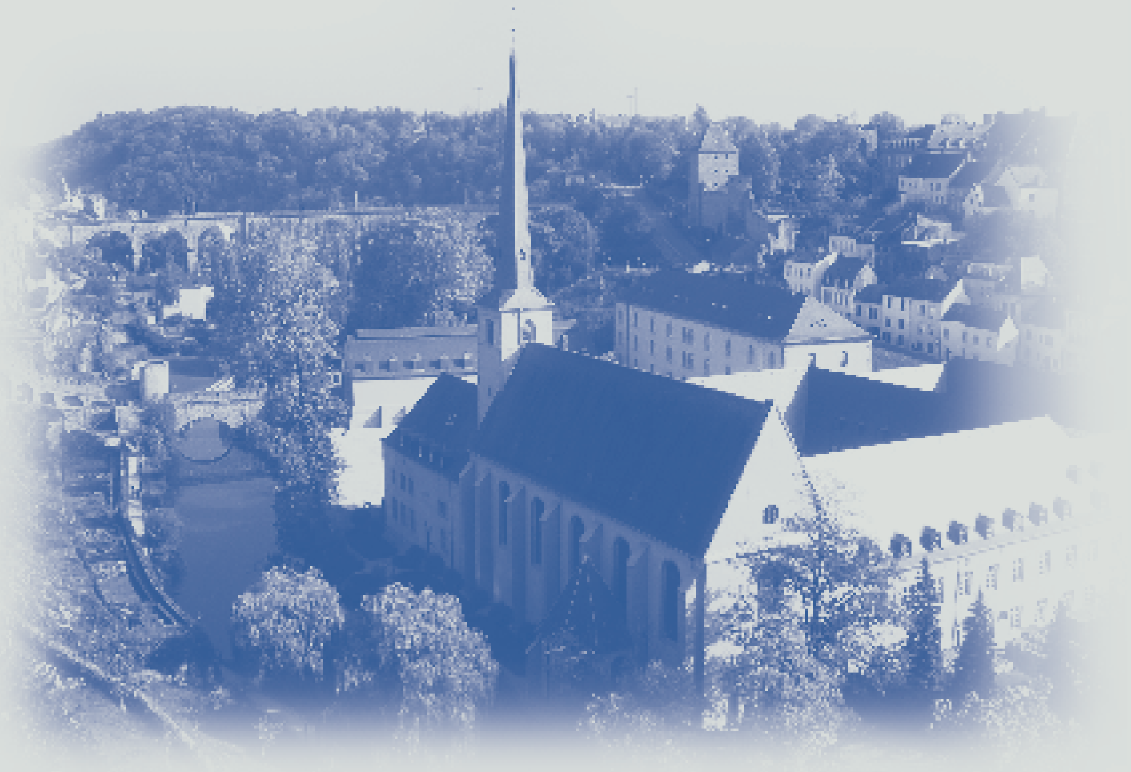
Société Européenne de Banque

2010


# Statement of Financial Position
# Income Statement
# Annual Report

INTESA SANPAOLO



# Summary

# Board of Directors

BOARD OF DIRECTORS MEMBERS AS AT 31st DECEMBER 2010

| | |
|---|---|
| **Chairman** | Mr Angelo CALOIA |
| **Deputy-Chairman** | Mr Ferdinando SUPERTI FURGA |
| **Managing Director and Chief Executive Officer** | Mr Marco BUS |
| **Directors** | Mr Walter AMBROGI<br>Mr Salvatore CATALANO<br>Mr Paul HELMINGER<br>Mr Francesco INTROZZI<br>Mr Edmond ISRAEL<br>Mr Paolo MOLESINI<br>Mr Marco ROTTIGNI<br>Mr Stefano STANGONI |

BOARD OF DIRECTORS APPOINTED DURING THE ORDINARY GENERAL ASSEMBLY APPROVING THE 2010 FINANCIAL STATEMENTS HELD ON 17th MARCH 2011

| | |
|---|---|
| **Chairman** | Mr Angelo CALOIA |
| **Deputy-Chairman** | Mr Ferdinando SUPERTI FURGA |
| **Managing Director and Chief Executive Officer** | Mr Marco BUS |
| **Directors** | Mr Walter AMBROGI<br>Mr Salvatore CATALANO<br>Mr Paul HELMINGER<br>Mr Francesco INTROZZI<br>Mr Paolo MOLESINI<br>Mr Arthur PHILIPPE<br>Mr Marco ROTTIGNI<br>Mr Stefano STANGONI |

# Auditor

Ernst & Young, Luxembourg



# Executive Committee

| | *Until 17th February 2011* | *As from 17th February 2011* |
|---|---|---|
| **Chairman** | Mr Marco BUS | Mr Marco BUS |
| **Members** | Mr Walter AMBROGI<br>Mr Francesco MOGLIA<br>Mr Marco ROTTIGNI | Mr Walter AMBROGI<br>Mr Giuseppe GIAMPIETRO<br>Mr Marco ROTTIGNI |

# Audit Committee

| | *As from 20th July 2010* |
|---|---|
| **Chairman** | Mr Francesco INTROZZI |
| **Members** | Mr Giuseppe LA SORDA<br>Mr Roberto VERCELLI |
| **Permanent Guests** | Mr Stefano BUSCAGLIA<br>Mr Stefano GANDOLFI |

# Management authorised by the CSSF

| | *Until 17th March 2011* | *As from 17th March 2011* |
|---|---|---|
| **Managing Director & Chief Executive Officer** | Mr Marco BUS | Mr Marco BUS |
| **General Director** | Mr Francesco MOGLIA | Mr Giuseppe GIAMPIETRO |
| **Chief Financial Officer** | Mr Franco VIVALDI | Mr Franco VIVALDI |

# Direct and Indirect Shareholders

As at 31st December 2010

Banca Intesa Sanpaolo S.p.A. Italie

100%

Intesa Sanpaolo Holding International Luxembourg

100%

Société Européenne de Banque S.A.

# Organisational Chart

As at 31st December 2010

**Executive Committee** — **Board of Directors** — **Audit Committee**

**Secretariat**
K. Trentini

**Managing Director & CEO**
M. Bus (*)

**Luxgest Asset Management**
M. Paolucci

**Governance Services**
a.i. M. Bus

**International Development**
S. Bodjanski

**Clients Documentation**
A. Beneduci

**Credit & Legal**
A. Simms

**Corporate Structures Division**
F. Moglia (*)
General Manager

**Large Corporate & PE**
a.i. F. Moglia

**Mid-Corporate**
U. Migliorati

**Imprese**
L. Checchinato

**Wealth-Management Division**
E. Tubia

**Private Banking**
O. Piccinelli

**Wealth-Engineering**
a.i. E. Tubia

**Financial Markets Division**
M. Giubergia

**MM & Fex Desk**
G. Wandivinit

**Securities Desk**
a.i. M. Giubergia

**Proprietary Trading**
a.i. M. Giubergia

**Administration & Operations**
F. Vivaldi (*)
Chief Financial Officer

**Finance**
C. Unsen

**Operations**
D. Castellani

**Human Resources**
R. Joncquel

**Organisation, IT & Controlling**
M. Ferrari

**Domiciliation Services**
a.i. F. Vivaldi

**Internal Audit**
C. Patalocchi

**Compliance**
F. Stein

**Risk Management**
L. Sangalli

**Special Affairs**
C. Wagner

**Chief Investment Officer**
M. Paolucci

*a.i. = Ad Interim*
*(*) Management's members authorised by the CSSF*



# Directors' Report

As at 31st December 2010

**Development of the activity**

As of today, the world economy is running at two speeds. The European countries and the United States remain mired in the aftermath of the financial crisis that erupted in the fall of 2008, with high unemployment, slow economic growth and continuing bank-sector problems. Emerging markets, however, have generally surmounted the crisis. Whereas 2009 was a tough year for the entire global economy, emerging markets bounced back strongly in 2010, while rich countries did not.

However, over the past two years, Société Européenne de Banque S.A. (the "Bank") has demonstrated the ability to perform well even in a very difficult market environment with good financial results in 2010 continuing the positive trend already shown in 2009 financial year.

In more details, as of December 2010, the Corporate Structured Division and the Wealth Management Division have reached the targets assigned in the relevant budget (respectively EUR 12.5 million and EUR 25.1 million).

The Financial Markets Division has over performed (plus 18.7% over budget) reaching EUR 50 million, impacted also by the growth of the intra-group funding, which totalled EUR 7.4 billion at the end of the year.

**Risk Control**

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

The Risk Manager monitors on a regular basis, under the supervision of the General Management of the Bank, the market and liquidity risks.
He also manages the operational risk and provides several reportings to the Parent Company, the Audit Committee, the Board of Directors and the General Management.

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

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

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 monitors and evaluates the effectiveness of the Bank's risk management process and the Internal Controls 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.

**Perspectives**

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

The main objectives for 2011 is to achieve the budget target, set at EUR 129.7 million (gross profit) and EUR 90.6 million (net profit) despite a difficult environment.

**Financial elements for 2010**

The total assets as at 31st December 2010 amounted to EUR 10.4 billion (2009: EUR 9.6 billion).

The loans and advances to credit institutions (including balances with central banks), at EUR 8.1 billion, were 9.4% higher than in 2009 due to the increase in the volume of investments with the Group. Loans and advances granted to customers other than credit institutions amounted to EUR 566 million.

The financial assets held for trading are composed of derivatives financial instruments measured at their fair value and amounted to EUR 121 million at 31st December 2010.
They are mainly composed of interest rate swaps and foreign exchange derivative contracts.

The financial assets designated at fair value through profit or loss, which amounted to EUR 194 million as at 31st December 2010 (2009: EUR 235 million), are composed of investments in financial instruments purchased to be kept in the Bank portfolio but measured at fair value.

The available-for-sale financial assets, which amounted to EUR 1,228 million, were mainly composed of debt securities issued by other credit institutions for an amount of EUR 1,209 million and of the investments of the Bank in other financial institutions and banks (EUR 19 million).

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

Concerning the liability side, the Bank has EUR 3.6 billion of deposits from customers (2009: EUR 2.3 billion). The Bank has also issued debts certificates for an amount of EUR 2 billion (2009: EUR 2.1 billion).

The net profit for the year amounts to EUR 96 million (2009: EUR 93 million), with a ROE equal to 20.63% (2009: 22%).

The net interest income amounts to EUR 129 million at the end of 2010. The interest income and expense reflects increase in the 2010 average volume of liquidities, compensated by the decrease of interest rates.
The net fee and commission income is positive and amounts to EUR 25 million, showing a decrease of 15% if compared with the 2009 figures.

As at 13th December 2010, the entity Luxiprivilège Conseil S.A., controlled at 50% by the Bank, has been liquidated generating a net profit of EUR 117,807.

The net (un)realised losses on financial assets and liabilities held for trading amounts to EUR 13 million as at 31st December 2010 (2009: EUR -25 million); the loss is due to the negative fluctuations in the fair value of the assets and liabilities held by the Bank for trading purposes.

The net (un)realised losses on financial assets and liabilities at fair value through profit or loss amounts to EUR -16 million as at 31st December 2010 (2009: gain of EUR 7 million) due to the negative fluctuations in the fair value of the financial assets and liabilities carried at fair value through profit or loss.

The total administrative expenses have increased compared to 2009, moving from EUR 29 million to EUR 31 million. Both the total staff expenses and the other administrative expenses increased respectively for an amount of EUR 1 million.

The Bank has booked depreciations according to the fiscal law. No provisions have been booked in relation to current income taxes due to the fact that the Bank can neutralise its current income taxes thanks to the application of the local rules on the consolidation taxable results with the ones generated by its Mother Company in Luxembourg.
On the other side, deferred tax assets and deferred tax liabilities have been booked as at 31st December 2010.

The net profit of the year available for distribution, including the retained earnings amounts to EUR 96,043,985. The Board of Directors will propose the following allocation of the profits to the Annual General Meeting which will be held to approve the annual accounts as at 31st December 2010 (in €):

| | |
|---|---|
| Net profit of 2010 financial year | 96,016,538 |
| Retained profit from previous years (excluding FTA) | 27,447 |
| **Amount attributable to Shareholders** | **96,043,985** |
| Allocation to reserves | 96,000,000 |
| Retained profit carried forward to the next financial year | 43,985 |

No significant subsequent events, which could have an impact on the 2010 figures or on the disclosures to be provided, happened after 31st December 2010.

The Bank did not purchase own shares during the year 2010.

No research and development costs have been sustained during the year 2010.

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

Luxembourg, 17th February 2011



# Statement of financial position

As at 31st December 2010

(in €)

| ASSETS (In €) | Notes | 2010 | 2009 |
|---|---|---|---|
| **Cash and cash balances with central banks** | 3,4 | **105,690,917** | **71,329,090** |
| **Financial assets held for trading** | 3,5 | **120,675,808** | **230,464,924** |
| **Financial assets designated at fair value through profit or loss** | 3,5 | **194,419,334** | **234,793,821** |
| **Available-for-sale financial assets** | 3,6 | **1,227,939,925** | **853,004,898** |
| **Held-to-maturity investments** | 3,7 | **181,278,922** | **181,312,848** |
| **Loans and advances** | 3,8 | | |
| a) Loans and advances to credit institutions | 4 | 7,991,689,745 | 7,302,590,274 |
| b) Loans and advances to customers | | 566,317,940 | 650,633,428 |
| | | **8,558,007,685** | **7,953,223,702** |
| **Derivatives held for hedging** | 3 | **14,167,923** | **22,910,040** |
| **Property, plant and equipment** | 9 | **11,819,364** | **13,299,656** |
| **Intangible assets** | 10 | **12,331** | **25,308** |
| **Deferred tax assets** | 11 | **22,462,898** | **12,137,272** |
| **Other assets** | 3,12 | **6,796,017** | **6,674,712** |
| **TOTAL ASSETS** | | **10,443,271,124** | **9,579,176,271** |

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

(in €)

| LIABILITIES AND SHAREHOLDERS' EQUITY (In €) | Notes | 2010 | 2009 |
|---|---|---|---|
| **Deposits from central banks** | 3 | **---** | **869,097** |
| **Financial liabilities held for trading** | 3 | **195,625,632** | **137,228,994** |
| **Financial liabilities designated at fair value through profit or loss** | 3,13 | **60,002,276** | **98,219,467** |
| **Financial liabilities measured at amortized cost** | 3,14 | | |
| a) Deposits from credit institutions | | 3,966,799,932 | 4,323,630,365 |
| b) Deposits from customers | | 3,566,460,500 | 2,333,126,839 |
| c) Debts evidenced by certificates | | 2,039,991,298 | 2,110,980,656 |
| | | **9,573,251,730** | **8,767,737,860** |
| **Derivatives held for hedging** | 3 | **3,790,942** | **18,908,444** |
| **Provisions** | 15 | **750,000** | **1,410,598** |
| **Deferred tax liabilities** | 11 | **22,462,898** | **14,493,765** |
| **Other liabilities** | 12 | **20,478,772** | **17,184,083** |
| **TOTAL LIABILITIES** | | **9,876,362,250** | **9,056,052,308** |
| **Shareholders' equity** | 16 | | |
| a) Issued capital | | 45,000,000 | 45,000,000 |
| b) Revaluation reserve | | (8,995,753) | 5,885,874 |
| c) Other reserves and retained earnings | | 434,888,089 | 379,372,478 |
| d) Net profit for the year | | 96,016,538 | 92,865,611 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **566,908,874** | **523,123,963** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **10,443,271,124** | **9,579,176,271** |

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



# Income Statement

for the year ended 31st December 2010

(in €)

| (In €) | Notes | 2010 | 2009 |
|---|---|---|---|
| **Net interest income** | 17 | | |
| a) Interest and similar income | | 245,163,083 | 349,382,466 |
| b) Interest expenses and similar charges | | (115,965,424) | ( 232,858,649) |
| | | **129,197,659** | **116,523,817** |
| **Net fee and commission income** | 18 | | |
| a) Fee and commission income | | 33,362,959 | 39,242,551 |
| b) Fee and commission expenses | | (8,313,148) | (9,746,678) |
| | | **25,049,811** | **29,495,873** |
| **Dividend income** | 19 | **5,236,008** | **2,769,022** |
| **Net (un)realised gains (losses) on financial assets and liabilities held for trading** | 20 | **(12,637,472)** | **(25,398,380)** |
| **Net (un)realised gains (losses) on financial assets and liabilities at fair value through profit or loss** | 21 | **(16,395,078)** | **7,450,608** |
| **Net realised gains (losses) on financial assets and liabilities not at fair value through profit or loss** | 22 | **1,252,313** | **1,172,255** |
| **Net other operating income / expenses** | 23 | | |
| a) Other operating income | | 716,055 | 475,846 |
| b) Other operating expenses | | (4,858,427) | (4,350,753) |
| | | **(4,142,372)** | **(3,874,907)** |
| **Administrative expenses** | 24, 29 | **(30,922,114)** | **(28,927,704)** |
| **Depreciation and amortisation** | 9,10 | **(1,623,476)** | **(1,860,375)** |
| **Provisions** | 15 | **460,598** | **(480,490)** |
| **Impairment** | 8,25 | **540,661** | **(4,004,108)** |
| **NET PROFIT FOR THE YEAR** | | **96,016,538** | **92,865,611** |

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

# Statement of comprehensive income

for the year ended 31st December 2010

(in €)

| | 2010 | 2009 |
|---|---|---|
| **NET PROFIT FOR THE YEAR (In €)** | **96,016,538** | **92,865,611** |
| **Other comprehensive income** | | |
| Net gain (loss) on available-for-sale financial assets | (17,238,120) | 20,193,791 |
| Income tax relating to the components of other comprehensive income | 2,356,493 | (2,356,493) |
| **Other comprehensive income for the year, net of tax** | **(14,881,627)** | **17,837,298** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | **81,134,911** | **110,702,909** |

# Statement of changes in equity

for the year ended 31st December 2010

(in €)

| RESERVES (In €) | Issued capital | Fair value revaluation reserve on AFS | Legal reserve | Other reserves | Retained earnings | Profit of the year before appropriation | Total |
|---|---|---|---|---|---|---|---|
| **Balance as at 1st January 2009** | **45,000,000** | **(11,951,424)** | **5,250,000** | **323,150,424** | **4,828,022** | **46,144,032** | **412,421,054** |
| Total comprehensive income | --- | 17,837,298 | --- | --- | --- | 92,865,611 | **110,702,909** |
| Transfers and appropriation of prior year's profit | --- | --- | --- | 46,144,032 | --- | (46,144,032) | **---** |
| **Balance as at 31st December 2009** | **45,000,000** | **5,885,874** | **5,250,000** | **369,294,456** | **4,828,022** | **92,865,611** | **523,123,963** |
| Total comprehensive income | --- | (14,881,627) | --- | --- | --- | 96,016,538 | **81,134,911** |
| Transfers and appropriation of prior year's profit | --- | --- | --- | 55,500,000 | 15,611 | (55,515,611) | **---** |
| Dividend for the financial year | --- | --- | --- | --- | --- | (37,350,000) | **(37,350,000)** |
| **Balance as at 31st December 2010** | **45,000,000** | **(8,995,753)** | **5,250,000** | **424,794,456** | **4,843,633** | **96,016,538** | **566,908,874** |

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



# Statement of cash flows

for the year ended 31st December 2010

(in €)

| (In €) | Notes | 2010 | 2009 |
|---|---|---|---|
| **Profit before tax** | | **96,016,538** | **92,865,611** |
| Adjustments:<br>a) Depreciation and amortisation<br>b) Impairment<br>c) Provisions and other income/expenses<br>d) Fair value adjustments | | <br>1,623,476<br>(540,661)<br>(660,598)<br>27,530,933 | <br>1,860,375<br>4,004,108<br>655,490<br>(40,230,017) |
| **Cash flows from operating profits before changes in operating assets and liabilities** | | **123,969,688** | **59,155,567** |
| Net (increase)/decrease in trading financial assets | | 130,879,436 | (128,062,722) |
| Net (increase)/decrease in loans and advances to credit institutions | | (1,908,436,503) | (1,845,662,983) |
| Net (increase)/decrease in loans and advances to customers | | 84,607,112 | 346,360,125 |
| Net (increase)/decrease in available-for-sale financial assets | | (397,565,387) | (200,932,399) |
| Net (increase)/decrease in financial assets designated at fair value through profit or loss | | 42,752,413 | 49,252,577 |
| Net (increase)/decrease in held-to-maturity investments | | 33,926 | (155,956,621) |
| Net (increase)/decrease in derivatives financial instruments | | (9,030,262) | (8,793,332) |
| Net (increase)/decrease in other assets | | (121,305) | (873,263) |
| Net increase/(decrease) in deposits from banks | | (357,699,530) | 1,823,226,394 |
| Net (increase)/decrease in deposits from customers | | 1,233,333,661 | (1,582,459,739) |
| Net increase/(decrease) in other financial liabilities | | (99,154,212) | 534,399,163 |
| Net increase/(decrease) in other liabilities | | 3,543,726 | 508,051 |
| **Net cash flow from/(used in) operating activities** | | **(1,152,887,237)** | **(1,109,839,182)** |
| Dividends received | | 5,236,008 | 2,270,008 |
| Acquisition of property, plant and equipment | | (130,207) | (344,786) |
| Proceeds from sale of subsidiaries | | 156,231 | 410,000 |
| **Net cash flow/(used in) from investing activities** | | **5,262,032** | **2,335,222** |
| Dividends paid | | (37,350,000) | --- |
| **Net cash flow/(used in) from financing activities** | | **(37,350,000)** | **---** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(1,184,975,205)** | **(1,107,503,960)** |
| **Cash and cash equivalents at beginning of year** | | **1,632,603,632** | **2,740,107,592** |
| Net increase/decrease in cash and cash equivalents | | (1,184,975,205) | (1,107,503,960) |
| Cash and cash equivalents: exchange rate fluctuations | | --- | --- |
| **Cash and cash equivalents at end of year** | 4 | **447,628,427** | **1,632,603,632** |
| Of which: not available | | 105,520,147 | 71,063,512 |

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

## 1. GENERAL INFORMATION

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

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

The Bank does not prepare consolidated financial statements. The Bank is a wholly-owned subsidiary of Intesa Sanpaolo Holding International S.A., which does not object to the Bank not presenting consolidated financial statements. Intesa Sanpaolo Holding International S.A. is fully consolidated in the consolidated financial statements of Intesa Sanpaolo S.p.A. (hereafter the "Group"). Intesa Sanpaolo S.p.A. produces consolidated financial statements available for public use that comply with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

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

These annual accounts were authorised for submission to the Shareholders' Annual General Meeting by the Bank's Board of Directors on 17th February 2011.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1. Basis of preparation

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

**Statement of compliance**
The annual accounts have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted for use in the European Union ("IFRS").

### 2. 2. Significant accounting judgements and estimates

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

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

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

#### 2.2.1. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

#### 2.2.2. Impairment losses on loans and advances

The Bank reviews its problematic 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.

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

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

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

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

As at 31st December 2010 and 2009, there were no significant differences between the transaction price at initial recognition and the fair value that would be determined at that date using the valuation technique mentioned above.

#### 2.2.4. 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.

### 2.3. Changes in accounting policies

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

<u>IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items</u>
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Bank has concluded that the amendment will have no impact on its financial position or performance, as it has not entered into any such hedges.

<u>Improvements to IFRSs</u>
In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

*IAS 7 Statement of Cash Flows*: states that only expenditure that results in recognising an asset can be classified as a cash flow investing activity.

### 2.4. Standards issued but not yet effective

The following IFRS standards and IFRIC interpretations were issued with an effective date for financial periods beginning on or after 1st January 2011. The Bank has chosen not to early adopt these standards and interpretations before their effective dates.

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

<u>IAS 24 Related Party Disclosures (Amended)</u>
The amended standard is effective for annual periods beginning on or after 1st January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application.

<u>IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)</u>
The amendment to IAS 32 is effective for annual periods beginning on or after 1st February 2010. It amends the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given prorata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

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IFRS 9: Financial Instruments
This standard, which is being developed to ultimately replace IAS 39 in its entirety, has been divided into three main phases. The first phase, which relates to the recognition and measurement of financial assets and financial liabilities, has already been completed. It introduces significant changes in the accounting requirements of financial assets, such as: a reduction in the number of available categories, business model-oriented classification rules and the prohibition to recycle (into income statement) any gains and losses on financial assets measured at fair value through other comprehensive income. The last two phases which concern impairment and hedge accounting are still to be finalized. The standard (including its first phase on a stand-alone basis) is applicable for annual periods beginning on or after 1st January 2013. Earlier application is permitted. Up to now, however, no portion of the standard has been endorsed by the European Union.

## 2.5. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these annual accounts, except for what is disclosed in Note 2.3.

### 2.5.1. Foreign currency translation

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

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

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

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

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

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

### 2.5.2. Financial assets other than derivatives

- Classification

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

Financial assets at fair value through profit or loss
A financial asset is classified in this category if acquired for the purpose of short term profit taking. Financial assets at fair value through profit or loss also include financial assets designated upon initial recognition as at fair value through profit or loss in compliance with the cases contemplated in the reference regulations. The Bank uses the fair value option mainly to eliminate or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or recognising the gains and losses on them on different bases.

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

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's Management has the positive intention and ability to hold to maturity. If the Bank sold other than an insignificant amount of held-to-maturity assets, the entire category would be required to be reclassified as available-for-sale financial assets.



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

- Initial recognition and subsequent measurement

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

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

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

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

- 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.

### 2.5.3. Financial liabilities other than derivatives

- Classification

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

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring liabilities or recognising the gains and losses on them on different bases; or

- A group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to the entity's key management personnel.

- Initial recognition and subsequent measurement

Interest-bearing liabilities – other than financial liabilities at fair value – are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost using the effective interest method. Gains and losses are recognised in

Notes to the Annual Accounts as at 31st December 2010

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.

- 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.

### 2.5.4. Derivative financial instruments

- 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.

- 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.

- 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.

- Hedging

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

A hedging relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective throughout the period and prospectively;
- the effectiveness of the hedge can be reliably measured;
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

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

<u>Fair value hedges</u>

The change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the income statement.
For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest rate method is used, is amortised through the income statement.

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

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative 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.



<u>Cash flow hedges</u>

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

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

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

As at 31st December 2010 and 2009, the Bank has no cash flow hedged transactions.

### 2.5.5. Financial guarantee contracts

Financial guarantee contracts issued by the Bank are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

### 2.5.6. Repurchase agreements and reverse repurchase agreements

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

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

### 2.5.7. 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.

### 2.5.8. 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.

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.

### 2.5.9. Property, plant and equipment

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

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

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

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

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

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

### 2.5.10. Intangible assets

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

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

### 2.5.11. Other assets

Other assets are stated at cost less impairment.

### 2.5.12. Impairment of non financial assets

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





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

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

### 2.5.13. 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.

### 2.5.14. Pension plan

The Bank contributes to a defined contribution retirement plan located with an external insurance company.
Yearly contributions to the plan are disclosed under Note 24.

### 2.5.15. 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.

### 2.5.16. Other liabilities

Other liabilities are stated at cost.

### 2.5.17. 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.

### 2.5.18. 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.

### 2.5.19. Dividend income

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

### 2.5.20. Taxes

<u>Current income tax</u>
No current taxes are recorded considering the tax integration since 2002 with the Luxembourgish Bank's mother company, which presents significant tax losses carried forward.

Notes to the Annual Accounts as at 31st December 2010

Deferred income tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

## 3. FINANCIAL RISK MANAGEMENT

### 3.1. Strategies in using financial instruments

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

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

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

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

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

The Internal Audit provides an independent, periodic and comprehensive review of the processes in 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.

### 3.2. Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.
Credit risk arises due to:
- exposure to corporate and private clients;
- exposure to institutional counterparties.

The Bank credit risk management is based on the commercial and risk strategy drawn up by the Management and validated by the Board of Directors. The main principles are as follows:
- The Bank grants credits in priority to corporate clients who are also clients of the Group;
- Calculation 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 "Committee of acceptance of new customers and operations";
- The main exposures are towards the ultimate parent company;
- Most of corporate loans are collateralised by guarantees (cash or securities);
- The Bank does not systematically require a 100% collateral as a guarantee. It depends on the reputation of the borrower.

Credit risk is assessed by reviewing the topics as follows:
- Large exposure;
- Credit limits and collaterals;
- Credit lines;
- Ratings;
- Exposures by country.

The Bank has in place a manual of procedures, which describes the controls, review and report regarding the credit risk. A periodic reporting on credit risk is made to the Audit Committee.

#### 3.2.1. Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

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

| (In €) | Maximum exposure 2010 | Maximum exposure 2009 |
|---|---|---|
| Cash and cash balances with central banks | 105,690,917 | 71,329,090 |
| Financial assets held for trading | 120,675,808 | 230,464,924 |
| Financial assets designated at fair value through profit or loss | 194,419,334 | 234,793,821 |
| Available-for-sale financial assets | 1,227,939,925 | 853,004,898 |
| Held-to-maturity investments | 181,278,922 | 181,312,848 |
| Loans and advances | 8,558,007,685 | 7,953,223,702 |
| Derivatives held for hedging | 14,167,923 | 22,910,040 |
| Other assets | 6,796,017 | 6,674,712 |
| **TOTAL** | **10,408,976,531** | **9,553,714,035** |
| Contingent liabilities | 115,265,655 | 78,478,735 |
| Commitments | 52,583,076 | 46,603,712 |
| **TOTAL** | **167,848,731** | **125,082,447** |

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of change in values.
For more detail on the maximum credit exposure to credit risk for each class of financial instruments, references shall be made to the specific notes.

### 3.2.2. Credit quality per class of financial assets

For classification of non-performing exposures in the various risk categories (doubtful loans, substandard exposures and past due exposures), the Bank applies regulation issued by its ultimate mother company.

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

| (In €) | Performing assets 2010 | Doubtful assets 2010 | Substandard exposures 2010 | Past due exposures 2010 | TOTAL 2010 |
|---|---|---|---|---|---|
| Financial assets held for trading | 120,675,808 | --- | --- | --- | **120,675,808** |
| Financial assets designated at fair value through profit or loss | 194,419,334 | --- | --- | --- | **194,419,334** |
| Available-for-sale financial assets | 1,227,939,925 | --- | --- | --- | **1,227,939,925** |
| Held-to-maturity investments | 181,278,922 | --- | --- | --- | **181,278,922** |
| Loans and advances | 8,534,596,554 | 30,953,614 | --- | --- | **8,565,550,168** |
| **TOTAL** | **10,258,910,543** | **30,953,614** | --- | --- | **10,289,864,157** |

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





### 3.2.3. Credit quality per class of financial assets

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

| In 2010 In € | Gross exposure | Individual value adjustments | Collective value adjustments | Net exposure |
|---|---|---|---|---|
| Performing loans | 8,534,596,554 | (879,698) | (873,980) | 8,532,842,876 |
| Doubtful loans | 30,953,614 | (5,788,805) | --- | 25,164,809 |
| Substandard exposures | --- | --- | --- | --- |
| Past due exposures | --- | --- | --- | --- |
| **TOTAL** | **8,565,550,168** | **(6,668,503)** | **(873,980)** | **8,558,007,685** |

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

### 3.2.4. Concentration of risks

In order to avoid a too high concentration of risks, the Bank has to respect the following limits on a permanent basis:
- The total risk exposure towards a single client or group of connected clients must not exceed 25% of the own funds of the Bank.

As at 31st December 2010, the lending limit amounted to EUR 230 million (2009: EUR 126 million) and - except for intergroup operations and one sovereign risk - no borrower exceeded this amount. The main exposure relates to 30 borrowers or group of borrowers (2009: 24 borrowers or group of borrowers) with financing between EUR 12.5 and EUR 2,150 million each (2009: between EUR 12.5 and 1,850 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 26.

### 3.2.5. Geographical allocation of risks

As at 31st December 2010 and 2009, the distribution by geographical area of the risks held in the Securities (except for trading positions and derivatives held for hedging) and Loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

| In € | 2010 | | 2009 | |
|---|---|---|---|---|
| | Securities (HTM, AFS, FVPL) | Loans and advances | Securities (HTM, AFS, FVPL) | Loans and advances |
| Italy | 1,539,464,768 | 6,269,358,994 | 1,195,221,947 | 5,862,225,948 |
| USA | --- | 12,650,617 | --- | 6,524,431 |
| Japan | --- | 5,357,208 | --- | 4,639,394 |
| France | --- | 2,393,927 | --- | 6,827,302 |
| Spain | 9,608,939 | 1,695,746 | 9,969,770 | 1,758,631 |
| Luxembourg | 3,011,186 | 151,871,527 | 2,849,610 | 233,157,742 |
| Belgium | --- | 4,569,640 | --- | 3,384,092 |
| Germany | --- | 3,451,295 | --- | 3,444,387 |
| United Kingdom | --- | 24,931,722 | --- | 26,107,523 |
| Switzerland | 15,994,677 | 48,225,804 | 13,481,359 | 52,483,654 |
| Netherlands | 35,558,611 | 29,079,637 | 37,569,416 | 9,329,126 |
| Poland | --- | 911,549 | --- | 1,515,800 |
| Panama | --- | 2,371,858 | --- | 4,514,208 |
| Russia | --- | 835,495,032 | --- | 634,982,811 |
| Croatia | --- | 697,372,656 | --- | 590,613,692 |
| Bosnia-Erzegovina | --- | 15,083,101 | --- | 15,075,288 |
| Hungary | --- | 250,987,513 | --- | 251,331,403 |
| Romania | --- | 130,690,483 | --- | 165,702,231 |
| Other | --- | 71,509,376 | 10,019,465 | 79,606,039 |
| **TOTAL** | **1,603,638,181** | **8,558,007,685** | **1,269,111,567** | **7,953,223,702** |





### 3.2.6. Industry sector allocation of risks

As at 31st December 2010 and 2009, the breakdown by industry sector of the risks held in the Securities (except for trading positions) and Loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

| In € | 2010 | | 2009 | |
|---|---|---|---|---|
| | Securities (HTM, AFS, FVPL) | Loans and advances | Securities (HTM, AFS, FVPL) | Loans and advances |
| Financial institutions | 1,224,208,194 | 8,403,451,148 | 1,058,507,003 | 7,790,881,122 |
| Public sector | 379,429,987 | --- | 200,634,794 | --- |
| Other industries | --- | 130,285,684 | 9,969,770 | 145,554,856 |
| Individuals | --- | 24,270,853 | --- | 16,787,724 |
| **TOTAL** | **1,603,638,181** | **8,558,007,685** | **1,269,111,567** | **7,953,223,702** |

## 3.3. 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.

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

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

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

As at 31st December 2010, the liquidity ratio of the Bank is 94.89% (2009: 87.96%), above the regulatory limit of 30%.

(in €)

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.

| 31st December 2010<br>In million € | < 1 month | ≥ 1 month < 3 months | ≥ 3 months < 6 months | ≥ 6 months < 1 year | ≥1 year < 2 years | ≥ 2 years < 5 years | ≥ 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Financial liabilities held for trading and derivatives held for hedging | 17 | 10 | 9 | 34 | 42 | 30 | 1 | **143** |
| Financial liabilities at fair value through profit or loss | 1 | --- | 6 | 3 | 6 | 12 | --- | **28** |
| Financial liabilities measured at amortised cost | 5,149 | 1,545 | 763 | 161 | 82 | 365 | 1,501 | **9,566** |
| **TOTAL** | **5,167** | **1,555** | **778** | **198** | **130** | **407** | **1,502** | **9,737** |

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



Notes to the Annual Accounts as at 31st December 2010

(in €)

The breakdown by sector of financial liabilities is as follows:

| 2010<br>In € | Government and central banks | Other public entities | Financial institutions | Non-financial companies | Others | Total |
|---|---|---|---|---|---|---|
| | | | | | | |
| Financial liabilities held for trading and for hedging | --- | --- | --- | --- | 199,416,574 | 199,416,574 |
| Financial liabilities carried at fair value | --- | --- | 60,002,276 | --- | --- | 60,002,276 |
| Financial liabilities measured at amortised cost | 98,007,875 | --- | 8,966,231,799 | 287,673,486 | 221,338,570 | 9,573,251,730 |
| **TOTAL** | 98,007,875 | **---** | **9,026,234,075** | **287,673,486** | **420,755,144** | **9,832,670,580** |

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

The breakdown by geographical areas is as follows:

| 2010<br>In € | Zone EURO | Other European Countries | Others | Total |
|---|---|---|---|---|
| | | | | |
| Financial liabilities held for trading and for hedging | 130,346,921 | 1,188,593 | 67,881,060 | 199,416,574 |
| Financial liabilities carried at fair value | 60,002,276 | --- | --- | 60,002,276 |
| Financial liabilities measured at amortised cost | 8,532,622,722 | 658,533,041 | 382,095,967 | 9,573,251,730 |
| **TOTAL** | **8,722,971,919** | **659,721,634** | **449,977,027** | **9,832,670,580** |

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



Notes to the Annual Accounts as at 31st December 2010

(in €)

## 3.4. Market risk

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

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

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

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

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

The Risk Management unit carries out its own analyses and assessments and the results are communicated periodically to the Management Board, to the Treasury Department, to the Audit Committee and to the Board of Directors.

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 Board.

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

**Interest rate risk**

Average interest rate

The average effective interest rates on financial instruments by main currencies for the year ended 31st December 2010 and 2009 are as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| **EUR** | 1,4119 | 0,8311 | 1,3947 | 0,8759 |
| **USD** | 0,4400 | 0,2583 | 0,3637 | 0,2790 |

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.

(in €)

| 31st December 2010 (In million €) | < 1 month | ≥ 1 month < 3 months | ≥ 3 months < 6 months | ≥ 6 months < 1 year | ≥1 year < 2 years | ≥ 2 years < 5 years | ≥ 5 years | Unde-termined | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cash and cash balances with central banks | 106 | --- | --- | --- | --- | --- | --- | --- | **106** |
| Financial assets held for trading and derivatives used for hedging | 135 | --- | --- | --- | --- | --- | --- | --- | **135** |
| Financial assets designated at fair value through profit or loss | --- | --- | --- | 2 | 22 | --- | 170 | --- | **194** |
| Available-for-sale financial assets | 179 | 440 | 435 | --- | 104 | 51 | --- | 19 | **1,228** |
| Held-to-maturity investments | --- | --- | --- | --- | 181 | --- | --- | --- | **181** |
| Loans and advances | 1,174 | 3,018 | 2,659 | 1,618 | 51 | 38 | --- | --- | **8,558** |
| **TOTAL FINANCIAL ASSETS** | **1,594** | **3,458** | **3,094** | **1,620** | **358** | **89** | **170** | **19** | **10,402** |
| | | | | | | | | | |
| Financial liabilities held for trading and derivatives used for hedging | 199 | --- | --- | --- | --- | --- | --- | --- | **199** |
| Financial liabilities designated at fair value through profit or loss | 1 | --- | 6 | 10 | 6 | 2 | 35 | --- | **60** |
| Financial liabilities measured at amor-tised cost | 5,641 | 2,830 | 757 | 342 | 3 | --- | --- | --- | **9,573** |
| **TOTAL FINANCIAL LIABILITIES** | **5,841** | **2,830** | **763** | **352** | **9** | **2** | **35** | **---** | **9,832** |

Under the assumptions as defined here above taking into account assets and liabilities as at 31st December 2010, a 25bp increase or decrease in market interest rates would influence the interest income before tax by EUR + 5,561,561 and EUR – 5,523,111 respectively.





(in €)

| 31st December 2009 (In million €) | < 1 month | ≥ 1 month < 3 months | ≥ 3 months < 6 months | ≥ 6 months < 1 year | ≥1 year < 2 years | ≥ 2 years < 5 years | ≥ 5 years | Unde-termined | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cash and cash balances with central banks | 71 | --- | --- | --- | --- | --- | --- | --- | **71** |
| Financial assets held for trading and derivatives held for hedging | 122 | --- | --- | 131 | --- | --- | --- | --- | **253** |
| Financial assets designated at fair value through profit or loss | --- | --- | --- | --- | 22 | 213 | --- | --- | **235** |
| Available-for-sale financial assets | --- | 129 | 30 | 248 | 430 | --- | --- | 16 | **853** |
| Held-to-maturity investments | --- | --- | --- | 156 | 25 | --- | --- | --- | **181** |
| Loans and advances | 533 | 1,027 | 936 | 3,963 | 857 | 637 | --- | --- | **7,953** |
| **TOTAL FINANCIAL ASSETS** | **726** | **1,156** | **966** | **4,498** | **1,334** | **850** | **---** | **16** | **9,546** |
| | | | | | | | | | |
| Financial liabilities held for trading and derivatives held for hedging | 156 | --- | --- | --- | --- | --- | --- | --- | **156** |
| Financial liabilities designated at fair value through profit or loss | --- | --- | --- | --- | 61 | --- | 37 | --- | **98** |
| Financial liabilities measured at amortized cost | 1,692 | 3,495 | 2,317 | 1,206 | 55 | --- | 3 | --- | **8,768** |
| **TOTAL FINANCIAL LIABILITIES** | **1,848** | **3,495** | **2,317** | **1,206** | **116** | **---** | **40** | **---** | **9,022** |

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

(in million €)

### 3.5. 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 31st December 2010 and 2009, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows:

| 31st December 2010 (In €) | EUR | USD | Other | Total |
|---|---|---|---|---|
| Cash and cash balances with central banks | 105,673,047 | 15,898 | 1,972 | 105,690,917 |
| Financial assets at fair value through profit or loss and held for trading | 276,211,675 | 38,781,100 | 102,367 | 315,095,142 |
| Available-for-sale financial assets | 1,211,945,248 | 15,994,677 | --- | 1,227,939,925 |
| Held-to-maturity investments | 181,278,922 | --- | --- | 181,278,922 |
| Loans and advances | 7,277,614,930 | 863,930,856 | 416,461,899 | 8,558,007,685 |
| Hedging derivatives | 14,167,923 | --- | --- | 14,167,923 |
| **TOTAL FINANCIAL ASSETS** | **9,066,891,745** | **918,722,531** | **416,566,238** | **10,402,180,514** |
| | | | | |
| Financial liabilities at fair value through profit or loss and held for trading | 215,752,790 | 36,119,245 | 3,755,873 | 255,627,908 |
| Financial liabilities measured at amortized cost and deposits from central banks | 8,691,337,023 | 183,946,889 | 697,967,818 | 9,573,251,730 |
| Hedging derivatives | 2,084,936 | 1,706,006 | --- | 3,790,942 |
| **TOTAL FINANCIAL LIABILITIES** | **8,909,174,749** | **221,772,140** | **701,723,691** | **9,832,670,580** |

| 31st December 2009 (In €) | EUR | USD | Other | Total |
|---|---|---|---|---|
| Cash and cash balances with central banks | 71,319,611 | 6,135 | 3,344 | 71,329,090 |
| Financial assets at fair value through profit or loss and held for trading | 427,678,506 | 10,824 | 37,569,415 | 465,258,745 |
| Available-for-sale financial assets | 839,523,537 | --- | 13,481,361 | 853,004,898 |
| Held-to-maturity investments | 181,312,848 | --- | --- | 181,312,848 |
| Loans and advances | 6,938,122,490 | 218,856,276 | 796,244,936 | 7,953,223,702 |
| Hedging derivatives | 22,910,040 | --- | --- | 22,910,040 |
| **TOTAL FINANCIAL ASSETS** | **8,480,867,032** | **218,873,235** | **847,299,056** | **9,547,039,323** |
| | | | | |
| Financial liabilities at fair value through profit or loss and held for trading | 206,882,048 | 9,579 | 28,556,834 | 235,448,461 |
| Financial liabilities measured at amortized cost and deposits from central banks | 7,673,051,613 | 695,984,280 | 399,571,064 | 8,768,606,957 |
| Hedging derivatives | 18,908,444 | --- | --- | 18,908,444 |
| **TOTAL FINANCIAL LIABILITIES** | **7,898,842,105** | **695,993,859** | **428,127,898** | **9,022,963,862** |





(in €)

### 3.6. Capital management

The Bank is subject to the local regulation (CSSF Circular 06/273 as amended) in relation to the capital adequacy ratio. The Bank calculates the simplified solvency ratio, which is followed on a quarterly basis.
As of 31st December 2010, the solvency ratio of the Bank is 15.83% (2009: 13.16%), above the regulatory limit of 8%. Over the 2010 year, the higher solvency ratio amounted to 15.83% (December 2010) and the lower amounted to 11.61% (September 2010).

### 3.7. 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.

### 3.8. Derivative financial instruments

During 2010 and 2009, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.
As at 31st December 2010 and 2009, the notional amount and fair value of the derivatives held for trading are as follows:

| In € | 2010 | | 2009 | |
|---|---|---|---|---|
| | Notional amount | Fair value | Notional amount | Fair value |
| **Assets** | | | | |
| Interest rate instruments | 1,044,767,715 | 1,001,833 | 137,750,000 | 1,264,787 |
| Currency instruments | 2,371,124,322 | 119,673,975 | 1,345,067,436 | 98,320,700 |
| | **3,415,892,037** | **120,675,808** | **1,482,817,436** | **99,585,487** |
| **Liabilities** | | | | |
| Interest rate instruments | 3,269,445,718 | 62,515,128 | 3,583,655,854 | 67,786,624 |
| Currency instruments | 2,160,701,590 | 133,110,504 | 1,644,708,665 | 69,358,165 |
| | **5,430,147,308** | **195,625,632** | **5,228,364,519** | **137,144,789** |

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

| In € | 2010 | | 2009 | |
|---|---|---|---|---|
| | Notional amount | Fair value | Notional amount | Fair value |
| **Assets** | | | | |
| Interest rate instruments | --- | --- | --- | --- |
| Currency instruments | 143,312,191 | 14,167,923 | 160,429,761 | 22,910,040 |
| | **143,312,191** | **14,167,923** | **160,429,761** | **22,910,040** |
| **Liabilities** | | | | |
| Interest rate instruments | 45,320,949 | 3,790,942 | 1,327,869,685 | 18,908,444 |
| Currency instruments | --- | --- | --- | --- |
| | **45,320,949** | **3,790,942** | **1,327,869,685** | **18,908,444** |

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

| In € | 2010 | 2009 |
|---|---|---|
| | Fair value | Fair value |
| Loans and advances | 147,463,709 | 1,559,984,117 |

### 3.9. 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 € | 2010 | 2009 | 2010 | 2009 |
|---|---|---|---|---|
| | Carrying amount | | Fair value | |
| **Assets** | | | | |
| Held-to-maturity investments | 181 | 181 | 179 | 188 |
| Loans and advances | 8,558 | 7,953 | 8,665 | 9,358 |
| | | | | |
| **Liabilities** | | | | |
| Financial liabilities measured at amortised cost | 9,573 | 8,768 | 8,832 | 7,710 |

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

**Fair value hierarchy**

As at 31st December 2010 and 2009, the Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.



*Notes to the Annual Accounts as at 31st December 2010*

(in €)

| 31st December 2010 / 31st December 2009 | LEVEL 1 | | LEVEL 2 | | LEVEL 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| **Financial assets held for trading** | | | | | | | | |
| - Derivatives held for trading | --- | --- | 120,675,808 | 99,585,487 | --- | --- | 120,675,808 | 99,585,487 |
| - Equity instruments | --- | 10,825 | --- | --- | --- | --- | --- | 10,825 |
| - Debt instruments | --- | 130,868,612 | --- | --- | --- | --- | --- | 130,868,612 |
| **Financial assets designated at fair value through profit or loss** | | | | | | | | |
| - Debt instruments | 158,860,722 | 197,224,406 | 35,558,612 | 37,569,415 | --- | --- | 194,419,334 | 234,793,821 |
| **Derivatives held for hedging** | --- | --- | 14,167,923 | 22,910,040 | --- | --- | 14,167,923 | 22,910,040 |
| **Available-for-sale financial assets** | | | | | | | | |
| - Equity instruments (other than investments in subsidiaries) | --- | --- | 2,800,000 | 2,600,000 | --- | --- | 2,800,000 | 2,600,000 |
| - Debt instruments | 1,208,934,063 | 836,673,928 | --- | --- | --- | --- | 1,208,934,063 | 836,673,928 |
| **TOTAL FINANCIAL ASSETS** | **1,367,794,785** | **1,164,777,771** | **173,202,343** | **162,664,942** | **---** | **---** | **1,540,997,128** | **1,327,442,713** |
| | | | | | | | | |
| **Financial liabilities held for trading** | --- | 84,205 | 195,625,632 | 137,144,789 | --- | --- | 195,625,632 | 137,228,994 |
| **Financial liabilities designated at fair value through profit and loss** | --- | --- | 60,002,276 | 98,219,467 | --- | --- | 60,002,276 | 98,219,467 |
| **Derivatives held for hedging** | --- | --- | 3,790,942 | 18,908,444 | --- | --- | 3,790,942 | 18,908,444 |
| **TOTAL FINANCIAL LIABILITIES** | **---** | **84,205** | **259,418,850** | **254,272,700** | **---** | **---** | **259,418,850** | **254,356,905** |

During the reporting years ending 31st December 2010 and 31st December 2009, there were no transfers between Level 1 and Level 2 categories, and no transfers into and out of Level 3 category.

## 4. CASH AND CASH EQUIVALENTS

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

| In € | 2010 | 2009 |
|---|---|---|
| Cash and balances with central banks | 105,690,917 | 71,329,090 |
| Loans and advances to banks with maturity < 3 months | 341,937,510 | 1,561,274,542 |
| **TOTAL** | **447,628,427** | **1,632,603,632** |

In accordance with the requirements of the European Central Bank, the Luxembourg Central Bank implemented, effective 1st January 1999, a system of mandatory minimum reserves applicable to all Luxembourg credit institutions. The amount outstanding as at 31st December 2010 is EUR 105,520,147 (2009: EUR 71,063,512).

(in €)

## 5. FINANCIAL ASSETS HELD FOR TRADING AND FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| In € | 2010 | 2009 |
|---|---|---|
| | Net carrying amount | Net carrying amount |
| **Financial assets held for trading** | | |
| Derivatives held for trading | 120,675,808 | 99,585,487 |
| Securities held for trading | | |
| - equity instruments | --- | 10,825 |
| - debt securities | --- | 130,868,612 |
| | **120,675,808** | **230,464,924** |
| **Financial assets designated at inception at fair value through profit or loss - Securities** | 194,419,334 | 234,793,821 |
| | **194,419,334** | **234,793,821** |

At 31st December 2010 and 2009, a significant part of these securities is quoted.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| In € | 2010 | 2009 |
|---|---|---|
| | Net carrying amount | Net carrying amount |
| Quoted debt instruments issued by: Credit institutions | 1,208,934,063 | 836,673,928 |
| | **1,208,934,063** | **836,673,928** |

As at 31st December 2010, the fair value of the available-for-sale financial assets which are sold under repurchase agreements amounts to EUR 640 million - see Note 14 (2009: EUR 523 million).

| In € | 2010 | 2009 |
|---|---|---|
| | Net carrying amount | Net carrying amount |
| Not quoted shares issued by: | | |
| Credit institutions | 15,994,677 | 13,481,359 |
| Corporates | 211,185 | 249,611 |
| Others | 2,800,000 | 2,600,000 |
| | **19,005,862** | **16,330,970** |



Notes to the Annual Accounts as at 31st December 2010

(in €)

As at 31st December 2010, shares in affiliated undertakings, which are classified in this category, where the Bank helds at least 20% are as follows:

| Company | Registered office | Percentage owned |
|---|---|---|
| Lux Gest Asset Management S.A. | Luxembourg | 99,97% |
| Intesa Sanpaolo Private Bank (Suisse) S.A. | Lugano | 99,99% |

On 13th December 2010, the entity Luxiprivilège Conseil S.A. was liquidated, generating a profit of EUR 117,807 for the Bank.

In November 2010, the Bank reclassified a debt security held for trading with a nominal amount of EUR 88,150,000 (2009: EUR 88,150,000), an acquisition cost of EUR 92,212,055 and a fair value of EUR 89,434,345 (2009: EUR 91,896,375) in the available-for-sale category, because the security was no longer being held for the purpose of sale and repurchase in the near future. As at 31st December 2010, the Bank holds a nominal amount of EUR 142,250,000 in this debt security with a fair value of EUR 143,683,880 taken into consideration the purchases made between the reclassification date and the year end.

## 7. HELD-TO-MATURITY INVESTMENTS

| In € | 2010 | | 2009 | |
|---|---|---|---|---|
| | Net carrying amount | Fair value | Net carrying amount | Fair value |
| Quoted debt instruments at amortised cost issued by: Financial institutions | 155,990,548 | 153,693,000 | 155,990,548 | 161,443,174 |
| Public sector | 25,288,374 | 25,498,750 | 25,322,300 | 26,408,250 |
| **TOTAL** | **181,278,922** | **179,191,750** | **181,312,848** | **187,851,424** |

Investments bearing a fixed interest rate amount to EUR 181,278,922 (2009: EUR 181,312,848).
No impairment loss was recognised on held-to-maturity investments in 2010 and 2009.

## 8. LOANS AND ADVANCES

| In € | 2010 | | 2009 | |
|---|---|---|---|---|
| | Total net carrying amount | of which: Impairment | Total net carrying amount | of which: Impairment |
| Unquoted loans and advances to: Financial institutions | 8,403,451,148 | 4,291,051 | 7,302,590,274 | 485,106 |
| Private customers | 24,270,853 | 542,479 | 16,787,724 | 586,356 |
| Corporate customers | 130,285,684 | 2,708,953 | 633,845,704 | 6,762,645 |
| | **8,558,007,685** | **7,542,483** | **7,953,223,702** | **7,834,107** |

### 8.1. Impairment allowance for loans and advances

As of 31st December 2010, the Bank has determined its collective impairment to EUR 873,980 (2009: EUR 1,647,374) and its individual impairment to EUR 6,668,503 (2009: EUR 6,186,733).

A reconciliation of the allowance for impairment losses for loans and advances is as follows:

| In € | 2010 | 2009 |
|---|---|---|
| Impairment as at 1st January | 7,834,107 | 6,269,008 |
| Charge of the year / Transfers | 3,229,102 | 4,042,887 |
| Recoveries / amounts written off | (3,520,726) | (2,477,788) |
| **Impairment as at 31st December** | **7,542,483** | **7,834,107** |
| of which: | | |
| Individual impairment | 6,668,503 | 6,186,733 |
| Collective impairment | 873,980 | 1,647,374 |

### 8.2. Guarantees received as collateral

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

| In € | | | Loans and advances to customers | Loans and advances to credit institutions |
|---|---|---|---|---|
| **2010** | **NET CARRYING AMOUNTS** | | 566,317,940 | 7,991,689,745 |
| | Real guarantees | Mortgage | --- | --- |
| | | Securities | 42,308,402 | --- |
| | | Other real guarantees | 140,453,998 | 948,087 |
| | Personal guarantees | Government guarantees | 39,795,236 | --- |
| | | Credit Institutions guarantees | 920,357 | 719,372,361 |
| | **TOTAL GUARANTEES** | | **223,477,993** | **720,320,448** |
| **2009** | **NET CARRYING AMOUNTS** | | 650,633,428 | 7,302,590,274 |
| | Real guarantees | Mortgage | --- | --- |
| | | Securities | --- | --- |
| | | Other real guarantees | 259,544,654 | 12,384,888 |
| | Personal guarantees | Government guarantees | 31,015,205 | --- |
| | | Credit Institutions guarantees | 991,272 | 678,177,202 |
| | **TOTAL GUARANTEES** | | **291,551,131** | **690,562,090** |



Notes to the Annual Accounts as at 31st December 2010

(in €)

## 9. PROPERTY, PLANT AND EQUIPMENT

| In € | Land and building | Office equipment | Other equipment | Total |
|---|---|---|---|---|
| **Cost as at 1st January 2010** | **26,829,997** | **1,795,387** | **8,164,065** | **36,789,449** |
| Additions / Disposals / Transfers | 91,392 | 5,177 | 33,638 | **130,207** |
| Cost as at 31st December 2010 | 26,921,389 | 1,800,564 | 8,197,703 | **36,919,656** |
| Accumulated depreciation as at 1st January 2010 | (16,097,851) | (1,492,350) | (5,899,592) | **(23,489,793)** |
| Depreciation charge / Transfers | (979,797) | (34,282) | (596,420) | **(1,610,499)** |
| Accumulated depreciation as at 31st December 2010 | (17,077,648) | (1,526,632) | (6,496,012) | **(25,100,292)** |
| **Net carrying amount as at 31st December 2010** | **9,843,741** | **273,932** | **1,701,691** | **11,819,364** |

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

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

## 10. INTANGIBLE ASSETS

| In € | 2010 | 2009 |
|---|---|---|
| **Cost as at 1st January** | **107,457** | **107,457** |
| Additions / Disposals | --- | --- |
| Cost as at 31st December | 107,457 | 107,457 |
| Accumulated depreciation as at 1st January | (82,149) | (69,172) |
| Depreciation charge | (12,977) | (12,977) |
| Accumulated depreciation as at 31st December | (95,126) | (82,149) |
| **Net carrying amount as at 31st December** | **12,331** | **25,308** |

## 11. TAX EXPENSE, ASSETS AND LIABILITIES

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

| DEFERRED TAX ASSETS AND LIABILITIES (In €) | 2010 | 2009 |
|---|---|---|
| Deferred tax assets | 22,462,898 | 12,137,272 |
| Deferred tax liabilities | (22,462,898) | (14,493,765) |
| **TAX LIABILITIES** | **---** | **(2,356,493)** |

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

| In € | 1st January 2010 | Income statement | Equity | 31st December 2010 |
|---|---|---|---|---|
| Financial assets held for trading | (12,049,504) | (9,714,083) | --- | (21,763,587) |
| Financial assets designated at fair value through profit or loss | 539,309 | 352,617 | --- | 891,926 |
| Available-for-sale financial assets | (2,356,493) | --- | 2,356,493 | --- |
| Financial liabilities held for trading | 10,387,009 | 9,024,932 | --- | 19,591,941 |
| Financial liabilities designated at fair value through profit or loss | 185,028 | 586,674 | --- | 771,702 |
| Provisions and value adjustments | 938,158 | (430,140) | --- | 508,018 |
| **NET DEFERRED INCOME TAX ASSETS/(LIABILITIES)** | **(2,356,493)** | **---** | **2,356,493** | **---** |

The Bank records deferred taxes since 2009. As of 31st December 2010, full recognition of deferred tax assets has not been performed by the Bank. They have been recorded to the same extent as deferred tax liabilities because tax planning opportunity is not available that will create taxable profit in appropriate periods taken into consideration the tax integration with the Luxembourg Bank's Mother Company and its significant tax losses carried forward.

## 12. OTHER ASSETS AND OTHER LIABILITIES

| In € | 2010 | 2009 |
|---|---|---|
| Prepaid charges | 151,509 | 214,931 |
| VAT | 4,824,564 | 3,979,876 |
| Accrued commission income | 315,464 | 696,331 |
| Other | 1,504,480 | 1,783,574 |
| **OTHER ASSETS** | **6,796,017** | **6,674,712** |
| Social security charges | 822,272 | 774,282 |
| Income received in advance | 2,632,109 | 132,263 |
| Withholding taxes and VAT | 10,077,828 | 5,872,171 |
| Administrative expenses to be paid | 4,216,609 | 4,658,558 |
| Accrued commission expenses | 708,845 | 1,235,512 |
| Short term payable and other sundry accounts | 2,021,109 | 4,511,297 |
| **OTHER LIABILITIES** | **20,478,772** | **17,184,083** |





## 13. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31st December 2010, the caption is composed of:

- a portion of the bonds issued by the Bank, which is eligible, according to IAS 39, to fair value option. Such items are fair valued using the quotations of the bonds available through an external provider. As at 31st December 2010, the bonds amount to EUR 25,071,625 (2009: EUR 69,662,633), with a nominal value of EUR 24,505,000 (2009: EUR 68,782,000);
- a financial liability which is eligible, according to IAS 39, to fair value option, with a fair value based on a discounted cash flows method. As at 31st December 2010, the fair value of this liability amounts to EUR 34,930,651 (2009: EUR 28,556,834).

## 14. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

| In € | 2010 | 2009 |
|---|---|---|
| | Carrying amount | Carrying amount |
| Current accounts and amounts with period of notice | 322,604,962 | 461,746,595 |
| Term deposits | 3,644,194,970 | 3,861,883,770 |
| **Deposits from credit institutions** | **3,966,799,932** | **4,323,630,365** |
| | | |
| Current assets and amounts with period of notice | 285,485,327 | 444,725,730 |
| Term deposits | 3,057,535,863 | 1,664,139,258 |
| **Deposits from corporate customers** | **3,343,021,190** | **2,108,864,988** |
| | | |
| Current accounts | 50,221,692 | 49,170,317 |
| Term deposits | 173,217,618 | 175,053,336 |
| Other deposits | --- | 38,198 |
| **Deposits from private customers** | **223,439,310** | **224,261,851** |
| | | |
| Certificates of deposits | 2,039,991,298 | 2,110,980,656 |
| Debt securities in issue - non convertible | --- | --- |
| **Bonds issued and Certificates of deposits** | **2,039,991,298** | **2,110,980,656** |
| **TOTAL** | **9,573,251,730** | **8,767,737,860** |
| | | |
| of which: | | |
| Repurchase transactions | 640,336,891 | 523,025,606 |
| of which related parties | 419,520,753 | 519,655,953 |

In the context of its Euro Medium Term Notes Program, the Bank has issued securities, the maximum amount of the program being EUR 4.5 billion. A significant part of the securities issued by the Bank are subscribed by itself.
In these annual accounts, in compliance with IFRS, the securities subscribed by the Bank are offset against the securities issued. Part of the securities subscribed by the Bank are sold under repurchase agreements.

## 15. PROVISIONS

| In € | Litigations | Other provisions | Total |
|---|---|---|---|
| Provisions as at 1st January 2010 | 500,000 | 910,598 | 1,410,598 |
| Additions | 750,000 | --- | 750,000 |
| Amounts used | (200,000) | --- | (200,000) |
| Amounts reversed | (300,000) | (910,598) | (1,210,598) |
| **PROVISIONS AS AT 31ST DECEMBER 2010** | **750,000** | **---** | **750,000** |
| | | | |
| Provisions as at 1st January 2009 | 755,108 | --- | 755,108 |
| Additions | 500,000 | 910,598 | 1,410,598 |
| Amounts used | (325,000) | --- | (325,000) |
| Amounts reversed | (430,108) | --- | (430,108) |
| **PROVISIONS AS AT 31ST DECEMBER 2009** | **500,000** | **910,598** | **1,410,598** |

## 16. SHAREHOLDERS' EQUITY

### 16.1. Issued capital

As at 31st December 2010 and 2009, the Bank's subscribed and paid-up capital amounted to EUR 45,000,000, represented by 1,750,000 shares with no par value.

### 16.2. Revaluation reserve

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

### 16.3. 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 31st December 2010 and 2009, the legal reserve amounting to EUR 5,250,000 is higher than 10% of the share capital.

### 16.4. Other reserves

As at 31st December 2010, other reserves amount to EUR 424,794,456 (2009: EUR 369,294,456).

As at 31st December 2010 and 2009, this caption includes an amount of EUR 250 million resulting from the transfer for no consideration of the branches of activity.
The other reserves also include the restricted reserve: in order to benefit from a reduction of net worth tax in accordance with the income tax Law of 23rd December 1997 (with particular reference to article 2.3), as modified on 21st December 2001, the Bank has recorded until 2001 a restricted reserve. The amount of this restricted reserve at 31st December 2010 and 2009 is EUR 1,900,000.

### 16.5. Retained earnings

As at 31st December 2010, retained earnings including the impact of the first time application (FTA) of IFRS as adopted by the European Union, amount to EUR 4,843,633 (2009: EUR 4,828,022).





### 16.6. 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 96,043,985, which corresponds to a return on equity of circa 20% (2009: 22%). It is proposed to the Annual General Shareholders' Meeting approving the annual accounts as at 31st December 2010 to allocate the above mentioned amounts as follows (in EUR):

| Net profit of 2010 financial year | 96,016,538 |
|---|---|
| Retained profit from previous years (excluding FTA) | 27,447 |
| **Amount attributable to Shareholders** | **96,043,985** |
| Allocation to reserves | 96,000,000 |
| Retained profit carried forward to the next financial year | 43,985 |
| **TOTAL** | **96,043,985** |

## 17. NET INTEREST INCOME

| In € | 2010 | 2009 |
|---|---|---|
| Cash balances with central banks | 836,965 | 1,301,099 |
| Financial assets held for trading | 5,088,755 | 905,281 |
| Financial assets designated at fair value through profit or loss | 13,798,696 | 11,978,794 |
| Hedging derivatives | 4,209,843 | 43,089,330 |
| Available-for-sale financial assets | 15,488,601 | 16,978,706 |
| Held-to-maturity investments | 7,478,574 | 7,019,122 |
| Loans and advances | 197,802,159 | 267,741,253 |
| Other | 459,490 | 368,881 |
| **TOTAL INTEREST AND SIMILAR INCOME** | **245,163,083** | **349,382,466** |

| In € | 2010 | 2009 |
|---|---|---|
| Hedging derivatives | 17,512,531 | 115,996,795 |
| Financial liabilities measured at amortized cost | 96,637,055 | 115,412,646 |
| Financial liabilities designated at fair value thought profit or loss | 1,815,838 | 1,449,208 |
| **TOTAL INTEREST EXPENSES AND SIMILAR CHARGES** | **115,965,424** | **232,858,649** |
| **NET INTEREST INCOME** | **129,197,659** | **116,523,817** |

No interest has been accrued in respect of impaired assets in 2010 and 2009.

### 18. NET FEE AND COMMISSION INCOME

| In € | 2010 | 2009 |
|---|---|---|
| Credit activities | 1,325,856 | 1,005,083 |
| Asset management | 4,501,386 | 6,690,160 |
| Corporate services | 10,650,821 | 12,496,648 |
| Other | 16,884,896 | 19,050,660 |
| **Total fee and commission income** | **33,362,959** | **39,242,551** |
| | | |
| Brokerage and clearing fees | 3,867,577 | 5,015,646 |
| Other | 4,445,571 | 4,731,032 |
| **Total fee and commission expenses** | **8,313,148** | **9,746,678** |
| **NET FEE AND COMMISSION INCOME** | **25,049,811** | **29,495,873** |

### 19. DIVIDEND INCOME

At 31st December 2010 and 2009, dividend income relates to available-for-sale financial assets.

### 20. NET (UN)REALISED GAINS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

At 31st December 2010 and 2009, the net un(realised) gains (losses) on financial assets and liabilities held for trading are composed of:

| In € | 2010 | 2009 |
|---|---|---|
| Interest rate instruments and linked derivatives | (17,360,230) | (23,237,703) |
| Foreign exchange transactions | 4,722,758 | (2,160,677) |
| **TOTAL** | **(12,637,472)** | **(25,398,380)** |

### 21. NET (UN)REALISED GAINS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31st December 2010 and 2009, net (un) realised gains (losses) on financial assets and liabilities at fair value through profit or loss concern, on the assets side, bonds and structured transactions and, on the liabilities side, debt securities and structured transactions.

### 22. NET REALISED GAINS (LOSSES) FROM FINANCIAL ASSETS AND LIABILITIES NOT AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31st December 2010, they are composed of gains for EUR 1,252,313 (2009: EUR 1,323,872) realised on the sale of bond instruments held in the available-for-sale portfolio.

As at 31st December 2009, they were mainly composed of gains realised on the sale of bond instruments held in the available-for-sale portfolio.

### 23. NET OTHER OPERATING INCOME / EXPENSES

As at 31st December 2010 and 2009, net other operating expenses are mainly composed of withholding taxes and amounts related to prior years, which are linked to the Bank's business activity.





### 24. ADMINISTRATIVE EXPENSES

| In € | 2010 | 2009 |
|---|---|---|
| Wages and salaries | 16,146,824 | 15,269,427 |
| Social security charges | 1,728,252 | 1,692,478 |
| Legal pension and similar expenses | 984,638 | 611,695 |
| Employees benefits | 418,701 | 520,208 |
| Other | 105,000 | 143,245 |
| **TOTAL STAFF EXPENSES** | **19,383,415** | **18,237,053** |
| | | |
| Operative expenses | 1,618,908 | 1,227,987 |
| Repair and maintenance | 333,250 | 159,685 |
| Training and moving | 1,063,610 | 982,426 |
| IT outsourcing costs | 5,042,208 | 4,614,615 |
| Legal and professional fees | 1,120,634 | 825,767 |
| Marketing and representation fees | 319,861 | 260,681 |
| Charges linked to Corporate activity and other charges | 2,040,228 | 2,619,490 |
| **TOTAL GENERAL AND ADMINISTRATIVE EXPENSES** | **11,538,699** | **10,690,651** |
| **TOTAL ADMINISTRATIVE EXPENSES** | **30,922,114** | **28,927,704** |

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

| | 2010 | 2009 |
|---|---|---|
| Senior Management | 3 | 3 |
| Middle Management | 65 | 56 |
| Employees | 145 | 152 |
| **TOTAL** | **213** | **211** |

## 25. IMPAIRMENT

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

| In € | 2010 | 2009 |
|---|---|---|
| Available-for-sale financial assets | --- | --- |
| Loans and advances measured at amortized cost | 540,661 | (4,004,108) |
| **IMPAIRMENT** | **540,661** | **(4,004,108)** |

## 26. RELATED PARTY DISCLOSURES

**Identity of related parties**

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

The amount of assets, liabilities, income and expenses as at 31st December 2010 and 2009 concerning Group entities and the parent companies are as follows:

| ASSETS AND LIABILITIES (In €) | 2010 | 2009 |
|---|---|---|
| Assets held for trading and assets carried at fair value | 67,417,009 | 196,333,893 |
| Available-for-sale financial assets | 655,236,567 | 452,551,426 |
| Held to maturity investments | 155,990,548 | 155,990,548 |
| Loans and advances | 8,064,869,879 | 7,177,462,428 |
| Hedging derivatives | 14,167,923 | 22,910,040 |
| | | |
| Financial liabilities held for trading and liabilities at fair value | 218,202,718 | 119,429,139 |
| Financial liabilities measured at amortized cost | 4,014,748,646 | 4,715,581,496 |
| Hedging derivatives | 3,790,942 | 18,908,444 |

| INCOME AND EXPENSES | 2010 | 2009 |
|---|---|---|
| Interest income | 191,662,990 | 291,924,423 |
| Fees and commissions received | 5,411,318 | 4,843,302 |
| Dividend income | 5,171,446 | 923,544 |
| Interest expenses | 66,970,672 | 158,070,879 |
| Fees and commissions paid | 1,918,997 | 4,265,236 |

As at 31st December 2010 and 2009, no impairment loss was recognised on available-for-sale financial assets, loans and advances with related parties.





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

| In € | 2010 | 2009 |
|---|---|---|
| Administrative bodies | 105,000 | 105,000 |
| Key management personnel | 920,308 | 861,778 |
| **TOTAL** | **1,025,308** | **966,778** |

As at 31st December 2010 and 2009, the Bank has no obligations related to retirement pensions for former employees for the above mentioned bodies and personnel.

As at 31st December 2010 and 2009, the Bank has not granted advances and credits and has not entered into guarantee commitments for the above mentioned bodies and personnel.

## 27. COMMITMENTS AND CONTINGENT LIABILITIES

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

| In € | 2010 | 2009 |
|---|---|---|
| Unused confirmed credits | 52,583,076 | 46,603,712 |
| *- out of which towards related parties* | *15,000,000* | --- |
| Guarantees and other direct substitutes for credit | 115,265,655 | 78,478,735 |
| *- out of which towards related parties* | *3,583,200* | *4,167,027* |

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

| In € | | | Contingent liabilities | Unused confirmed credits |
|---|---|---|---|---|
| **2010** | **AMOUNTS** | | 115,265,655 | 52,583,076 |
| | Real guarantees | Securities | 5,860,811 | --- |
| | | Other real guarantees | 99,305,996 | 2,880,001 |
| | Personal guarantees | Government guarantees | 705,195 | 9,506,036 |
| | | Credit Institutions guarantees | 8,679,225 | 5,197,039 |
| | **TOTAL GUARANTEES** | | **114,551,227** | **17,583,076** |
| **2009** | **AMOUNTS** | | 78,478,735 | 46,603,712 |
| | Real guarantees | Securities | 7,294,294 | --- |
| | | Other real guarantees | 49,815,891 | 96,363 |
| | Personal guarantees | Government guarantees | 3,162,906 | 18,408,230 |
| | | Credit Institutions guarantees | 13,461,826 | 20,001 |
| | **TOTAL GUARANTEES** | | **73,734,917** | **18,524,594** |

**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 25th 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.

## 28. INVESTMENT MANAGEMENT SERVICES AND UNDERWRITING FUNCTIONS

The Bank provides its customers with, among others, the following services:
- Private Banking;
- Corporate services;
- Custody;
- Domiciliation; and
- Fiduciary representation.

Assets managed on behalf of third parties are as follows:

| In € | 2010 | 2009 |
|---|---:|---:|
| Custody and administration of transferable securities | 7,901,673,751 | 10,104,315,727 |
| Fiduciary representation | 163,308,300 | 211,391,202 |

## 29. AUDIT FEES

The audit fees and audit related fees for the years ended 31st December 2010 and 2009 are as follows:

| In € | 2010 | 2009 |
|---|---:|---:|
| Audit fees | 166,000 | 161,650 |
| Audit related fees | --- | --- |
| **TOTAL** | **166,000** | **161,650** |

## 30. EVENTS AFTER THE REPORTING DATE

The Bank is not aware of any adjusting or non-adjusting event that would have occurred between 31st December 2010 and the date when the present annual accounts were authorised for submission, by the Board of Directors, to the Annual General Meeting of Shareholders.



# Independent Auditor's Report

ERNST & YOUNG

Ernst & Young
Société anonyme
7, rue Gabriel Lippmann
Parc d'Activité Syrdall 2
L-5365 Munsbach
B.P. 780
L-2017 Luxembourg

Tel: +352 42 124 1
Fax: +352 42 124 5555
www.ey.com/luxembourg

R.C.S. Luxembourg B 47 771
TVA LU 16063074

## Independent auditor's report

To the Board of Directors of
Société Européenne de Banque
19-21, boulevard du Prince Henri
Société Anonyme
Luxembourg

### Report on the annual accounts

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of Société Européenne de Banque S.A., which comprise the statement of financial position as at 31 December 2010, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Board of Directors' responsibility for the annual accounts*

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of annual accounts 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 annual accounts 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 annual accounts are free from material misstatement.

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

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





ERNST & YOUNG

*Opinion*

In our opinion, the annual accounts give a true and fair view of the financial position of Société Européenne de Banque S.A. as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Report on other legal and regulatory requirements

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

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

Sylvie TESTA

Luxembourg, 17 February 2011


Gruppo Intesa Sanpaolo

Société Européenne de Banque

Société Européenne de Banque S.A.
19-21, boulevard du Prince Henri
L-1724 Luxembourg

Tél. : +352 46 14 11 1
Fax : +352 22 37 55

www.seb.lu
contact@seb.lu

INTESA SANPAOLO