Financial statements,
Independent auditor's report
and Directors' report as at 31 December 2021

Intesa Sanpaolo Bank Luxembourg S.A.
Société Anonyme
28, boulevard de Kockelscheuer
L-1821 Luxembourg

R.C.S. Luxembourg: B 13.859

Table of contents

Board of Directors' report as at 31 December 2021

Development of the activity

In 2021, Intesa SanPaolo Bank Luxembourg ("the Bank" hereafter) consolidates the new business model undertaken in the recent years. The Bank prospers and achieves very strong and source balanced results within a Covid 19 general recovery framework.

At the beginning of 2021, in QI, the rapid progress of vaccination campaigns has been matched by a decisive recovery in global economic activity - which has extended to the service sector - and in world trade. In the United States, consumer prices increased significantly, reflecting temporary constraints on supply in the face of a sharply recovering demand; however, medium-term inflation expectations remained subdued. The progress of vaccinations has given rise to a marked decline in Covid-19 infections globally and has allowed a gradual attenuation of social distancing measures in areas where the share of the vaccinated population is greater, such as the United States, the United Kingdom and the European Union. Global economic activity continued to expand in the early months of 2021. The continuation vaccination campaigns and strong support from monetary and fiscal policies are reflected in a marked improvement in medium-term prospects, but the resurgence of the pandemic weighs heavily in the short term, especially in the services sector. In March the indices of corporate purchasing managers (purchasing managers' index, SMEs) remained in manufacturing above the threshold of expansion in all major advanced economies. In the service sector, more affected by the pandemic, indicators still signal weak prospects in the euro area and in Japan; instead they are on values consistent with an expansion in the United States and the United Kingdom.

In the United States, Congress approved the plan prepared by the administration Biden (American Rescue Plan Act of 2021), which provides a fiscal stimulus for 1.9 trillion dollars over the next ten years, mainly concentrated in the two-year period 2021-22. In the first months of the year, consumer inflation in the main economies advanced has risen, but overall remains contained. In the area of the euro, the change is also affected by temporary factors, as well as the trend of the energy component. The latter supported the dynamics of inflation in March also in the United States. The Federal Reserve, the Bank of Japan and the Bank of England have confirmed the expansionary orientation of the respective monetary policies. Interest rate expectations have remained virtually stable in the short term and no increases are expected by the end of the year in the main advanced economies. In China, the central bank has left the reference rates remained unchanged, however, adopting, from the beginning of the current year, a more restrictive monetary policy which resulted in a significant slowdown in the financing disbursed to the economy. In the euro area, economic activity has been affected by the new wave of infections; despite a temporary rise in inflation, the outlook for prices remains weak. The Governing Council of the European Central Bank considers it necessary to avoid premature tightening of financial conditions and has decided to increase the pace of purchases of securities under the emergency program pandemic.

As part of the purchase program for the pandemic emergency (Pandemic Emergency Purchase Program, PEPP), the Governing Council of the ECB has decided to increase significantly the montly pace of purchases in the second half of March and in the current quarter, compared to that of first months of the year.

The aim was to counter the risk of the rise in yields observed since the beginning of the year on international markets, which provoked a premature tightening of conditions of financing in the euro area.

On 24 March, the seventh auction of the third series of refinancing operations aimed at was settled longer term (Targeted Longer-Term Refinancing Operations, TLTRO3): 331 billion Euro were awarded to counterparties in the euro area. The total amount of funds disbursed with these operations it rose to 2,080 billion Euro (Intesa Sanpaolo Bank Luxembourg rose a total amount of 2 billion Euro as at 31 December 2021).

The improvement in the global picture and the approval of the fiscal stimulus have resulted in a sharp rise in long-term yields in the United States, which has partly extended to the other advanced countries. In the euro area, this increase was contained, thanks to the expansionary orientation of monetary policy reconfirmed by the Governing Council of the ECB. The US rate hike was triggered by more favorable assessments of growth prospects, largely attributable to the approval of the Biden administration's significant fiscal stimulus. From the United States, the rise in yields spread to the rest of the world; transmission to the euro area was more contained, also due to the decisions taken in March by the Governing Council of the ECB.

Share prices have risen since January in all major advanced economies. Implied volatility has increased in the United States in the government bond market, coinciding with the increase in long-term rates. Since mid-January the euro has depreciated by 3 % against the dollar, coinciding with the approval of the new fiscal stimulus package in the United States. Looking ahead, however, signs of a strengthening of the euro prevail: the long positions of non-commercial operators are on the whole preponderant. In nominal effective terms, the euro depreciated by about 1 %.
In QI 2021, GDP significantly accelerated in the United States and China, and fell sharply in Japan and the United Kingdom. At the end of March, in the United States, Japan and the United Kingdom, output was below the pre-pandemic level, by 0.9, 2.0 and 8.8 % respectively.
The recovery in world trade continued in the first quarter, in line with the improvement in economic activity.
Oil prices have risen, exceeding USD 70. The rise was driven by higher demand; on the supply side, at the meeting held at the beginning of July, the OPEC + countries did not find an agreement to further increase production. Futures contracts, however, indicate falling prices over the medium term.
In the first quarter of 2021, the economic activity of the euro area still decreased (-0.3 %). Output fell sharply in Germany and, to a lesser extent, in Spain and France; on the other hand, it has just increased in Italy. GDP would have returned to rise significantly in the second quarter of this year. In June, the Euro - coin indicator confirmed a robust underlying growth in the area's product, thanks to the improvement in the expectations of households and businesses
The Bank closes the QI with good results, less exposed on margin of interest due to a lower credit portfolio outstanding, but with a positive contribution of the treasury department due to the management of the Hold to Collect and Sale (“HTCS”) proprietary liquidity portfolio.

In Q2 the purchasing managers’ indexes of companies (PMI) confirm the recovery of the US economy and signal a recovery of economic activity in the United Kingdom, extended to the service sector; for Japan they suggest that growth is much weaker and limited to the manufacturing sector. In China, where economic activity has already returned to pre-health crisis levels, PMI indices remain above the expansion threshold; in the other main emerging economies, on the other hand, they indicate a weakening in more recent months, particularly in India.
In June, the sharp rise in consumer price inflation continued in the United States, reaching 5.4 %. Temporary supply constraints have contributed to this, such as the reduction in the production of new vehicles, which has resulted in a rise in the prices of used ones, and the increase in demand in sectors particularly affected by the pandemic, such as transport services. However, the increase in prices did not lead to a significant revision of inflation expectations: in mid-July those over the five-year horizon derived from the financial markets were stable at around 2.5 %. Inflation also rose moderately in the United Kingdom, to 2.5 % (from 2.1 in May); in Japan, the annual change in consumer prices remains negative (-0.1 % in May).
The Federal Reserve confirmed the expansionary stance of monetary policy in the meeting held in mid-June; the new projections of the members of the Federal Open Market Committee (FOMC) foreshadow for 2021 growth and inflation higher than expected in March and a first hike in the target range of the federal funds rate in 2023. The orientation of the policy monetary policy remains accommodative also in Japan and the United Kingdom. In China, the central bank reduced the reserve requirement ratio by 50 basis points; the reference rates remained unchanged.
After the contraction observed at the beginning of 2021, which affected all the major countries, in the euro area the product is recovering in the second quarter; significant growth is possible in the second half of the year, but uncertainties remain linked to the evolution of the pandemic. The energy price increases have led to a rise in inflation, which should however be temporary. The Governing Council of the ECB reiterated that it will maintain extremely expansionary monetary conditions, which are still essential to support the economy and ensure price stability in the medium term. Faced with a gradually improving picture, but still characterized by significant uncertainties related to the developments of the pandemic and the response of the economy to the reopening of activities, the Governing Council of the ECB reiterated that it will maintain the current extremely expansionary monetary conditions; these remain essential for strengthening the confidence of households and businesses, supporting the economy and ensuring price stability in the medium term. The Board has decided to keep the pace of monthly purchases of securities under the Pandemic Emergency Purchase Program (PEPP) high, also for the Q2. The purchases continue to pursue the objective of avoiding a premature tightening of the financing conditions of the economy, which would not be consistent with the need

to counter the impact of the pandemic on the economic prospects. The outcome of the review of the ECB's monetary policy strategy, launched in January 2020, was published on 8 July. The Governing Council believes that the best way to maintain price stability is to pursue an inflation target of 2 % in the medium term. On 24 June, the eighth auction of the third series of Targeted Longer-Term Refinancing Operations (TLTRO3) was settled: 110 billion euro was allotted to counterparties in the euro area. The total funds disbursed with these operations rose to 2,190 billion for the area.
The confirmation of the expansionary stance of the monetary policy of the Federal Reserve and the ECB helped to stop the increase in long-term yields in progress since the beginning of the year. Share prices continued to rise in the major advanced economies, with the exception of Japan, where they declined. In the United States, the confirmation of the expansionary stance of monetary policy led to a reduction in long-term yields by 30 basis points from mid-April; in the United Kingdom and Japan they decreased by about 10 basis points while in the euro area they remained almost stable.
In the Q2, the Bank continues to prosper as in the first quarter with positive outcomes due to the increasing credit demands in the corporate area, supported by the economic recovery of the level of the provision and a confirmation of positive contribution from the treasury and financial markets activity.

During Q3 the global recovery continues, despite the risks associated with the new variants of the virus. Trade has returned to the levels prior to the start of the pandemic, but tensions have emerged in the supply of raw materials and intermediate inputs, in part connected with the rapidity of growth. In the United States, the rise in inflation has come to a halt, although supply bottlenecks could be reflected in prices for longer than initially expected. Natural gas prices have increased significantly, especially in Europe In the summer, the spread of the Delta variant initially led to an increase in infections on a global scale, but the increase in deaths was less marked in areas with high vaccination rates. Since September, the infections have gradually decreased until they are back below the levels of the beginning of July. The recovery of mobility continued everywhere, returning to close to pre-pandemic levels. Vaccination campaigns slowed down in the areas where they were at their most advanced stage (United States, United Kingdom and the euro area); they accelerated significantly in Japan; they lag far behind in low-income countries. For the third quarter, the purchasing managers' indexes of companies (PMI) indicate growth that is still strong in the United States and the United Kingdom, albeit decelerating; for Japan they indicate a weak recovery in the manufacturing sector and a contraction in the service sector, where the prolongation of the restriction measures is weighing. In China, in the third quarter, the increase in GDP was decidedly attenuated, also due to the decline in the real estate sector which was affected by the collapse of the Evergrande group.
In the United States, the sharp rise in inflation came to a halt, stabilizing at high levels (at 5.4 % in September); it was affected by the attenuation of the main temporary pressure factors, such as the sharp rise in the price of used cars. Inflation expectations have increased: in mid-October those over the five-year horizon derived from the financial markets stood at around 2.7 %. The supply-side bottlenecks could continue to affect prices for a longer period than initially expected, but which the Federal Reserve still considers transitory. After a significant rise in the previous month, UK inflation fell slightly to 3.1 % in September. In Japan, the twelve-month change in consumer prices remained negative (-0.4 % in August). After a decline in August, oil prices started to rise again: they exceeded the levels of the beginning of July, driving global inflation. Futures contracts signal a decline in prices over the medium term. On the supply side, at the meeting in early October, the OPEC + countries decided not to further increase production. Volatility remains high, reflecting the uncertainty of demand linked to the evolution of the pandemic. The price of natural gas has grown significantly, especially in Europe.
Among the factors that determine the supply, the particularly severe winter that gave rise to a reduction in stocks for the second part of 2021, the lower production in Norway due to maintenance works on infrastructures, delays in activation of the Nord Stream gas pipeline linking Russia and Germany. On the demand side, the faster-than-expected recovery and the sharp rise in Chinese imports from Russia have pushed prices up. Futures prices foreshadow that the rise will partially stop in the course of 2022. However, some medium-term factors - the growth in global gas demand and the decrease in European production - suggest that part of the increase in prices may become permanent. While confirming the expansionary monetary stance, in the face of the improvement in cyclical conditions, the Federal Reserve and the Bank of England have begun to foreshadow the assessments that will determine the timing and methods of reducing the monetary stimulus.

In its meeting held on 22 and 23 September, the Federal Reserve announced that a downsizing of purchases would soon become necessary if economic conditions continue to evolve positively. Half of the members of the Federal Open Market Committee (FOMC) expect a first hike in the target range of the federal funds rate as early as 2022. At its meeting on September 22, the Bank of England announced that, should the economy progress as expected, the need for a modest monetary tightening in the coming months would strengthen. The stance of monetary policy remains expansionary in Japan. In China, key rates remained unchanged at historically low levels. The Governing Council of the European Central Bank confirmed the strongly expansionary stance of monetary policy. Consumer inflation in September stood at 3.4 % over twelve months; the core component increased to 1.9 %. The acceleration in prices is mainly due to the extremely marked growth of the energy component, as well as to temporary factors associated with the tax measures launched in 2020 in Germany, the effects of which will last until the end of the current year. Between the end of July and October, on a proposal from the European Commission, the Council of the EC approved seven other national investment and reform plans under the Facility for Recovery and Resilience, the main instrument of the Next Generation EU program. The Commission has started to disburse the first installment of resources as pre-financing for more than 52 billion Euro. On 29 September, the ninth auction of the third series of targeted longer-term refinancing operations (TLTRO3) was settled: 98 billion euro were assigned to counterparties in the euro area. The total of funds disbursed with these operations rose to 2,206 billion for the area. Long-term government bond yields have increased in the major advanced economies since mid-July. Evergrande concerns did not significantly impact market volatility in the third quarter.
From mid-July in the major advanced economies, share prices have risen; since the beginning of the year they have increased by around 20 % in the United States, 15 % in the euro area, 10 % in the United Kingdom and 5 % in Japan. In September, the Chinese real estate group Evergrande's failure to pay coupons on two international issues sparked tensions on local and international financial markets. The fears of repercussions on the entire real estate sector of a possible failure of the group - the second largest in China in the sector - were not, however, reflected in an increase in the volatility of share prices in the United States and in the euro area. Risks to global financial stability appear low, however, given the limited exposure of international investors to Evergrande and its creditors. Since the beginning of July, the euro has depreciated against the dollar, reflecting expectations of a relatively more expansionary monetary stance on the part of the ECB in the coming months. The common currency also weakened in nominal effective terms, by 1.4 %. The indicators taken from the financial markets do not indicate expectations of significant changes in the euro-dollar exchange rate.
In the third quarter, aggregated results of the bank are well above the same period of the previous year, strongly supported by the economic recovery of the level of the Provision in continuity with Q2 results, strong credit demand and a good performance of the new business line related to the management of an “HTCS” proprietary investment portfolio started in July.

In Q4, on November 26, 2021, World Health Organization reached deeper into the Greek alphabet to declare Omicron a new SARS-CoV-2 variant of concern. External analysis suggest that in the United States, this combination of characteristics would lead to Omicron replacing Delta as the dominant variant in the next few months and to a higher peak burden of disease than the country saw in the second half of 2021.
In any scenario for the future of the COVID-19 pandemic, much depends on the ways in which societies respond. Three levers are likely to be especially important, starting with the extent to which countries can effectively scale and make available new oral therapeutics with the potential to reduce the chance of progression to severe disease, and which are unlikely to be blunted by Omicron. Second, evidence is accumulating that booster doses are especially important for protecting against the Omicron variant; accelerating their rollout will help protect populations. And third, given public fatigue and the lessons of the past two years, finding the right combination of public-health measures will be critical.
The decline in the efficacy of COVID-19 vaccines over time and the benefits of booster doses have become much better understood over the past three months. While an initial course of all WHO-approved vaccines continues to provide strong protection against severe illness and death, the rate of breakthrough cases increases meaningfully as time passes, indicating that protection declines with time. For example, a July 2021 study of the Pfizer-BioNTech vaccine in Israel showed that in every age group studied, those who had been vaccinated by January 2021 were more likely to experience breakthrough infection than those who completed their initial

course of vaccination two months later were. This general point appears to be especially true for the Omicron variant.

Evidence has also accumulated steadily about the benefit of booster doses, leading more countries to expand and accelerate their rollout.23 On October 21, 2021, Pfizer-BioNTech announced results from a randomized controlled trial of third doses of its COVID-19 vaccine; protection was restored to the levels seen in earlier trials after the second dose.24 More recent data, as previously described, highlight the benefits of booster doses in protecting against the Omicron variant. As countries transition over time to managing COVID-19 as an endemic disease, the world may reach a long-term state of disease prevention similar to that seen with the flu, with annual or twice yearly booster doses. In the short term, an accelerated rollout of booster doses of COVID-19 vaccines is likely to be one of the best protections against an Omicron-fueled wave of the disease.

Tapering from -30 billion per month and total from 120 to 60 billion Euro. Three rates of hike in 2022 expected.

Preliminary PMI data for December clearly show that services above all have a setback that brings back values of about 9 months ago, especially in Germany but also in the Eurozone, including the US. The pace obviously can slow down even if manufacturing is the most resilient part at the moment.

In Europe, The PEPP will end in March 2022 and perhaps the slowdown in the pace of purchases will occur precisely in the next quarter.

The yield curves have moved less than expected (apart from the Gilts with + 10bps). In all likelihood they will follow the pandemic trend more than the complex attempts by central banks to show consistent aid to the market in such a highly variable context.

The Fed's confirmation of the departure of flexible tapering, starting from December to reduce purchases at a monthly rate of $ 15 billion, has softened the sharp rise in interest rates on last weeks of december. Nonetheless, there is strong uncertainty on the bond market, linked to the trend of inflation, given that Powell himself stated that is linked to transitory nature factors, such as bottlenecks and problems in supply chains.

In addition, the FED announced that starting from next year it could revise the pace of the purchases program based on the economic trend, leaving uncertainties about what the future prospects are. Still on the central bank front, speculations about a rate hike by the ECB in 2022 were rejected by Lagarde's statements, which first stated that the medium-term outlook for inflation remains contained and that a rate hike in 2022 is out of the current plan. This uncertainty about the next steps was finally fuelled by the decision by the BoE to keep rates unchanged at least until the December meeting.

However, the October inflation data in the US at the highest levels since 1990 led to a marked rise in inflation expectations, an increase in expectations of Fed rate hikes in 2022 and a flattening of the long-term yield curves.

This flattening is an anticipatory effect of the economy slowdown that could arrive during the first half of the year due to the downsizing of demand and the signs of a possible slowdown in the future and possible partial downsizing of the sharp rise in commodities.

Credits are suffering high uncertainty following the decision to start the Tapering phase by the FED with the reduction of purchases in the coming months. Moreover, the problems of the supply crisis, the strong volatility of the energy sector, the uncertainty about inflation linked to the lack of supplies of raw materials and the news coming from Asia have determined a strong lack of liquidity on the markets. Credits have been slowed also by the decision from the ECB on the end of the PEPP in March 2022. However, the nature of a new *manoeuvre* to replace the old APP remains uncertain. Markets are therefore at end of 2021 in a wait position.

The Bank ends the year with a final rush that leads to present much better results in comparison with the previous year. Important corporate lending transactions closed in Q4, including relevant structured export finance deals along with the starting of the activities of the new Structured Finance Desk, in addition to very good results in Liquidity and Investment HTCS portfolios, as well as core activities in brokerage, allows the Bank to reach one of the best overall target and net income, in recovering but still uncertain markets.

Corporate Governance

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

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

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

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

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

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

In Luxembourg, the Bank applies CSSF circular 12/552 as subsequently amended.

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

Risk Control

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

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

The work of the Assets/Liabilities Committee is directly supported by the Risk Control Function.
The Compliance function identifies, assesses and controls the compliance risks by ensuring adherence to legal and regulatory requirements and ethical principles including AML.

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

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

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

Subsidiaries and branches

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

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

As a consequence, the Bank operates through its head-office located in Luxembourg-city and through its Branch located in Amsterdam at 31 December 2021.

At the end of 2020, IMI Corporate & Investment Banking Division launched a project aimed at the reorganization and growth of the Division' internal activities. It has been decided to transfer the Branch directly under the control of Intesa Sanpaolo S.p.A.
Activities started in the end of 2020 and have been completed by the end of 2021, realizing the transfer with effectivess as of 1 January 2022.

Perspectives

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

IMI CIB launched in 2020 a project initiative ("IMI C&IB International Next") aimed at the reorganization and growth of the Division's international activities, also in light of the "Hard Brexit" scenario and the incorporation of Banca IMI.

This project has already produced in 2021 good results, such as (i) activation Hold to Collect & Sell Investment Portfolio business model in July, (ii) transfer of Private Banking business line to Fideuram Bank Luxembourg (FBL) in August and (ii) activation of structured finance competence center in October; the project will produce in January 2022 (within the ISP Group contest of the creation of a new Hub EU based in Milan, responsible for the coordination and development of European clients and "core Europe" spoke branches previously reporting to the HUB London (Paris, Frankfurt, Madrid and Warsaw)), the transfer of its Amsterdam branch from the Bank to its Parent Company.

The business model of the bank will continue to upgrade in 2022, with the strengthening of Intesa Sanpaolo Bank Luxembourg as a "lending factory" serving the international network and with the capabilities of loan structuring (Structured Finance and SEF), corporate solutions, loan syndication and loan management which will be further developed.

Deposit Guarantee Scheme and Resolution Mechanism

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

- 2014/59;
- 2014/49

which respectively established:

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

The introduction of the two above mentioned directives had a direct impact on the Bank, which was called to contribute to the Resolution Fund paying an amount of EUR 6,468,788 and to contribute to the Fonds de garantie des dépôts (FGDL) paying an amount of EUR 578.

Financial elements for 2021

Total assets as at 31 December 2021 stood at EUR 21.1 billion (31 December 2020: EUR 18.7 billion).

Loans and advances to credit institutions (including balances with central banks) amounted to EUR 7.4 billion as at 31 December 2021, showing a lower amount than 31 December 2020 one (EUR 8.2 billion). Loans and advances granted to customers other than credit institutions amounted to EUR 9.0 billion as at 31 December 2021 (EUR 8.4 billion as at 31 December 2020).

Financial assets held for trading are mainly composed of derivative financial instruments measured at their fair value and amounted to EUR 5.9 million at 31 December 2021 (31 December 2020: EUR 54.7 million). Those are mainly composed of cross currency interest rate swaps and foreign exchange derivative contracts.

Financial instruments measured at Fair Value through Other Comprehensive Income (FVTOCI), which amounted to EUR 3.7 billion as at 31 December 2021 (31 December 2020: EUR 2.0 billion), are composed of sovereign debt securities for an amount of EUR 2.0 billion, debt securities issued by the other public entities for an amount of EUR 0.2 billion and other bonds for an amount of EUR 1.5 billion. 2021 portofolio amount is significantly higher than 2020 one thanks to the new investment portfolio the Bank started at the end of the first semester 2021, which amounted at EUR 1.4 billion at the end of the year.

Concerning liabilities, during 2016 Intesa Sanpaolo Bank Luxembourg S.A. participated in the Long Term Refinancing Operation (LTRO) mechanism with the Luxembourg Central Bank (“BCL”) for an amount of EUR 0.8 billion. To enter into such program, the Bank pledged in favour of the BCL part of its debt instruments kept in its financial assets at fair value through other comprehensive income portfolio, which were eligible for such purpose. As at 31 December 2021, depositis due to BCL amounted to EUR 2 billion, following the bank participation to the TLTRO III program.

Deposits from customers amounted to EUR 3.0 billion at end of the year (31 December 2020: EUR 4.3 billion). The Bank also issued debt certificates for an amount of EUR 7.2 billion as at 31 December 2021 (31 December 2020: EUR 7.7 billion) composed as follows:

- certificates of deposit: EUR 3.1 billion (mainly subscribed by Intesa Sanpaolo Holding International S.A., the Bank’s local parent company);
- non-convertible bonds: EUR 4.1 billion, which are part of a European Commercial Paper program and of the European Medium Term Notes program described herein.

The net profit for the year amounted to EUR 160.8 million as at 31 December 2021 (2020: EUR 82.6 million), with a ROE equal to 6.54%.

Net interest income amounted to EUR 174.2 million at the end of 2021 (2020: EUR 130.1 million and EUR 125.3 restated). Interest income and expenses are mainly focused on the corporate lending activity and the decrease in value is linked to a reduction in volumes experienced during the year.
Net fee and commission income was positive and amounted to EUR 47.8 million as at 31 December 2021, showing an increase compared to 2020 restated amount (EUR 38.4 million) and slightly above the non-restated amount (EUR 47.5 million).

Net unrealised losses on financial assets and liabilities held for trading amounted to EUR 24.1 million as at 31 December 2021 (31 December 2020: loss of EUR 16.6 million and restated amount equal to a loss of EUR 16.8 million). The higher loss compared to last year was mainly due to NPV trend of derivatives contracts during 2021 and higher differentials paid compared to 2020.

Net realised gains on financial assets and liabilities not at fair value through profit or loss amounted to EUR 13.6 million as at 31 December 2021 (31 December 2020: gain of EUR 2.3 million) mainly thanks to realised gains of EUR 16.4 million partly compensated by losses of EUR 2.8 million on the sale of several assets measured at FVTOCI.

Total administrative expenses amounted to EUR 47.2 million, higher than 2020 administrative expenses caption (restated and not restared).

Due to the Covid-19 evolution during 2021 and its different impact on the global economic situation between 2020 and 2021, the Bank recovered impairment losses on financial assets booked during 2020 (EUR 25.1 million) in 2021, while the Bank booked provisions for EUR 26.3 during 2020. Detailed information are presented in Note 3 and 25.

Due to the implementation of IFRS 16 principle, which came into force starting from 1 January 2019, the Bank booked depreciations for EUR 2.1 million in 2021 (31 December 2020: EUR 2.3 million), mainly due to operating leases on real estate location contracts.

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

The Bank booked deferred tax assets and deferred tax liabilities generated as at 31 December 2021. Deferred taxes are provided on temporary differences at the reporting date between on assets and liabilities evaluated at fair value. They are measured at the tax rate that is expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The net profit of the year available for/ distribution, including retained earnings (but excluding First Time Adoption “FTA” and reclassification from revaluation reserves) amounted to EUR 275,572,599. Retained earnings amount included also functional property revaluation of EUR 24,513,535, which has been reclassified from revaluation reserve to retained earnings following the functional property disposal concluded in 2018.

The Board of Directors will propose the following allocation of the profit to the Annual General Meeting, which will be held to approve the financial statements as at 31 December 2021:

(EUR)	
Net profit of 2021 financial year	160,844,424
Retained profit from previous year (excluding FTA and reclassification from revaluation reserves)	114,728,175
Amount attributable to shareholders	**275,572,599**
Allocation to legal reserve (5% net profit)	8,042,221
Allocation to the NWT reserve	18,000,000
Retained profits carried forward	**249,530,378**
Total	**275,572,599**

Subsequent events

The Bank is not aware of any adjusting event that would have occurred between 31 December 2021 and the date when the present financial statements were authorised for submission by the Board of Directors to the Annual General Meeting of Shareholders.

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

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

That event is classified as discontinued operations at 31 December 2021 because the relevant information are available and defined as at the end of the year; as per consequence, 2021 primary statements have been updated accordingly.

Finally, it should be noted that a military conflict between Russia and Ukraine broke out on 24 February 2022, as a post-balance sheet event that does not give rise to adjustments in relation to the 2021 financial year. With respect to Russia, the Bank maintains financing relationships with large companies that have significant and well-established business relationships with European and international customers and a significant share of revenues from commodity exports.

In addition, the vast majority of exposure to the main Russian counterparties is to groups with very solid credit and liquidity ratios, as reflected in the investment grade rating assigned by the major international rating agencies. The Bank, in coordination with the Group's dedicated structures, will continue to constantly monitor the decisions taken at EU and international level, with which the Bank will comply, as well as their possible impact on the operations of Russian counterparties, in relation to which it is not possible to make any forecasts at the moment.

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

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

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

The project has been presented to the Board of Directors of the Bank in December 2020 and it resolved to approve the start of the process related to the transfer of the Bank Amsterdam Branch to ISP S.p.A..
The Board of Directors also resolved to give mandate to all members of the Authorized Management of ISPBL to perform the tasks necessary to implement the transfer including the engagement of the advisors.

Activities started in the end of 2020 with the support of external advisors to analyse any legal, regulatory and fiscal aspects have been completed by the end of 2021.

The transfer will be realized in January 2022 with effectiveness starting from 1 January 2022.

The following table presents the main figures of the branch as at 31 December 2021 on a stand-alone basis:

(in EUR'000)	**2021**
Deposits from customers	958,835
Loans & advances to corporate customers	514,496
Net interest margin	7,430
Commission margin	7,434
Operating costs	(2,204)
Net profit after taxes	10,777

Please refer to note 34 for further information about the Branch.

Miscellaneous

The Bank did not purchase own shares during the year 2021. No research and development costs have been sustained during the year 2021.

Risks, uncertainties and impacts due to Covid-19

More than a year since the first case of the Coronavirus Desease 2019 (Covid-19) was reported, the pandemic is still significantly impacting entities, disrupting their operations, financial, risk management and internal control systems.

European regulatory and supervisory bodies published several documents essentially in 2020 and to a lesser extent in 2021 aimed at clarifying the methods of application of the IAS/IFRS in the pandemic context, with particular reference to IFRS 9, as well as the planned disclosure for the amendment to IFRS 16 on lease concessions related to COVID 19.
During these two years, in fact, in line with the evolution of the health and economic framework, there have been several regulatory interventions, mainly of an interpretative nature and supporting the application of accounting standards, in relation to the impacts of COVID-19. The following table shows the most relevant documents, also indicating their scope of application:

Issuer	Date	Title	Main field Presentation	Measurement	Financial Disclosure
EBA	25.3.20	Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVLD19 measures	X		
ESMA	25.3.20	Public Statement. Accounting implications of the COVID 19 outbreak on the calculation of expected credit losses in accordance with IFRS 9		X	
IFRS Foundation	27.3.20	IFRS 9 and Covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the covid-19 pandemic		X	
BCE	1.4.20	IFRS 9 in the context of the coronavirus (COVID 19) pandemic		X	
EBA	2.4.20	Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis	X		
ESMA	20.5.20	Implications of the COVID-19 outbreak on the half-yearly financial reports			X
EBA	2.6.20	Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID 19 crisis	X		X
ESMA	28.10.20	European common enforcement priorities for 2020 annual financial reports			X
EBA	2.12.20	Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis	X		
BCE	4.12.20	Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic	X	X	
ESMA	29.10.21	European common enforcement priorities for 2021 annual financial reports	X	X	X
ESMA	16.12.21	Report on the application of the IFRS 7 and IFRS 9 requirements regarding banks' expected credit losses (ECL)	X	X	X

The interventions of the regulators, aimed essentially at clarifying the treatment of moratoria, indicating the minimum prerequisites for clear financial disclosure in this context, uniformly directing the definition of prospective scenarios and allowing flexibility in the definition of credit assessments, have gradually strengthened and adapted to the evolving situation the regulatory framework that had already begun to take shape in the early months of 2020 and was progressively clarified during the last financial year and which was substantially confirmed also in 2021.
The ESMA documents issued in 2021, in fact, do not introduce any new substantial changes, but rather provide an overview of the various requirements by better clarifying their purpose and application methods. It should be noted, however, that the indications provided by the regulators allow/encourage intermediaries to exercise flexibility and their own expert judgement in making decisions, being clear, however, that the indications provided do not constitute a "relaxation" of the rules but rather the granting of further necessary discretion in the current context.

For the Financial Statements at 31 December 2021, the Bank, in line with the decisions taken by the Group, has therefore decided to confirm the approaches adopted starting from the 2020 half-yearly report, summarised in the following paragraphs, with the appropriate refinements and adjustments deriving from the longer timeframe available to implement them, as well as to take into account the evolution of the reference health and economic context.

Since the beginning of the crisis, when the World Health Organization declared Covid-19 to be a public health emergency on 30 January 2020, the Bank has been fully engaged to face actively and effectively the new difficult situation, implementing each solution and adopting each decision in connection and coordination with the relevant structures of the Ultimate Parent Company and with the Regulators to ensure the operational continuity of its processes and services.

The Bank adopted and implemented several solutions and developed new processes to be able to:

- Face each emergency;
- React promptly to any change;
- Mitigate risks;
- Assure services going concern.

In particular, in terms of solutions adopted, the Bank:

- Organized promptly a dedicated Crises Unit since February 2020 for the identification and management of all operational risks; the Crises Unit supervised and implemented all operational solutions to assure a proper performance of all the activities, implement Government decisions and Regulators suggestion and guarantee an healthy and safe environment for each employee during 2020 and 2021;
- Implemented an effective smart working strategy extended to all employees, reactive to any evolution of the endemic situation;
- Increased the digitalization process;
- Strengthened liquidity management in strict coordination with Head Office;
- Maintained a continuous assessment of the whole activities to identify any potential new impact and to adopt solutions to react promptly.

Among the consequences of Covid-19 circulation, it is important to mention its impact on uncertainty: the appereance of Covid-19 contributed to creating a climate of extreme uncertainty, not yet completely dispelled by the effects of vaccination campaigns.

In this regard, it should be noted that the preparation of financial statements in accordance with IFRSs requires - as usual - that management make estimates and assumptions that affect the amount reported in the financial statements of assets, liabilities, revenues and expenses recognised during the year as well as other comprehensive income. Estimates made by management are based on historical experience and other assumptions that are believed to be reasonable. The main areas of estimation uncertainty include those related to credit losses, fair value of financial instruments (including derivatives), corporate income taxes, employee benefits, goodwill and intangible assets, fair value of assets and liabilities identifiable as a result of business combinations, impairment of non-financial assets, derecognition of financial assets and liabilities and provisions for risks and charges. COVID-19, as the first global pandemic in over a century, continues to significantly affect the markets in which the Bank operates. Governments around the world have imposed a series of specific measures to contain the epidemic, such as travel restrictions and quarantines, while at the same time they are trying to avoid an economic slowdown and promote a rapid recovery once the health crisis has been resolved.
This situation has caused and continues to cause increased volatility and uncertainty in the financial sector and markets, which has also been reflected in key areas of estimation. The Bank has therefore, in coordination and collaboration with the dedicated departments of the Head Quarter, made estimations supporting them with dedicated sensitivity analysis, which are disclosed below.

Macro-economic scenario of Intesa Sanpaolo Group in the process of loans and receivables valuation
The year 2021 is undoubtedly characterised by the start of the impressive vaccination campaigns (at least for the more developed countries), with the achievement of a high level of coverage and effectiveness in curbing hospitalisations and - consequently - deaths, avoiding - even in the face of new variants of the virus - the réintroduction of stringent restrictive measures.

With regard to the macroeconomic scenario adopted in the models for determining the Expected Credit Losses, it should be noted that since June 2020 the ISP Group, following the indications of regulators and standard setters, had anchored its macroeconomic forecasts to the projections published by the central banks themselves. In light of the context described above, in a macroeconomic environment that is recovering significantly and in consideration of the lesser uncertainty that characterises the process of estimating projections, the ISP Group deemed it appropriate to return to the use of scenarios produced internally by the Studies and Research Department as input to the ECL models, thus making it possible to return to having substantial uniformity between the scenarios used in the other valuation/forecasting processes (impairment tests, budgets, etc.), especially with the new Business Plan starting in 2022. This choice also seems reasonable in light of the marked convergence between the forecasts produced internally by the Studies and Research Department compared to the forecasts prepared in recent quarters by the ECB/Bank of Italy staff and also confirmed by the substantial uniformity found with the latest projections of the European Central Bank and Bank of Italy, published in mid-December in order to take into account certain elements such as the new worsening at the end of 2021 of the pandemic framework and higher energy prices. In any case, the forecasts of the internal scenario used for IFRS9 modelling should be considered in conjunction with the choices made regarding managerial ovelays and triggers for slippage to Stage 2 shown below.

Loans and receivables classification and valuation in the Covid- 19 scenario
As is evident from the significant amount of legislation on the subject reported above, COVID-19 has had a particular impact on the issues of the classification of credit exposures, particularly for aspects related to payment delays, as well as for the determination of the Expected Credit Loss (ECL) under IFRS 9.

Concerning *classification,* as is evident from the significant amount of legislation on the subject reported above, COVID-19 has had a particular impact on the issues of the classification of credit exposures, particularly for aspects related to payment delays, as well as for the determination of the Expected Credit Loss (ECL) under IFRS 9.

On the subject of the classification of credit exposures, it should be noted that the appearance of COVID-19 has primarily entailed the need, shared by the banking system and institutions (governments and regulators), to grant customers who are already performing generalised measures of suspension of payments (moratoria) with simplified procedures and without penalties for those involved, banks and customers. These measures, partly regulated by national regulations and partly decided autonomously by the banks, have been the subject of specific regulations, summarised in the EBA Guidelines ("Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis"). In summary, the granting of statutory or private moratoria by banks and financial intermediaries in accordance with the above-mentioned Guidelines (provided that they are related to an objective need for a context that impacts on several borrowers and not on the individual loan) does not automatically constitute an event of default, with the consequent classification of the loan as impaired, nor a forbearance measure, with the consequent transfer of the loan to Stage 2. The EBA outlines the conditions for qualifying general payment moratoria for the applicability of the exemption (terms of granting and duration of the moratorium).

More in detail, with regard to the classification of positions subject to payment moratoria linked to the COVID-19 pandemic, in line with the indications of the various regulators that have expressed themselves on the subject, it is specified that until 30 September 2020 the already performing positions affected by these measures (both the moratoria ex lege and those decided autonomously by the Group) were treated as follows

- they were not normally subject to stage 2 classification (nor considered forborne according to prudential regulations). Only for positions with companies with a higher riskiness, in the case of a moratorium decided by the Bank, specific assessments were carried out to verify whether or not to consider the renegotiation as a forbearance measure, with consequent passage to stage 2;
- they were not subject to classification as impaired (stage 3). In particular, performing loans subject to a moratorium are not classified in the risk class of past due loans, since the moratorium is applied to past due loans. Moreover, the acceptance of a moratorium is not considered an automatic trigger of probable default.

Moratoria granted to customers already classified as non-performing loans are specifically assessed and considered forbearance measures.

From 1 October 2020, following the first phase-out of the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis, the Group proceeded to assess on

a case-by-case basis whether or not the granting of a new moratorium on a performing loan constituted a forbearance measure.
Following the second wave of COVID that hit Europe since mid-October, however, the EBA reconsidered the issue and, with its communication of 2 December 2020, has:

- reopened until 31 March 2021 the possibility to grant moratoria under the pre-existing guidelines;
- introduced a time limit of a maximum of nine months for new moratoria or the extension of an existing moratorium. The time limit also applied to the granting of non-consecutive suspension periods (in this case the durations of the different periods are added together). The maximum duration of nine months did not apply retroactively to moratoria granted until 30 September 2020.

In December 2020, the ISP Group therefore adapted to the provisions of the amendment issued by the EBA on 2 December, restoring the framework in place until 30 September described above and introducing, however, a case-by-case assessment on the classification as forborne for moratoria with a duration of more than nine months, as required by the EBA.

Concerning *loans valuation*, the Bank, in line with decision taken at Group level, adopted a prudent approach to the adjustment of ECL results derived from the IFRS 9 models in use, in the context of the uncertain but expected worsening of economic conditions - even drastic in the short term - while taking into account the effects of the public support measures made promptly available by national authorities and supported by the ECB's accommodative policy.
This approach has been progressively made more sophisticated and consistent in 2020 and 2021 through the definition of management overlays that have been gradually enriched following the improved perception of the evolution of the crisis (partly reflected in ECL estimates by the updates of macroeconomic forecasts described above), the definition of new frameworks for assessing expected vulnerabilities, as well as the results of operational responses adopted by the Group (e.g., re-rating campaigns, revitalisation and restructuring campaigns in the corporate segment, priority analysis of the moratorium portfolio, etc.). All these initiatives were characterised by their timeliness and intensity and were supported by adequate prospective risk controls during the set-up and managerial decision-making phases.

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

- Impacts due to national guarantees acquisition:
  The Bank had one exposure as at 31 December 2021;
- Impacts due to moratoria granted:
  As mentioned above, the Bank granted one non legislative EBA compliant moratoria during 2020 (six months delay for capital repayment) and the customer respected the new deadline before 2020 year end;
- Micro-segment vulnerability and moratoria to identify further trigger to move exposures from Stage 1 to Stage 2.

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

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

There are two further parameters taken into consideration:

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

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

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

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

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

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

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

The Bank changed its address during the month of Feburary 2022, moving its offices to the new building located in boulevard de Kockelscheuer n.28, L-1821 Luxembourg.

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

(in EUR’000)	**2021**
Cleaning of premises	9
Staff indirect costs	13
Total expenses	**22**

Conclusion

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

Luxembourg, 25 February 2022

Ivan Caliandro
Chief Financial Officer

Massimo genian a
Administrateur Délégué & CEO

Ernst & Young
Société anonyme

35E, Avenue John F. Kennedy
L-1855 Luxembourg

Tel: +352 42 124 1

www.ey.com/en_lu

B.P. 780
L-2017 Luxembourg

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

Independent auditor's report

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Intesa Sanpaolo Bank Luxembourg S.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation Nº 537/2014, the Law of 23 July 2016 and ISAs are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements" section of our report. We are also independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Impairment of loans and advances to customers

As at 31 December 2021, loans and advances to customers amounts to EUR 8,957,308,950 representing 42.5% of the total assets. Assessing whether impairment on loans and advances to customers need to be recorded, require significant judgments, such as the identification of credit exposures that are deteriorating, the review and monitoring of customers' staging, the consideration of the forward-looking macro-economic scenarios, their probabilities and impacts, the estimation of expected credit losses as per IFRS 9 and of the recoverable value of credit exposures.

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

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

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

How the matter was addressed in our audit

We assessed the design and implementation, and tested the operating effectiveness of the key controls over the Bank's processes for assessing whether loans impairment should be recorded and performed a certain number of substantive audit procedures.

The procedures performed includes the testing and the assessment of the Bank's:

- loans granting and approval process;
- credit exposures review performed by the Credit department;
- watch-list analysis performed by the Management and Credit Committee;
- past-due credit exposures review performed by the Credit and the Risk Management departments;
- review of the IFRS 9 impairment model's parameters, accuracy of data and calculation at the Group level;
- oversight and monitoring of impairment calculation outsourced to the Group.

On a sample of loan customers, selected based on certain risk parameters, we tested the creditworthiness of the counterparty to assess the appropriate classification of the IFRS 9 staging. Where differences were identified between the Bank's assessment and our assessment of the creditworthiness of the counterparty, we performed additional procedures to support our assessment of the classification of the IFRS 9 staging and evaluated the impact on the Expected Credit Loss computation.

At the Group level we involved our financial risk management specialists to challenge key assumptions and judgements made by management relating to the IFRS 9 expected credit loss model and evaluated the reasonableness of management's key judgements and estimates made in preparing adjustments (including the forward-looking macro-economic scenarios and their probabilities).

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

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report but does not include the financial statements and our report of "réviseur d'entreprises agréé" thereon.

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the Board of Directors on 24 February 2021 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 1 year.

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

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

Ernst & Young
Société anonyme
Cabinet de révision agréé

Papa Saliou Diop

Luxembourg, 11 March 2022

Statement of financial position
31 December 2021
(expressed in EUR)

Assets	Notes	31.12.2021	31.12.2020
Cash and cash balances with central banks	**3,4**	**619,219,659**	**538,213,036**
Financial assets measured at fair value through profit or loss ("FVTPL")	**3,5**		
Financial assets held for trading		5,858,083	54,712,261
Financial assets mandatorily measured at fair value		502,820	499,954
		6,360,903	**55,212,215**
Financial assets measured at fair value through other comprehensive income ("FVTOCI")	**3, 6**	**3,695,807,871**	**1,996,131,350**
Loans and advances	**3, 4,7**		
Loans and advances to credit institutions		6,747,752,961	7,679,988,042
Loans and advances to customers		8,957,308,950	8,379,809,481
		15,705,061,911	**16,059,797,523**
Derivatives held for hedging	**3, 14**	**29,160,068**	**-**
Tangible fixed assets	**8, 33**	**728,413**	**2,625,433**
Intangible assets	**9**	**-**	**-**
Current tax assets	**10**	**-**	**7,133,520**
Deferred tax assets	**10**	**1,248,466**	**1,202,134**
Other assets	**3, 11**	**23,727,288**	**22,008,614**
Non-current assets held-for-sale and disposal groups	**3,35**	**1,010,638,094**	**-**
Total assets		**21,091,952,672**	**18,682,323,825**

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

Statement of financial position (continued)
31 December 2021
(expressed in EUR)

Liabilities and equity	**Notes**	**31.12.2021**	**31.12.2020**
Deposits from central banks	**3, 12**	**1,984,444,766**	**799,977,778**
Financial liabilities measured at fair value through profit or loss ("FVTPL")			
Financial liabilities held for trading	3	33,444,115	12,830,805
		33,444,115	**12,830,805**
Financial liabilities measured at amortised cost ("AC")	**3, 13**		
Deposits from credit institutions		4,828,839,487	3,273,209,249
Deposits from customers		3,004,367,728	4,263,865,651
Debts evidenced by certificates		7,157,681,623	7,687,405,680
		14,990,888,838	**15,224,480,580**
Derivatives held for hedging	**3, 14**	**40,860,032**	**92,636,544**
Provisions	**15**	**3,348,772**	**6,532,816**
Current tax liabilities	**10**	**-**	**5,847,920**
Deferred tax liabilities	**10**	**455,922**	**3,422,486**
Other liabilities	**11**	**21,606,317**	**29,772,971**
Liabilities associated with disposal group	**35**	**1,397,368,360**	
Total liabilities		**18,472,417,122**	**16,175,501,900**
Equity	**6, 16**		
Share capital		1,389,370,555	1,389,370,555
Share premium		7,720,692	7,720,692
Revaluation reserve		(1,893,026)	5,917,302
Other reserves and retained earnings		1,063,492,905	1,021,219,060
Net profit for the year		160,844,424	82,594,316
Total equity		**2,619,535,550**	**2,506,821,925**
Total liabilities and equity		**21,091,952,672**	**18,682,323,825**

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

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2021
(expressed in EUR)

CONTINUING OPERATIONS:	Notes	31.12.2021	31.12.2020 *(IFRS 5 Restated)*	31.12.2020
Interest income		174,230,179	205,010,039	218,326,687
Interest expenses		(65,204,410)	(85,803,406)	(88,226,776)
Net interest income	**17**	**109,025,769**	**119,206,633**	**130,099,911**
Fee and commission income		67,869,087	64,318,337	71,808,799
Fee and commission expenses		(20,055,990)	(25,901,930)	(24,255,107)
Net fee and commission income	**18**	**47,813,097**	**38,416,407**	**47,553,692**
Dividend income	**19**	**45,309**	**-**	**-**
Net (un)realized gains and losses on financial assets and liabilities held for trading	**20**	**(24,075,289)**	**26,063,196**	**(16,577,204)**
Net unrealised gains on financial assets and liabilities held for hedging	**14**	389352	**69,804**	**69,804**
Net (un)realised gains/losses on financial assets and liabilities at fair value through profit or loss	**21**	**83,110**	**(113,945)**	**(113,944)**
Net realised gains on financial assets and liabilities not at fair value through profit or loss	**22**	**13,650,976**	**2321,073**	**2323315**
Other income		4,668,574	2,143,066	2,143,066
Other expenses		(4,543,871)	(4,289,686)	(4,328,110)
Net other expenses	**23**	**124,704**	**(2,146,620)**	**(2,185,044)**
Administrative expenses	**24, 30**	**(47,175,860)**	**(41,266,380)**	**(43304,088)**
Depreciation and amortization	**8, 9, 33**	**(2,093311)**	**(2,067,504)**	**(2,295,944)**
Provisions	**15**	**2,580334**	**(1,971,228)**	**(2,430,633)**
Net impairment result on financial assets	**25**	**25,546,086**	**(25,954,692)**	**(26310,200)**
Other extraordinary income	**36**	**1,020,000**	**-**	**-**
PROFIT BEFORE TAX		**126,934,275**	**112,556,745**	**86,829,665**
Tax (expense) income	**10**	**417,778**	**(761318)**	**(4,235349)**
Discontinued operations	**35**	**33,492371**	**(29,201,110)**	**-**
NET PROFIT FOR THE YEAR		**160,844,424**	**82,594,316**	**82,594316**

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

 A

Statement of profit or loss and other comprehensive income (continued)
For the year ended 31 December 2021
(expressed in EUR)

	31.12.2021	31.12.2020
Net profit for the year	**160,844,424**	**82,594316**
Other comprehensive income:		
Items that are or may be reclassified to profit or loss		
Net change in fair value on financial assets at fair value through other comprehensive income and expected credit losses before tax	(10,405,445)	14,774,576
Deferred tax relating to the components of other comprehensive income	2,595,117	(3,686,575)
Other comprehensive income for the year, net of tax	**(7,810328)**	**11,088,001**
Total comprehensive income for the year	**153,034,096**	**93,682317**

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

Statement of changes in equity
31 December 2021
(expressed in EUR)

	Issued share capital	Share premium	Revaluation reserves	Reserves: Legal reserve	Reserves: Other reserves	Reserves: Retained earnings	Total Reserve and retained earnings	Profit of the year before appropriation	Total
Note	**16**		**6, 16**	**16**	**16**	**16**		**16**	
Balance as at 1st January 2020	**1389370,555**	**7,720,692**	**(5,170,699)**	**71,615,139**	**841368,027**	**13,905387**	**926,788,553**	**94,082,728**	**2,412,791,829**
								-	-
Total comprehensive income	-	-	11,088,001	-	-	-	-	82,594,316	**93,682317**
Transfers and appropriation of prior year's profit	-	-	-	4,704,137	17,256,550	72,122,041	94,082,728	(94,082,728)	-
Dividend for the financial year	-	-	-	-	-	-	-	-	-
Foreign translation difference	-	-	-	-	-	347,779*	347,779*	-	**347,779***
Capital decrease	-	-	-	-	-	-	-	-	-
Capital increase	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2020	**1389370,555**	**7,720,692**	**5,917302**	**76,319,276**	**858,524,577**	**86,375,207**	**1,021,219,060**	**82,594316**	**2,506,821,925**
Balance as at I^{s}* January 2021	**1389370,555**	**7,720,692**	**5,917302**	**76,319,276**	**858,524,575**	**86,375,210**	**1,021,219,060**	**82,594316**	**2,506,821,925**
Total comprehensive income	-	-	(7,810,328)	-	-	-	-	160,844,424	**153,034,096**
Transfers and appropriation of prior year's profit	-	-	-	4,129,716	18,000,000	60,464,600	82,594,316	(82,594,316)	-
Dividend for the financial year	-	-	-	-	(40,000,000)	-	(40,000,000)	-	**(40,000,000)**
Foreign translation difference	-	-	-	-	-	(320,471)*	(320,471)*	-	**(320,471)***
Capital decrease	-	-	-	-	-	-	-	-	-
Capital increase	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2021	**1389370,555**	**7,720,692**	**(1,893,026)**	**80,448,991**	**836,524,575**	**146,519,339**	**1,063,492,907**	**160,844,424**	**2,619,535,550**

★*Foreign translation difference generated by IFRS9 FTA due to loss allowance calculation on loans and advances denominated in foreign currencies.*

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

Statement of cash flows
For the year ended 31 December 2021
(expressed in EUR)

	Notes	31.12.2021	31.12.2020
Profit before tax - net of discontinued operation		**126,934,275**	**112,556,745**
Discontinued operation		33,492,371	(29,201,110)
Profit of the year - gross of tax		**160,426,645**	**85,355,635**
Adjustments:			
Depreciation / amortization	8,9	2,093,311	2,067,035
Impairment for credit losses	25	11,694,009	(24,860,759)
Reversal of loan impairment	25	(37,240,095)	(241,148)
Provisions and other income/expenses	15	(2,580,334)	1,971,228
Fair value adjustments		(10,286,083)	(16,930,339)
Cash flows from operating profits before changes in operating assets and liabilities		**124,107,453**	**45,361,651**
Net (Increase)/decrease in trading assets		42,394,670	(8,889,648)
Net (Increase)Zdecrease in loans and advances to credit institutions		675,302,011	3,169,128,316
Net (Increase)/decrease in loans and advances to customers		(1,122,571,567)	2,521,254,590
Net (Increase)/decrease in financial assets at FVTOCI		(1,710,695,884)	278,459,257
Net (Increase)/decrease in derivatives held for hedging		(57,563,600)	(16,399,300)
Net (Increase)/decrease in financial assets designated at fair value through profit and loss		-	-
Net (Increase)/decrease in other assets		(2,374,442)	13,324,578
Net Increase/(decrease) in relation to leasing contracts	8, 33	(4,014,615)	1,797,392
Net Increase/(decrease) in trading financial liabilities		13,990,661	(53,549,434)
Net Increase/(decrease) in deposits from credit institutions		1,555,712,383	504,074,759
Net Increase/(decrease) in deposits from central banks		1,184,466,988	(9,916,513)
Net Increase/(decrease) in deposits from customers		146,738,642	294,568,496
Net Increase /(decrease) in current taxes		52,871	5,806,484
Net Increase/(decrease) in financial liabilities at FVtPL & in other liabilities		(4,315,293)	(10,745,723)
Net cash flows from/(used in) operations activities from discontinued operations		(405,732,622)	457,928,499
Net cash flows from/(used in) operating activities		**435,497,656**	**7,192,203,405**
Dividends received		-	-
Acquisition and disposal of property and equipment	8	(14,620)	(729)
Net cash flows from/(used in) investing activities from discontinued operations		612	
Net cash flows/(used in) from investing activities		**(14,008)**	**(729)**
Dividends paid	16	40,000,000	-
Net increase/(decrease) in debts evidenced by certificates	13	(529,724,057)	(5,042,752,366)
Net cash flows/(used in) from financing activities		**(569,724,057)**	**(5,042,752,366)**
Net (decrease)/increase in cash and cash equivalents		**(134,240,409)**	**2,149,450,310**

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

Statement of cash flows (continued)
For the year ended 31 December 2021
(expressed in EUR)

	Notes	31.12.2021	31.12.2020
Cash and cash equivalents at the beginning of the year		**5,969,275,465**	**3,819,825,155**
Net increase/decrease in cash and cash equivalents		(134,240,409)	2,149,450,310
Cash and cash equivalents: exchange rate fluctuations			
Cash and cash equivalents at the end of the year	**4**	**5,835,035,055**	**5,969,275,465**

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

Note 1 – General information

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

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

The main activities of the Bank are focused on corporate business and financial markets activities. Until 6 July 2008, the Bank provided services to investment funds such as central administration, transfer agent and custodian. On 7 July 2008, following a decision of the Extraordinary Shareholders' Meeting held on 25 June 2008, these activities were transferred for no consideration to another Luxembourg entity of the Intesa Sanpaolo Group. At the same date, private banking and corporate activities were transferred for no consideration from another Luxembourg entity of Intesa Sanpaolo Group to the Bank. On 1 August 2021 the Private Banking Division has been transferred to Fideuram Bank Luxembourg S.A. for a consideration of EUR 1.020.000.

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

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

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

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

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

As at 31 December 2020, 100% of the Bank share capital is owned by Intesa Sanpaolo Holding International S.A..

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

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

These financial statements were authorised for submission to the Shareholders' Annual General Meeting by the Bank's Board of Directors on 23 March 2022.

The registered office of the Bank is: 28, boulevard de Kockelscheuer in Luxembourg.

Note 2 – Significant accounting policies

(a) Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) endorsed by the Eurpean Commission (EC) and the "agenda decision"[1] published by IFRIC and with the going concern principle.

(b) Significant accounting judgements, estimates and assumptions

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

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

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

Fair value of financial instruments

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

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

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation techniques incorporate all of the factors that market participants would take into account in pricing a transaction.

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

Note 2 – Significant accounting policies (continued)

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

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

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

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

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

Impairment losses on financial assets

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

Classification of financial assets and liabilities

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

Valuation of unquoted equity investments and credit exposures

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

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

Note 2 – Significant accounting policies (continued)

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

(c) Changes in accounting policies

***IBOR Reform*:**
The phase 2 amendments:
Please refer to dedicated section in Note 3.

The changes made to the accounting standards already in force with reference to the Reference Index Reform (so-called "*IBOR Reform*") are applicable for the first time from 2021.

In particular, with Regulation No. 25/2021 of 13 January 2021, the amendments "*Interest Rate Benchmarking Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*", published by the IASB on 27 August 2020, were implemented with regard to phase 2 of the IASB's project on rate review. The issue relates to developments related to the revision or replacement of certain benchmark interest rate indices in various jurisdictions, such as LIBOR and, in the European context, EONIA, based on guidance from the G20 and the Financial Stability Board.
As is well known, the IASB dealt with the possible accounting impacts of the reform of benchmark rates with a two-phase project. The first phase focused on the possible accounting impacts on hedge accounting in the period prior to the replacement of the existing benchmark rates with the new rates (so-called pre-replacement issue) and ended with the publication of Regulation 34/2020.

The second phase of the project, which ended with the publication of Regulation no. 25/2021, concerns the possible accounting impacts deriving from the application of the new rates (so-called replacement issue). The main changes introduced concern the accounting representation of changes to existing contracts and accounting hedges.

With regard to the first aspect - in accordance with IFRS 9, but also in a similar way in application of IFRS 16 to leasing contracts and IFRS 4 for insurance contracts - it is clarified that the changes following the IBOR Reform relating to the replacement of the existing IBOR rate with the new Risk Free Rate should not constitute an event of derecognition, but should be considered as a modification. In this regard, a practical expedient is introduced which allows such modifications to be represented, if made as a direct consequence of the IBOR Reform and on equivalent economic bases, with a prospective adjustment of the effective interest rate, with an impact on the interest margin of future periods.

The IASB amendment provides some examples of changes that give rise to a new economically equivalent basis to the previous basis:

- replacement of the benchmark index by an alternative benchmark rate with the addition of a fixed spread necessary to compensate for the difference in the base between the existing benchmark index and the alternative benchmark rate;
- changes to the redetermination period, the redetermination dates or the number of days between coupon payment dates in order to implement a reform of a reference index; and
- the addition of a fallback clause to the contractual terms of the financial asset or financial liability to permit the implementation of either of the above changes.

Note 2 – Significant accounting policies (continued)

The guidance prepared by the IASB states that the terms must be "substantially similar"; thus, for relief to apply, the interest rate must be substantially the same before and after the substitution, although a quantitative demonstration is not required. In general terms, any economically equivalent transaction is defined to ensure a fair transition to the new alternative rate for both parties to the contract, which is easily demonstrated if the change is made in accordance with a protocol or methodology accepted by the market, designed for this purpose. With regard to hedge accounting, some exceptions have been introduced to IAS 39 (and to IFRS 9 for those who have adopted it also for hedges) that allow discontinuing the discontinuation following the update of the documentation on the hedging relationship - for the change of the hedged risk, of the underlying hedged item or of the hedging derivative or of the method of verifying the hedge's effectiveness - in the case of changes that are necessary as a direct consequence of the IBOR Reform and carried out on an equivalent economic basis. Any ineffectiveness effect must in any case be recognised in the income statement.

No impact on the Bank is envisaged for the amendments that have the characteristics envisaged by the standard, in line with the objective of the amendments introduced by the IASB, which aim to avoid distorting effects on the financial statements as a result of the reform.

A number of other new standards are also effective from 1 January 2021 but they do not have a material effect on the Bank’s financial statements.

Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements.

The following new and amended standards are not expected to have a significant impact on the Bank’s financial statements:
- *IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts;*
- *IFRS 9 Financial instruments – Fees in the “10%” test for derecognition of financial liabilities;*
- *Definition of accounting estimates – Amendments to IAS 8;*
- *Disclosures of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2;*
- *Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020 (All issued 14 May 2020);*
- *Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021);*
- *Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively).*

(d) Summary of significant accounting policies

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

Note 2 – Significant accounting policies (continued)

Foreign currency translation

Please find below a table presenting the main foreign exchange rates used as at 31 December 2021 and 2020:

Ex.rate/Euro	**31.12.2021**	**31.12.2020**
USD	1,13260	1,22710
GBP	0,84028	0,89903
CHF	1,03310	1,08020

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

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

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

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

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

Financial assets and Financial liabilities

(i) Recognition and initial measurement

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

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

(ii) Classification

Financial assets

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

Note 2 – Significant accounting policies (continued)

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an all-overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Note 2 – Significant accounting policies (continued)

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

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

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

Reclassifications

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

Financial liabilities

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

(iii) Derecognition

Financial assets

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

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

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

Note 2 – Significant accounting policies (continued)

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

Financial liabilities

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

(iv) Offsetting

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

Financial assets at fair value through profit or loss

Assets and liabilities held for trading

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

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

Designation at fair value through profit or loss

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

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

Loans and advances

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

Note 2 – Significant accounting policies (continued)

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

Financial assets at FVTOCI

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

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

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

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

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

Financial liabilities other than held for trading and hedging

(i) Classification

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

Note 2 – Significant accounting policies (continued)

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

(ii) Initial recognition and subsequent measurement

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

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

(iii) Derecognition

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

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

Derivative financial instruments

(i) Classification

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

(ii) Initial recognition and subsequent measurement

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

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

Note 2 – Significant accounting policies (continued)

(iii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- The host contract is not in the scope of IFRS 9;
- The host contract is not itself carried at FVTPL;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

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

Financial assets are classified in their entirety based on the business model and SPPI assessment as outlined in the dedicated paragraph.

(iv) Trading

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

(v) Hedge accounting

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

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

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

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

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

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

Note 2 – Significant accounting policies (continued)

Fair value hedges

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

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

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

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

(vi) Derecognition

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

Financial guarantee contracts and loan commitment

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

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:
- The amount determined in accordance with the impairment provisions of IFRS 9;
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Banks are firm commitments to provide loans or advances under pre-specified terms and conditions and are measured as the amount determined in accordance with the impairment provision of IFRS 9. The Bank has not provided any commitment to provide loans at a below-market interest rate.

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

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

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

Note 2 – Significant accounting policies (continued)

Repurchase agreements and reverse repurchase agreements

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

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

Impairment of financial assets

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

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

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

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

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Note 2 – Significant accounting policies (continued)

- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:
- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:
- The market’s assessment of creditworthiness as reflected in the bond yields;
- The rating agencies’ assessments of creditworthiness;
- The country’s ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness;

Note 2 – Significant accounting policies (continued)

- The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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

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

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

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

Non-integral financial guarantee contracts
The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:
- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as

Note 2 – Significant accounting policies (continued)

a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

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

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

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

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

Tangible and intangible fixed assets

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

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

Note 2 – Significant accounting policies (continued)

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

- buildings 40 years
- transformation costs 5-10 years
- fixtures and fittings 5 years
- softwares 3 years

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

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

Other assets

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

Impairment of non-financial assets

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

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

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

Note 2 – Significant accounting policies (continued)

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

Cash and cash equivalents

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

Cash and cash equivalents include the following reserves:
- Credit institutions established in Luxembourg are required to hold minimum reserves with the Luxembourg Central Bank. These deposits represent 2% of some of their liabilities and are considered as not available. Compliance with the reserve requirement is determined on the basis of the institutions' average daily reserve holdings over the maintenance period, thus reserves of credit institutions can vary from one day to another following their treasury management, the money market or their expectations in interest rates.
- Concerning the branch of the Bank located in Amsterdam, a minimum reserves has also to be hold at De Nederlandsche Bank (DNB). The amount of minimum reserves to be held by each institution is determined in relation to its reserve base, which is defined in relation to elements of its balance sheet. The balance sheet data are calculated by the institutions themselves and reported to DNB within the general framework of the ECB's money and banking statistics.

Employee benefits

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

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. They include:
- wages, salaries and social security contributions;
- paid annual leave and paid sick leave;
- profit-sharing and bonus; and
- non-monetary benefits (such as medical care, housing or cars) for current employees.

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

Note 2 – Significant accounting policies (continued)

Share-based payment transactions

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

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

There are two main categories of share-based payment transactions:
- equity-settled;
- cash-settled.

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

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

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

Note 2 – Significant accounting policies (continued)

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

Provisions

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

Other liabilities

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

Discontinued operations

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

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

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

Interest income and expense

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

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

Note 2 – Significant accounting policies (continued)

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

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

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

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

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

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

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

Presentation
Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:
- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVTOCI; and
- interest in relation with derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and OCI includes:
- financial liabilities measured at amortised cost; and

Note 2 – Significant accounting policies (continued)

- interest in relation with hedging derivatives designated in fair value hedges of interest rate risk.

Fee and commission income

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

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

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

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

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

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

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

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

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

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

Dividend income

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

Note 2 – Significant accounting policies (continued)

Income Tax

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

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

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

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

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

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

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

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

Note 2 – Significant accounting policies (continued)

Segment reporting

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

Operating leases

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

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

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

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

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

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

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

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and

Note 2 – Significant accounting policies (continued)

- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

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

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

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

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

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

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

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

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

Note 2 – Significant accounting policies (continued)

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

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

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

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

Note 3 – Financial risk management

(a) Introduction and overview

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

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

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

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

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

(b) Credit risk

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

Credit risk arises due to:
- exposure to corporate and private clients;
- exposure to institutional counterparties.

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

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

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

(i) Credit quality analysis

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

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

Note 3 – Financial risk management (continued)

The table below details the amount of loss allowances by stage and type of exposure as at 31 December 2021 and 2020:

	2021			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances	5,411,525	13,304,867	-	**18,716,392**
Luxembourg	*5,186,623*	*13,298,509*	-	***18,485,132***
Amsterdam	*224,902*	*6,358*	-	***231,260***
Off balance sheet exposures	778,718	1,261,940	-	**2,040,658**
Luxembourg	*564,922*	*1,024,252*	-	***1,589,174***
Amsterdam	*213,796*	*237,688*	-	***451,484***
Financial assets at FVTOCI	1,086,772	61,236	-	**1,269,766**
Luxembourg	*1,086,772*	*61,236*	-	***1,296,766***
Amsterdam	-	-	-	-
IFRS 9 Loss allowance	**7,277,014**	**14,628,044**	**-**	**21,905,058**
Total exposures	**26,818,882,009**	**2,315,356,244**	**-**	**29,134,238,253**
Coverage rate	***0.03%***	***0.63%***		***0.08%***

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

The following table shows the distribution of loss allowance calculated on loans and advances as at 31 December 2021 and 2020 by level of risk and stages, specifying the amount of impairment calculated in relation to each bucket.

Note 3 – Financial risk management (continued)

		2021			
(in EUR)		**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans & advances to credit institutions at AC					
Grades A: Low-fair risk		7,229,892,590	10,572,720	-	**7,240,465,310**
	Luxembourg	*6,748,140,387*	*1,650,816*		***6,749,791,203***
	Amsterdam	*481,752,203*	*8,921,904*		***490,674,107***
Grades B: Medium risk		2,425,342	1,545,338	-	**3,970,680**
	Luxembourg	*1,874*	*4,152*		***6,026***
	Amsterdam	*2,423,468*	*1,541,186*		***3,964,654***
Grades C: Higher risk		-	-	-	**-**
	Luxembourg	-	-	-	**-**
	Amsterdam	-	-	-	**-**
Grades D: UR ("Unrated")		(127)	235,515	-	**235,388**
	Luxembourg	-	*235,515*	-	***235,515***
	Amsterdam	*(127)*	-	-	***(127)***
Grades E: Credit impaired		-	-	-	**-**
	Luxembourg	-	-	-	**-**
	Amsterdam	-	-	-	**-**
Loss allowance		(2,409,381)	(5,710)	-	**(2,415,091)**
	Luxembourg	*(2,277,916)*	*(1,865)*	-	***(2,279,781)***
	Amsterdam	*(131,465)*	*(3,845)*	-	***(135,310)***
Carrying amount		**7,229,908,424**	**12,347,863**	**-**	**7,242,256,287**
Total amounts:					
	Luxembourg	*6,745,864,345*	*1,888,618*	-	*6,747,752,961*
	Amsterdam	*484,044,079*	*10,459,245*	-	*494,503,324*

Note 3 – Financial risk management (continued)

	2021			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans & advances to customers at AC				
Grades A: Low-fair risk	4,861,735,683	-	-	**4,861,735,683**
Luxembourg	*4,479,204,937*	-		***4,479,204,937***
Amsterdam	*382,530,746*	-		***382,530,746***
Grades B: Medium risk	2,029,824,976	229,935,885	-	**2,259,760,861**
Luxembourg	*1,913,092,475*	*229,827,546*	-	***2,142,920,021***
Amsterdam	*116,732,501*	*108,339*	-	***116,840,840***
Grades C: Higher risk	70,630,541	527,376,298	-	**598,006,839**
Luxembourg	*70,630,541*	*526.983.958*	-	***597,614,499***
Amsterdam	-	*392,340*	-	***392,340***
Grades D: UR (“Unrated”)	968,291,000	785,495,444	-	**1,753,786,444**
Luxembourg	*968,288,718*	*785,486,131*	-	***1,753,774,849***
Amsterdam	*2,282*	*9,313*	-	***11,595***
Grades E: Credit impaired	-	-	-	**-**
Luxembourg	-	-	-	**-**
Amsterdam	-	-	-	**-**
Loss allowance	(3,002,144)	(13,299,157)	-	**(16,301,301)**
Luxembourg	*(2.908.707)*	*(13,296,644)*	-	***(16,205,351)***
Amsterdam	*(93,437)*	*(2,513)*	-	***(95,950)***
Carrying amount	**7,927,480,056**	**1,529,508,470**	**-**	**9,456,988,526**
Total amounts:				
Luxembourg	*7,428,307,964*	*1,529,000,991*	-	*8,957,308,951*
Amsterdam	*499,172,092*	*507,479*	-	*499,679,575*

	Luxembourg	***Amsterdam***	***Total***
Total amount loans and advances	***15,705,061,918***	***994,182,895***	**16,699,244,813**
Including loss allowances:	*(18,485,132)*	*(231,260)*	*(18,716,392)*

Note 3 – Financial risk management (continued)

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

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

Total amount loans and advances	**16,059,797,523**
Including loss allowances:	*(44,203,891)*

Note 3 – Financial risk management (continued)

The following table shows the distribution of loss allowances calculated on guarantees, loan commitments and uncommitted off balance sheet items as at 31 December 2021 and 2020 by level of risk and stages, specifying the amount of impairment calculated in relation to each bucket.

		2021			
(in EUR)		**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees, loan commitments and uncommitted credit lines					
Grades A: Low-fair risk		5,483,255,365	3,712,417	-	**5,486,967,782**
	Luxembourg	*2,607,904,630*	-	-	***2,607,904,630***
	Amsterdam	*2,875,350,735*	*3,712,417*		***2,879,063,152***
Grades B: Medium risk		1,403,037,568	298,996,802	-	**1,702,034,370**
	Luxembourg	*980,163,993*	*281,012,087*	-	***1,261,176,080***
	Amsterdam	*422,873,575*	*17,984,715*	-	***440,858,830***
Grades C: Higher risk		59,580,187	56,001,596	-	**115,581,783**
	Luxembourg	*41,887,357*	*30,701,596*	-	***72,588,953***
	Amsterdam	*17,692,830*	*25,300,000*	-	***42,992,830***
Grades D: UR (“Unrated”)		1,036,529,153	379,567,275	-	**1,416,096,428**
	Luxembourg	*1,036,529,153*	*379,567,275*	-	***1,416,096,428***
	Amsterdam	-	-	-	-
Grades E: Credit impaired		-	-	-	-
	Luxembourg	-	-	-	-
	Amsterdam	-	-	-	-
Loss allowance		(778,718)	(1,261,941)	-	**(2,040,659)**
	Luxembourg	*(564,922)*	*(1,024,252)*	-	***(1,589,174)***
	Amsterdam	*(213,796)*	*(237,689)*	-	***(451,485)***
Carrying amount		**7,981,623,555**	**737,016,149**	**-**	**8,718,639,705**

	Luxembourg	**Amsterdam**	**Total**
Financial guarantees, loan commitments and uncommitted credit lines	**5,357,766,091**	**3,362,914,812**	**8,720,680,903**
Uncommitted off balance sheet items	(2,414,424,577)	(1,505,969,331)	(3,920,393,908)
Financial guarantees and loan commitments	**2,943,341,514**	**1,856,945,481**	**4,800,286,955**

Note 3 – Financial risk management (continued)

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

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

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

(in EUR)	2021 Stage 1	Stage 2	Stage 3	Total
Financial assets at FVTOCI				
A	122,657,129	-	-	**122,657,129**
A-	28,161,637	-	-	**28,161,637**
AA	392,841,372	10,475,445	-	**403,316,817**
AA+	607,026,096	6,406,941	-	**613,433,037**
AA-	41,733,134	-	-	**41,733,134**
Aa2	8,992,800	-	-	**8,992,800**
AAA	853,862,947	5,034,568	-	**858,897,515**
BB	29,545,940	-	-	**29,545,940**
BB+	23,266,119			**23,266,119**
BBB	593,263,729	-	-	**593,263,729**
BBB+	30,177,560	-	-	**30,177,560**
BBB-	942,151,268	-	-	**942,151,268**
Loss allowance	(1,086,772)	(61,236)	-	**(1,148,008)**
Total amount net of loss allowance	**3,672,592,959**	**21,855,718**	-	**3,694,448,677**
Luxgest Asset Management				211,185
Total amount gross of loss allowance	**3,673,679,731**	**21,916,954**	-	**3,695,807,870**

Note 3 – Financial risk management (continued)

	2020			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at FVTOCI				
A-	316,864,623	-	-	**316,864,623**
A+	23,430,025	20,717,663	-	**44,147,688**
A3	5,032,868	-	-	**5,032,868**
AA	92,878,280	12,283,261	-	**105,161,541**
AA+	15,218,174	-	-	**15,218,174**
AA-	35,323,712	-	-	**35,323,712**
Aa2	20,346,734	-	-	**20,346,734**
Aa3	7,575,900	-	-	**7,575,900**
AAA	623,287,359	55,233,763	-	**678,521,122**
Baa1	12,669,661	10,189,048	-	**22,858,709**
BB	4,900,262	-	-	**4,900,262**
BBB+	714,741,590	-	-	**714,741,590**
BBB-	25,227,242	-	-	**25,227,242**
Loss allowance	(711,565)	(260,041)	-	**(971,606)**
Total amount net of loss allowance	**1,896,784,865**	**98,163,694**	-	**1,994,948,559**
Luxgest Asset Management				211,185
Total amount gross of loss allowance	**1,897,496,430**	**9,423,735**	-	**1,996,131,350**

Note 3 – Financial risk management (continued)

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

(in EUR)	**Transfers between Stage 1 & 2**		**Transfers between Stage 2 & 3**		**Transfers between Stage 1 & 3**		**No transfers**	**Total**
	From 1 To 1	**From 2 To 1**	**From 2 To 3**	**From 3 To 2**	**From 1 To 3**	**From 3 To 1**		
Balance at 1 January 2021								**50,067,286**
New financial assets originated or purchased	-	-	-	-	-	-	7,090,114	**7,090,114**
Remeasurement of loss allowance – increase	466,426	-	-	-	-	-	5,471,561	**5,937,987**
Remeasurement of loss allowance – decrease	(7)	(4,116,441)	-	-	-	-	(21,310,869)	**(25,427,317)**
Write offs and assets derecognized	-	-	-	-	-	-	(15,763,012)	**(15,763,012)**
Balance at 31 December 2021								**21,905,058**

During the year, following the evolution of the pandemic crisis and the reassessments of the model performed to imply the consideration of new forward-looking elements, it has been observed a transfer of exposures from stage 2 to stage 1, counterbalancing the effects observed in 2020.

Note 3 – Financial risk management (continued)

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

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

Note 3 – Financial risk management (continued)

Inputs, assumptions and methodology used for estimating impairment

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

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

In particular:

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

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

Including "forward-looking" information

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

Note 3 – Financial risk management (continued)

Determination of forward-looking scenarios

Definition of the Most-likely + Add-on model

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

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

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

Forward looking – quantitative analysis

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

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

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

Note 3 – Financial risk management (continued)

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

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

In the period 2021-24, the macroeconomic variables most relevant for the determination of the ECL and used for the Most likely scenario have compound annual growth rates for the period (CAGR) of +4.30% in 2022 for Real GDP Italy and 2.5% for Real Estate Prices Italy in 2022. The unemployment rate for Italy is expected to be 9.0% on average for the period.

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

		Baseline				**Improving scenario**				**Worsening scenario**			
		2021	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**	**2024**
Italia	**Average Variation**												
	Real GDP Italy	6,2%	4,3%	2,4%	1,6%	6,3%	4,9%	2,6%	2,1%	6,2%	3,5%	1,5%	1,4%
	CPI Italy	1,8%	1,9%	1,4%	1,7%	1,8%	2,1%	2,0%	2,6%	1,8%	1,7%	0,8%	0,9%
	Residential Property Italy	2,4%	2,5%	0,7%	1,9%	2,6%	4,0%	2,8%	3,6%	2,3%	0,2%	-2,7%	-1,1%
	Average level												
	BTP-Bund Spread 10Y	1,1%	1,5%	1,6%	1,6%	1,1%	1,5%	1,5%	1,5%	1,1%	1,6%	1,9%	1,9%
	Italian Unemployment	9,4%	9,0%	8,8%	8,6%	9,5%	8,9%	8,7%	8,3%	9,5%	9,2%	9,3%	9,2%
Area Euro	**Average Variation**												
	Equity ESTOXX 50	22,9%	7,2%	0,5%	-0,3%	24,9%	10,8%	5,3%	1,3%	19,9%	0,5%	-4,2%	-1,6%
	Average level												
	Euro/$	1,2%	1,2%	1,2%	1,2%	1,2%	1,2%	1,2%	1,2%	1,2%	1,2%	1,2%	1,3%
	EurIRS 10Y	0,1%	0,3%	0,5%	0,6%	0,1%	0,4%	0,8%	1,0%	0,1%	0,3%	0,4%	0,4%
US Area	**Average Variation**												
	Real GDP US	5,6%	4,1%	2,4%	2,0%	5,7%	4,9%	3,1%	2,3%	5,4%	3,4%	2,2%	1,8%
	Average level												
	US Unemployment	5,3%	3,7%	3,5%	3,4%	5,4%	3,6%	3,3%	3,2%	5,4%	4,1%	3,9%	3,8%

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

The estimations of the prospective improving and worsening scenarios compared with the most Likely scenario show the following differences: Real GDP Italy +60 bps for the improving scenario in 2021 and -70 bps for the worsening scenario, Price of real estate Italy +150 bps for the improving scenario and -230 bps for the worsening scenario, Unemployment rate Italy -10 bps for the improving scenario and +20 bps for the worsening scenario.

Note 3 – Financial risk management (continued)

In consideration of the high level of uncertainty that has characterized the economic and financial environment in 2021, highlighted by the extreme volatility of the above-mentioned scenarios, the Bank's Expected Credit Loss (ECL) for 2021, determined according to the logic of IFRS 9, was subject to sensitivity analysis in order to analyse the variability with regard to the individual alternative scenarios, also in the light of the strengthening of the indications provided in this sense by the regulators in 2021, aimed at sensitising financial institutions to include in their Financial Statements adequate disclosure to allow stakeholders to interprete possible evolutions and potential impacts of credit risk in the short/medium term.

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

The Bank’s Expected Credit Loss (ECL) for 2021, determined in accordance with IFRS 9, was subject to sensitivity analysis in order to analyse the variability with regard to the individual alternative scenarios. This analysis was carried out on the performing loans portfolio (Stage 1 & Stage 2) in relation to the Group’s representative perimeter (Parent Company and banks in the CIB Division, which account for approximately 90% of the Group’s total exposure), taking as a reference scenario the worsening scenario which, together with the improving scenario, contributes to the determination of the Add-on. The sensitivity of the portfolio to the worsening scenario shows an increase in 2021 ECL of approximately 4.27%.

Conversely, the sensitivity analysis of the Bank portfolio to the best-case scenario would imply a potential economic benefit on the 2021 ECL, which would decrease of approximately 6.62%.

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

The effectiveness of IFRS 9 models is also monitored by the Validation function at least once a year on risk parameters (staging criteria, PD, LGD and haircut models), both through model performance tests and in terms of model design and data treatment. The results are shown, similarly to what described above, in the annual report on internal models for management purposes. With regard to the analyses carried out during 2021, no particular critical issues emerged and an opinion of general adequacy was expressed with respect to the areas under analysis.

Note 3 – Financial risk management (continued)

Definition of the Most-likely macroeconomic scenario

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

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

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

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

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

Definition of alternative paths to calculate Add-on

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

(in EUR)	Maximum exposure 2021 Lux.	Ams.	Tot.	2020
Cash and cash balances with central banks	619,219,659	7,042,789	626,262,448	538,213,036
Financial assets held for trading	5,858,083	-	5,858,083	54,712,261
Financial assets mandatorily measured at FVTPL	502,820	-	502,820	499,954
Financial assets measured at FVTOCI	3,695,807,871	-	3,695,807,871	1,996,131,350
Loans and advances	15,705,061,915	994,182,897	16,699,244,807	16,059,797,523
Derivatives held for hedging	29,160,068	-	29,160,068	-
Other assets	23,727,288	1,227,432	24,594,720	22,008,614
Total	**20,079,337,700**	**1,002,453,118**	**21,081,790,817**	**18,671,362,738**
Guarantees	140,665,853	124,884,091	265,549,944	323,660,200
Commitments	2,802,675,661	1,732,060,850	4,354,736,511	4,483,981,391
Total	**2,943,341,514**	**1,856,944,941**	**4,800,286,455**	**4,807,641,591**

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

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

(iii) Credit quality per class of financial assets

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

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

(in EUR)	**Performing assets 2021**	**Past due exposures 2021**	**Unlikely to Pay 2021**	**Doubtful assets 2021**	**Total 2021**
Financial assets held for trading	5,858,083	-	-	-	5,858,083
Luxembourg	*5,858,083*	-	-	-	*5,858,083*
Amsterdam	-	-	-	-	-
Financial assets mandatorily measured at FVTPL	502,820	-	-	-	502,820
Luxembourg	*502,820*	-	-	-	*502,820*
Amsterdam	-	-	-	-	-
Financial assets at FVTOCI	3,695,807,871	-	-	-	3,695,807,871
Luxembourg	*3,695,807,871*	-	-	-	*3,695,807,871*
Amsterdam	-	-	-	-	-
Loans and advances	16,716,414,752	-	-	-	16,717,961,205
Luxembourg	*15,722,000,597*	*1,546,453*	-	-	*15,723,547,050*
Amsterdam	*994,414,155*	-	-	-	*994,414,155*
Derivatives held for hedging	29,160,068				29,160,068
Luxembourg	*29,160,068*	-	-	-	*29,160,068*
Amsterdam	-	-	-	-	-
Total	**20,447,743,594**	**1,546,453**	**-**	**-**	**20,449,290,047**

Note 3 – Financial risk management (continued)

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

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

(in EUR)	Gross exposure 2021	Individual impairment 2021	Collective impairment 2021	Total 2021
Performing loans	16,717,961,199	-	(18,716,392)	**16,699,244,807**
Luxembourg	*15,723,547,043*		*(18,485,132)*	***15,705,061,911***
Amsterdam	*994,414,156*		*(231,260)*	***994,182,897***
Doubtful loans	-	-	-	-
Luxembourg	-	-	-	-
Amsterdam	-	-	-	-
Unlikely to Pay	-	-	-	-
Luxembourg	-	-	-	-
Amsterdam	-	-	-	-
Total	**16,717,961,199**	**-**	**(18,716,392)**	**16,699,244,807**

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

As at 31 December 2021 and 2020, there is no credit position that could qualify for loan forbearance as defined by the ESMA (European Security and Market Authority).

Note 3 – Financial risk management (continued)

(iv) Concentration of risks

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

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

As at 31 December 2021, the lending limit amounted to EUR 612 million (2020: EUR 656 million) and no borrower exceeded this amount after the application of credit risk mitigation. The main exposures relates to 158 borrowers or group of borrowers (2020: 107 borrowers or group of borrowers) with financing between EUR 8.3 billion and EUR 12.5 million each (2020: between EUR 8.5 billion and EUR 12.7 million).

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

Following the Bank's request, the CSSF has approved an exemption from including in its calculation of the large risk exposures, in accordance with point 24, part XVI of CSSF circular 06/273 as subsequently amended and article 400.2 of the EU Regulation No 575/2013, the risks to which the Bank is exposed with the Intesa Sanpaolo Group. The exposures on related parties are disclosed in Note 26.

(v) Geographical allocation of risks

As at 31 December 2021 and 2020, the distribution by geographical area of the risks held in securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

Note 3 – Financial risk management (continued)

(in EUR)	2021				2020	
	Investment Secs. (FVTOCI, FVTPL)	**Loans and advances**			**Investment Secs. (FVTOCI, FVTPL)**	**Loans and advances**
		Lux.	**Ams.**	**Tot.**		
Italy	923,833,356	6,421,265,461	374,745,163	6,796,010,624	767,354,477	7,778,261,440
USA	242,487,776	44,561,289	271,703	44,832,992	-	41,454,983
Japan	41,733,134				-	103,610
France	314,284,253	36,971,581	51	36,971,632	146,478,717	498,271
Spain	593,263,732	60,115,610		60,115,610	299,347,551	32,075,538
Luxembourg	245,943,793	2,230,570,507		2,230,570,507	160,621,411	1,294,689,111
Belgium	89,032,566	110,815,832	153,928,535	264,744,367	27,641,253	304,300,411
Germany	232,686,268	35,089,580	34	35,089,614	101,339,381	291,124,462
Portugal	29,545,940					
United Kingdom	16,318,143	299,703,033		299,703,033	16,564,903	287,115,542
Switzerland		27,750,411	177,859,589	205,610,000	-	65,251,000
The Netherlands	306,149,048	254,170,570	242,700,398	496,870,968	151,962,551	625,154,334
Poland		2,732,673	110	2,732,783	-	3,689,505
Qatar		875,341,322		875,341,322	-	704,583,732
Russia		2,635,103,230		2,635,103,230	-	2,702,124,551
Hungary		743		743	-	424,944
Romania	18,820,732	80,211,993		80,211,993	-	120,293,405
Supranational	209,630,991				173,008,278	-
Slovenia	22,159,350				-	-
South Africa		35,557,350		35,557,350	-	236,649,717
South Korea	8,992,800					
Ireland	122,657,128	564		564	20,494,821	56,540,595
Czech Republic		448		448	-	97
Denmark		19,008		19,008	-	114,639
Norway	17,870,116	47,583		47,583	18,169,339	151,046
Canada	96,732,758	30,005		30,005	46,760,155	12,128
Austria	44,630,550	1,206,821,405		1,206,821,405	7,108,624	415,146,054
Sweden	35,124,183	148,336		148,336	33,217,414	42,296
Cyprus					-	83,233,528
Azerbaijan		29,249,096		29,249,096	-	79,699,702
Mexico	10,472,678					
Peru	19,704,882					
Man Island	20,165,662				20,474,162	-
Egypt		321,234,233		321,234,233	-	175,136,185
Ghana		50,252,308		50,252,308	-	47,639,412
Brazil		55,286,368		55,286,368	-	51,017,983
India		598,261,804		598,261,804	-	587,590,925
Lituania	6,002,287				6,088,267	-
Saudi Arabia		79,716,531		79,716,531	-	73,418,877
Thailand					-	1,999,352
Indonesia	23,266,119				-	-
Australia	4,802,450	2,833		2,833	-	-
Jersey Island		147,051,522		147,051,522	-	-
Turkey		1,859	3,956,453	3,958,313	-	-
China		5	40,714,236	40,714,241	-	-
Cayman Island		66,776,877		66,776,877	-	-
Other		196,938	6,626	203,564,088	-	196,938
Total	**3,696,310,695**	**15,705,061,911**	**994,182,897**	**16,699,244,807**	**1,996,631,304**	**16,059,797,523**

Note 3 – Financial risk management (continued)

(in EUR'000)	**2021**						**2020**	
	Guar.			**Commit.**			**Guar.**	**Commit.**
	Lux.	**Ams.**	**Tot.**	**Lux.**	**Ams.**	**Tot.**		
Belgium	114,780	6,670	121,450	164,000	377,273	541,273	101,866	433,475
Cyprus	-	-	-				90	-
Germany	-	-	-	37,189		39,178	-	66,497
France	-	-	-	13,696		13,696	-	-
Tunisia	-	-	-				135	-
Ghana	-	-	-	33,551		33,551	-	20,781
Hungary	-	-	-				110	-
Italy	22,011	6,077	28,088	119,000	32,667	151,667	74,642	106,203
Luxembourg	2,890	11,158	14,048	352,630	63,158	415,788	48,402	780,809
The Netherlands		18,525	18,525	28,844	1,178,873	1,207,717	15,433	1,269,129
Kuwait	-	-	-	66,219	-	66,219	-	61,120
Principality of Monaco	-	-	-	-	-	-	60	-
Qatar	-	-	-	478,220	-	478,220	-	631,510
Spain	-	-	-	11,120	-	11,120	-	6,900
Switzerland	581	-	581	-	17,590	17,590	536	32,921
Turkey	-	-	-	-	-	-	10	-
USA	-	2,432	2,432	-	-	-	1,274	-
United Kingdom	200	80,022	80,222	43,802	-	43,802	80,302	116,979
Venezuela	-	-	-		-	-	40	-
Tunisia	134	-	134		-	-	-	-
Congo Dem. Republic	-	-	-		-	-	30	-
South Africa	-	-	-	214,075	-	214,075	-	66,633
Russia	-	-	-	965,747	-	965,747	-	510,085
India	-	-	-	5,382	-	5,382	-	13,660
Israel	-	-	-	-	-	-	9	-
Brazil	-	-	-	-	-	-	10	-
British Virgin Isl.	50	-	50	-	-	-	50	-
Hong Kong	-	-		-	-	-	600	-
Abu Dhabi	20	-	20	-	-	-	20	-
Egypt	-	-	-	160,110	-	160,110	-	304,781
Curacao	-	-	-	-	62,500	-	-	62,500
Cayman Island	-	-	-	65,102	-	65,102	-	-
Lebanon	-	-	-	-	-	-	40	-
Total	**140,666**	**124,884**	**265,550**	**2,802,676**	**1,732,061**	**4,534,736**	**323,660**	**4,483,981**

Note 3 – Financial risk management (continued)

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

Maturing On	Fair Value (Eur) 2021	2020
2021	-	100,547,209
2022	200,806,043	131,873,607
2023	-	102,810,014
2024	408,221,551	133,025,522
2025	46,918,586	88,167,957
2026	-	54,380,132
2027	25,594,916	56,599,655
2028	48,804,793	56,653,261
2030	25,009,993	-
2031	24,653,868	-
	780,009,750	**724,057,357**

(vi) Industry sector allocation of risks

As at 31 December 2021 and 2020, the breakdown by industry sector of the risks held in securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(in EUR)	2021				2020	
	Investment Securities (FVTPL, FVTOCI)	**Loans and advances**			**Investment Securities (FVTPL, FVTOCI)**	**Loans and advances**
		Lux.	**Ams.**	**Tot.**		
Financial institutions	473,702,013	6,747,752,960	360,790,201	7,108,543,161	492,465,354	7,679,988,042
Public sector	2,091,036,391	942,886,898		942,886,898	1,503,954,765	651,193,314
Other industries	1,131,572,291	8,012,806,437	633,392,696	8,646,199,133	211,185	7,716,779,046
Individuals	-	1,615,615		1,615,615	-	11,837,121
Total	**3,696,310,695**	**15,705,061,911**	**994,182,897**	**16,699,244,807**	**1,996,631,304**	**16,059,797,523**

(in EUR'000)	2021						2020	
	Guar.			**Commit.**			**Guar.**	**Commit.**
	Lux.	**Ams.**	**Tot.**	**Lux.**	**Ams.**	**Tot.**		
Financial institutions	138,877	88,304	227,181	245	-	245	246,040	5,000
Public sector	-	-	-	638,330	-	638,330	-	936,290
Other industries	1,599	36,580	38,179	2,164,101	1,732,061	3,896,162	76,321	542,691
Individuals	190	-	190	-	-	-	1,300	-
Total	**140,666**	**124,884**	**265,550**	**2,802,676**	**1,732,061**	**4,534,737**	**323,660**	**4,483,981**

Note 3 – Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Bank is able to cover cash outflows with inflows of cash, readily marketable assets and its own capacity to obtain credit. With regards to readily liquid assets in particular, market turmoil may occur which makes their sale or use of guarantee in exchange for funds extremely difficult (or even impossible); from this point of view, the Bank's liquidity is closely tied to the market liquidity conditions (market liquidity risk). The Liquidity Risk Management policy of the Bank is intended to define the guidelines for prudent management of this risk, outlining all the control processes and standards designed to prevent situations of liquidity crisis for the Bank. The policy defines the rules, measurement methodologies, behavioural parameters for the Bank, according to the Intesa Sanpaolo Group Guidelines. Liquidity risk is subject to supervisory requirements in compliance with the applicable regulation and to internal limits as set in the Bank's Risk Appetite Framework (RAF).

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

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

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

As at 31 December 2021, the Liquidity Coverage Ratio of the Bank as defined in the article 416 of EU Regulation No 575/2013 and Delegated Regulation EU No 2015/61 was 160% (2020: 186%).

Note 3 – Financial risk management (continued)

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

31 December 2021 (in million EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥3 months < 6 months**	**≥6 months < 1 year**	**≥1 year < 2 years**	**≥2 years < 5 years**	**≥ 5 years**	**Total**
Deposit from central banks	-	-	-	-	792	1,193	-	**1,985**
Financial liabilities at FVTPL and derivatives held for hedging	353	1,361	158	1,527	355	1,050	-	**4,804**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	**-**
Financial liabilities measured at amortised cost	4,592	2,030	1,547	2,824	1,723	3,386	275	**16,377**
Total	**4,945**	**3,391**	**1,705**	**4,351**	**2,870**	**5,629**	**275**	**23,166**

31 December 2020 (in million EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥3 months < 6 months**	**≥6 months < 1 year**	**≥1 year < 2 years**	**≥2 years < 5 years**	**≥ 5 years**	**Total**
Deposit from central banks	-	-	-	-	-	800	-	**800**
Financial liabilities held for trading and derivatives held for hedging	1,295	189	28	5	4	25	57	**1,603**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	**-**
Financial liabilities measured at amortised cost	4,177	1,452	1,051	3,407	3,115	1,811	211	**15,224**
Total	**5,472**	**1,641**	**1,079**	**3,412**	**3,119**	**2,636**	**268**	**17,627**

Note 3 – Financial risk management (continued)

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

2021	Government and central banks	Other public entities	Financial institutions	Non financial companies	Other	Total
Deposits from central banks	1,984,444,766	-	-	-	-	**1,984,444,766**
Luxembourg	*1,984,444,766*	-	-	-	-	***1,984,444,766***
Amsterdam	-	-	-	-	-	-
Financial liabilities held for trading and for hedging	-	-	74,304,152	-	-	**74,304,152**
Luxembourg	-	-	*74,304,152*	-	-	***74,304,152***
Amsterdam	-	-	-	-	-	***958,***
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Luxembourg	-	-	-	-	-	-
Amsterdam	-	-	-	-	-	-
Financial liabilities measured at amortised cost	-	730,744,343	6,051,000,775	2,433,013,438	7,161,817,202	**16,376,575,758**
Luxembourg	-	*730,744,343*	*5,698,453,460*	*1,474,303,462*	*7,161,691,737*	***14,990,888,850***
Amsterdam	-	-	*426,851,467*	*958,709,976*	*125,465*	***1,385,686,908***
Total	**1,984,444,766**	**730,744,343**	**6,125,304,927**	**2,433,013,438**	**7,161,817,202**	**18,435,324,677**

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

Note 3 – Financial risk management (continued)

2021	Zone EURO	Other European countries	Other	Total
Deposits from central banks	1,984,444,766	-	-	**1,984,444,766**
Luxembourg	*1,984,444,766*	-	-	***1,984,444,766***
Amsterdam	-	-	-	-
Financial liabilities held for trading and for hedging	73,304,147	-	-	**73,304,147**
Luxembourg	*73,304,147*	-	-	***73,304,147***
Amsterdam	-	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	-
Luxembourg	-	-	-	-
Amsterdam	-	-	-	-
Financial liabilities measured at amortised cost	15,548,420,659	540,335,372	287,819,727	**16,376,575,737**
Luxembourg	*14,308,206,306*	*407,607,999*	*275,074,533*	***14,990,888,838***
Amsterdam	*1,240,214,335*	*132,727,373*	*12,745,191*	***1,385,686,899***
Total	**17,607,169,553**	**540,335,373**	**287,819,725**	**18,435,324,650**
Luxembourg	***16,366,955,219***	***407,607,999***	***275,074,535***	***17,049,637,751***
Amsterdam	***1,240,214,335***	***132,727,373***	***12,745,192***	***1,385,686,899***

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

(d) Market risk

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

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

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

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

To assess market risk, the Bank has put in place a reporting addressed to the Authorized Management, the Internal Audit, the Financial Markets Division and any other operational service responsible.
The Risk Control Function carries out their own analyses and assessments and the results are communicated periodically to the members of Authorized Management of the Bank, to the Financial Markets Division, to the ALCO Committee and to the Board of Directors, through the Audit Committee.
The Risk Management conducts daily controls of positions in foreign exchange, securities trading and interest rate. The result of these checks and any overruns positions are communicated through a daily report to the Management of the Bank.

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

Note 3 – Financial risk management (continued)

Risk measurements

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

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

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

A daily VaR limit is fixed at EUR 19 million.

Interest rate risk

Average interest rates

The average effective interest rates on financial instruments by main currencies for the year ended 31 December 2021 and 2020 are as follows:

	2021		**2020**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
EUR	0.363%	0.022%	0.3443%	0.1948%
USD	1.228%	0.549%	1.4461%	0.7153%

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

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

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

Note 3 – Financial risk management (continued)

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

The set of "Shift sensitivity +100bps" limits for the Bank have been approved by the Group Financial Risk Committee and by the Bank Board on 15 December 2017 and updated on 23 October 2020:

	Limit per time bucket		
Limits	**Short term**	**Medium term**	**Long term**
Total	0 – 18 months	18 months– 5 years	> 5 years
+0 / -24 million	+2 / -17 million	+2 / -14 million	+2 / -10 million

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

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

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

Bucket	**Shift +100p per bucket**	**Shift -100p per bucket**	**Limits**
Short term	(4,567,212)	(4,498,289)	+2/-17 mln
Medium term	(9,330,774)	4,816,681	+2/-14 mln
Long term	(1,769,252)	1,404,567	+2/-10 mln
Total	**(15,667,238)**	**1,722,959**	**+0/-24 mln**

At 31 December 2021, the Net Interest Income Sensitivity (NII), which measures the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of +/- 50 bps, over a period of 12 months, has been as follows:

-50 bps	**+50 bps**
(18,163,580)	**10,790,673**

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

Note 3 – Financial risk management (continued)

31 December 2021 (in million of EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥ 3 months < 6 months**	**≥ 6 months < 1 year**	**≥ 1 year < 2 years**	**≥ 2 years < 5 years**	**≥ 5 years**	**Total**
Cash and cash balances with central banks	783	-	-	-	-	-	-	**783**
Financial assets held for trading derivatives held for hedging and financial assets mandatorily at FVTPL	5	-	0	2	3	1	9	**20**
Financial assets at FVTOCI	5	0	136	231	190	790	1,785	**3,137**
Loans and advances	5,357	937	1,008	572	2,056	2,464	1,809	**14,203**
Total financial assets	**6,151**	**937**	**1,144**	**805**	**2,249**	**3,255**	**6,602**	**18,143**
Deposits from central banks	-	-	-	-	794	700	-	**1,494**
Financial liabilities held for trading and derivatives held for hedging	6	5	1	1	5	19	29	**66**
Financial liabilities measured at amortised cost	4,518	1,597	2,045	1,963	1,717	1,868	276	**15,224**
Total financial liabilities	**4,524**	**1,453**	**2,046**	**1,964**	**2,516**	**2,587**	**305**	**16,129**

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2021, a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR (15,667,238) and EUR 1,722,959 respectively.

Note 3 – Financial risk management (continued)

31 December 2020 (in million of EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥ 3 months < 6 months**	**≥ 6 months < 1 year**	**≥ 1 year < 2 years**	**≥ 2 years < 5 years**	**≥ 5 years**	**Total**
Cash and cash balances with central banks	538	-	-	-	-	-	-	**538**
Financial assets held for trading derivatives held for hedging and financial assets mandatorily at FVTPL	5	-	14	13	10	13	-	**55**
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial assets at FVTOCI	-	80	79	75	165	991	606	**1,996**
Loans and advances	4,624	1,427	1,079	2,602	585	3,865	1,878	**16,060**
Total financial assets	**5,167**	**1,507**	**1,172**	**2,690**	**760**	**4,869**	**2,484**	**18,649**
Deposits from central banks	-	-	-	-	-	800	-	**800**
Financial liabilities held for trading and derivatives held for hedging	4	1	2	-	8	41	49	**105**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	4,177	1,452	1,051	3,407	3,115	1,811	211	**15,244**
Total financial liabilities	**4,181**	**1,453**	**1,053**	**3,407**	**3,123**	**2,652**	**260**	**16,129**

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2020, a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR (15,667,238) and EUR 1,722,959 respectively.

Note 3 – Financial risk management (continued)

(e) Foreign exchange rate risk

Foreign exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Specific limits are set-up based on the open positions in foreign currencies. In particular, for transactions involving derivative instruments, ad hoc limits are established.

As at 31 December 2021 and 2020, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR):

31 December 2021	**EUR**	**USD**	**Other**	**Total**
Cash and cash balances with central banks	626,241,041	10,867	10,540	**626,262,448**
Luxembourg	*619,198,252*	*10,867*	*10,540*	***619,219,659***
Amsterdam	*7,042,789*	-	-	***7,042,789***
Financial assets at fair value through profit or loss and held for trading	27,897,697	2,116,193	5,507,081	**35,520,971**
Luxembourg	*27,897,697*	*2,116,193*	*5,507,081*	***35,520,971***
Amsterdam	-	-	-	-
Financial assets at FVTOCI	3,695,807,871	-	-	**3,695,807,871**
Luxembourg	*3,695,807,871*	-	-	***3,695,807,871***
Amsterdam	-	-	-	-
Loans and advances	14,373,972,991	2,018,524,401	306,747,415	**16,699,244,807**
Luxembourg	*14,059,158,301*	*1,341,436,823*	*304,466,786*	***15,705,061,911***
Amsterdam	*314,814,690*	*677,087,577*	*2,280,629*	***994,182,897***
Other assets	-	20,170	35,233	**55,402**
Luxembourg	-	*20,170*	*35,233*	***55,402***
Amsterdam	-	-	-	-
Total financial assets	**18,723,919,599**	**2,020,671,631**	**312,300,270**	**21,056,891,499**
Total amounts				
Luxembourg	*18,402,062,120*	*1,343,584,053*	*310,019,641*	***20,055,665,814***
Amsterdam	*321,857,479*	*677,087,577*	*2,280,629*	***1,001,225,685***
Deposits from central banks	1,984,444,766	-	-	**1,984,444,767**
Luxembourg	*1,984,444,766*	-	-	***1,984,444,767***
Amsterdam	-	-	-	-
Financial liabilities held for trading and held for hedging	39,306,115	18,188,821	16,809,212	**74,304,147**
Luxembourg	*39,306,115*	*18,188,821*	*16,809,212*	***74,304,147***
Amsterdam	-	-	-	-
Financial liabilities measured at amortised cost	13,924,928,000	2,346,231,424	105,416,313	**16,376,575,737**
Luxembourg	*13,153,189,570*	*1,770,749,821*	*66,949,447*	***14,990,888,838***
Amsterdam	*771,738,430*	*575,481,603*	*38,466,866*	***1,385,686,899***
Other liabilities	-	*379,294*	*116,408*	***495,702***
Luxembourg	-	*379,280*	*116,408*	***495,688***
Amsterdam	-	*14*	-	***14***
Total financial liabilities	**15,948,678,881**	**2,364,799,539**	**122,341,932**	**18,435,820,352**
Total amounts:				
Luxembourg	*15,176,940,450*	*1,789,317,922*	*83,875,067*	***17,050,133,439***
Amsterdam	*771,738,430*	*575,481,617*	*38,466,866*	***1,385,686,913***

Note 3 – Financial risk management (continued)

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

Note 3 – Financial risk management (continued)

(f) Capital management and capital adequacy

Regulatory capital

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

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

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

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

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

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

The Bank’s regulatory position under Basel III at 31 December 2021, excluding income for the current year, is as follows:

	2021	**2020**
Tier 1 Capital		
Ordinary share capital	1,389,370,555	1,389,370,555
Share premium	7,720,692	7,720,692
Other reserves and retained earnings	1,069,854,725	1,017,286,439
less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital	-	-
Others deductions	(1,795,261)	(2,964,438)
Total Tier 1	**2,465,150,711**	**2,411,413,248**

Note 3 – Financial risk management (continued)

	2021	2020
Tier 2 Capital		
General credit risk adjustments	(15,769,421)	12,029,870
Subordinated loan	200,000,000	200,000,000
Total Tier 2	**184,230,579**	**212,029,870**
Total own fund eligible for solvency purposes	**2,649,381,290**	**2,623,443,118**

Capital requirements and risk weights

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

	2021 Amount of risk weighted assets	2020 Amount of risk weighted assets
Credit and couterparty risk	**7,660,925,724**	**8,463,896,439**
Central governments and central banks	29,823,165	3,005,336
Regional governments or local authorities	-	2,039,862
Public Sector Entities	73,916,760	-
Corporates	5,396,376,455	4,277,065,566
Institutions	2,045,335,691	4,012,529,139
Retail	980,375	1,647,364
Exposures in default	-	-
Equity exposures	527,964	37,677,271
Other items	27,792,374	30,731,774
Covered bonds	86,172,941	96,411,826
Collective investments undertakings (CIU)	-	2,788,301
Market risk	**-**	**-**
Operational risk	**382,041,966**	**365,699,892**
Credit Valuation Adjustment	**1,471,100**	**1,391,950**
Total risk weighted assets and capital requirements	**8,044,438,790**	**8,830,988,281**
Tier 1 capital ratio	*30.64%*	*27.31%*
Total capital ratio	*32.93%*	*29.71%*

Note 3 – Financial risk management (continued)

Capital adequacy

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

As at 31 December 2021, the solvency ratio of the Bank is 32.93% (2020: 29.71%), above the regulatory limit of 8% and above the regulatory limit including conservation buffer limit of 10.5%. Over the year 2021, the higher solvency ratio amounted to 39.15% (June) and the lower amounted to 29.78% (March).

Capital management and planning

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

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

As part of the internal assessment process for its capital adequacy (relative to Basel III Pillar 2), the Bank considers that the Pillar 1 risks (credit, market and operational risks) are sufficiently covered by the regulatory capital under Pillar 1 as at 31 December 2021 and going forward.

The ICAAP (Internal Capital Adequacy Assessment Process)

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

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

(g) Operational risk

The operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk.

Segregation of duties, internal procedures, and technological systems in force mitigate the risk of losses due to errors or inadequacies.

(h) Derivative financial instruments

During 2021 and 2020, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.

Note 3 – Financial risk management (continued)

As at 31 December 2021 and 2020, the notional amount and fair value of the derivatives held for trading are as follows (in EUR):

	2021		2020	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	-	-	-	-
Currency instruments	293,021,536	5,858,083	1,473,643,847	54,712,261
	293,021,536	**5,858,083**	**1,473,643,847**	**54,712,261**
Liabilities				
Interest rate instruments	700,000,000	682,830	-	-
Currency instruments	1,258,499,382	32,761,285	1,099,924,625	12,830,805
	1,958,499,382	**33,444,115**	**1,099,924,625**	**12,830,805**

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

(i) Fair values of financial assets and liabilities

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

	Carrying amount		Fair value	
	2021	**2020**	**2021**	**2020**
Assets				
Loans and advances	16,699	16,060	16,761	16,231
Luxembourg	*15,705*		*15,767*	
Amsterdam	*994*		*994*	
Liabilities				
Financial liabilities measured at amortised cost	16,377	15,224	18,431	16,189
Luxembourg	*14,991*		*17,045*	
Amsterdam	*1,386*		*1,386*	

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

The fair values of financial assets and financial liabilities measured at amortised cost have been determined through the present value of future cash flows: the value of a financial instrument held to maturity at the year-end analysis is equal to the sum at that date of all the discounted cash inflows and outflows expected. The cash flows are discounted with reference to the zero-coupon curve associated with currency in which the instrument is denominated and translated, where applicable, to the reference currency using the exchange rate applying on the analysis date.

Note 3 – Financial risk management (continued)

Fair value hierarchy

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

(i) Valuation models

As at 31 December 2020 and 2019, the Bank uses the following fair value hierarchy for determining and disclosing the fair value of financial instruments, which reflects the significance of the inputs used in making the measurements:

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

(ii) Valuation framework

The Bank has adopted and applied a specific policy issued by the Group, denominated “Fair Value Policy”, which states principles and methodologies to calculate financial instruments fair value.
In relation to controls and procedures put in place concerning valuation framework, please refer to Note 3.d “Market risk”.

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

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

31 December 2021 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value through profit or loss (FVTPL):				
- Financial assets held for trading	-	5,858,083	-	**5,858,083**
- Financial assets mandatorily measured at fair value	502,820	-	-	**502,820**
- Financial assets designated at fair value	-	-	-	**-**
Financial assets measured at FVTOCI				
- Equity instruments (other than investments in subsidiaries)	-	211,186	-	**211,186**
- Debt instruments	3,695,596,685	-	-	**3,695,596,685**
- Loans	-	-	-	**-**
Derivatives held for hedging	-	29,160,068	-	**29,160,068**
Total financial assets	**3,696,099,505**	**35,229,337**	**-**	**3,731,328,842**
Financial liabilities held for trading				
- Derivatives held for trading	-	33,444,115	-	**33,444,115**
- Short positions	-	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	**-**
Derivatives held for hedging	-	40,860,032	-	**40,860,032**
Total financial liabilities	**-**	**74,304,147**	**-**	**74,304,147**

Note 3 – Financial risk management (continued)

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

During the reporting years ending 31 December 2021and 31 December 2020, there were no transfers between Level 1 and Level 2 categories, and no transfers into and out of Level 3 category.

(j) Operating segments

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

Alongside these strategic divisions the Bank has also governance and administration divisions. The strategic divisions include: the Corporate Banking division which operates on loans, deposits, securities trading and other transactions with corporate customers. The Wealth Management division operates on loans, deposits, securities trading and other transactions with private customers. The Financial Markets division undertakes the Bank's funding and centralised risk management activities through borrowings, issue of debt securities, use of derivatives for risk management purposes and investing in debt or equity securities. The Other Financial Institutions division is related to the loans operations with the other entities of the Group.

Information regarding the result of each strategic division is disclosed below. Performance is measured based on the revenue as presented in the internal management report reviewed by the Bank's Board and Management. Division revenues are used to measure performance as such information is considered by the Bank's management bodies as the most relevant indicator for evaluating the achievement of the strategic divisions.

Note 3 – Financial risk management (continued)

Results by strategic division in EUR '000	2021					
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Governance**	**Total revenues**
Net interest margin	124,029	(577)	(4,854)	(229)	-	**118,370**
Dividends	-	-	45	-	-	**45**
Net commission margin	43,790	2,356	8,963	138	-	**55,247**
Net trading income	18,900	646	11,171	(19,334)	-	**11,384**
Net other expenses	(14)	(52)	(82)	288	-	**140**
Impairment on financial assets	24,087	238	1,324	135		**25,784**
Total area results	**210,794**	**2,612**	**16,566**	**(19,001)**	**-**	**210,970**
Depreciation					(2,322)	**(2,322)**
Provision					2,958	**2,958**
Staff and operating expenses					(49,103)	**(49,103)**
Tax expenses					(2,678)	**(2,678)**
Extraordinary income					1,020	**1,020**
Total operating & extraordinary expenses					**(50,125)**	**(50,125)**
RESULTS FOR THE YEAR						**160,844**

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

Note 3 – Financial risk management (continued)

Assets by strategic division in EUR'000	**2021**				
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Cash and cash balances with central banks	7,043	-	619,108	112	**626,262**
Financial assets held for trading	-	-	4,722	1,136	**5,858**
Financial assets mandatorily measured at fair value	-	-	503	-	**503**
Financial assets measured at FVTOCI	-	-	3,695,597	211	**3,695,808**
Loans and advances	10,122,798	-	6,348,214	235,482	**16,699,245**
Loans and advances to credit institutions	*659,413*	-	*6,347,379*	*235,464*	***7,242,256***
Loans and advances to customers	*9,456,135*	-	*835*	*18*	***9,456,989***
Derivatives held for hedging	-	-	29,160	-	**29,160**
Tangible fixed assets	161	-	-	728	**889**
Intangible assets	-	-	-	-	**-**
Tax assets	8,024	-	-	1,248	**9,272**
Other assets	9,768	-	339	14,848	**24,955**
Total assets	**10,140,544**	**-**	**10,697,643**	**253,765**	**21,091,953**

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

Note 3 – Financial risk management (continued)

Liabilities & Equity by strategic division in EUR'000 **2021**

Liabilities	**Corporate & Financial Institutions**	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Deposits from central banks	-	-	1,984,445	-	**1,984,445**
Financial liabilities held for trading	-	-	33,444	-	**33,444**
Financial liabilities designated at fair value through profit or loss	-	-	-	-	**-**
Financial liabilities measured at amortised cost	**2,926,838**	**-**	**13,245,653**	**204,085**	**16,376,576**
Deposits from credit institutions	*438,788*	-	*4,816,815*	*87*	***5,255,691***
Deposits from customers	*2,488,050*	-	*1,271,737*	*203,416*	***3,963,203***
Debts evidenced by certificates	-	-	*7,157,101*	*581*	***7,157,682***
Derivatives held for hedging	-	-	38,623	2,237	**40,860**
Provisions	1,881	-	151	1,768	**3,800**
Tax liabilities	6,387	-	-	456	**6,843**
Other liabilities	9,584	15	2,196	14,654	**26,449**
Total liabilities	**2,944,690**	**15**	**15,304,512**	**223,200**	**18,431,557**
Equity					
Share capital and share premium	-	-	-	1,397,091	**1,397,092**
Revaluation reserve	-	-	(2,522)	629	**(1,893)**
Other reserves and retained earnings	1,493	862	(14,720)	1,075,857	**1,063,493**
Net profit for the year	185,741	2,526	19,253	(46,675)	**160,844**
Total equity	**187,234**	**3,388**	**2,011**	**2,426,902**	**2,619,536**
Total liabilities and equity	**3,131,924**	**3,403**	**15,306,523**	**2,650,102**	**21,091,953**

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

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

Note 3 – Financial risk management (continued)

(k) Return on assets ("ROA")

The Bank return on assets is as follow:

	2021	**2020**
Total assets	21,091,952,672	18,682,323,825
Net profit for the year	160,844,424	82,594,316
Return on assets	**0.76%**	**0.44%**

(l) Pillar III disclosures requirements

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

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

The ICAAP (Internal Capital Adequacy Assessment Process)

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

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

The Benchmark Regulation

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

- **Euribor**: from November 2019 the revision by EMMI (European Money Market Institute) of the methodology for detecting the fixing (so-called hybrid methodology) became fully operational, using where present the transactions concluded on the unsecured money market up to 12 months by the contributing banks and only in the absence of the latter on all or some maturities, detections based on proprietary algorithms of the administrator are triggered in a first phase and where not sufficient the detection of the cost of funds curves produced by the individual contributing banks on the basis of methodologies appropriately approved and documented. The reform in 2019 has been managed in full continuity in terms of the Benchmark measurement, detection and use of fixing. The methodology, as required by the Benchmark Regulation, was subject to annual review by the Administrator who made the updates operational from April 2021 with the aim of making it even more robust as far as possible through a partial revision of the perimeter of transactions included in the calculation. In November 2021, the next revision was announced, the results of which will be announced during the following year, confirming not only compliance with the obligations of the regulation but also the desire to increasingly improve the reliability and representativeness of the index;
- **Eonia**: from October 2019 the calculation of the fixing is based on the risk free rate published by the European Central Bank (€STR rate), measured on the basis of overnight transactions concluded by leading European banks and reported in compliance with the rules imposed by the Money Market Statistical Reporting (EU 2014/1333). The Eonia fixing will be published until 3 January 2022, with the last survey referring to operations on 31/12, after which it will be definitively replaced by €STR plus a fixed spread of 8.5 bps, quantified and made official by the ECB on the basis of historical evidence. In October 2021, the European Commission also designated €STR as the rate to be applied in the event of a statutory replacement of Eonia.

Note 3 – Financial risk management (continued)

The €STR rate also constitutes the basis for the collection of the so-called Euribor fallback rate, to be indicated in the contracts and to be used in the event of any future permanent cessation of Euribor publication. In order to facilitate the collection of the replacement rates, since April 2021 the ECB has started the daily publication of the Compounded €STR Index and the average compounded €STR rates, the use of which was included as one of the possible alternatives in the recommendations prepared by the Working Group on euro risk free rates and published in May 2021.

Outside the euro area, the Financial Conduct Authority (FCA), in coordination with the LIBOR administrator, the ICE Benchmark Administration, announced 5 March 2021 as the latest date for the publication of all sterling, euro, Swiss franc and Japanese yen LIBOR rates on 31 December 2021, as well as one-week and two-month USD LIBOR rates. The USD LIBOR rates on the other maturities (overnight, 1, 3, 6 and 12 months) will continue to be published until 30 June 2023, mainly to allow for the transition of those contracts for which a conversion to a rate other than LIBOR or an amendment to add a fallback rate is particularly complex in the short term.

In recent years, authorities in the various jurisdictions, central banks, associations, as well as market participants themselves, have actively worked to identify risk free rates (RFRs) that could serve as new benchmarks in the money market: from 2016 onwards, the various working groups, created within their respective jurisdictions, have identified and indicated, also through official recommendations, the risk free rates that will serve as fallback rates for LIBOR and that, in addition to complying with the IOSCO principles, are more representative of actual market conditions, as they are based on actual transactions with large and stable volumes.

The risk free rates are summarised below:

IBOR	Risk free rate	Administrator	Secured or Unsecured	Transactions
GBP LIBOR	**SONIA**	Bank of England	Unsecured	o/n wholesale deposits
USD LIBOR	**SOFR**	New York Fed	Secured	o/n UST repo
JPY LIBOR	**TONAR**	Bank of Japan	Unsecured	o/n call rate
CHF LIBOR	**SARON**	SIX Swiss Exchange Ltd	Secured	Interbank o/n repo
EUR LIBOR	**€STR**	ECB	Unsecured	o/n wholesale deposits

Fonte: ICE Benchmak Administration, Intesa Sanpaolo

At the same time as the FCA announcement, the International Swaps and Derivatives Association (ISDA) set the rules for the transition of derivative contracts between counterparties adhering to its protocol, defining at the same time the values of the Credit Adjustment Spreads to be applied in the transition to RFR according to the methods already envisaged and shared for the calculation of Libor fallbacks.

Finally, with regard to the US dollar, the main currency affected by the Libor decommissioning, the Alternative Reference Rates Committee (ARRC) took action on two fronts in July 2021 to accelerate the USD transition:

- Announcement of conventions and recommendation of best practices for the use of SOFR Term Rates, in existing contracts to define fallbacks and in new contracts to activate for the final termination of Libor;
- Formal recommendation of the CME Group's forward-looking Secured Overnight Financing Rate (SOFR) term rates as the preferred replacement rate for Libor, thereby providing greater clarity among the various rate alternatives in the US market.

Note 3 – Financial risk management (continued)

The Benchmarks Project in Intesa Sanpaolo Group

In recent years, Intesa Sanpaolo has maintained a high level of attention to developments in the benchmark area, launching, as early as 2016, a dedicated project that saw the participation of all corporate Functions involved in different capacities.

Leveraging the activities of specialist sites and within the spending limits set out in the project's Capital Budget, project activities continued in 2021, focusing in particular on the following aspects

- bilateral negotiations with counterparties for the migration of Credit Support Annexes (CSAs) from Eonia to €STR;
- progressive increase in the use of derivatives against €STR rates;
- gradual discontinuation of GBP Libor-indexed products from the first half of the year and similar initiative for CHF, JPY and USD Libors in the second half of the year to encourage and anticipate as far as possible the transition to RFRs;
- ongoing work at all levels for the inclusion of robust fallback clauses in outstanding Libor-indexed contracts;
    - activation of new worksites and project strands dedicated to the Bond product indexed to overnight risk-free rates (for Proprietary Accounts and customers);
    - management of the transition with the Clearing Banks for derivatives subject to clearing. The Group has derivatives stipulated with Central Counterparties (CCPs) - LCH and Eurex - which have set up an active transition mechanism - which will take place during the 4Q of 2021 - based on standard rules for all members and taking into account the criteria for determining spreads on the basis of the fallbacks provisions drawn up by the industry as part of the benchmarks reform. This conversion method is in line with the IASB's provisions for the application of reliefs in the field of hedge accounting and therefore does not entail any problems for the maintenance of the hedging relationships impacted;
- preparation of the IT structure necessary for the use of RFRs in the bank's accounting and management systems;
- constant reporting to the group's foreign legal entities;
- synergistic management with UBI Banca prior to the merger for the management of specific cases present in the merged bank (e.g. loans linked to Libor CHF);
- monitoring developments in the ISDA area by signing the documents that, since the beginning of the year, include the new market standards and following the updating of contracts, also on a bilateral basis.
    - to the ISDA 2020 IBOR Fallbacks Protocol which allows for the implementation of the fallbacks rules of the ISDA IBOR Fallbacks Supplement with reference also to derivatives already in place and prior to the effective date of the Supplement with respect to all counterparties that have adhered to that Protocol
    - to 2021 EONIA Collateral Agreements Fallbacks Protocol; - collaboration with the Italian authorities to support the development of the new RFR market;
- participation in public consultations at international level, also providing input to ABI to develop feedback at national level;
- providing feedback on transition preparation for foreign authorities in countries where the Group operates, as well as for the ECB Joint Supervisory Team for general aspects relating to the Group;
- provision of specialised training activities for colleagues via remote classrooms and courses on a digital training platform;
-

Note 3 – Financial risk management (continued)

- information to customers through the inclusion on the Group's website of dedicated pages aimed at illustrating the transition process of the benchmarks and for customers in the
- Financial perimeter, initiatives were also planned via webinars and various specialist reports prepared by the Studies and Research Department were made available.

Intesa Sanpaolo also continuously participated in numerous initiatives, the most important of which were the activities of the working groups at European level, organised by EMMI, the European Central Bank and, from July 2021, by ESMA.

In this last context, in particular, Intesa Sanpaolo acted also in the last year as a voting member and participant in individual project strands in the Working Group on euro risk free rates, for which from 2020 it also holds the new role of Ambassador for Italy. The Working Group's main activities included the designation of €STR as the new benchmark for the short-term money market, the publication of recommendations for the transition from Eonia to €STR and for Euribor fallbacks in May 2021. More recently, the Working Group actively interacted with the European Commission to obtain the statutory replacement of Eonia and Libor in CHF with the new risk-free rates.

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

Intesa Sanpaolo Bank Luxembourg S.A. Project Benchmark aims at complying with markets' requirements, by realizing the transition from EONIA and LIBOR to risk-free rates as reference rates to their financial instruments.

The following instruments are in-scope of the Project:
- Interest rate swaps derivative contracts;
- Cross currency swaps derivative contracts;
- Bond for clients;
- Debt securities and EMNT.

The Bank has analysed its financial instruments to identify connections with the above mentioned rates. The outcomes are presented as follows in dedicated tables as at 31 December 2021:

Note 3 – Financial risk management (continued)

Hedging derivatives (€ mio - nominal) **Benchmark**	**Hedging type**	**Maturity** **2022**	**2023**	**2024 2026**	**2027 & more**	**Total**
EURIBOR	FVH	680	259	1,153	2,277	**4,368**
	Macro FVH	-	-	-	-	-
	CFH	-	-	-	-	-
	Macro CFH	-	-	-	-	-
Total EURIBOR		**680**	**259**	**1,153**	**2,277**	**4,368**
Libor USD	FVH	**-**	**-**	**35**	-	**35**
	Macro FVH	-	-	-	-	-
	CFH	-	-	-	-	-
	Macro CFH	-	-	-	-	-
Total LIBOR USD		-	-	35	-	**35**
Libor GBP	FVH	-	-	-	-	-
	Macro FVH	-	-	-	-	-
	CFH	-	-	-	-	-
	MacroCFH	-	-	-	-	-
Total LIBOR GBP		-	-	-	-	-
Other benchmarks affected by the reform	FVH	**-**	**22**	**263**	-	**285**
	Macro FVH	-	-	-	-	-
	CFH	-	-	-	-	-
	MacroCFH	-	-	-	-	-
Total other benchmarks		-	22	**263**	-	**285**
Total		**680**	**281**	**1,451**	**2,277**	**4,689**

Trading derivatives (€ mio - nominal) **Benchmark**	**Leg type**	**Maturity** **2022**	**2023**	**2024 2026**	**2027 & more**	**Total**
EURIBOR	Placement	700	-	-	-	**700**
	Deposit	700	-	-	-	**700**
Libor USD	Placement	247	129	-	-	**375**
	Deposit	256	132	-	-	**388**
Other benchmarks	Placement	-	28	247	-	**275**
	Deposit	-	22	263	-	**285**
Fix rates	Placement	-	-	-	-	-
	Deposit	-	-	-	-	-
Total	**Placement**	**947**	**157**	**247**	**-**	**1,350**
	Deposit	**956**	**155**	**263**	**-**	**1,374**

Note 3 – Financial risk management (continued)

Financial assets valued at amortized cost (€ mio)	**Rate type**		**Total**
	Floating	**Fix**	
Loans and advances to credit institutions	450	6,792	**7,242**
Euribor	*259*		***259***
Libor USD	*182*		***182***
Libor GBP	*-*		***-***
Other	*9*		***9***
Loans and advances to customers	6,994	2,463	**9,457**
Euribor	*5,806*		***5,806***
Libor USD	*1,177*		***1,177***
Libor GBP	*-*		***-***
Other	*12*		***12***
Financial assets valued at amortized cost	**7,444**	**9,255**	**16,699**

Financial assets measured at FVTOCI (€ mio)		**Rate type**			**Total**
	Floating	**Mixed**	**Fix**	**Zero C.**	
Debt securities	158	20	3,191	327	**3,696**
Euribor	*158*				***158***
Financial assets measured at FVTOCI	**158**	**20**	**3,191**	**327**	**3,696**

Financial liabilities measured at amortized cost (€ mio)	**Rate type**		**Total**
	Floating	**Fix**	
Deposits from credit institutions	2,975	1,331	**5,256**
Euribor	*3,290*		***3,290***
Libor USD	*633*		***633***
Libor GBP	*-*		***-***
Other	*2*		***2***
Deposits from customers	2,680	1,281	**3,962**
Euribor	*2,484*		***2,484***
Libor USD	*185*		***185***
Libor GBP	*6*		***6***
Other	*5*		***5***
Debts evidenced by certificates	3,392	3,766	**7,158**
Euribor	*3,391*		***3,391***
Libor USD	*1*		***1***
Libor GBP	*-*		***-***
Other	*-*		***-***
Financial liabilities measured at amortized cost	**9,999**	**6,378**	**16,377**

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

Note 3 – Financial risk management (continued)

Sustainable Finance

Sustainability is becoming an increasingly important topic in the finance world and it is based on three pillars:

- **E**nviromental: it includes issues such as climate change, CO2 emissions (carbon dioxide), air and water pollution, waste and deforestation;
- **S**ocial: it includes gender policies, human rights, labor standards and relations with the civil community;
- **G**overnance: it pertains to corporate governance practices, including managers' remuneration policies, composition of the board of directors, control procedures, conduct of top management and company in terms of compliance with laws and ethics.

The integration of ESG principles in the business strategy is increasingly widespread among companies as the factors related to sustainability:

- affect economic growth and macroeconomic issues (ex. resource scarcity);
- influence consumer preferences and regulatory activities (ex. environmental legislation);
- impact on corporate earnings growth (in terms of earnings growth, operating efficiency and cash flows).

In relation to the financial field, ESG factor analysis is utilized to identify which companies are best suited to exploit market opportunities and to assess the strength of their position in the sector. Awarness of ESG issues by companies is increasing becoming an indicator of the ability to respond to emerging needs and demand trends; companies that integrates ESG factors into their business strategy are considered more proactive in risk mitigation activities.

Sustainability-related trends are widening, also due to Covid-19 pandemic, with several impacts on the business.

Sustainability-related trends		**Consequences for companies**
• Decarbonisation and onset of electrification to decarbonize other sectors • Increasing of penetration of renewable energy sources (i.e. wind, solar, as well as lithium-ion batteries) • Improvements in energy storage •	Risks	• Increase in uncertainty due to change in regulatory environment • Increase in costs from new policy and legal requirements • High capital expenditure requirements for decarbonisation • Increase in research and development expenditures • Decrease in profitability • Decline in consumer confidence and shifts in consumer preferences • Supply-chains under pressure by unforeseen risks (i.e. trande challenges, geopolitical tensions or an upcoming pandemic)
• Digitalization of business processes to be in line with the needs of the new digital age requiring higher speed of execution and efficiency • Attention on eco-systems protection and biodiversity • Sharing and second-hand economy, based mainly on the use of the internet • Strageic supply chains	Opportunities	• Smart electricity grid, fitted with sensors that gather and transmit data to automatically adjust electricity flows • Smart mobility network • Energy efficiency services • Digital techonologies including AI/5G to accelerate impact on policies and optimize utilization of energy and natural resources • Usage of secondary raw materials and recycled content • Production of eco-friendly / green products • Partnership with suppliers and resilient supply chain through risk mapping and sustainability performance monitoring (i.e. sustainability clauses in the contracts)

Note 3 – Financial risk management (continued)

In September 2015, the government of the 193 UN member countries signed the 2030 Agenda for Sustainable Development, an action program for people, planet and prosperity which includes 17 Sustainable Development Goals (SDGs), which are also reference points for the financial system in the development of the new sustainable-related investment and financing products

They follow up on the Millenium Developmnet Goals that preceded them to represent the common focus on a set of issues important for development, including: the fight against poverty, the elimination of hunger and the fight against climate change.

“Common goals means” that they concern all countries and all individuals: nobody is excluded, nor nobody should be left behind on the path necessary to bring the world on the path of Sustainability.

Even if with different scope and methodology, the disclosure of non-financial information is a new worldwide trend and, concerning Europe, it has been issued the EU Non Financial Disclosure Directive 2014/95/EU which introduced the obligation for companies (listed companies, banks and large insurance companies) to draw a disclosure on non-financial issues for investors and consumers in addition to the traditional financial reporting to cover issues related to environmental, social, personnel, respect for human rights, the fight against active and passive corruption.

In terms of Taxonomy, it aims to be a tool to market participants to navigate the transition to a more sustainable economy setting out an EU framework to determine the environmental sustainability of an economic activity. The following KPIs are defined by the EU Taxonomy to be disclosed by both financial and non-financial companies:

- **Green Asset Ratio:** it is the proportion of the assets invested in taxonomy-aligned activities, as a share of total balance sheet assts (excl. sovereigns). Assets need to be broken down into:
    - Environmental Objective;
    - Stock vs flow;
    - Transitional vs enabling activities;
    - General purpose vs specialized lending.
- **Green ratio – Financial guarantees**: share of guarantees supporting debt instruments aligned with green activities over total guarantees;
- **Green ratio – AuM**: share of AuM financing green activities over total AuM;
- **Green ratio – Fees & Commissions**: share of fees and commission income associate with green activities over total F&C income.

Implementation timeline					
Year	2022	2023	2024	2025	2026
Focus	Eligibility only	Eligibility only	Alignment	Alignment	Alignment
Taxonomy objectives	1 and 2	1 to 6	1 to 6	1 to 6	1 to 6
KPIs	Proportion in financial undertaking’s total assets of exposures to Taxonomy non-eligible and Taxonomy-eligible economic activities		Same KPIs (excluded KPIs retaled to trading and Fees & Commissions)		All KPIs

Note 3 – Financial risk management (continued)

The Sustainable finance Project in Intesa Sanpaolo Group

In its 2018-2021 Business Plan, Intesa Sanpaolo Group committed to strengthening its leadership in sustainability, aiming to become a model of reference in terms of sustainability and social and cultural responsibility.
ISP Group has been promoting ways of engagement that are focused on social and environmental responsibility and an increasing inclusion of these issues in the traditional and institutionalized engagement activities.
In accordance with ISP Group ESG Guidelines and strategy, and recent CSSF Circular 27/773 concerning Management of Climate-related and Environmental Risks, ISPBL has started to integrate ESG considerations and raise ESG awareness of members of the management body and institutions' staff.

Within the Luxembourg Banking Association (ABBL), Intesa Sanpaolo Bank Luxembourg takes part in Sustainability Committee and in specific Working Groups (WGs), as Corporate Sustainability and EU Taxonomy, dealing with the relationship between risks related to environmental and climate change, and corporate social responsibility of the Bank and the activities performed.
The ISPBL contributes to defining ABBL position on sustainability, with the aim of a productive dialogue with national and European decision-makers.
At this purpose and to booster culture sustainability within the Bank two events have been organized with the collaboration of ESG HO team for the employees and Board's members.
In the context of ESG risks, particular importance is given to the climate change risk, i.e. those risks related to climate change caused by the accumulation of greenhouse gases in the atmosphere, which can be divided into "physical risks", linked to the physical impact of climate events, and "transition risks", deriving from the adjustment process towards a low-carbon economy, linked to changes in public policies, technology and consumer choices.

In general terms, the Group adopts a holistic approach to ESG issues, which is based on:

- the definition of a Group ESG strategy according to the guidelines provided by the Corporate Bodies and supported by the Internal Governance Structures: Intesa Sanpaolo wants to be a sustainable financial intermediary that generates collective value, aware that innovation, the development of new products and services and the sustainable actions of businesses can contribute to reducing the impact of phenomena such as climate change and social inequalities. This is why it actively participates in a number of domestic and international initiatives (UN Global Compact, UN Sustainable Development Goals, United nations Environment Programme Finance Initiative (UNEP-FI) etc.). Furthermore, in 2021, the Group, with a commitment to zero net emissions by 2050, declared its membership of the Net-Zero Banking Alliance, the Net Zero Asset Managers Initiative (NZAMI), the Net Zero Asset Owner Alliance (NZAOA) and the Net Zero Insurance Alliance (NZIA);
- its own regulatory framework that includes the 'Guidelines for the Governance of ESG Risks in Credit Operations' and voluntary conduct policies aimed also at defining general and specific criteria for limiting and excluding credit operations in business sectors considered more exposed to ESG risks;
- the integration of ESG factors into the general risk management framework and, in particular, the inclusion in the Risk Appetite Framework of a specific section dedicated to ESG and climate change risks, which defines specific limits and criteria with respect to the financing of sectors and counterparties that are more exposed to these risks. In addition, within the Credit Risk Appetite, an indicator that guides managers in the credit origination phase in the evaluation of counterparties, risk and resilience factors related to ESG elements have been evolved (among

Note 3 – Financial risk management (continued)

these, an external score has been introduced that values counterparties whose share of production of sustainable goods or services exceeds a certain threshold with respect to total turnover);

- the adoption of a corporate rating model, validated by the ECB, which includes social and environmental elements (e.g. environmental certifications, research and development activities) that can lead to an improvement in the rating. In 2021, an application was submitted to the Supervisory Authority for the validation and authorisation of a new rating model in which the analysis of ESG factors was further strengthened through the definition and introduction into the model of an internally developed score based on ESG-type information (large corporate counterparties). For Italian corporate counterparties, in the qualitative part of the rating model, the evaluation of aspects related to catastrophic events has also been envisaged according to the geographical area to which they belong;
- the integration of ESG factors within the credit framework through the adoption of a sector mapping in terms of the potential impact of climate and ESG risks and the assessment of these risks within the processes relating to the implementation of the Equator Principles and ESG & Reputational Risk Clearing. This assessment assumes particular importance with reference to the financing of corporate clients, particularly in relation to transactions with counterparties operating in sectors classified as sensitive from an ESG perspective and to transactions classified as Major Transactions; in this area during 2021 particular attention was paid to the development of a counterparty ESG score to support decision-making and control processes. Credit Risk Appetite, sector mapping and counterparty ESG scores are in turn considered within the framework of the Credit Strategies, aimed at guiding, also by means of specific pricing adjustments, the origination of credit to businesses, with the aim of optimising the risk/return combination of the relative portfolio.
- the promotion of a solid culture of ESG risk management throughout the company organisation.

Sustainable finance: focus on Intesa Sanpaolo Bank Luxembourg S.A.

Luxembourg is playing an important role in the EU’s efforts to develop an effective strategy on sustainable finance:

- 2017: the Luxembourg-EIB Climate Finance Platform;
- 2018: the Luxembourg Sustainable Finance Roadmap;
- 2019: the Luxembourg Sustainable Finance Initiative.

In terms of regulation, CSSF issued Circular n.21/773 “Management of Climate-related and Enviromental risks” in June 2021with the purpose to raise credit institutions’ awareness on the need to consider and assess climate-related and environmental risks and to increase awareness of members of the management body and institutions’ staff about these risks.

Intesa Sanpaolo Bank Luxembourg S.A. (the Bank) started managing ESG topic issuing the following two internal notes:

- n. 08/2021 “ESG Exposures and Most Significant Transaction requirements” impacting the risk area: in the context of the annual update of the Risk Appetite Framework (RAF) 2021, the Environmental, Social and Governance (ESG) and Climate Change (CC) risks have been introduced. A Group short list of controversial counterparties, subject to the MST process, often responsible for operations classified as dodgy deals, have been acknowledge;
- n. 03/2021 “ESG Monitoring” impacting compliance ara introducing an ESG deal flag in SalesForce.

adopting many initiaves, such as:

- installing SecurPrint to prevent the unintentional and unauthorized use of printed information and to avoid unintentional paper waste;

Note 3 – Financial risk management (continued)

- installing IntesaPlug-Fix to digitalize paper-based method of work and block authomatic printing;
- developing the Paperless project, to fully digitalize the remaining paper-based processes.

launching the ISPBL ESG project to implement local regulatory legislation while interacting with the ISP4ESG Group project.

In terms of deals, the ESG matter is dealt through a potential discount to the credit spread granted by the lenders in case the Borrower meets some specific criteria, or via obtaining a discounted cost of funding if the transaction satisfies determinated KPIs. Botch actions obviously are an advantage for the borrower and na incentive to closing the deal.

During 2020/2021 the ISPBL Corporate & FI Division has structured green financing for EUR 630 million.

Note 4 – Cash and cash equivalents measured at amortized cost

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

	Net carrying amount			
(in EUR)	2021			2020
	Lux.	Ams.	Tot.	
Cash and cash balances with central banks	619,219,659	7,042,789	626,262,448	538,213,036
Loans and advances to credit institutions with maturity <= 3 months	5,834,923,466	481,625,417	6,316,548,882	5,536,219,428
	6,454,143,125	**488,668,206**	**6,942,811,330**	**6,074,432,464**

In accordance with the requirements of the European Central Bank, the Luxembourg Central Bank implemented effective on 1 January 1999, a system of mandatory minimum reserves applicable to all Luxembourg credit institutions. The amount outstanding as at 31 December 2021 is EUR 619,108,069 (2020: EUR 520,608,776).

Concerning the branch of the Bank in Amsterdam, the mandatory reserve as at 31 December 2021 at De Nederlandsche Bank amounts to EUR 7,042,789 (2020: EUR 17,358,928). The amount has been included in the caption Non-current assets held-for-sale and disposal groups.

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

	Net carrying amount	
(in EUR)	2021	2020
	Lux.	
Financial assets at fair value through profit or loss ("FVTPL")	**5,858,083**	**54,712,261**
Derivatives held for trading	5,858,083	54,712,261
Investment securities mandatorily measured at fair value through profit or loss ("FVTPL")	**502,820**	**499,954**
Mutual funds shares	-	-
Securities	502,820	499,954
	6,360,903	**55,212,215**

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

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

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

	Net carrying amount	
(in EUR)	**2021**	**2020**
	Lux.	
Quoted debt instruments issued by:		
Financial institutions	473,199,193	491,965,399
Public sector	2,091,036,389	1,503,954,766
Financial and non financial companies	1,131,361,104	-
	3,695,596,686	**1,995,920,165**

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

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

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

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

During 2020 the amount received in relation to TLTRO II matured and the Bank decided to participate to the new TLTRO III mechanism (TLTRO III) for an amount of EUR 800,000,000, increased by EUR 700,000,000 in June 2021 and then by EUR 500,000,000 in December 2021.

As at 31 December 2021, the total amount of deposits is collateralised by eligible securities for an amount of EUR 2,191,832,460.

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

	Net carrying amount	
(in EUR)	**2021**	**2020**
	Lux.	
Quoted & not quoted shares issued by:		
Corporates	211,185	211,185
	211,185	**211,185**

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

As at 31 December 2021, shares in affiliated undertakings, which are classified in this category, where the Bank held at least 20% are as follows:

	Registered Office	Percentage Owned	Net equity (in EUR)*	Of which Profit of the year (in EUR)*
Company:				
Lux Gest Asset Management S.A.	Luxembourg	100%	202,951	(136,777)

* *Based on unaudited figures*

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

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

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

(in EUR)	Fixed Inc. securities	Floating Inc. securities	Loans HTCS	Total
Balance as at 31 December 2020	**5,340,498**	**576,804**	**-**	**5,917,302**
Increase (decrease) of unrealised gain	587,979	224	-	588,203
(Increase) decrease of unrealised loss	3,060,293	70,587	-	3,130,880
Amount reclassified from equity to profit or loss for the year	(7,218,613)	(856,264)	-	(8074,877)
Unrealised fair value gain made on assets bought during the year	(5,879,804)	(346,249)	-	(6,226,053)
Loss allowance movement	145,058	31,344	-	176,402
Deferred taxes	2,320,688	274,429	-	2,595,117
Balance as at 31 December 2021	**(1,643,901)**	**(249,125)**	**-**	**(1,893,026)**

Note 7 – Loans and advances

(in EUR)	2021		2020	
	Total Net carrying amount	**Of which: Impairment**	**Total Net carrying amount**	**Of which: Impairment**
Unquoted loans and advances to:				
Financial institutions and public sector	8,051,430,059	(2,472,936)	8,331,181,356	(5,146,007)
Private customers	1,615,616	(4,315)	11,837,121	(36,016)
Corporate customers	8,646,199,133	(16,239,140)	7,716,779,046	(39,021,868)
Total	**16,699,244,807**	**(18,716,391)**	**16,059,797,523**	**(44,203,891)**

Concerning 2021 figures, please find below the split between Luxembourg and Amsterdam:

(in EUR)	Luxembourg		Amsterdam	
	Total Net carrying amount	**Of which: Impairment**	**Total Net carrying amount**	**Of which: Impairment**
Unquoted loans and advances to:				
Financial institutions and public sector	7,690,639,858	(2,337,625)	360,790,201	(135,311)
Private customers	1,615,616	(4,315)	-	-
Corporate customers	8,012,806,437	(16,143,192)	633,392,696	(95,949)
Total	**15,705,061,911**	**(18,485,132)**	**994,182,897**	**(231,259)**

<u>Impairment allowance for loans and advances</u>

As at 31 December 2021, the Bank has no individual impairment (2020: EUR 0) and a collective provision amounting to EUR 18,716,391 (2020: EUR 44,203,891).

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

(in EUR)	**2021**	**2020**
Impairment as at 1st January	44,203,891	27,494,080
Charge of the year	10,766,896	37,066,853
Recoveries/amounts written off	(36,254,396)	(20,357,042)
Impairment as at 31 December	**18,716,391**	**44,203,891**
of which:		
Individual impairment	-	-
Collective impairment	18,716,391	44,203,891

Note 7 – Loans and advances (continued)

Guarantees received as collateral

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

(in EUR)	2021		2020	
	Loans and advances to customers	**Loans and advances to credit institutions**	**Loans and advances to customers**	**Loans and advances to credit institutions**
	Tot.	**Tot.**		
Net carrying amounts	**9,456,988,524**	**7,242,256,283**	**8,379,809,481**	**7,679,988,042**
Real guarantees				
Securities	999,506,184	-	599,870,891	-
Other real guarantees	15,941,782	35,316,970	70,680,282	36,661,083
Other guarantees				
Government guarantees	1,653,296,097	-	1,339,112,775	-
Credit institutions guarantees	1,033,474,800	-	516,571,435	-
Total guarantees	**3,702,218,862**	**35,315,970**	**2,526,235,383**	**36,661,083**

Note 8 – Property and equipment

(in EUR)	**Land & building**	**Office equipment**	**Other equipment**	**Total**
Carrying value before depreciation as at 1st January 2021	**5,727,938**	**1,413,822**	**2,848,592**	**9,990,352**
Additions	293,588	1	292,659	**586,247**
Disposals/Transfers	-	-	(4,014)	**(4,014)**
Cost as at 31 December 2021	**6,021,526**	**1,413,823**	**3,137,237**	**10,572,585**
Accumulated depreciation as at 1st January 2021	(3,788,951)	(1,296,592)	(2,279,376)	**(7,364,919)**
Depreciation charge	(1,870,895)	(32,067)	(419,288)	**(2,322,250)**
Depreciation reversal	-	-	4,014	**4,014**
Accumulated depreciation as at 31 December 2021	(5,659,844)	(1,328,660)	(2,694,648)	**(9,683,152)**
Net carrying amount as at 31 December 2021	**361,682**	**85,163**	**442,589**	**889,433**
Lux.	281,937	74,343	372,131	**728,413**
Ams.	79,745	10,820	70,457	**161,020**

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

Note 9 – Intangible assets

The Bank has no intangible assets as at 31 December 2021.

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

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

(in EUR)	2021			2020
	Lux.	**Ams.**	**Tot.**	
Current tax assets	-	8,023,956	8,023,956	7,133,520
Current tax liabilities	-	(6,387,381)	(6,387,381)	(5,847,920)
Net current tax assets (liabilities)	**-**	**1,636,575**	**1,636,575**	**1,285,600**

In relation to the Luxembourg entity, instead, no current taxes are recorded considering the tax integration since 2002 with the Luxembourg Bank's local shareholder Intesa Sanpaolo Holding International S.A.. The income from the Branch in the Netherlands is subject to the local income tax (25% as at 31 December 2021).

Deferred tax assets and liabilities

	2021			2020
	Lux.	**Ams.**	**Tot.**	
Deferred tax assets	1,248,466	-	1,248,466	1,202,134
Deferred tax liabilities	(455,922)	-	(455,922)	(3,422,486)
Tax assets (liabilities)	**792,544**	**-**	**792,544**	**(2,220,352)**

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

(in EUR)	**1 January 2021**	**Statement of profit or loss**	**Equity**	**31 December 2021**
Financial assets held for trading	**(21,715,947)**	1,015,989	-	**(20,699,958)**
Financial assets mandatorily measured at fair value	**166,492**	(20,727)	-	**145,765**
Financial assets measured at FVTOCI	**(2,019,871)**	-	2,595,117	**575,246**
Financial liabilities held for trading	**21,140,300**	(577,483)	-	**20,562,817**
Provisions and value adjustments	**208,674**	-	-	**208,674**
Net deferred income tax assets/(liabilities)	**(2,220,352)**	**417,779**	**2,595,117**	**792,544**

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

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

The deferred tax expenses presented in profit or loss are related to temporary differences generated by financial instruments fair value changes booked through profit or loss.
The deferred tax assets calculated on financial assets at fair value through other comprehensive income are showing a net deferred tax asset balance. The deferred tax amount has been consequently shown in deduction of the relative comprehensive income. The deferred tax assets calculated on the IFRS 9 First Time Adoption contributing to the other comprehensive income have been reversed for an amount related to underlying assets arrived at maturity during 2019 and 2020 and no more part of financial assets at 31 December 2021.

Note 11 – Other assets and other liabilities

(in EUR)	2021			2020
	Lux.	**Ams.**	**Tot.**	
Prepaid charges	1,397,751	31,230	1,428,982	1,662,731
Taxes	10,455,315	-	10,455,315	10,075,722
Accrued commission income	57,386	416,304	473,690	544,889
Commissions to be received	9,822,324		9,822,324	2,227,749
Other	1,994,511	779,898	2,774,408	7,497,523
Other assets	**23,727,288**	**1,227,432**	**24,954,720**	**22,008,614**

(in EUR)	2021			2020
	Lux.	**Ams.**	**Tot.**	
Social security charges	1,697,417	50,870	1,748,287	1,308,951
VAT	1,612,169	7,808	1,619,977	5,586,896
Administrative expenses to be paid	13,945,741	3,266,266	17,212,007	16,091,739
Accrued commission expenses	1,738,088	1,343,771	3,081,858	4,217,960
Short term payable and other sundry accounts	2,612,902	173,880	2,786,783	2,567,425
Other liabilities	**21,606,317**	**4,842,595**	**26,448,912**	**29,772,971**

Note 12 – Deposits from central banks

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

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

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

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

Note 12 – Deposits from central banks (continued)

During 2020 the amount received in relation to TLTRO II matured and the Bank decided to participate to the new TLTRO III mechanism (TLTRO III) for an amount of EUR 800,000,000, increased by EUR 700,000,000 in June 2021 and then by EUR 500,000,000 in December 2021.

As at 31 December 2021, the total amount of deposits is collateralised by eligible securities for an amount of EUR 2,191,832,460.
TLTRO III (Targeted Longer Term Refinancing Operation) aims to stimulate bank lending to the real economy and strengthen the transmission of monetary policy.

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

Similarly to TLTRO II, the applied interest rate to TLTRO III is linked to the participating banks lending patterns. The more loans participating banks issues to non-financial corporations and households (except loans to households for house purchases), the lower the interest rate on their TLTRO III borrowing becomes within a specified range.
Each operation is planned quarterly, starting from September 2019 and each one matures in three years.

The interest rate for each operation is targeted to the average of the main refinancing operations in the Euro-zone (MRO), currently equal to 0%, with the exception of the period between 24 June 2020 and 283 June 2023 (*special interest rate period*) during which a -0.5% rate will be applied.

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

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

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

According to Intesa Sanpaolo Group Accounting Policies and to IFRS 9 principle – paragraph B.5.4.5, favourable interest rates applied during the period 24 June 2020 – 28 June 2023 have been considered as floating rates because ECB could modify TLTRO III interest rates prospectively at any time and if there were a subsequent change in the banks estimate regarding its lending targets, the Bank would apply IFRS 9 revision of estimates guidance.

The TLTRO mechanism carrying amount is EUR 1,984,444,767 as at 31 December 2021, of which total negative accrued interests amount to EUR 15,555,555, which include the adjustment of EUR 7,500,000 due to the application of IFRS 9 paragraph B.5.4.6 and of the *catch-up mechanism*.
The Bank, in fact, was able to exceed the TLTRO benchmark for the additional reference period October 2020 – December 2021 as at the end of the year and, as per consequence, it had the opportunity to apply the interest rate of DFR-0,5% = -1% for the period June 2021 – June 2022. Before exceeding the benchmark, the Bank was applying the MRO rate – 0,5% = -0,5%, but that event gave the opportunity to re-estimate the futures cash flows and thanks the application of the above mentioned rules to book the whole difference between the rates as interest income.

Note 13 – Financial liabilities measured at amortised cost

(in EUR)	2021 Carrying amount			2020 Carrying amount	Variation in EUR	in %
Deposits from credit institutions	**Lux.**	**Ams.**	**Tot.**			
Current accounts and amounts with period of notice	168,515,483	2,507,948	171,023,431	387,810,471	216,787,040	(56%)
Term deposits	6,644,768,770	424,343,514	7,069,284	2,885,398,778	4,183,713,506	145%
Total	**6,813,284,253**	**426,851,462**	**7,240,135,715**	**3,273,209,249**	**3,966,926,466**	**121%**
Corporate customers						
Current accounts and amounts with period of notice	2,157,229,923	691,679,190	2,848,909,113	2,585,948,459	262,960,654	10%
Term deposits	844,071,316	267,156,247	1,111,227,564	1,519,587,530	(408,359,966)	(27%)
Total	**3,001,301,240**	**958,835,437**	**3,960,136,677**	**4,105,535,989**	**(145,399,312)**	**(4%)**
Private customers						
Current accounts and amounts with period of notice	3,066,488	-	3,066,488	100,203,268	(97,136,780)	(97%)
Term deposits	-	-	-	58,126,394	(58,126,394)	(100%)
Total	**3,066,488**		**3,066,488**	**158,329,662**	**(155,263,174)**	**(98%)**
Debts evidenced by certificates						
Certificates of deposits	3,082,281,063	-	3,082,281,063	3,892,719,998	(810,438,935)	(21%)
Term notes	391,229,247	-	391,229,247	1,231,612,176	(840,382,928)	(68%)
Commercial paper	3,684,171,313	-	3,684,171,313	2,563,073,506	1,121,097,807	44%
Total	**7,157,681,623**	**-**	**7,157,681,623**	**7,687,405,680**	**(529,724,057)**	**(7%)**
Financial liabilities measured at amortised cost	**16,975,333,604**	**1,385,686,899**	**18,361,020,503**	**15,224,480,580**	**3,136,539,923**	**21%**

European Medium Term Notes :

Since November 2011, the Bank participates as an additional issuer in a EUR 70 billion Euro Medium Term Notes (EMTN) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The programme is guaranteed by Intesa Sanpaolo S.p.A.. The EMTN (the "bonds") issued under this programme bear a maturity date of maximum 5 years. The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 70 billion or the equivalent thereof in other currencies. The notes are denominated in any currency subject to compliance with any applicable legal and or regulatory and or central bank requirements. As at 31 December 2021, such notes issued by the Bank amount to EUR 391 million (2020: EUR 1,232million).

Commercial Paper:

Since March 2011, the Bank participates as an additional issuer in a EUR 30 billion Euro Commercial Paper (ECP) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The ECP (further the "notes") issued under this programme bear a maturity date under 1 year (short term notes) and are denominated in Euro, US Dollars or any other currency subject to compliance with any applicable legal and regulatory requirements. The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 30 billion or the equivalent thereof in other currencies. As at 31 December 2021, such ECP issued by the Bank amount to EUR 3,6840 million (2020: EUR 2,563million).

Note 14 – Derivatives held for hedging

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

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

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

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

(in EUR)	**2021**		**2020**	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	2,603,483,833	29,160,068	-	-
	2,603,483,833	**29,160,068**	**-**	**-**
Liabilities			-	
Interest rate instruments	2,075,616,970	40,860,032	2,118,870,269	92,636,544
	2,075,616,970	**40,860,032**	**2,118,870,269**	**92,636,544**

Hedged items are as follows (in EUR):

	2021	**2020**
	Carrying value	**Carrying value**
Financial assets at fair value through other comprehensive income	2,899,574,838	1,666,769,527
Loans and advances	424,090,602	541,170,269
Debts evidenced by certificates	569,043,410	-
Total	**3,892,708,850**	**2,207,939,796**

Note 14 – Derivatives held for hedging (continued)

The below table sets out the outcome of the Bank's hedging strategy, in particular, to changes in the fair value of the hedged items and hedging instruments in the current year and the comparative year, used as the basis for recognising ineffectiveness:

		2021		
		Gains/(losses) attributable to the hedged risk		
Hedged items	**Hedging instruments**	**Hedged items**	**Hedging instruments**	**Ineffectiveness**
Fixed rate corporate loans	Interest rate swaps	(6,455,652)	6,845,003	389,352
Fixed rate FVOCI debt instruments	Interest rate swaps	(38,552,167)	38,552,167	-
Total		**(45,007,819)**	**45,397,171**	**389,352**

		2020		
		Gains/(losses) attributable to the hedged risk		
Hedged items	**Hedging instruments**	**Hedged items**	**Hedging instruments**	**Ineffectiveness**
Fixed rate corporate loans	Interest rate swaps	3,788,863	(3,961,981)	(173,118)
Fixed rate FVOCI debt instruments	Interest rate swaps	13,542,347	(13,299,426)	242,911
Total		**17,331,211**	**(17,261,407)**	**69,804**

Note 15 – Provisions

(in EUR)	**2021**			**2020**
	LUX	**AMS**	**TOT**	
Financial guarantee contracts issued	11,838	132,799	144,637	352,719
Loan commitments issued and uncommitted credit lines	1,575,617	318,686	1,894,303	4,539,070
Other provisions	1,716,317	-	1,761,317	1,641,027
Total	**3,348,772**	**451,485**	**3,800,267**	**6,532,816**

Financial guarantee contracts, loan commitments issued and uncommitted credit lines

As at 31 December 2021, the amount in respect of financial guarantee contracts issued, loan commitments issued and uncommitted credit lines represent the sum of ECL provisions calculated following IFRS 9 implementation.

Other provisions

The following table sets out other provisions.

(in EUR)	**2021**
Provision as at 1st January 2021	1,641,027
Reductions	7,554
Forex impact	127,844
Provisions as at 31 December 2021	**1,761,317**

Note 15 – Provisions (continued)

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

The above table shows provisions movements from 31 December 2020 to 31 December 2021. Increase in value has been mainly generated by foreign exchange movements (linked to some provisions in foreign currency).

Note 16 – Equity

Share capital

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

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

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

As at 31 December 2021, the subscribed capital was therefore EUR 1,389,370,555.36 represented by 4,464,237 shares (integrally subscribed).

Revaluation reserve

Revaluation reserve caption is composed of the cumulative net change in fair value of debt securities measured at FVTOCI until the assets are derecognised or reclassified and it amounts to EUR (628,991). This amount includes the ECL loss allowance equal to EUR 971,606 (gross of deferred taxes equal to EUR 242,319). FTA revaluation reserve calculated as at 1 January 2018 following the IFRS 9 implementation has been recorded in Retained Earnings.
These revaluation reserves are not distributable.

Legal reserve

Under Luxembourg Law, the Bank must appropriate to a legal reserve an amount equivalent to 5% of the annual net profit until such reserve is equal to 10% of the share capital. This appropriation is made in the following year. Distribution of the legal reserve is restricted. As at 31 December 2021, the legal reserve amounts to EUR 80,448,991 (2020: EUR 76,319,275), with an increase of EUR 4,129,716.

Note 16 – Equity (continued)

Net Wealth Tax

During 2021, the Bank allocated to the Net Wealth tax reserve an amount equal to EUR 18,000,000, which constitutes an unavailable reserve.

Other reserves

As at 31 December 2021, other reserves amount to EUR 836,524,575 (2020: EUR 858,524,577).

Retained earnings

As at 31 December 2021, retained earnings amount to EUR 146,519,341 (2020: EUR 86,375,207) and mainly include :

- the impact of the implementation (FTA) of IFRS 9 as adopted by the European Union (EUR -15,082,330);
- the impact of the first time adoption (FTA) of IAS/IFRS standards as adopted by the European Union (EUR 4,850,848);
- the impact of the disposal of the functional property carried at fair value (EUR 24,513,535);
- the impact of other retained earnings for an amount of EUR 71,773,288;
- the impact of 2020 dividends not distributed in 2021 as per consequence of the pandemic situation generated by Covid-19 and recommendations issued by European Central Bank for an amount of EUR 60,464,000 in December 2021.

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 275,572,599, which corresponds to a return on equity of circa 1.31% (2020: 3.41%). It is proposed to the Annual General Shareholders' Meeting approving the financial statements as at 31 December 2021 to allocate the above mentioned amounts as follows (in EUR):

	2021
Net profit of 2021 financial year	160,844,424
Retained profit from previous year (excluding FTA and reclassification from revaluation reserves)	114,728,175
Amount attributable to Shareholders	**275,572,599**
Allocation to legal reserve (5% Net profit)	8,042,221
Allocation to the NWT reserve	18,000,000
Retained profits carried forward	**249,530,378**
Total	**275,572,599**

Note 17 – Net interest income

(in EUR)	2021			2020
	Lux.	**Ams.**	**Tot.**	
Financial assets held for trading	487,005	-	487,005	703,124
Financial assets at fair value through profit or loss	-	-	-	-
Hedging derivatives	1,982,683	-	1,982,683	903,273
Financial assets at FVTOCI	12,474,494	-	12,474,494	18,242,593
Loans and advances	68,892,198	7,493,494	76,385,697	186,228,030
Interest income on liabilities	90,386,540	1,850,402	92,236,942	12,249,667
Other	7,259	-	7,259	-
Total interest and similar income	**174,230,179**	**9,343,900**	**183,574,079**	**218,326,687**

(in EUR)	2021			2020
	Lux.	**Ams**	**Tot.**	
Hedging derivatives	21,255,344	-	21,255,344	20,471,662
Financial liabilities held for trading	4,796	-	4,796	132,644
Financial liabilities measured at amortised cost	43,944,270	-	43,944,270	67,583,575
Financial liabilities at fair value through profit or loss	-	-	-	38,895
Interest expenses on assets	-	-	-	-
Total interest expenses and similar charges	**65,204,410**	-	**65,204,410**	**88,226,776**
Net interest income	**109,025,769**	**9,343,900**	**118,369,669**	**130,099,911**

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

Note 18 – Net fee and commission income

A. Disaggregation of fee and commission income

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

(in EUR)	2021			2020
	Lux.	**Ams.**	**Tot.**	
Credit activities	40,239,378	6,848,189	47,087,567	44,692,529
Wealth management and Treasury activities	24,886,097	-	24,886,097	23,059,658
Corporate services	220,662	-	220,662	290,111
Other	2,522,950	629,982	3,152,932	3,766,501
Total fee and commission income	**67,869,087**	**7,478,171**	**75,347,257**	**71,808,799**
Credit activities	5,329,691	29,888	5,359,579	9,608,574
Brokerage and clearing fees	8,993,051	-	8,993,051	8,146,183
Other	5,733,248	14,037	5,747,285	6,500,350
Total fee and commission expenses	**20,055,990**	**43,925**	**20,099,915**	**24,255,107**
Net fee and commission income	**47,813,097**	**7,434,246**	**55,247,342**	**47,553,692**

Note 18 – Net fee and commission income (continued)

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

(in EUR)		**2021**		**2020**
	Lux.	**Ams.**	**Tot.**	
Wealth management and Treasury activities	24,837,612		24,837,612	23,059,658
Structuring fees	4,200,200		4,200,000	2,863,686
Commitment fees	12,829,803	4,595,947	17,425,750	17,895,981
Commission income on limited recourse transactions	18,856	68,649	18,856	81,032
Upfront fees	1,816,206		1,816,206	4,098,662
Arrangement fees	15,841,481		15,841,481	16,730,161
Cash management fees	54,167		54,167	164,571
Amendment fees	4,492,040	6,691	4,498,731	492,544
Participation fees		1,101,723	1,101,723	774,855
Corporate services fees	276,253		276,253	290,111
Credit activities – other	414,886	735,027	1,149,913	1,113,039
Commission income on guarantees	358,023		426,673	595,081
Program and administrator fees	2,083		2,083	-
Other	2,727,677	970,134	3,697,811	3,649,418
Total fee and commission income	**67,869,087**	**7,478,171**	**75,347,257**	**71,808,799**
Structuring fees	-		-	-
Brokerage and clearing fees	9,027,817		9,027,817	8,146,183
Servicing fees	890,397		890,397	3,424,761
Credit activities – other	2,365,010	29,888	2,394,898	3,681,941
Commitment fees	937,726		937,726	638,525
Upfront fees	-		-	2,558,611
Arrangement fees	567,864		567,864	1,021,141
Commission expesnes on guarantees	587,635		587,635	
Other	5,679,542	14,037	5,693,579	4,783,945
Total fee and commission expenses	**20,055,990**	**43,925**	**20,099,915**	**24,255,107**
Net fee and commission income	**47,813,097**	**7,434,246**	**55,247,342**	**47,553,692**

Note 18 – Net fee and commission income (continued)

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

(in EUR)	2021			2020
	Lux.	**Ams.**	**Tot.**	
LUXEMBOURG	12,862,126	163,836	13,025,962	12,319,880
ITALY	3,769,248	146,118	3,915,367	3,204,417
NETHERLAND	1,253,867	5,317,751	6,571,618	6,450,875
QATAR	2,470,580	-	2,470,580	4,298,254
U.S.A.	3,545,792	22,362	3,568,154	3,772,900
FRANCE	1,606,365	6,658	1,612,883	1,805,070
UNITED KINGDOM	2,284,247	58,434	2,342,680	4,082,619
GERMANY	987,264	956	988,220	853,662
SOUTH AFRICA	1,580,523	-	1,580,523	1,705,758
SPAIN	957,445	-	957,445	577,325
BELGIUM	579,861	957,584	1,537,446	1,275,542
IRELAND	2,233,444	-	2,233,444	1,953,618
RUSSIA	11,106,382	-	11,106,382	6,546,825
CYPRUS REP.	12,664	-	12,664	20,225
HONG KONG	948,183	-	948,183	1,357,980
JAPAN	1,053,536	-	1,053,536	684,712
GHANA	791,384	-	791,384	878,993
SWITZERLAND	284,917	449117	734,034	516,053
SOUTH KOREA	633,434		633,434	485,191
CHINA	398,637	83,951	482,588	349,924
KUWAIT	409,001	-	409,001	328,304
CAYMAN ISL	1,183,373	-	1,183,373	596,639
TAIWAN	768,806	8,833	777,639	408,187
AUSTRIA	11,380,488	-	11,380,488	10,104,439
CANADA	77,817	-	77,817	114,962
INDIA	670,470	-	670,470	559,046
PAKISTAN	700	1,586	2,286	11,539
NIGERIA	2,477	3,687	6,164	39,679
MONACO	32,570	-	32,570	73,732
BRAZIL	267,162	-	267,162	238,816
SAUDI ARABIA	1,188,609	-	1,188,609	329,125
EGYPT	774,952	-	774,952	
OTHER COUNTRIES	1,752,763	257,439	2,010,201	5,864,508
Total fee and commission income	**67,869,087**	**7,478,171**	**75,347,257**	**71,808,799**

Note 18 – Net fee and commission income (continued)

(in EUR)	2021			2020
	Lux.	**Ams.**	**Tot.**	
UNITED KINGDOM	947,595	-	947,595	3,782,539
ITALY	3,205,159	12,787	3,217,947	8,138,914
U.S.A.	1,226,380	-	1,226,380	1,227,345
LUXEMBOURG	756,152	-	756,152	632,990
FRANCE	948,340	-	948,340	913,562
RUSSIA	2,529,671	-	2,529,671	1,404,332
CYPRUS REP.	421	-	421	4
GERMANY	4,906,694	-	4,906,694	4,637,475
JAPAN	369,196	-	369,196	208,486
SOUTH KOREA	365,675	-	365,675	259,838
IRELAND	577,220	-	577,220	218,616
CHINA	312,795	-	312,795	259,409
SWITZERLAND	84,674	300	84,974	83,107
INDIA	406,062	-	406,062	277,278
TAIWAN	487,702	-	487,702	223,899
CAYMAN ISL	595,814	-	595,814	352,562
SOUTH AFRICA	179,539	-	179,539	103,626
HONG KONG	282,236	-	282,236	239,840
NETHERLAND	123,702	30,837	154,539	158,956
CANADA	26,807	-	26,807	39,009
SAUDI ARABIA	317,659	-	317,659	-
SPAIN	190,745	-	190,745	-
BRAZIL	115,419	-	115,419	-
PHILIPPINES	66,000	-	66,000	-
OTHER COUNTRIES	1,034,334	-	1,034,334	1,093,320
Total fee and commission expenses	**20,055,990**	**43,925**	**20,099,915**	**24,255,107**
Net fee and commission income	**47,813,097**	**7,434,246**	**55,247,342**	**47,553,692**

B. Contract balances

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

C. Performance obligations and revenue recognition policies

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

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

Note 18 – Net fee and commission income (continued)

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

Note 19 – Dividend income

As at 31 December 2021 dividend income relates to financial assets mandatorily measured at fair value.

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

As at 31 December 2021 and 2020, the net (un)realised (losses) on financial assets and liabilities held for trading are composed of:

(in EUR)			2021	2020
	Lux.	**Ams.**	**Tot.**	
Equity instruments and linked derivatives	7,154	-	7,154	149,220
Interest rate instruments and linked derivatives	(5,634,417)	-	(5,634,417)	(8,953,671)
Foreign exchange transactions	(18,448,026)	21,332,704	2,884,678	(7,772,753)
	(24,075,289)	**21,332,704**	**(2,742,586)**	**(16,577,204)**

As at 31 December 2021 net (un)realised gains and losses on financial assets and liabilities held for trading are mainly composed of :

- Losses realised on Interest rate swap contracts unwinded before their maturity for an amount of EUR -2.0 million (of which EUR -2.4 million paid in relation to their NPV and EUR 0.4 million received in relation to interest rate differentials); as at 31 December 2020 corresponding figures were respectively EUR -4.2 million, EUR -1.5 million and EUR -2.7 million. Those contracts have been unwinded in relation to the sale of bond instruments disclosed in note 22;

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

- Losses unrealised on Cross Currency Interest rate swap contracts for an amount of EUR -1.9 million, of which EUR 0.6 million of gains linked to their NPV and EUR -2.5 million of losses linked to the interest rate differentials related to the hedging of forex exposures; as at 31 December 2020 corresponding figures were respectively EUR -13.7 million, EUR 2.8 million and EUR -16.5 million.
- Global negative impact generated by foreign translation differences and fex contratcs for an amount of EUR -17 million (2020: EUR 6 million) concerning Luxembourg and EUR 21 million concerning Amsterdam.

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

As at 31 December 2021 the net (un)realised gains on financial assets and liabilities at fair value through profit or loss are mainly composed of unrealised gains on assets classified at fair value through profit or loss for an amount of EUR 83 thousands (2020 unrealized losses: EUR 114 thousands and 2020 unrealized gains: EUR 0 thousands).

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

As at 31 December 2021 net realised gains on financial assets and liabilities not at fair value through profit or loss are mainly composed of net gains realised on the sale of bond instruments measured at FVTOCI for an amount of EUR 10.9 million (2020: EUR 2.3 million).

(in EUR)		**2021**			**2020**	
	Profits	**Losses**	**Net**	**Profits**	**Losses**	**Net**
Due from banks and customers	2,040,485*	(166,898)	1,873,587	1,234,414	(710,881)	523,533
Financial assets measured at FVTOCI	14,404,326	(2,624,164)	11,780,162	3,946,381	(2,146,599)	1,799,782
Debt securities	*14,404,326*	*(2,624,164)*	*11,780,162*	*(3,946,381)*	*2,146,599*	*1,799,782*
Equities	-	-	-	-	-	-
Total assets	**16,444,811**	**(2,791,062)**	**13,653,749**	**5,180,795**	**(2,857,480)**	**2,323,315**
Securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-
Net realised gains and losses	**16,444,811**	**(2,791,062)**	**13,653,749**	**5,180,795**	**(2,857,480)**	**2,323,315**

**Of which 2,773 EUR generated by Amsterdam branch*

Note 23 – Net other expenses

As at 31 December 2021 and 2020, net other expenses are mainly composed of withholding taxes which are linked to the Bank's business activity and VAT.

Note 24 – Administrative expenses

(in EUR)	2021			2020
	Lux.	**Ams.**	**Tot.**	
Wages and salaries	15,566,866	819,940	16,386,806	14,551,814
Social security charges	2,429,490	216,285	2,645,775	2,346,415
Legal pension and similar expenses	793,632	161,147	954,779	786,166
Employee benefits	1,986,195	179,676	2,165,871	1,619,701
Other	1,646,475	9,414	1,655,889	1,602,883
Total staff expenses	**22,422,658**	**1,386,462**	**23,809,120**	**20,906,979**
Operating expenses	8,874,091	36,204	8,910,295	7,194,841
Repair and maintenance	301,118	959	302,077	392,608
Training and moving	941,779	98,246	1,040,025	878,515
IT outsourcing costs	8,869,681	178,871	9,048,552	8,989,409
Legal and professional fees	1,757,475	39,735	1,797,210	1,537,693
Marketing and representation fees	1,587,714	-	1,587,714	2,116,088
Charges linked to Corporate activity and other charges	2,421,345	186,559	2,607,904	1,287,955
Total general and administrative expenses	**24,753,203**	**540,576**	**25,293,778**	**22,397,109**
Total administrative expenses	**47,175,860**	**1,927,038**	**49,102,898**	**43,304,088**

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

	2021	**2020**
Senior Management	4	3
Middle Management	55	53
Employees	106	111
	165	**167**

Note 25 – Net impairment result on financial assets

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

(in EUR)	2021			2020
LUX	**Write-downs**	**Write-backs**	**Total**	**Total**
Loans and advances	(10,775,584)	36,853,120	26,077,536	(25,883,808)
Luxembourg	*(10,585,064)*	*36,424,596*	*25,839,533*	
Amsterdam	*(190,520)*	*428,524*	*238,003*	
Debt securities	(1,108,945)	815,499	(293,447)	(426,392)
Luxembourg	*(1,108,945)*	*815,499*	*(293,447)*	
Amsterdam	-	-	-	
Impairment	**(11,884,530)**	**37,668,619**	**25,784,089**	**(26,310,200)**

Note 26 – Related party disclosures

Identity of related parties

The Bank has a related party relationship with its direct and non-direct parent companies, entities of its Group and with its directors (hereafter "administrative bodies") and executive officers (hereafter "other key management personnel"). All transactions made with related parties are concluded on an arm's length basis.

The amount of main assets, liabilities, income and expenses as at 31 December 2021 and 2020 concerning Group entities and the parent companies are as follows:

(in EUR)	2021	2020
Assets and liabilities		
Assets held for trading and assets carried at fair value through profit or loss	4,829,853	52,740,430
Investment securities mandatorily measured at FVTPL	502,820	499,954
Investment securities at FVTOCI	211,185	211,185
Loans and advances	6,880,457,841	7,501,882,787
Hedging derivatives – Assets	29,152,464	-
Tangible assets*	770,131	1,615,774
Other assets	8,854	-
Financial liabilities held for trading and liabilities carried at fair value through profit or loss	32,574,299	8,483,893
Financial liabilities measured at amortised cost*	8,198,362,995	7,416,516,706
Hedging derivatives – Liabilities	40,860,035	92,636,544
Provisions	183,724	77,602
Othher liabilities	217,257	-

(in EUR)	2021	2020
Income and expenses		
Interest income*	15,743,634	20,322,604
Fees and commissions income	378,349	547,118
Dividend income	45,309	-
Net (un)realised gains and losses on financial assets and liabilities held for trading	(104,281,298)	121,448,890
Net unrealised losses on financials assets and liabilities held for hedging	43,062,861	(15,736,647)
Net (un)realised gains and losses on financials assets and liabilities at fair value through profit or loss	83,110	(113,944)
Net realised gains and losses on financials assets and liabilities not at fair value through profit or loss	0	279,363
Interest expenses*	(58,753,410)	(62,748,705)
Fees and commissions expenses	(3,954,584)	(9,883,335)
Impairment	1,632,149	(386,488)
Administrative expenses	(12,321,887)	(12,452,900)
Other income and expenses	(1,667,712)	(1,777,371)
Depreciation*	(1,671,992)	(1,653,991)
Provisions	(106,122)	-
Discontinued operations	1,020,000	-

Note 26 – Related party disclosures (continued)

**Tangible assets amount (and the related amount booked in caption "Depreciation") relates to real estate operating lease contract subscribed by the Bank with its parent company Intesa Sanpaolo Holding International S.A. (ISPH); concerning financial liabilities measured at AC, the amount includes EUR 215 mio of deposits and EUR 2,932 mio of debt certificates with ISPH. In relation to Income and expenses captions, interest expenses related to transactions with ISPH amounted to EUR 12 mio.*

Key management personnel

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

(in EUR)	**2021**	**2020**
Administrative bodies	98,681	137,486
Other key management personnel	804,392	1,060,997
	903,073	**1,198,483**

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

As at 31 December 2021 and 2020, the Bank has no obligations related to retirement pensions for former administrative bodies and key management personnel.

As at 31 December 2021 and 2020, the Bank has not granted advances and credits and has not entered into guarantee commitments for the above mentioned bodies and personnel.

During 2021 the Bank has paid bonuses to other key management personnel for an amount of EUR 192,863 (2020: EUR 100,000).

Share-based payment transactions

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

Note 26 – Related party disclosures (continued)

Grant date	Number of instruments	Assignement	Number of instruments	Vesting conditions
SARs granted at 30 April 2019	25,706	20,566	5,141	3 years services
SARs granted at 17 March 2020	32,862	19,717	13,145	2 years services
SARs granted at 23 February 2021	26,040		26,040	2 years services
	84,609	**40,283**	**44,326**	

Details of liabilities arising from SARs are as follows:

(in EUR)	2020	2019	2018	Total
Total carrying amount of liabilities	81,215	57,892	23,691	162,798
- *Cash*	*22,000*	*28,000*	*12,000*	*62,000*
- *Shares*	*59,215*	*29,892*	*11,691*	*100,797*

Note 27 – Commitments and contingent liabilities

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

(in EUR)	2021	2020
Unused confirmed credits	4,534,736,511	4,483,981,391
- out of which towards related parties	*245,260*	-
Guarantees and other direct substitutes for credit	265,549,944	323,660,200
- out of which towards related parties	*111,860,708*	*143,662,193*

Note 27 – Commitments and contingent liabilities (continued)

Guarantees received by the Bank:

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

(in EUR)	2021		2020	
	Contingent liabilities	**Unused confirmed credits**	**Contingent Liabilities**	**Unused confirmed credits**
Net carrying amounts	**272,861,908**	**4,172,820,132**	**323,660,200**	**4,483,981,391**
Real guarantees				
Securities	-	-	200,002,228	-
Other real guarantees	1,322,904	1,729,103	46,532,984	17,509,053
Personal guarantees				
Government guarantees	-	1,126,486,393	-	1,054,640,551
Credit institutions guarantees	-	131,000,001	-	87,525,012
Total guarantees	**1,322,904**	**1,259,215,497**	**246,535,212**	**1,159,674,616**

Note 28 – Deposit guarantee and investor compensation schemes

The law related to the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes (“the Law”), transposing into Luxembourgish law the directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and the directive 2014/49/EU related to deposit guarantee and investor compensation schemes, was passed on 18 December 2015.
The deposit guarantee and investor compensation scheme “Association pour la Garantie des Dépôts Luxembourg” (AGDL) was replaced by a new contribution based system of deposit guarantee and investor compensation scheme. This new system covers eligible deposits of each depositor up to an amount of EUR 100,000 and investments up to an amount of EUR 20,000. The Law also provides that deposits resulting from specific transactions or fulfilling a specific social or other purpose are covered for an amount above EUR 100,000 for a period of 12 months.
The funded amount of the “Fonds de résolution Luxembourg” (FRL) shall reach by the end of 2026 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States. This amount will be collected from the credit institutions through annual contributions during the years 2015 to 2024.

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

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

Note 29 – Investment management services and underwriting functions

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

- Corporate services;
- Custody.

Assets managed on behalf of third parties are as follows:

(in EUR)	2021	2020
Custody and administration of transferable securities	10,097,965,350	9,813,412,470

Please refer to Note 36 concerning the transfer of the Private Banking activities.

Note 30 – Audit fees

The audit fees and audit related fees for the years ended 31 December 2021 and 2020 are as follows:

(in EUR)	2021	2020
Statutory audit fees	180,164	200,500
Audit related fees	360,500	350,500
Other	158,000	25,000
	698,664	**576,000**

Note 31 – Encumbered assets

In 2021 and 2020 the Bank participated to the Long Term Refinancing Operation mechanism organised by the Banque centrale du Luxembourg for an amount of EUR 1,500 million (2020: EUR 800 million). Those deposits are collateralised by eligible securities classified in the securities at fair value through OCI portfolio for an amount of EUR 2,191 million (2020: EUR 820 million).

	ENCUMBERED		**UNENCUMBERED**		**CARRYING AMOUNT**	
(in EUR)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**2021**	**2020**
Cash and cash equivalents	-	-	6,942,811,330	-	6,942,811,330	6,074,432,464
Debt securities	2,191,832,460	2,191,832,460	1,503,975,415	1,503,975,411	3,695,807,871	1,995,920,165
Equities	-	-	502,820	502,820	502,820	711,139
Loans and advances	39,980,000	-	10,342,715,925	-	10,382,695,925	10,523,578,095
Other financial assets	-	-	35,018,157	-	35,018,151	54,712,261
Non financial assets	-	-	35,116,575	-	35,116,575	32,969,701
Total 2021	**2,231,812,460**	**2,191,832,460**	**18,860,140,212**	**1,504,478,231**	**21,091,952,672**	**18,682,323,825**

Note 32 – Analysis of changes in financing during the year

	Liabilities		Equity			
In EUR	Debt Securities	Subordinated Liabilities	Ordinary Shares	Share Premium	Retained Earnings	Total
Opening balance at 1 January 2021	**3,794,685,682**	**200,000,000**	**1,389,370,555**	**7,720,692**	**86,375,207**	**5,478,152,136**
Changes from financing cash flows						
Proceeds from issue of debt securities	4,042,256,908					4,042,256,908
Repayment of debt securities	(3,679,530,007)					(3,679,530,007)
Proceeds from issue of subordinated loans						
Proceeds from disposal of assets						
Total changes from financing cash flow	362,726,901					12,735,740
Other changes	(132,470)				(320,469)	(452,939)
Allocation of 2019 result					60,464,600	60,464,600
Balance at 31 December 2021	**4,157,280,112**	**200,000,000**	**1,389,370,555**	**7,720,692**	**146,519,338**	**5,900,890,698**

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

Note 33 – Operating leases

The Bank leases cars and office premises under operating leases.

Right-of-use-assets

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

(in EUR)	**Right-of-use assets**
Balance at 1 January 2021	**2,266,888**
Depreciation charge of the year	*(2,069,000)*
Indexing	*11,408*
Additions	*560,835*
Balance at 31 December 2021	**770,131**

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

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

Lease liabilities

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

(in EUR)	**Lease liabilities**
Balance at 1 January 2021	**2,366,666**
Reductions	*(2,201,281)*
Additions	*607,120*
Balance at 31 December 2021	**772,505**

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

Note 33 – Operating leases (continued)

Amounts recognised in profit or loss

(in EUR)	**2021**
Interest on lease liabilities	(1,453)
Depreciation charge of the year	*(2,069,000)*
Expenses relating to short-term leases	-
Expenses relating to leases of low-value assets	(23,117)
Total amount	**(2,093,570)**

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

As at 31 December 2021, the future minimum lease payments under non-cancellable operating leases were payable as follows:

In EUR	**Motor vehicles**	**Real estate location contracts**	**Total**
Within 1 year	198,358	359,396	557,754
1 to 5 years	209,036	-	209,036
Over 5 years	-	-	
Total	**407,394**	**359,396**	**766,790**

Note 34 – Events after the reporting date

The Bank is not aware of any adjusting event that would have occurred between 31 December 2021 and the date when the present financial statements were authorised for submission by the Board of Directors to the Annual General Meeting of Shareholders.

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

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

That event has been classified as discontinued operations at 31 December 2021 because all the relevant information are known an available.

Finally, it should be noted that a military conflict between Russia and Ukraine broke out on 24 February 2022, as a post-balance sheet event that does not give rise to adjustments in relation to the 2021 financial year. With respect to Russia, the Bank maintains financing relationships with large companies that have significant and well-established business relationships with European and international customers and a significant share of revenues from commodity exports. In addition, the vast majority of exposure to the main Russian counterparties is to groups with very

Note 34 – Events after the reporting date (continued)

solid credit and liquidity ratios, as reflected in the investment grade rating assigned by the major international rating agencies. The Bank, in coordination with the Group's dedicated structures, will continue to constantly monitor the decisions taken at EU and international level, with which the Bank will comply, as well as their possible impact on the operations of Russian counterparties, in relation to which it is not possible to make any forecasts at the moment.

Note 35 – Discontinued operations

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

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

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

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

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

Activities started in the end of 2020 with the support of external advisors to analyse any legal, regulatory and fiscal aspects have been completed by the end of 2021.

The transfer will be realized in January 2022 with effectiveness starting from 1 January 2022.

The table below provides details of the amounts presented in the income statement with respect to discontinued operations:

(in EUR)	**2021**
Net interest margin	9,343,900
Net commission margin	7,434,246
Net (un)realised gains (losses) on financial assets and liabs held for trading	21,332,704
Net realised gains (losses) on financial assets and liabs not at FVtoPL	2,773
Net operating margin	14,929
Administrative expenses	(1,927,038)
Depreciation and amortization	(228,939)
Provisions	377,714
Net impairment loss on financial assets	238,003
Tax (expense) income related to profit from continuing operations	(3,095,923)
Net profit after taxes	**33,492,371**

Note 35 – Discontinued operations (continued)

The table below provides details of the assets held for sale and liabilities directly associated with the assets held for sale in the balance sheet:

ASSETS	**2021**
(in EUR)	
Cash and cash balances with central banks	7,042,789
Loans and advances	994,182,897
Loans and advances to credit institutions	*494,503,322*
Loans and advances to customers	*499,679,574*
Tangible fixed assts	161,020
Current tax assets	8,023,956
Other assets	1,227,432
Total assets held for sale	**1,010,638,094**

LIABILITIES	**2021**
(in EUR)	
Financial liabilities measured at Amortized Cost	1,385,686,899
Deposits from credit institutions	*426,851,462*
Deposits from customers	*958,835,437*
Provisions	451,484
Current tax liabilities	6,387,381
Other liabilities	4,842,595
Total liabilities held for sale	**1,408,145,241**

Figures presented in the above tables do not include transactions between the branch and the Bank.

Note 36 – Other extraordinary income

Private Banking transfer to Fideuram Bank S.A.

The Bank has negoziated with Fideuram Bank S.A. the transfer of its private banking business, which has been finalized on the 1st of Agusut 2021.

The transfer included resources directly involved in the private banking business and the transfer of deposits for a total amount of EUR 506 million, split in different currencies.

In terms of asset under management, the Bank transferred an amount of EUR 700 million.

The transfer has generated a cash consideration paid by Fideuram Bank S.A. to the Bank for an amount of EUR 1,020,000.