 2 years < 5 years**	**≥ 5 years**	**Undetermined**	**Total**
Cash and cash	52	-	-	-	-	-	-	-	**52**
balances with central banks	-	-	-	-	-	-	-	-	**-**
Financial assets held for trading and derivatives held for hedging	-	-	-	-	-	-	-	104	**104**
Financial assets at fair value through profit or loss	-	-	-	-	-	-	19	-	**19**
Available-for-sale financial assets	8	15	100	504	1,107	1,104	-	-	**2,837**
Loans and advances	2,271	158	238	915	1,045	3,558	1,702	-	**9,887**
Total financial assets	**2,330**	**173**	**338**	**1,420**	**2,152**	**4,662**	**1,721**	**104**	**12,899**
Deposits from central banks	-	-	-	-	-	91	-	-	**91**
Financial liabilities held for trading and derivatives held for hedging	-	-	-	-	-	-	-	79	**79**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	18	-	**18**
Financial liabilities measured at amortised cost	3,284	1,132	465	513	803	4,457	578	-	**11,231**
Total financial liabilities	**3,284**	**1,132**	**465**	**513**	**803**	**4,548**	**596**	**79**	**11,420**

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2014, a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR +19,763,305 and EUR –3,316,773 respectively.

Note 3 – Financial risk management (continued)

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

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.

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 2014 and 2013, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR):

31 December 2014	EUR	USD	Other	Total
Cash and cash balances with central banks	52,048,136	6,770	15,560	**52,070,466**
Financial assets at fair value through profit or loss and held for trading	-	66,498,783	56,590,579	**123,089,361**
Available-for-sale financial assets	2,837,450,200	-	-	**2,837,450,200**
Loans and advances	9,319,822,296	169,152,965	397,882,545	**9,886,857,806**
Total financial assets	**12,209,320,632**	**235,658,518**	**454,488,683**	**12,899,467,833**
Deposits from central banks	90,925,683	-	-	**90,925,683**
Financial liabilities at fair value through profit or loss, held for trading and held for hedging	60,459,656	7,232,672	11,787,765	**79,480,093**
Financial liabilities at fair value through profit or loss	-	-	18,209,510	**18,209,510**
Financial liabilities measured at amortised cost	10,829,412,455	308,060,604	93,776,759	**11,231,249,818**
Total financial liabilities	**10,980,797,794**	**315,293,276**	**123,774,033**	**11,419,865,103**

Note 3 – Financial risk management (continued)

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

(f) Capital management and capital adequacy

Regulatory capital

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

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

The Bank regulatory capital is determined in compliance with CSSF circulars, which adopted the Basel III capital requirements with effect from 1 January 2014.
As a result, the Bank's regulatory capital requirements were based on Basel II in 2013 and on Basel III in 2014.
The Bank regulatory capital consists of the sum of the following elements:

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

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

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.

The Bank's regulatory position under Basel III at 31 December 2014, excluding income for the current year, is as follows:

	2014	**2013**
Tier 1 Capital		
Ordinary share capital	535,091,520	535,091,520
Other reserves and retained earnings	741,549,272	675,331,099
less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital		(105,593)
Others deductions	-	-
Total Tier 1	**1,276,640,792**	**1,210,317,026**
Tier 2 Capital		
Valuation differences in AFS securities		29,845,054
SA General credit risk adjustments	1,422,114	
less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital		(105,593)
Total Tier 2	**1,422,114**	**29,739,461**
Total own fund elligible for solvency purposes	**1,278,062,906**	**1,240,056,487**

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).

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.

	2014		**2013**	
	Amount of risk weighted assets	**Capital requirements**	**Amount of risk weighted assets**	**Capital requirements**
Credit and couterparty risk	**8,228,283,566**	**658,262,685**	**9,310,850,246**	**744,868,020**
Central governments and central banks	246,253	19,700	660,742	52,859
Regional governments & local authorities	853,192	68,255	-	-
Multilateral Development banks	242	19	-	-
Corporates	753,186,032	60,254,883	548,318,857	43,865,509
Institutions	7,426,840,411	594,147,233	8,725,875,829	698,070,066
Retail	3,653,595	292,288	4,556,797	364,544
Exposures in default	11,877,828	950,226	-	-
Equity exposures	2,657,075	212,566	-	-
Other items	28,968,938	2,317,515	31,438,021	2,515,042
Market risk	-	-	-	-
Operational risk		**33,270,898**		**25,454,087**
Total risk weighted assets and capital requirements	**8,228,283,566**	**691,533,583**	**9,310,850,246**	**770,322,107**
Tier 1 capital ratio		*14.77%*		*12.57%*
Tier capital ratio		*14.79%*		*12.88%*

Capital adequacy

Under the European regulation transposed into national law by the CSSF circulars as amended, the Bank is required to comply with the regulatory ratios at all times meaning minimum common equity capital ratio at least equal to 4,5%, a minimum Tier 1 Capital ratio at least equal to 6% and a minimum Total Capital plus Conservation buffer of 10,5%.

As at 31 December 2014, the solvency ratio of the Bank is 14,79% (2013: 12,88%), above the regulatory limit of 8% and above the Conservation buffer limit of 10,5%. Over the 2014 year, the higher solvency ratio amounted to 15,01% (September) and the lower amounted to 13,02% (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.

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 2014 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 2014 and 2013, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.

As at 31 December 2014 and 2013, the notional amount and fair value of the derivatives held for trading are as follows (in EUR):

	2014		2013	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	-	-	1,052,750,000	1,140,550
Currency instruments	1,949,083,663	104,144,023	1,577,825,363	32,543,980
	1,949,083,663	**104,144,023**	**2,630,575,363**	**33,684,530**
Liabilities				
Interest rate instruments	1,325,000,000	3,429,073	2,600,000,000	939,240
Currency instruments	1,488,153,564	19,000,422	1,977,031,678	48,918,350
	2,813,153,564	**22,429,495**	**4,577,031,678**	**49,857,590**

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

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**	
	2014	**2013**	**2014**	**2013**
Assets				
Loans and advances	9,887	11,745	9,712	11,622
Liabilities				
Financial liabilities measured at amortised cost	11,231	12,576	11,310	13,094

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

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

The cash flows are discounted with reference to the 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.

Note 3 – Financial risk management (continued)

Fair value hierarchy

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

(i) Valuation models

As at 31 December 2014 and 2013, the Bank uses the following fair value hierarchy for determining and disclosing the fair value of financial instruments, which reflects the significance of the inputs used in making the measurements:

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

(ii) Valuation framework

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

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

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

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

31 December 2014 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
- Derivatives held for trading	-	104,144,024	-	**104,144,024**
Financial assets at fair value through profit or loss				
- Debt instruments	-	18,945,337	-	**18,945,337**
Available-for-sale financial assets				
- Equity instruments (other than investments in subsidiaries)	633,111	1,707,185	-	**2,340,296**
- Debt instruments	2,835,109,903	-	-	**2,835,109,903**
Total financial assets	**2,835,743,014**	**124,796,546**	**-**	**2,960,539,561**
Financial liabilities held for trading				
- Derivatives held for trading	-	22,409,480	-	**22,409,480**
- Short positions	20,015	-	-	**20,015**
Financial liabilities at fair value through profit or loss	-	18,209,510	-	**18,209,510**
Derivatives held for hedging	-	57,030,583	-	**57,030,583**
Total financial liabilities	**20,015**	**97,649,573**	**-**	**97,669,588**

Note 3 – Financial risk management (continued)

31 December 2013 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	95,286	33,684,530	-	**33,779,816**
- Derivatives held for trading				
Financial assets at fair value through profit or loss				
- Debt instruments	-	21,266,660	-	**21,266,660**
Available-for-sale financial assets				
- Equity instruments (other than investments in subsidiaries)	-	1,587,185	-	**1,587,185**
- Debt instruments	2,736,812,493	-	-	**2,736,812,493**
Total financial assets	**2,736,907,779**	**56,538,375**	**-**	**2,793,446,154**
Financial liabilities held for trading				
- Derivatives held for trading	-	49,857,590	-	**49,857,590**
Financial liabilities at fair value through profit or loss	-	30,583,590	-	**30,583,590**
Derivatives held for hedging	-	28,617,319	-	**28,617,319**
Total financial liabilities	**-**	**109,058,499**	**-**	**109,058,499**

During the reporting years ending 31 December 2014 and 31 December 2013, there were no transfers between Level 1 and Level 2 categories, and no transfers into and out of Level 3 category.

(j) Operating segments

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

Alongside these strategic divisions the Bank has also governance and administration divisions. The strategic divisions include: the Corporate Banking division which operates on loans, deposits, securities trading and other transactions with corporate customers. During 2013, this 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.

Note 3 – Financial risk management (continued)

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

Results by strategic divisions in EUR '000	2014					
	Corporate & Financial Engineering	Wealth Management	Financial Markets	Others Financial Institutions	Governance	Total revenues
Net interest margin	31,108	4,852	34,749	153,309	-	152,099
Dividends	-	3,760	43	-	-	3,803
Net commission margin	7,501	5,784	3,265	120	-	16,670
Net trading income	5,456	1,677	34,746	4	-	30,971
Net other income	1,899	(420)	(114)	7,757	-	10,189
Profit from discontinuing operations	-	-	-	-	-	-
Impairment on financial assets	457	42	-	835	-	1,335
Total area results	**30,504**	**5,991**	**77,291**	**146,512**	**-**	**194,688**
Impairment on financial assets					-	-
Depreciation					(716)	**(716)**
Provision					(644)	**(644)**
Staff and operating expenses					(27,039)	**(27,039)**
Tax expenses					(2,798)	**(2,798)**
Total operating & extraordinary expenses					(31,197)	**(31,197)**
RESULTS FOR THE YEAR						**163,492**

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)
Total area results	**15,010**	**(29,821)**	**60,305**	**157,066**	**(6,501)**	**196,059**
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)
Total operating & extraordinary expenses					**(29,841)**	**(29,841)**
RESULTS FOR THE YEAR						**166,218**

Data are presented net of inter-division relationships.

Note 3 – Financial risk management (continued)

Assets by strategic division in EUR'000 2014	Corporate & Financial Engeneering	Wealth Management	Financial Markets	Others Financial Institutions	Total
Cash and cash balances with central banks	-	-	51,678	392	**52,070**
Financial assets held for trading	145	2,074	101,925	-	**104,144**
Financial assets designated at fair value through profit or loss	-	-	-	18,945	**18,945**
Available-for-sale financial assets	-	-	633	2,836,817	**2,837,450**
Held-to-maturity investments	-	-	-	-	**-**
Loans and advances	1,941,872	35,215	739,860	7,169,911	**9,886,858**
Loans and advances to credit institutions		-	628,886	6,983,986	**7,612,872**
Loans and advances to customers	1,941,872	35,215	110,974	185,925	**2,273,985**
Derivatives held for hedging	-	-	-	-	**-**
Tangible fixed assets	-	-	-	9,363	**9,363**
Intangible assets	-	-	-	-	**-**
Deferred tax assets	-	-	-	5,161	**5,161**
Other assets	103	559	805	12,978	**14,445**
Total assets	**1,942,120**	**37,848**	**894,901**	**10,053,568**	**12,928,437**

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

Notes to the financial statements (continued)
31 December 2014

Note 3 – Financial risk management (continued)

Liabilitis & Equity by strategic division in EUR'000 **2014**

Liabilities	Corporate & Financial Engeneering	Wealth Management	Financial Markets	Others Financial Institutions	Total
Deposits from central banks	-	-	90,926	-	**90,926**
Financial liabilities held for trading	-	479	21,971	-	**22,450**
Financial liabilities designated at fair value through profit or loss	18,210	-	-	-	**18,210**
Financial liabilities measured at amortised cost	**8,486,414**	**580,460**	**2,161,726**	**2,650**	**11,231,250**
Deposits from credit institutions	7,927	101,939	744,937	38	**854,841**
Deposits from customers	2,623,312	465,517	428,157	2,069	**3,519,055**
Debts evidenced by certificates	5,855,175	13,005	988,632	542	**6,857,353**
Derivatives held for hedging	-	-	57,031	-	**57,031**
Provisions	81	169	-	2,032	**2,282**
Deferred tax liabilities	-	-	-	14,271	**14,271**
Other liabilities	1,285	227	1,442	35,417	**38,370**
Total liabilities	**8,505,989**	**581,334**	**2,333,095**	**54,370**	**11,474,788**
Equity					
Share capital	-	-	-	535,092	**535,092**
Revaluation reserve	-	-	48	13,469	**13,516**
Other reserves and retained earnings	399	(1,897)	6,241	736,806	**741,549**
Net profit for the year	(25,438)	5,432	69,123	114,375	**163,492**
Total equity	**(25,040)**	**3,535**	**75,412**	**1,399,742**	**1,453,649**
Total liabilities and equity	**8,480,950**	**584,869**	**2,408,506**	**1,454,111**	**12,928,437**

Liabilitis & Equity by strategic division in EUR'000 **2013**

Liabilities	Corporate & Financial Engeneering	Wealth Management	Financial Markets	Others Financial Institutions	Total
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	**1,408,498**	**7,345,001**	**3,819,182**	**3,790**	**12,576,471**
Deposits from credit institutions	*60*	-	*598,918*	-	***598,978***
Deposits from customers	*1,396,530*	*1,570,621*	*1,100,752*	*3,313*	***4,071,216***
Debts evidenced by certificates	*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**
Total liabilities	**1,430,952**	**7,346,422**	**4,408,276**	**53,631**	**13,239,281**
Equity					
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**
Total equity	**13,928**	**(31,738)**	**66,545**	**1,357,751**	**1,406,486**
Total liabilities and equity	**1,444,880**	**7,314,683**	**4,474,821**	**1,411,382**	**14,645,767**

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)	Net carrying amount 2014	2013
Cash and cash balances with central banks	52,070,466	77,769,428
Loans and advances to banks with maturity ≤ 3 months	57,781,658	730,069,280
	109,852,124	**807,838,708**

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 2014 is EUR 51,673,954 (2013: EUR 77,168,111).

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

(in EUR)	Net carrying amount 2014	2013
Financial assets held for trading		
Derivatives held for trading	104,144,024	33,779,816
	104,144,024	**33,779,816**
Financial assets designated at inception at fair value through profit or loss		
Securities	18,945,337	21,266,660
	18,945,337	**21,266,660**

The result arising from the sale of securities during 2014 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 2014, the position is represented by a unique structured corporate bonds issued in JPY, maturing in February 2021, and funded by a deposit in the same currency from the Bank's ultimate Parent Company.

Note 6 – Available-for-sale financial assets

(in EUR)	Net carrying amount	
	2014	**2013**
Quoted debt instruments issued by:		
Financial institutions	25,149,558	553,390,618
Public sector	2,809,960,345	2,183,421,875
	2,835,109,903	**2,736,812,493**

During 2014, the Bank participated to the LTRO mechanism from the Luxembourg Central Bank for an amount of EUR 91 million with maturity end of September 2018. The deposit is collateralised by eligible securities purchased under REPO transactions within the Group for an amount of EUR 91 million. The Bank started participating in the program in 2012, obtaining a financing of EUR 1,200,000, maturing in 2015. At the end of 2013 the obtained financing was replaced by a new one amounting to EUR 500,000,000 and maturing end of March 2014.

Quoted shares:
As at 31 December 2014 the Bank holds shares issued by Intesa Sanpaolo S.p.A. for an amount of EUR 633,111, bought by the Bank at end 2014, to be distributed to the Bank employees in 2015 in respect of a plan developed by the Parent Company. All the shares will be given to employees without consideration.

(in EUR)	Net carrying amount	
	2014	**2013**
Not quoted shares issued by:		
ISP Group	633,111	-
Corporates	211,185	211,185
Other	1,496,000	1,376,000
	2,340,296	**1,587,185**

As at 31 December 2014, shares in affiliated undertakings, which are classified in this category, where the Bank held at least 20% are as follows:

Company	**Registered office**	**Percentage owned**	**Net equity (in EUR)***	**Of which the result of the year (in EUR)***
Lux Gest Asset Management S.A.	Luxembourg	100%	1,649,386	1,420,549

* based on unaudited financial statements as of 31 December 2014

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:

	Fixed income securities	Floating income securities	Equity securities	Total
Balance as at 31 December 2013	**14,326,355**	**14,807,954**	**710,745**	**29,845,054**
Increase (decrease) of unrealised gain	(5,785,595)	(16,888,190)	167,644	(22,506,141)
(Increase) decrease of unrealised loss	(123,197)	(440,490)	-	(563,687)
Deferred tax	1,726,549	5,063,440	(48,985)	6,741,004
Balance as at 31 December 2014	**10,144,112**	**2,542,714**	**829,404**	**13,516,230**

Note 7 – Loans and advances

	2014		2013	
(in EUR)	**Total net carrying amount**	**of which: Impairment**	**Total net carrying amount**	**of which: Impairment**
Unquoted loans and advances to:				
Financial institutions and public sector	7,613,725,547	1,062,277	10,077,238,164	1,287,747
Private customers	803,516,831	10,711,066	831,883,183	10,834,065
Corporate customers	1,469,615,428	10,356,953	835,486,071	13,172,690
Total	**9,886,857,806**	**22,130,296**	**11,744,607,418**	**25,294,502**

Note 7 – Loans and advances (continued)

Impairment allowance for loans and advances

As at 31 December 2014, the Bank has determined its collective impairment at EUR 1,422,114 (2013: EUR 1,607,234) and its individual impairment at EUR 20,708,182 (2012: EUR 23,687,268).

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

	2014	**2013**
Impairment as at 1st January	25,294,502	24,987,120
Charge of the year/Transfers	379,873	2,200,070
Recoveries/amounts written off	(3,544,079)	(1,892,688)
Impairment as at 31 December	**22,130,296**	**25,294,502**
of which:		
Individual impairment	20,708,182	23,687,268
Collective impairment	1,422,114	1,607,234

Guarantees received as collateral

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

	2014		**2013**	
	Loans and advances to customers	**Loans and advances to credit institutions**	**Loans and advances to customers**	**Loans and advances to credit institutions**
Net carrying amounts	2,273,985,451	7,612,872,355	1,682,975,548	10,061,631,870
Real guarantees				
Mortgage	-	-	-	-
Securities	9,124,345	-	24,473,518	-
Other real guarantees	1,762,592,301	-	951,232,942	-
Personal guarantees				
Government guarantees	-	-	-	-
Credit institutions guarantees	996,393,377	21,183,308	534,634,199	79,995,614
Total guarantees	**2,768,110,023**	**21,183,308**	**1,510,340,659**	**79,995,614**

Note 8 – Property and equipment

(in EUR)	**Land and building**	**Office equipment**	**Other equipment**	**Total**
Cost as at 1st January 2013	27,048,974	1,839,721	8,491,217	37,379,912
Additions	12,980	22,655	60,471	96,106
Disposals	(1,444,087)	(213,471)	(931,613)	(2,589,171)
Cost as at 31 December 2013	25,617,867	1,648,905	7,620,075	34,886,757
Accumulated depreciation as at 1st 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)
Net carrying amount as at 31 December 2013	**8,337,810**	**154,806**	**795,958**	**9,288,484**

(in EUR)	**Land and building**	**Office equipment**	**Other equipment**	**Total**
Cost as at 1st January 2014	25,617,867	1,648,905	7,620,075	34,886,847
Additions/Disposals/Transfers	54,935	3,142	732,640	790,717
Cost as at 31 December 2014	25,672,802	1,652,047	8,352,715	35,677,564
Accumulated depreciation as at 1st January 2014	(17,280,057)	(1,494,099)	(6,824,117)	(25,598,273)
Depreciation charge/Transfers	(361,784)	(19,922)	(334,457)	(716,163)
Accumulated depreciation as at 31 December 2014	(17,641,841)	(1,514,021)	(7,158,574)	(26,314,436)
Net carrying amount as at 31 December 2014	**8,030,962**	**138,026**	**1,194,141**	**9,363,129**

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

Note 9 – Intangible assets

As at 31 December 2014 and 2013, 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 local shareholder Intesa Sanpaolo Holding International S.A., which presents significant tax losses carried forward.

Deferred tax assets and liabilities

(in EUR)	2014	2013
Deferred tax assets	5,161,068	5,009,489
Deferred tax liabilities	(14,271,075)	(18,062,314)
Net deferred tax assets (liabilities)	**(9,110,007)**	**(13,052,825)**

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

(in EUR)	1 January 2014	Income statement	Equity	31 December 2014
Financial assets held for trading	(18,829,795)	(3,037,552)	-	**(21,867,347)**
Financial assets at fair value through profit or loss	4,822,235	87,793	-	**4,910,028**
Available-for-sale financial assets	(12,320,890)	-	6,740,998	**(5,579,892)**
Financial liabilities held for trading	12,408,700	325,352	-	**12,734,052**
Financial liabilities at fair value through profit or loss	534,623	(118,886)	-	**415,737**
Provisions and value adjustments	332,302	(54,887)	-	**277,415**
Net deferred income tax assets/(liabilities)	**(13,052,825)**	**(2,798,180)**	**6,740,998**	**(9,110,007)**

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

As at 31 December 2014, full recognition of deferred tax assets has been performed by the Bank because they have been lower than deferred tax liabilities amount.

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

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

The deferred tax assets/liabilities calculated on available-for-sale financial assets contributing to the other comprehensive income are showing a net deferred tax asset balance. The deferred tax amount has been consequently shown in addition to the relative comprehensive income.

Note 11 – Other assets and other liabilities

(in EUR)	2014	2013
Prepaid charges	568,466	607,702
VAT	11,584,695	8,010,642
Accrued commission income	470,896	382,725
Other	1,820,694	6,645,657
Other assets	**14,444,751**	**15,646,726**

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)	2014	2013
Social security charges	659,038	507,251
Withholding taxes and VAT	28,238,866	20,914,439
Administrative expenses to be paid	6,723,428	8,943,419
Accrued commission expenses	51,233	236,244
Short term payable and other sundry accounts	2,697,390	3,776,523
Other liabilities	**38,369,956**	**34,377,876**

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

Note 12 – Deposits from central banks

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

The Bank started participating in the program in 2012, obtaining a financing of EUR 1,200,000, maturing in 2015. The obtained financing was replaced by a new one amounting to EUR 500,000,000 and maturing end of March 2014 in the end of 2013.

As at the end of 2014, the LTRO transactions were again available by auctions and the Bank decided to participate obtaining a new financing for an amount of EUR 90.925.683, maturing in 2018.

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

As at 31 December 2014, the caption is composed of a financial liability which is eligible, according to IAS 39, to fair value option, with a fair value based on the discounted cash flows method. As at 31 December 2014, the fair value of this liability amounts to EUR 18,209,510 (2013: EUR 30,583,592).

Note 14 – Financial liabilities measured at amortised cost

(in EUR)	**2014 Carrying amount**	**2013 Carrying amount**
Current accounts and amounts with period of notice	243,245,552	117,739,955
Term deposits	611,595,728	481,237,892
Deposits from credit institutions	**854,841,280**	**598,977,847**
Current assets and amounts with period of notice	496,803,906	449,683,218
Term deposits	2,904,464,384	3,459,461,066
Deposits from corporate customers	**3,401,268,290**	**3,909,144,284**
Current accounts	83,824,801	79,696,047
Term deposits	33,962,222	82,376,401
Deposits from private customers	**117,787,023**	**162,072,448**
Debts evidenced by Certificates of deposits	5,868,721,351	5,786,764,826
Bonds	970,425,805	1,665,885,568
Commercial papers	18,206,068	453,626,928
Bonds issued and Certificates of deposits	**6,857,353,225**	**7,906,277,322**
Total	**11,231,249,818**	**12,576,471,901**

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

Commercial Papers:

Since March 2011, the Bank participates as an additional issuer in an 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 programme is guaranteed by Intesa Sanpaolo S.p.A..

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

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

As at 31 December 2014, ECP issued by the Bank amounted to EUR 18 million (2013: EUR 454 million).

Bonds:

Since November 2011, the Bank participates as an additional issuer in a EUR 70 billion Euro Medium Term Notes (EMTN) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE).

The programme is guaranteed by Intesa Sanpaolo S.p.A.. The EMTN (the "bonds") issued under this programme bear a maturity date of at least 5 years. The maximum aggregate principal amount of bonds from time to time outstanding in respect of all issuers will not exceed EUR 70 billion or the equivalent thereof in other currencies.

The bonds are denominated in any currency subject to compliance with any applicable legal and or regulatory and or central bank requirements. As at 31 December 2014, such bonds issued by the Bank amount to EUR 970 million (2013: EUR 1,666 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.

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

	2014		**2013**	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Liabilities				
Interest rate instruments	1,100,000,000	57,030,583	750,000,000	28,617,319
	1,100,000,000	**57,030,583**	**750,000,000**	**28,617,319**

Hedged items are as follows (in EUR):

	2014	**2013**
	Fair value	**Fair value**
Available-for-sale financial assets	1,169,074,066	740,127,336

Note 16 – Provisions

(in EUR)

Provision as at 1st January 2013	**1,389,639**
Reductions	**(24,592)**
Additions	**651,076**
Provision reversed during the year	**(750,000)**
Provisions as at 31 December 2013	**1,266,123**
Provision as at 1st January 2014	**1,266,123**
Reductions	**(281)**
Additions	**1,020,368**
Provision reversed during the year	**(4,199)**
Provisions as at 31 December 2014	**2,282,011**

The above table shows provisions movements from 31 December 2013 to 31 December 2014. Addictions have been generated by foreign exchange movements (linked to some provisions in foreign currency) for an amount of EUR 222.872 and by specific events which for which the bank could incur in future charges for an amount of EUR 797.496.

Note 17 –Equity

Share capital

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

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

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

Note 17 –Equity (continued)

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

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

As at 31 December 2014, 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 for 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 2014, the legal reserve amounts to EUR 53,550,000 as the previous year.

Other reserves

As at 31 December 2014, other reserves amount to EUR 683,103,309 (2013: EUR 616,903,309).

As at 31 December 2014 and 2013, this caption includes an amount of EUR 250 million resulting from the transfer for no consideration of the "investment funds" activity in 2008 as mentioned in note 1.

Retained earnings

As at 31 December 2014, retained earnings including the impact of the first time application (FTA) of IFRS as adopted by the European Union, amount to EUR 4,895,963 (2013: EUR 4,877,790).

Note 17 –Equity (continued)

Profit allocation proposal

The amount attributable to shareholders, including earnings profit from previous financial years but excluding the impact of the first time application of IFRS as adopted by European Union, totals EUR 163,576,933, which corresponds to a return on equity of circa 12,72% (2013: 13,40%). It is proposed to the Annual General Shareholders' Meeting approving the financial statements as at 31 December 2014 to allocate the above mentioned amounts as follows (in EUR):

	2014
Net profit of 2014 financial year	163,491,613
Retained profit from previous years (excluding FTA)	85,320
Amount attributable to Shareholders	**163,576,933**
Allocation to other reserves	63,570,000
Dividend for the financial year	100,000,000
Total	**163,570,000**
Retained profit carried forward to the next financial year	6,933

Note 18 – Net interest income

(in EUR)	**2014**	**2013**
Cash balances with central banks	104,026	352,434
Financial assets held for trading	5,567	5,987
Financial assets at fair value through profit or loss	609,854	668,011
Hedging derivatives	7,871,897	10,005,258
Available-for-sale financial assets	55,304,239	54,518,224
Loans and advances	238,402,281	262,973,763
Other	4,274	7,495
Total interest and similar income	**302,302,139**	**328,531,172**

(in EUR)	**2014**	**2013**
Hedging derivatives	26,735,596	18,658,925
Financial assets held for trading	5,911	3,899
Financial liabilities measured at amortised cost	123,048,881	146,568,659
Financial liabilities at fair value thought profit or loss	412,544	421,785
Total interest expenses and similar charges	**150,202,931**	**165,653,268**
Net interest income	**152,099,207**	**162,877,904**

No interest has been accrued in respect of impaired assets in 2014 and 2013.

Note 19 – Net fee and commission income

(in EUR)	2014	2013
Credit activities	7,208,237	6,624,334
Asset management	17,512,638	17,316,086
Corporate services	1,216,880	1,907,303
Other	3,930,842	5,161,706
Total fee and commission income	**29,868,597**	**31,009,429**
Credit activities	3,896,063	4,502,772
Brokerage and clearing fees	6,315,018	5,442,432
Other	2,988,014	3,411,790
Total fee and commission expenses	**13,199,095**	**13,356,994**
Net fee and commission income	**16,669,502**	**17,652,435**

Note 20 – Dividend income

As at 31 December 2014 and 2013, 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 2014 and 2013, the net un(realised) (losses) on financial assets and liabilities held for trading are composed of:

(in EUR)	2014	2013
Equity instruments and linked derivatives	185,756	195,453
Interest rate instruments and linked derivatives	(8,708,020)	1,077,555
Foreign exchange transactions	443,979	(8,168,975)
	(8,078,285)	**(6,895,967)**

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

As at 31 December 2014 the 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 20 thousands (2013: EUR 619 thousands) and of realised gains on debt securities for an amount of EUR 114 thousands (2013: EUR 377 thousands).

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

As at 31 December 2014 and 2013, 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 2014 and 2013, 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)	**2014**	**2013**
Wages and salaries	13,086,931	13,131,370
Social security charges	1,711,112	1,804,737
Legal pension and similar expenses	723,578	779,596
Employee benefits	695,758	266,717
Other	89,917	105,000
Total staff expenses	**16,307,297**	**16,087,420**
Operating expenses	1,707,187	1,829,554
Repair and maintenance	305,339	366,422
Training and moving	995,741	861,129
IT outsourcing costs	5,335,149	5,030,632
Legal and professional fees	568,183	976,085
Data provider fees	1,509,223	1,576,484
Charges linked to Corporate activity and other charges	310,427	531,369
Total general and administrative expenses	**10,731,249**	**11,171,675**
Total administrative expenses	**27,038,546**	**27,259,095**

Note 25 – Administrative expenses (continued)

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

	2014	2013
Senior Management	4	4
Middle Management	57	60
Employees	100	102
	161	**166**

Note 26 – Net Impairment on financial assets

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

(in EUR)	2014	2013
Loans and advances	1,334,568	(1,663,409)
Impairment	**1,334,568**	**(1,663,409)**

Note 27 – Discontinued operation

On 1 October 2013, the Bank has sold its corporates' domiciliation activity.

The "Profit from discontinued operations" net of tax caption includes in 2013 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 business days after the closing date.

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

- (Target revenues – Effective revenues)*0.77 where
    - Target revenues: EUR 8,25 million as defined in the contract;
    - Effective revenues: revenues generated during 2014 by the entities perimeter transferred;
    - 0.77: multiplier defined in the contract.

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

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.

Results of discontinued operations:

(in EUR)	**2013**
Revenues	3,585,487
Expenses	(2,420,685)
Results from operating activities	**1,164,802**
Gain on sale of discontinued operation	4,380,618
Profit from discontinued operations net of tax	**5,545,420**

Concerning 2013, the "Revenues" caption includes commission incomes earned by the Bank during the year (until the closing date) 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) in relation to the employees transferred to the acquirer following the sale of the domiciliation activity.

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

In relation to 2013, the Bank did not distinguish between the operating cash flows from continued and discontinued activities. However, the Bank assessed the operating cash flows from discontinued activities as being insignificant.

No "contingent asset" has been booked during 2014; the Bank did not obtain sufficient elements from the acquirer to support the booking of a contingent asset and to confirm that the above mentioned formula could generate a positive outcome concerning the second post-closing payment.

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

The amount of main assets, liabilities, income and expenses as at 31 December 2014 and 2013 concerning Group entities and the parent companies are as follows:

(in EUR)	2014	2013
Assets and liabilities		
Assets held for trading and assets carried at fair value through profit or loss	87,706,577	28,679,235
Available-for-sale financial assets	10,993,263	181,544,506
Loans and advances	7,773,670,698	10,234,605,957
Financial liabilities held for trading and liabilities carried at fair value through profit or loss	37,242,857	64,484,383
Financial liabilities measured at amortised cost	8,358,521,200	9,999,425,347
Hedging derivatives	57,030,583	28,617,319

(in EUR)	2014	2013
Income and expenses		
Interest income	175,986,183	206,658,767
Fees and commissions received	2,118,033	2,353,283
Dividend income	3,760,000	2,630,000
Interest expenses	87,961,975	125,451,018
Fees and commissions paid	728,126	1,285,491

As at 31 December 2014 and 2013, no impairment loss was recognised on available-for-sale financial assets and loans and advances with related parties.

Note 28 – Related party disclosures (continued)

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

(in EUR)	2014	2013
Administrative bodies	101,250	105,000
Other key management personnel	974,690	842,000
	1,075,940	**947,000**

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

As at 31 December 2014 and 2013, the Bank has no obligations related to retirement pensions for former administrative bodies and key management personnel.

As at 31 December 2014 and 2013, 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)	2014	2013
Unused confirmed credits	277,976,392	135,111,987
- out of which towards related parties	-	-
Guarantees and other direct substitutes for credit	43,279,003	33,895,534
- out of which towards related parties	*55,015*	*59,905*

Note 29 – Commitments and contingent liabilities (continued)

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

(in EUR)	2014		2013	
	Contingent liabilities	**Unused confirmed credits**	**Contingent liabilities**	**Unused confirmed credits**
Amounts	**43,279,003**	**277,976,392**	**33,895,534**	**135,111,987**
Real guarantees				
Securities	1,626,877	-	4,230,008	-
Other real guarantees	16,521,597	277,976,392	24,910,645	100,284,222
Personal guarantees				
Government guarantees	-	-	-	-
Credit institutions guarantees	1,516,851	-	166,230	18,127,765
Total guarantees	**19,665,325**	**277,976,392**	**29,306,883**	**118,411,987**

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;
- and Fiduciary representation.

Assets managed on behalf of third parties are as follows:

(in EUR)	2014	2013
Custody and administration of transferable securities	9,765,739,265	10,210,726,576
Fiduciary representation	781,879,419	1,387,855,194
Wealth Management	177,464,498	245,454,348

Note 32 – Audit fees

The audit fees and audit related fees for the years ended 31 December 2014 and 2013 are as follows:

(in EUR)	2014	2013
Audit fees	119,000	119,000
Audit related fees	-	-
Other	41,000	41,000
	160,000	**160,000**

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 2014 and the date when the present financial statements were authorised for submission, by the Board of Directors, to the Annual General Meeting of Shareholders.