Financial statements,
Independent auditor's report
and Directors' report as at 31 December 2012

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

R.C.S. Luxembourg: B 13.859

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31 December 2012

Development of the activity

The world economy remained weak during 2012 and trade stagnated. Global growth prospects were subject to considerable uncertainty and were negatively influenced by the euro crises and the management of the fiscal imbalances in the United States despite that the so-called fiscal cliff was finally avoided.

In the euro area, the tensions on the financial markets flared up again at the beginning of the second quarter and finally spread to what had been considered so far the more robust economies. As a consequence, the increase in risk aversion continued to push down the yields on securities issued by the reputedly soundest countries.

According to the most probable forecasts for 2013, the recovery is likely to remain fragile even though wide differences between regions are likely to surge. The world economic expansion in a whole might not gain pace before 2014.

During 2012, Société Européenne de Banque S.A. (the "Bank") has demonstrated its ability to well perform, managing the market environment difficulties, evolving its business and adapting it to the new market conditions.

2012 financial results, in fact, continued their positive trend already shown over the past years and each business unit has reached positive results.

Risk Control

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

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

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

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

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

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

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

Corporate governance

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

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

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

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

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

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

In Luxembourg, the Bank has chosen Luxembourg as its origine member country and therefore refers to the corporate governance code available on the Luxembourg stock exchange website (www.bourse.lu), under "The Ten Principles of Corporate Governance of the Luxembourg Stock Exchange".

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

Subsidiaries and branches

In June 2012, the Bank has transferred the ownership of Intesa Sanpaolo Private Banking (Suisse), Lugano to its local Parent Company, Intesa Sanpaolo Holding International S.A., Luxembourg through a partial demerger.
At year end, the Bank detains only one fully owned subsidiary, Lux Gest Assets Management S.A., Luxembourg which is active as Management Company for some investment funds.

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

Perspectives

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

The main objectives for 2013 are to achieve the budget target, maintaining a high level of result applying its usual strategy on a slightly redefined perimeter. Following a strategic decision at Group level, the Bank has decided to externalise/sale its corporates' domiciliation activity during 2013.

Financial elements for 2012

The total assets as at 31 December 2012 amounted to EUR 14 billion (2011: EUR 12 billion).

The loans and advances to credit institutions (including balances with central banks), at EUR 9,7 billion, were 10% higher than in 2011 (EUR 8,8 billion) due to the high volume of investments with the Group. Loans and advances granted to customers other than credit institutions amounted to EUR 1 766 million.

The financial assets held for trading are composed of derivative financial instruments measured at their fair value and amounted to EUR 20 million at 31 December 2012 (2011: EUR 63 million).
They are mainly composed of interest rate swaps and foreign exchange derivative contracts.

The financial assets designated at fair value through profit or loss, which amounted to EUR 30 million as at 31 December 2012 (2011: EUR 137 million), are composed of investments in financial debt instruments purchased to be kept in the Bank's portfolio but measured at fair value.

The available-for-sale financial assets, which amounted to EUR 2 408 million (2011: EUR 1 407 million), were mainly composed of sovereign debt securities for an amount of EUR 1 447 million and of the investments of the Bank in other financial institutions and credit institutions (EUR 961 million).

The held-to-maturity portfolio was composed of a debt security issued by the Italian Government for a nominal amount of EUR 25 million and of a debt security for a nominal amount of EUR 150 million issued by Intesa Sanpaolo which both came to maturity during 2012.

Concerning the liability side, the Bank participated to the LTRO mechanism from the Luxembourg Central Bank for an amount of EUR 1,2 billion. To enter into such program, the Bank has pledged in favour of the BCL part of its debts instruments kept in its available for sale portfolio which were eligible for such purpose.

The deposits from customers amounted to EUR 3,3 billion at end of year (2011: EUR 2,5 billion). The Bank has also issued debts certificates for an amount of EUR 7,4 billion (2011: EUR 4,2 billion).

The increase in the sale of these debt certificates and the new financing resources from the Central Bank allowed the Bank to reduce its funding from the other credit institutions from EUR 4,2 billion in 2011 to EUR 491 million as at 31 December 2012.

As at the end of December 2012, the Bank paid in capital amounted to EUR 535 million (2011: EUR 280 million) resulting from the impact of the transfer of its Swiss subsidiary through a partial demerger and of an increase of capital of EUR 260 million.
The net profit for the year amounts to EUR 133 million (2011: EUR 103 million), with a ROE equal to 14% identical to the previous year ratio.

The net interest income amounts to EUR 155 million at the end of 2012 (2011: EUR 144 million). The interest income and expense reflects increase in the 2012 average volume of liquidities.

The net fee and commission income is positive and amounts to EUR 25 million, slightly over the EUR 24 million achieved in 2011.

The net (un)realised losses on financial assets and liabilities designated held for trading amount to EUR 14 million as at 31 December 2012 (2011: loss of EUR 5 million); the loss is due to the negative fluctuations in the fair value of the assets and liabilities held by the Bank for trading purposes.

The net (un)realised gains on financial assets and liabilities designated at fair value through profit or loss amounts to EUR 12 million as at 31 December 2012 (2011: loss of EUR 17 million). The profit is mainly due to the gains realised on sales of sovereign debt instruments during the year.

The total administrative expenses amounted to EUR 37 million (2011: EUR 31 million). The increase compared to previous year is mainly registered in the staff costs, legal and professional fees, marketing and representation fees and in IT outsourcing.

No provisions have been booked in relation to current income taxes due to the fact that the Bank can neutralise its current income taxes thanks to the application of the local rules on the consolidation taxable results with the ones generated by its Parent Company in Luxembourg.
On the other side, deferred tax assets and deferred tax liabilities have been booked as at 31 December 2012.

The net profit of the year available for distribution, including the retained earnings (excluding First Time Adoption "FTA") amounts to EUR 133.512.755. 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 2012:

Net profit of 2012 financial year	€ 133.512.755
Retained profit from previous year	€ 54.393
Amount attributable to shareholders	**€ 133.567.148**
Allocation to other reserves	€ 10.350.000
Allocation to legal reserve	€ 43.150.000
Dividend for the financial year	€ 80.000.000
Total	€ 133.500.000
Retained profit carried forward to the next financial year	€ 67.148

Subsequent events

No significant subsequent events, which could have an impact on the 2012 figures or which could require additional disclosures, happened after 31 December 2012.

Miscellaneous

The Bank did not purchase own shares during the year 2012.

No research and development costs have been sustained during the year 2012.

Conclusion

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

Luxembourg, 26 February 2013

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the financial statements

We have audited the accompanying financial statements of Société Européenne de Banque S.A., which comprise the statement of financial position as at 31 December 2012 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Responsibility of the Réviseur d'Entreprises agréé

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

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

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

KPMG

In our opinion, the financial statements give a true and fair view of the financial position of Société Européenne de Banque S.A. as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

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

Luxembourg, 7 March 2013

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

S. Chambourdon

SU.001

SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

Statement of financial position
31 December 2012
(expressed in EUR)

Assets	Notes	31.12.2012	31.12.2011
Cash and cash balances with central banks	3,4	43 195 898	101 720 594
Financial assets held for trading	3,5	19 854 064	63 024 898
Financial assets designated at fair value through profit or loss	3,5	30 349 617	137 008 218
Available-for-sale financial assets	3,6	2 407 939 904	1 407 723 814
Derivatives held for hedging	3	-	5 515 529
Held-to-maturity investments	3,7	-	181 243 752
Loans and advances	3,8		
Loans and advances to credit institutions	4	9 701 790 518	8 752 180 186
Loans and advances to customers		1 766 380 894	1 346 667 656
		11 468 171 412	10 098 847 842
Tangible fixed assets	9	10 003 271	10 888 580
Intangible assets	10	-	1 073
Deferred tax assets	11	5 575 894	8 530 888
Other assets	3,12	12 324 357	9 342 776
Total assets		13 997 414 417	12 023 847 964

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

SOCIETE EUROPEENNE DE BANQUE
Société Anonyme

Statement of financial position
31 December 2012
(expressed in EUR)

Liabilities and equity

	Notes	31.12.2012	31.12.2011
Deposits from central banks	3,13	**1 208 750 000**	-
Financial liabilities held for trading	3	**96 774 700**	**156 877 204**
Derivatives held for hedging	3	-	**2 081 490**
Financial liabilities designated at fair value through profit or loss	3,14	**37 928 724**	**48 844 596**
Financial liabilities measured at amortised cost	3,15		
Deposits from credit institutions		491 101 000	4 230 806 947
Deposits from customers		3 346 755 581	2 547 075 497
Debts evidenced by certificates		7 453 415 207	4 170 232 417
		11 291 271 788	**10 948 114 861**
Provisions	16	**1 389 639**	**1 439 505**
Deferred tax liabilities	11	**14 439 293**	**8 530 888**
Other liabilities	12	**34 967 726**	**41 783 230**
Total liabilities		**12 685 521 870**	**11 207 671 774**
Equity	17		
Share capital		535 091 520	280 000 000
Revaluation reserve		21 469 927	(97 338 844)
Other reserves and retained earnings		621 818 345	530 904 627
Net profit for the year		133 512 755	102 610 407
Total equity		**1 311 892 547**	**816 176 190**
Total liabilities and equity		**13 997 414 417**	**12 023 847 964**

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

SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

Statement of comprehensive income
For the year ended 31 December 2012
(expressed in EUR)

	Notes	2012	2011
	18		
Interest income		324 057 979	303 494 434
Interest expenses		-168 638 482	-159 110 067
Net interest income		**155 419 497**	**144 384 367**
	19		
Fee and commission income		37 062 918	32 880 519
Fee and commission expenses		-12 255 839	-9 369 489
Net fee and commission income		**24 807 079**	**23 511 030**
Dividend income	**20**	**2 067 500**	**3 005 721**
Net (un)realised losses on financial assets and liabilities held for trading	**21**	**-13 971 847**	**-4 660 051**
Net (un)realised gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	**22**	**11 936 364**	**-17 299 832**
Net realised gains on financial assets and liabilities not at fair value through profit or loss	**23**	**6 811 998**	**429 281**
Net other operating expenses	**24**		
Other operating income		253 524	441 083
Other operating expenses		-6 805 496	-4 787 560
		-6 551 972	**-4 346 477**
Administrative expenses	**25, 30**	**-36 662 427**	**-30 916 341**
Depreciation and amortisation	**9, 10**	**-971 230**	**-1 322 125**
Provisions	**16**	**-**	**-680 130**
Net Impairment loss on financial assets	**26**	**-9 372 207**	**-9 495 036**
Net profit for the year		**133 512 755**	**102 610 407**

SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

Statement of comprehensive income
For the year ended 31 December 2012
(expressed in EUR)

	2012	**2011**
Net profit for the year	**133 512 755**	**102 610 407**
Other comprehensive income/(loss)		
Net change in fair value on available-for-sale financial assets	127 672 170	-88 343 091
Deferred tax relating to the components of other comprehensive income	-8 863 399	-
Other comprehensive income loss for the year	**118 808 771**	**-88 343 091**
Total comprehensive income for the year	**252 321 526**	**14 267 316**

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

SOCIETE EUROPEENNE DE BANQUE

Société Anonyme

Statement of changes in equity
For the year ended 31 December 2012
(expressed in EUR)

			Reserves					
	Issued share capital	**Revaluation reserve on AFS**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Total Reserve and retained earnings**	**Profit of the year before appropriation**	**Total**
Balance as at 1st January 2011	**45 000 000**	**-8 995 753**	**5 250 000**	**424 794 456**	**4 843 633**	**434 888 089**	**96 016 538**	**566 908 874**
Total comprehensive income	-	-88 343 091	-	-	-	-	102 610 407	14 267 316
Transfers and appropriation of prior year's profit	-	-	-	96 000 000	16 538	**96 016 538**	-96 016 538	-
Dividend for the financial year	-	-	-	-	-	-	-	-
Capital increase	235 000 000	-	-	-	-	-	-	235 000 000
Balance as at 31 December 2011	**280 000 000**	**-97 338 844**	**5 250 000**	**520 794 456**	**4 860 171**	**530 904 627**	**102 610 407**	**816 176 190**
Total comprehensive income	-	118 808 771	-	-	-	-	133 512 755	252 321 527
Transfers and appropriation of prior year's profit	-	-	5 150 000	97 450 000	10 407	102 610 407	-102 610 407	-
Transfers	-	-	-	5 543	-5 543	-	-	-
Dividend for the financial year	-	-	-	-	-	-	-	-
Capital decrease (note 17)	-4 908 480	-	-	-11 696 690	-	-11 696 689	-	-16 605 169
Capital increase (note 17)	260 000 000	-	-	-	-	-	-	260 000 000
Balance as at 31 December 2012	**535 091 520**	**21 469 927**	**10 400 000**	**606 553 309**	**4 865 035**	**621 818 345**	**133 512 755**	**1 311 892 547**

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

SOCIETE EUROPEENNE DE BANQUE
SOCIÉTÉ ANONYME

Statement of cash flows
For the year ended 31 December 2012
(expressed in EUR)

	2012	2011
Profit before tax	**133 512 755**	**102 610 407**
Adjustments:		
Depreciation and amortisation	966 555	1 322 125
Impairment for credit losses	11 424 952	12 197 332
Reversal of loan impairment	-2 052 745	-2 702 296
Provisions and other income/expenses	-49 866	689 505
Fair value adjustments	43 429 508	32 985 712
Cash flows from operating profits before changes in operating assets and liabilities	**187 231 159**	**147 102 785**
Net (increase)/decrease in trading financial assets	37 767 067	47 765 241
Net (increase)/decrease in loans and advances to credit institutions	-414 501 006	-925 762 200
Net (increase)/decrease in loans and advances to customers	-429 085 445	-790 147 087
Net (increase)/decrease in available-for-sale financial assets	-891 216 590	-271 132 703
Net (increase)/decrease in financial assets designated at fair value through profit or loss	107 880 945	41 462 109
Net (increase)/decrease in held-to-maturity investments	181 243 752	35 170
Net (increase)/decrease in other assets	-2 981 581	-2 546 759
Net (increase)/decrease in trading financial liabilities	-93 632 303	-40 048 681
Net (Increase)/decrease in deposits from credit institutions	-3 739 705 947	264 007 015
Net (Increase)/decrease in deposits from Central bank	1 208 750 000	-
Net increase/(decrease) in deposits from customers	799 641 771	-1 019 385 002
Net increase/(decrease) in other liabilities	-6 777 192	21 606 793
Dividends received	2 067 500	3 005 721
Net cash flows from/(used in) operating activities	**-3 053 317 870**	**-2 524 037 598**
Acquisition of property, plant and equipment	-80 173	-380 083
Net cash flows/(used in) from investing activities	**-80 173**	**-380 083**
Net Increase/(decrease) in bonds issued	3 269 982 673	2 120 175 599
Increase in share capital	260 000 000	235 000 000
Net cash flows/(used in) from financing activities	**3 529 982 673**	**2 355 175 599**
Net increase/(decrease) in cash and cash equivalents	**476 584 630**	**-169 242 082**

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

SOCIETE EUROPEENNE DE BANQUE
SOCIÉTÉ ANONYME

Statement of cash flows (continued)
For the year ended 31 December 2012
(expressed in EUR)

	Notes	2012	2011
Cash and cash equivalents at the beginning of the year		**172 866 198**	**342 108 281**
Net increase/decrease in cash and cash equivalents		476 584 630	-169 242 082
Cash and cash equivalents: exchange rate fluctuations		-	-
Cash and cash equivalents at the end of the year	4	**649 450 828**	**172 866 199**

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

Note 1 – General information

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

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

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

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

These financial statements were authorised for submission to the Shareholders' Annual General Meeting by the Bank's Board of Directors on 26 February 2013.

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

Note 2 – Significant accounting policies

(a) Basis of preparation

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

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

Statement of compliance

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

(b) Significant accounting judgements, estimates and assumptions

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

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

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

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.
For financial instruments traded in active markets, the determination of fair value of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. A market is considered as active when quoted prices are readily and regularly available from an exchange, pricing service or regulatory agencies, and those prices represent actual market transactions on an arm's length basis. Financial assets are measured at bid price while financial liabilities are measured at an asking price.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.
Those valuation techniques are commonly accepted valuation methods in the financial markets such as reference to current fair value of other similar instruments, present value of future cash flows, or option pricing models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial assets.

Note 2 – Significant accounting policies (continued)

Impairment losses on loans and advances

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

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

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

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

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

Impairment of available-for-sale equity investments

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

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

(c) changes in accounting policies

(ab) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

(i) IFRS 9 Financial instruments (2010) and IFRS 9 Financial instruments (2009) (together IFRS 9)

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

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income.

No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

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

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

(ab) New standards and interpretations not yet adopted (continued)

(ii) IFRS 9 Financial instruments (2010) and IFRS 9 Financial instruments (2009) (together IFRS 9) (continued)

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Bank has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

(iii) Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)

Disclosures - Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Bank will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements.

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

Based on our initial assessment, the Bank is not expecting a significant impact from the adoption of the amendments to IAS 32. However, the adoption of the amendments to IFRS 7 requires more extensive disclosures about rights of set-off.

Note 2 – Significant accounting policies (continued)

(ab) New standards and interpretations not yet adopted (continued)

(iv) IFRS 13 Fair value measurement (2011)

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Bank is currently reviewing its methodologies for determining fair values. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Bank to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(v) IAS 19 Employee benefits (2011)

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Bank. However, the Bank may need to assess the impact of the change in measurement principles of the expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(e) Summary of significant accounting policies

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

Foreign currency translation

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

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

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

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

Note 2 – Significant accounting policies (continued)

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

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

Financial assets other than derivatives

(i) Classification

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

Financial assets designated at fair value through profit or loss

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

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

Loans and advances

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

Held-to-maturity investments

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

Note 2 – Significant accounting policies (continued)

Available-for-sale financial assets

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

(ii) Initial recognition and subsequent measurement

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

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

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

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

(iii) Derecognition

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

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

Note 2 – Significant accounting policies (continued)

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

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

Financial liabilities other than derivatives

(i) Classification

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

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

(ii) Initial recognition and subsequent measurement

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

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

Note 2 – Significant accounting policies (continued)

(iii) Derecognition

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

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

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

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

Derivative financial instruments

(i) Classification

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

(ii) Initial recognition and subsequent measurement

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

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

(iii) Trading

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

Note 2 – Significant accounting policies (continued)

(iv) Hedging

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

A hedging relationship exists when:

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

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

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

As at 31 December 2012 and 2011, the Bank has no cash flow hedged transactions.

(v) derecognition

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

Financial guarantee contracts and loan commitment

Financial guarantee contracts issued by the Bank are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.
Loan commitments are firm commitments to provide loans or advances under pre-specified terms and conditions.

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

Note 2 – Significant accounting policies (continued)

Repurchase agreements and reverse repurchase agreements

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

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

Offsetting

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

Impairment of financial assets

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

Indicators of impairment include:

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

Note 2 – Significant accounting policies (continued)

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

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

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

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

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

Tangible fixed assets

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

Note 2 – Significant accounting policies (continued)

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

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

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

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

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

Intangible assets

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

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

Other assets

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

Other assets are stated at cost less impairment.

Note 2 – Significant accounting policies (continued)

Impairment of non financial assets

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

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

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

Cash and cash equivalents

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

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

Note 2 – Significant accounting policies (continued)

Employee benefits

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

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

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

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

Yearly contributions to the plan are disclosed under Note 25.

The Bank does not grant any other employee benefits.

Provisions

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

Other liabilities

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

Other liabilities are stated at cost.

Note 2 – Significant accounting policies (continued)

Interest income and expense

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

Fee and commission income

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

Dividend income

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

Taxes

Current income tax

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

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

Deferred income tax

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

Note 2 – Significant accounting policies (continued)

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

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

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

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

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

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

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

Note 3 – Financial risk management

(a) Introduction and overview

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

Note 3 – Financial risk management (continued)

(a) Introduction and overview (continued)

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

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

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

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

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

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

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

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

Roles and responsibilities of the Bank's Bodies and Departments/Functions have been defined in coordination with the ultimate Parent Company.

Note 3 – Financial risk management (continued)

(b) Credit risk

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

Credit risk arises due to:

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

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

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

Credit risk is assessed by reviewing the topics as follows:

- Large exposure;
- Credit limits and collaterals;
- Credit lines;
- Ratings;
- Exposures by country.

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

Note 3 – Financial risk management (continued)

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

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

(in EUR)	Maximum exposure 2012	2011
Cash and cash balances with central banks	43 195 898	101 720 594
Financial assets held for trading	19 854 064	63 024 898
Financial assets designated at fair value through profit or loss	30 349 617	137 008 218
Available-for-sale financial assets	2 407 939 904	1 407 723 814
Held-to-maturity investments	-	181 243 752
Loans and advances	11 468 171 412	10 098 847 842
Derivatives held for hedging	-	5 515 529
Other assets	12 324 357	9 342 776
Total	**13 981 835 252**	**12 004 427 423**
Contingent liabilities	45 364 172	80 170 590
Commitments	107 069 321	153 688 902
Total	**152 433 493**	**233 859 492**

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

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

Note 3 – Financial risk management (continued)

(ii) Credit quality per class of financial assets

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

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

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

(in EUR)	Performing assets 2011	Doubtful assets 2011	Substandard exposures 2011	Past due exposures 2011	Total 2011
Financial assets held for trading	63 024 898	-	-	-	**63 024 898**
Financial assets designated at fair value through profit or loss	137 008 218	-	-	-	**137 008 218**
Available-for-sale financial assets	1 407 723 814	-	-	-	**1 407 723 814**
Held-to-maturity investments	181 243 752	-	-	-	**181 243 752**
Loans and advances	10 082 356 641	33 831 055			**10 116 187 696**
Total	**11 871 357 323**	**33 831 055**	**-**	**-**	**11 905 188 378**

Note 3 – Financial risk management (continued)

(iii) Credit quality per class of financial assets

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

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

(in EUR)	Gross exposure 2011	Individual value adjustments 2011	Collective value adjustments 2011	Net exposure 2011
Performing loans	10 082 356 641	-1 120 845	-1 469 290	10 079 766 506
Doubtful loans	33 831 055	-14 749 719	-	19 081 336
Past due exposures	-	-	-	-
Total	**10 116 187 696**	**-15 870 564**	**-1 469 290**	**10 098 847 842**

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

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

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

Note 3 – Financial risk management (continued)

As at 31 December 2012, there is no credit position that could qualify for loan forbearance as defined by the ESMA (European Security and Market Authority).

(iv) Concentration of risks

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

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

As at 31 December 2012, the lending limit amounted to EUR 289 million (2011: EUR 174 million) and - except for intergroup operations and one sovereign risk - no borrower exceeded this amount. The main exposure relates to 22 borrowers or group of borrowers (2011: 29 borrowers or group of borrowers) with financing between EUR 12,5 and EUR 2 411 million each (2011: between EUR 12,5 and EUR 1 900 million).

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

Following the Bank's request, the CSSF has approved an exemption from including in its calculation of the large risk exposures, in accordance with Part XVI, point 24 of the CSSF Circular 06/273, as amended, the risks to which the Bank is exposed with the Intesa Sanpaolo Group. The exposures on related parties are disclosed in Note 27.

SOCIÉTÉ EUROPÉENNE DE BANQUE
SOCIÉTÉ ANONYME

Notes to the financial statements (continued)
31 December 2012

(v) Geographical allocation of risks

As at 31 December 2012 and 2011, the distribution by geographical area of the risks held in the securities (except for trading positions and derivatives held for hedging) and Loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(in EUR)	2012		2011	
	Securities (HTM, AFS, FVPL)	**Loans and advances**	**Securities (HTM, AFS, FVPL)**	**Loans and advances**
Italy	2 091 804 963	9 249 621 470	1 539 705 479	7 630 755 322
USA	-	1 088 594	-	2 755 939
Japan	-	43 381	-	703 386
France	-	5 931 132	-	3 592 494
Spain	10 011 708	2 146 797	9 708 167	1 643 173
Luxembourg	1 480 185	474 783 044	1 811 185	196 018 186
Belgium	-	1 259 735	-	62 960 652
Germany	-	13 869 042	-	420 722
United Kingdom	-	38 230 797	-	192 091 054
Switzerland	-	33 213 174	16 452 522	38 076 725
The Netherlands	30 349 617	7 822 434	35 904 873	19 535 657
Poland	-	1 341 494	-	890 559
Panama	-	2 091 838	-	2 085 977
Russia	-	485 370 602	-	761 726 519
Croatia	-	670 738 174	-	697 065 193
Bosnia and Herzegovina	-	-	-	-
Hungary	-	250 284 307	-	250 531 202
Romania	-	181 088 943	-	181 275 641
Supranational	304 643 048	-	122 393 558	-
Slovenia	-	99 581	-	30 171 750
Portugal	-	1 545	-	2 026 528
Nigeria	-	1 855	-	1 294 950
Greece	-	193	-	378
Ireland	-	114 023	-	10 001
Czech Republic	-	8 533 295	-	7 959 608
Other	-	40 495 961	-	15 256 226
Total	**2 438 289 521**	**11 468 171 412**	**1 725 975 784**	**10 098 847 842**

Notes to the financial statements (continued)
31 December 2012

(in EUR)	2012 Guarantees	2012 Commitments	2011 Guarantees	2011 Commitments
ANDORRA	-	-	6 000	-
BRITISH VIRGIN ISL.	-	-	7 500	-
AUSTRIA	-	-	-	-
BELGIUM	-	-	-	-
CANADA	22 500	-	22 500	-
DOMINICAN REP.	75 000	-	75 000	-
FRANCE	913 919	-	250 932	-
GERMANY	112 500	-	37 500	-
GREECE	15 000	-	15 000	-
IRAN	22 500	-	52 500	-
ITALY	1 555 845	59 371 314	17 381 491	87 318 574
LUXEMBOURG	41 229 290	13 750 000	42 021 250	20 650 000
MADEIRA (AFR.	-	-	15 000	-
NETHERLAND	45 000	18 948 007	45 000	19 321 431
PANAMA	75 000	-	105 000	-
POLAND	15 000	-	15 000	-
PRINCIPATO DI MONACO	90 000	-	90 000	-
QATAR	7 500	-	7 500	-
ROMANIA	-	15 000 000	-	15 000 000
RUSSIA	-	-	17 478 741	-
SINGAPORE	-	-	140 000	-
SPAIN	37 500	-	62 290	-
SWITZERLAND	808 618	-	2 015 428	-
THAILAND	75 000	-	75 000	-
TURKEY	6 000	-	6 000	-
U.S.A.	193 500	-	193 500	-
UNITED KINGDOM	12 000	-	22 457	11 398 897
NEW ZEALAND	-	-	-	-
IRELAND	-	-	-	-
VIETNAM	30 000	-	30 000	-
CONGO DEM. REPUBLIC	22 500	-	-	-
	45 364 172	**107 069 321**	**80 170 590**	**153 688 902**

Note 3 – Financial risk management (continued)

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

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

Republic of Italy

Maturing on :	EUR
2013	387 312 250
2014	259 193 993
2015	367 536 437
2016	62 262 829
2017	180 454 417
2018	137 785 200
2019	26 080 580
2021	26 435 207
Total	**1 447 060 914**

(vi) Industry sector allocation of risks

As at 31 December 2012 and 2011, the breakdown by industry sector of the risks held in the securities (except for trading positions and derivatives held for hedging) and Loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(in EUR)	**2012**		**2011**	
	Securities (HTM, AFS, FVPL)	**Loans and advances**	**Securities (HTM, AFS, FVPL)**	**Loans and advances**
Financial institutions	949 387 096	10 286 869 811	1 262 817 915	9 159 123 605
Public sector [1)]	1 447 060 914	71 056 037	463 157 869	51 902 896
Other industries	41 841 511	293 747 780	-	219 103 071
Individuals	-	816 497 784	-	668 718 270
Total	**2 438 289 521**	**11 468 171 412**	**1 725 975 784**	**10 098 847 842**

1) these amounts relate to Italian government bonds.

Note 3 – Financial risk management (continued)

	2012		2011	
(in EUR)	**Guarantees**	**Commitments**	**Guarantees**	**Commitments**
Financial institutions	41 253 575	47 698 007	58 460 626	54 971 431
Public sector	-	-	-	-
Other industries	1 340 239	22 212 226	18 394 237	98 717 470
Individuals	2 770 358	37 159 088	3 315 727	-
Total	**45 364 172**	**107 069 321**	**80 170 590**	**153 688 902**

(c) Liquidity risk

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

As at 31 December 2012, the liquidity ratio of the Bank is 83 % (2011: 91,30%), above the regulatory limit of 30%.

Note 3 – Financial risk management (continued)

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

31 December 2012 (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	-	-	-	-	-	1 209	-	**1 209**
Financial liabilities held for trading and derivatives held for hedging	18	3	63	9	45	39	5	**182**
Financial liabilities designated at fair value through profit or loss	-	2	1	2	12	10	15	**42**
Financial liabilities measured at amortised cost	2 605	1 498	898	2 498	95	2 652	1 045	**11 291**
Total	**2 623**	**1 503**	**962**	**2 509**	**152**	**3 910**	**1 065**	**12 724**

31 December 2011 (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	-	-	-	-	-	-	-	-
Financial liabilities held for trading and derivatives held for hedging	7	43	17	19	12	86	30	**214**
Financial liabilities designated at fair value through profit or loss	1	2	-	5	5	18	16	**47**
Financial liabilities measured at amortised cost	1 699	3 238	1 623	1 210	626	1 021	1 370	**10 787**
Total	**1 707**	**3 283**	**1 640**	**1 234**	**643**	**1 125**	**1 416**	**11 048**

Note 3 – Financial risk management (continued)

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

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

2011	Government and central banks	Other public entities	Financial institutions	Non financial companies	Other	Total
Deposits from central banks	-	-	-	-	-	-
Financial liabilities held for trading and for hedging	-	-	158 958 694	-	-	**158 958 694**
Financial liabilities designated at fair value through profit or loss	-	-	48 844 596	-	-	**48 844 596**
Financial liabilities measured at amortised cost	97 977 293	-	10 295 926 069	429 990 515	124 220 984	**10 948 114 861**
Total	**97 977 293**	**-**	**10 503 729 359**	**429 990 515**	**124 220 984**	**11 155 918 151**

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

Note 3 – Financial risk management (continued)

2011	**Zone EURO**	**Other European countries**	**Other**	**Total**
Deposits from central banks	-	-	-	-
Financial liabilities held for trading	158 498 531	50 062	410 101	**158 958 694**
Financial liabilities designated at fair value through profit or loss	48 384 480	-	460 116	**48 844 596**
Financial liabilities measured at amortised cost	10 216 676 813	338 290 514	393 147 534	**10 948 114 861**
Total	**10 423 559 824**	**338 340 576**	**394 017 751**	**11 155 918 151**

(d) Market risk

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

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

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

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

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

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

The Risk Management unit conducts daily controls of positions in foreign exchange, securities trading and interest rate. The result of these checks and any overruns positions are communicated through a daily report to the Management Board.
The Bank has in place a manual of procedures for the Treasury Department and a Risk Management Charter, which describe limits, treasury rules and controls.

Note 3 – Financial risk management (continued)

(i) Interest rate risk

Average interest rates

The average effective interest rates on financial instruments by main currencies for the year ended 31 December 2012 and 2011 are as follows:

	2012		**2011**	
	Assets	Liabilities	Assets	Liabilities
EUR	0,9426 %	0,4083 %	1,8241 %	1,3085 %
USD	0,6066 %	0,3803 %	0,5498 %	0,4428 %

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

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

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

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

Note 3 – Financial risk management (continued)

31 December 2011 (in million of EUR)	< 1 month	≥ 1 month < 3 months	≥ 3 months < 6 months	≥ 6 months < 1 year	≥ 1 year < 2 years	≥ 2 years < 5 years	≥ 5 years	Undetermined	Total
Cash and cash balances with central banks	102	-	-	-	-	-	-	-	**102**
Financial assets held for trading and derivatives held for hedging	11	18	14	6	17	3	-	-	**69**
Financial assets designated at fair value through profit or loss	-	-	13	11	-	-	113	-	**137**
Available-for-sale financial assets	160	461	177	158	385	49	-	18	**1 408**
Held-to-maturity investments	156	-	-	25	-	-	-	-	**181**
Loans and advances	1 998	6 405	1 443	49	204	-	-	-	**10 099**
Total financial assets	**2 427**	**6 884**	**1 647**	**249**	**606**	**52**	**113**	**18**	**11 996**
Deposits from central banks	-	-	-	-	-	-	-	-	-
Financial liabilities held for trading and derivatives held for hedging	9	4	13	8	16	62	47	-	**159**
Financial liabilities designated at fair value through profit or loss	4	-	-	11	1	-	33	-	**49**
Financial liabilities measured at amortised cost	5 004	4 603	926	259	115	41	-	-	**10 948**
Total financial liabilities	**5 017**	**4 607**	**939**	**278**	**132**	**103**	**80**	**-**	**11 156**

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2011, a 25 bp increase or decrease in market interest rates would influence the interest income before tax by EUR + 5 029 899 and EUR – 4 988 568 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 2012 and 2011, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR):

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

Note 3 – Financial risk management (continued)

31 December 2011	EUR	USD	Other	Total
Cash and cash balances with central banks	101 694 609	13 456	12 529	**101 720 594**
Financial assets designated at fair value through profit or loss and held for trading	102 329 150	30 613 093	67 090 873	**200 033 116**
Available-for-sale financial assets	1 391 271 292	-	16 452 522	**1 407 723 814**
Held-to-maturity investments	181 243 752	-	-	**181 243 752**
Loans and advances	8 562 825 610	347 917 887	1 188 104 345	**10 098 847 842**
Hedging derivatives	-	-	5 515 529	**5 515 529**
Total financial assets	**10 339 364 413**	**378 544 436**	**1 277 175 798**	**11 995 084 647**
Deposits from central banks	-	-	-	**-**
Financial liabilities designated at fair value through profit or loss and held for trading	64 362 431	4 839 213	136 520 156	**205 721 800**
Financial liabilities measured at amortised cost	10 248 545 387	394 376 033	305 193 441	**10 948 114 861**
Hedging derivatives	-	-	2 081 490	**2 081 490**
Total financial liabilities	**10 312 907 818**	**399 215 246**	**443 795 087**	**11 155 918 151**

(f) Capital management

The Bank is subject to the local regulation (CSSF Circular 06/273 as amended) in relation to the capital adequacy ratio. The Bank calculates the simplified solvency ratio, which is followed on a quarterly basis.

As of 31 December 2012, the solvency ratio of the Bank is 11,36% (2011: 10,9 %), above the regulatory limit of 8%. Over the 2012 year, the higher solvency ratio amounted to 13,13% (March 2012) and the lower amounted to 8,35% (September 2012).

Notes to the financial statements (continued)
31 December 2012

	2012	2011
Tier 1 Capital		
Share capital	535 091 520	280 000 000
Other reserves and retained earnings	621 818 345	432 691 333
less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital	-105 593	-15 789 258
Others deductions	-	-1 073
Total Tier 1	**1 156 804 272**	**696 901 002**
Tier 2 Capital		
Valuation differences in AFS securities	21 469 928	874 450
less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital	-105 593	-874 450
Total Tier 2	**21 364 335**	**-**
Total own fund elligible for solvency purposes	1 178 168 607	696 901 002
Capital requirements	**829 731 328**	**511 422 832**
Fund elligible for Credit risk	804 277 241	492 614 758
Fund elligible for Settlement risk	-	-
Fund elligible for Exchange rate risk	-	-
Fund elligible for Operational risk	25 454 087	18 808 074
	11,36%	**10,9%**

Note 3 – Financial risk management (continued)

(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 2012 and 2011, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.

As at 31 December 2012 and 2011, the notional amount and fair value of the derivatives held for trading are as follows (in EUR):

	2012		2011	
	Notional amount	Fair value	Notional amount	Fair value
Assets				
Interest rate instruments	3 418 091 065	1 525 524	1 653 271 129	2 223 078
Currency instruments	1 822 447 020	18 328 540	2 031 144 875	60 801 820
	5 240 538 085	**19 854 064**	**3 684 416 004**	**63 024 898**
Liabilities				
Interest rate instruments	3 862 896 013	1 988 955	1 796 349 769	52 096 738
Currency instruments	2 387 617 354	94 785 745	2 091 591 875	104 780 466
	6 250 513 367	**96 774 700**	**3 887 941 644**	**156 877 204**

As mentioned in Note 2, as far as interest rate risk is concerned, only fair value hedge is applied by the Bank.
Hedging items are as follows (in EUR):

	2012		2011	
	Notional amount	Fair value	Notional amount	Fair value
Assets				
Interest rate instruments	-	-	-	-
Currency instruments	-	-	44 295 440	5 515 529
	-	-	**44 295 440**	**5 515 529**
Liabilities				
Interest rate instruments	-	-	44 295 440	2 081 490
Currency instruments	-	-	-	-
	-	-	**44 295 440**	**2 081 490**

Note 3 – Financial risk management (continued)

Hedged items are as follows (in EUR):

	2012 Fair value	2011 Fair value
Loans and advances	-	44 411 998

(i) Fair values of financial assets and liabilities

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

	Carrying amount		Fair value	
	2012	**2011**	**2012**	**2011**
Assets				
Held-to-maturity investments	-	181	-	181
Loans and advances	11 468	10 099	11 360	10 106
Liabilities				
Financial liabilities measured at amortised cost	11 291	10 948	12 521	10 721

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

The fair values of financial assets and financial liabilities measured at amortised cost have been determined though the present value of future cash flows.

Fair value hierarchy

As at 31 December 2012 and 2011, the Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities. This level includes listed equity securities and debt instruments on exchanges (for example: London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchanges traded derivatives like futures (for example: Nasdaq, S&P 500).
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Note 3 – Financial risk management (continued)

31 December 2012 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
- Derivatives held for trading	-	19 854 064	-	**19 854 064**
Financial assets designated at fair value through profit or loss				
- Debt instruments	-	30 349 617	-	**30 349 617**
Available-for-sale financial assets				
- Equity instruments (other than investments in subsidiaries)	-	1 480 185	-	**1 480 185**
- Debt instruments	2 406 459 719	-	-	**2 406 459 719**
Total financial assets	**2 406 459 719**	**51 683 866**	**-**	**2 458 143 585**
Financial liabilities held for trading				
- Derivatives held for trading	-	96 774 700	-	**96 774 700**
Financial liabilities designated at fair value through profit or loss	-	37 928 724	-	**37 928 724**
Total financial liabilities	**-**	**134 703 424**	**-**	**134 703 424**

31 December 2011 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
- Derivatives held for trading	-	63 024 898	-	**63 024 898**
Financial assets designated at fair value through profit or loss				
- Debt instruments	101 103 345	35 904 873	-	**137 008 218**
Derivatives held for hedging	-	5 515 529	-	**5 515 529**
Available-for-sale financial assets				
- Equity instruments (other than investments in subsidiaries)	-	1 600 000	-	**1 600 000**
- Debt instruments	1 389 460 106	-	-	**1 389 460 106**
Total financial assets	**1 490 563 451**	**106 045 300**	**-**	**1 596 608 751**
Financial liabilities held for trading				
- Derivatives held for trading	-	156 877 204	-	**156 877 204**
Financial liabilities designated at fair value through profit or loss	-	48 844 596	-	**48 844 596**
Derivatives held for hedging	-	2 081 490	-	**2 081 490**
Total financial liabilities	**-**	**207 803 290**	**-**	**207 803 290**

During the reporting years ending 31 December 2012 and 31 December 2011, there were no transfers between Level 1 and Level 2 categories, and no transfers into and out of Level 3 category.

Notes to the financial statements (continued)
31 December 2012

(j) Operating segments

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

Alongside these strategic divisions the Bank has also governance and administration divisions. The strategic divisions include: The Corporate & Financial Engineering division which operates on loans, deposits, securities trading and other transactions with corporate customers. It also includes the corporate finance activities.

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

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

Results by strategic divisions in EUR '000	**Net interest margin**	**Net commission margin**	**Net trading income**	**Net other income**	**Impairment on financial assets**	**Total revenues**
Corporate & Financial Engineering Division	3 797	14 105	1 372	-427	246	19 093
Wealth Management Division	6 769	6 215	1 089	-119	-85	13 869
Financial Markets Division	113 368	2 536	2 316	-	-	118 220
Others Financial Institutions	33 554	253	-	-	-	33 807
Total Areas Results	**157 488**	**23 109**	**4 777**	**-546**	**161**	**184 989**
Governance						
Impairment on financial assets						-9 533
Staff and operating expenses						-42 160
Extraordinary governance expenses						217
Result for the year						**133 513**

Note 4 – Cash and cash equivalents

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

(in EUR)	Net carrying amount 2012	2011
Cash and cash balances with central banks	43 195 898	101 720 594
Loans and advances to banks with maturity ≤ 3 months	649 233 461	172 703 910
	692 429 359	**274 424 504**

In accordance with the requirements of the European Central Bank, the Luxembourg Central Bank implemented, effective 1st January 1999, a system of mandatory minimum reserves applicable to all Luxembourg credit institutions. The amount outstanding as at 31 December 2012 is EUR 42 978 531 (2011: EUR 101 558 305).

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

(in EUR)	Net carrying amount 2012	2011
Financial assets held for trading		
Derivatives held for trading	19 854 064	63 024 898
	19 854 064	**63 024 898**
Financial assets designated at inception at fair value through profit or loss	30 349 617	137 008 218
Securities		
	30 349 617	**137 008 218**

The result arising from the sale of some of the securities during 2012 is shown in the income statement in the net (un)realised gains (losses) on financial assets and liabilities at fair value through profit or loss and commented on Note 22.

As at December 2012, the position is represented by a unique structured corporate bonds issued in JPY, maturing in February 2021, and funded by a deposit in the same currency from the Bank's ultimate Parent Company.

Note 6 – Available-for-sale financial assets

(in EUR)	Net carrying amount	
	2012	**2011**
Quoted debt instruments issued by:		
Financial institutions	644 744 049	1 019 088 436
Public sector	1 751 703 962	360 663 504
Other	10 011 708	9 708 166
	2 406 459 719	**1 389 460 106**

As at 31 December 2012, the fair value of the available-for-sale financial assets which are sold under repurchase agreements amounts to EUR 207 million (2011: EUR 192 million) (refer to note 15).

The Bank participated to the LTRO mechanism from the Luxembourg Central Bank for an amount of EUR 1,2 billion. To enter into such program, the Bank has pledged in favour of the BCL part of its debts instruments kept in its available for sale portfolio which were eligible for such purpose; as at 31 December 2012 the market value of the assets pledge is equal to EUR 1,4 billion.

(in EUR)	Net carrying amount	
	2012	**2011**
Not quoted shares issued by:		
Financial institutions	-	16 452 523
Corporates	211 185	211 185
Other	1 269 000	1 600 000
	1 480 185	**18 263 708**

As at 31 December 2012, shares in affiliated undertakings, which are classified in this category, where the Bank held at least 20% are as follows:

Company	**Registered office**	**Percentage owned**	**Net equity (in EUR)***	**Of which the result of the year (in EUR)***
Lux Gest Asset Management S.A.	Luxembourg	100%	2 854 121	2 633 196

* based on unaudited financial statements as of 31 December 2012

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

During the first semester of 2012, the Bank's participation in Intesa Sanpaolo Private Bank (Suisse) S.A. has been transferred to its Parent Company Intesa Sanpaolo Holding S.A. through a partial demerger made in accordance with article 287 et seq. of the Law of 10th August 1915 on commercial companies, as amended.

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

	Fixed income securities	Floating income securities	Equity	Total
Balance as at 31 December 2011	**-17 590 461**	**-80 622 833**	**874 450**	**-97 338 844**
Increase (decrease) of unrealised gain	24 677 485	4 453 462	-331 000	28 799 947
(Increase) decrease of unrealised loss	20 013 931	78 858 292	0	98 872 223
Deferred tax	-7 805 076	-1 026 251	95 328	-8 735 999
Inmpact of changes in tax rate of 29,22%	-113 824	-9 808	-3 768	-127 400
Balance as at 31 December 2012	**19 182 055**	**1 652 862**	**635 010**	**21 469 927**

Note 7 – Held-to-maturity investments

	2012		2011	
(in EUR)	**Net carrying amount**	**Fair value**	**Net carrying amount**	**Fair value**
Quoted debt instruments at amortised cost issued by :				
Financial institutions	-	-	155 990 548	156 342 003
Public sector	-	-	25 253 204	25 326 434
Total	-	-	**181 243 752**	**181 668 437**

Investments bearing a fixed interest rate amount to EUR 0 (2011: EUR 181 243 752).
No impairment loss was recognised on held-to-maturity investments in 2012 and 2011.

Note 8 – Loans and advances

	2012		2011	
(in EUR)	**Total net carrying amount**	**of which: Impairment**	**Total net carrying amount**	**of which: Impairment**
Unquoted loans and advances to:				
Financial institutions and public sector	10 357 925 848	13 130 526	9 211 026 501	15 772 742
Private customers	816 497 784	10 697 012	668 718 270	470 451
Corporate customers	293 747 780	1 159 583	219 103 071	1 096 661
Total	**11 468 171 412**	**24 987 121**	**10 098 847 842**	**17 339 854**

Note 8 – Loans and advances (continued)

Impairment allowance for loans and advances

As at 31 December 2012, the Bank has determined its collective impairment to EUR 1 159 904 (2011: EUR 1 469 290) and its individual impairment to EUR 23 827 217 (2011: EUR 15 870 564).

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

	2012	2011
Impairment as at 1st January	17 339 854	7 542 483
Charge of the year/Transfers	11 767 167	12 458 498
Recoveries/amounts written off	-4 119 900	- 2 661 127
Impairment as at 31 December	**24 987 121**	**17 339 854**
of which:		
Individual impairment	23 827 217	15 870 564
Collective impairment	1 159 904	1 469 290

Guarantees received as collateral

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

	2012		**2011**	
	Loans and advances to customers	**Loans and advances to credit institutions**	**Loans and advances to customers**	**Loans and advances to credit institutions**
Net carrying amounts	1 766 380 894	9 701 790 518	1 346 667 656	8 752 180 186
Real guarantees				
Mortgage	-	-	-	-
Securities	34 622 616	-	42 913 115	-
Other real guarantees	1 195 439 180	-	989 861 889	-
Personal guarantees				
Government guarantees	7 651 920	-	19 213 121	-
Credit institutions guarantees	292 912 723	158 820 202	135 767 028	160 376 814
Total guarantees	**1 530 626 439**	**158 820 202**	**1 187 755 153**	**160 376 814**

Note 9 – Property, plant and equipment

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

(in EUR)	Land and building	Office equipment	Other equipment	Total
Cost as at 1st January 2011	26 921 389	1 800 564	8 197 703	36 919 656
Additions/Disposals/Transfers	107 722	32 077	240 284	380 083
Cost as at 31 December 2011	27 029 111	1 832 641	8 437 987	37 299 739
Accumulated depreciation as at 1st January 2011	-17 077 648	-1 526 632	-6 496 012	-25 100 292
Depreciation charge/Transfers	-717 498	-55 798	-537 571	-1 310 867
Accumulated depreciation as at 31 December 2011	-17 795 146	-1 582 430	-7 033 583	-26 411 159
Net carrying amount as at 31 December 2011	**9 233 965**	**250 211**	**1 404 404**	**10 888 580**

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

Note 10 – Intangible assets

(in EUR)	2012	2011
Cost as at 1st January	**107 457**	**107 457**
Additions/Disposals	-	-
Cost as at 31 December	107 457	107 457
Accumulated depreciation as at 1st January	-106 384	-95 126
Depreciation charge	-1 073	-11 258
Accumulated depreciation as at 31 December	-107 457	-106 384
Net carrying amount as at 31 December	**-**	**1 073**

Note 11 – Tax expense, deferred tax assets and liabilities

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

Deferred tax assets and liabilities

	2012	2011 EUR
Deferred tax assets	5 575 894	8 530 888
Deferred tax liabilities	-14 439 293	-8 530 888
Net deferred tax assets (liabilities)	-8 863 399	-

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

(in EUR)	1 January 2012	Income statement	Equity	31 December 2012
Financial assets held for trading	(8 138 827)	(5 565 368)	-	**(13 704 195)**
Financial assets designated at fair value through profit or loss	5 438 057	-	-	**5 438 057**
Available-for-sale financial assets	-	-	(8 863 399)	**(8 863 399)**
Financial liabilities held for trading	2 519 922	5 457 315	-	**7 977 237**
Financial liabilities designated at fair value through profit or loss	(38 351)	118 578	-	**80 227**
Provisions and value adjustments	219 199	(10 525)	-	**208 674**
Net deferred income tax assets/(liabilities)	**-**	**-**	**(8 863 399)**	**(8 863 399)**

Note 11 – Tax expense, assets and liabilities (continued)

As of 31 December 2012, full recognition of deferred tax assets has not been performed by the Bank. They have been recorded to the same extent as deferred tax liabilities because tax planning opportunity is not available that will create taxable profit in appropriate periods taken into consideration the tax integration with the Bank's Luxembourg Mother Company and its significant tax losses carried forward.

The deferred tax assets/liabilities are calculated on the financial assets/liabilities that would qualified for operating income have been limited as explained above. However, the deferred tax assets/liabilities calculated on the financial assets/liabilities contributing to the other comprehensive income are showing a deferred tax liabilities balance. The deferred tax amount has been consequently shown in deduction from the relative comprehensive income.

In 2011, the income tax rate used was the rate prevalent for that year i.e. 28,80% while the 2012 even if the current income tax rate is still 28,80%, the income tax rate used for the deferred taxes assessment was 29,22% which is the tax rate that will be applied as from 1 January 2013.
The impact of this new tax rate is an additional EUR 127 400 income tax liabilities related to the other comprehensive income.

Note 12 – Other assets and other liabilities

(in EUR)	**2012**	**2011**
Prepaid charges	130 348	241 454
VAT	8 876 341	7 313 715
Accrued commission income	720 450	957 399
Other	2 597 218	830 208
Other assets	**12 324 357**	**9 342 776**

(in EUR)	**2012**	**2011**
Social security charges	1 070 856	961 449
Withholding taxes and VAT	18 164 189	15 277 605
Administrative expenses to be paid	12 027 658	4 936 383
Accrued commission expenses	168 818	246 569
Short term payable and other sundry accounts	3 536 205	20 361 224
Other liabilities	**34 967 726**	**41 783 230**

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

Note 13 – Deposits from central banks

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

The LTRO transactions are available by auctions to which the bank participated early in 2012. The Bank managed to obtain a financing of EUR 1 200 000 000 maturing in 2015.

Note 14 – Financial liabilities designated at fair value through profit or loss

As at 31 December 2012, the caption is composed of:

- a portion of the bonds issued by the Bank, which is eligible, according to IAS 39, to fair value option. Such items are fair valued using the quotations of the bonds available through an external provider. As at 31 December 2012, the bonds amount to EUR 9 199 646 (2011: EUR 13 551 209), with a nominal value of EUR 8 784 000 (2011: EUR 12 736 000);

- a financial liability which is eligible, according to IAS 39, to fair value option, with a fair value based on the discounted cash flows method. As at 31 December 2012, the fair value of this liability amounts to EUR 28 729 079 (2011: EUR 35 293 387).

Note 15 – Financial liabilities measured at amortised cost

(in EUR)	**2012 Carrying amount**	**2011 Carrying amount**
Current accounts and amounts with period of notice	255 840 400	277 293 804
Term deposits	235 260 600	3 953 513 143
Deposits from credit institutions	**491 101 000**	**4 230 806 947**
Current assets and amounts with period of notice	15 025 500	177 172 360
Term deposits	1 483 001 309	2 245 682,153
Deposits from corporate customers	**1 498 026 809**	**2 422 854,513**
Current accounts	380 761 369	49 883 711
Term deposits	1 467 967 403	74 337 273
Deposits from private customers	**1 848 728 772**	**124 220 984**
Certificates of deposits	5 778 870 830	3 873 679 169
Bonds	1 391 547 677	-
Commercial paper	282 996 700	296 553 248
Bonds issued and Certificates of deposits	**7 453 415 207**	**4 170 232 417**
Total	**11 291 271 788**	**10 948 114 861**

In the context of its Euro Medium Term Notes Program, the Bank has issued securities, the maximum amount of the program being EUR 4,5 billion. A significant part of the securities issued by the Bank are subscribed by itself. In these financial statements, in compliance with IFRS, the securities subscribed by the Bank are offset against the securities issued. Part of the securities subscribed by the Bank is sold under repurchase agreements (refer to note 6).

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

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

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

Note 15– Financial liabilities measured at amortised cost (continued)

As at 31 December 2012, such ECP issued by the Bank amount to EUR 191 million (2011: EUR 137 million).

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

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

As at 31 December 2012, such EMTN issued by the Bank amount to EUR 1 391 million (2011: 0).

Note 16 – Provisions

(in EUR)	**Litigations**	**Other Provisions**	**Total**
Provision as at 1st January 2012	1 020 500	419 005	**1 439 505**
Additions	12 180	9 864	**22 044**
Amounts used	-71 910	-	**71 910**
Provisions as at 31 December 2012	**960 770**	**428 869**	**1 389 639**
Provisions as at 1st January 2011	750 000	-	750 000
Additions	270 500	419 005	689 505
Amounts used	-	-	-
Amounts reversed	-	-	-
Provisions as at 31 December 2011	**1 020 500**	**419 005**	**1 439 505**

[1)] of which an amount of EUR 22 044 is related to foreign exchange.

*Note 17 –**Equity***

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

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

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

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

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

As at 31 December 2012, the Bank's subscribed and paid-up capital amounts to EUR 535 091 520, represented by 1 719 322 shares with no par value.

Revaluation reserve

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

Legal reserve

Under Luxembourg Law, the Bank must appropriate to a legal reserve an amount equivalent to 5% of the annual net profit until such reserve is equal to 10% of the share capital. This appropriation is made in the following year. Distribution of the legal reserve is restricted. As at 31 December 2012, the legal reserve amounts to EUR 10 400 000 (2011: EUR 5 250 000).

Note 17 –Equity (continued)

Other reserves

As at 31 December 2012, other reserves amount to EUR 606 553 309 (2011: EUR 520 794 456).

As at 31 December 2012 and 2011, this caption includes an amount of EUR 250 million resulting from the transfer for no consideration of the branch of activity.

Retained earnings

As at 31 December 2012, retained earnings including the impact of the first time application (FTA) of IFRS as adopted by the European Union, amount to EUR 4.865.035_ (2011: EUR 4 860 171).

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 133.567.148, which corresponds to a return on equity of circa 14% (2011: 14%). It is proposed to the Annual General Shareholders' Meeting approving the financial statements as at 31 December 2012 to allocate the above mentioned amounts as follows (in EUR):

	2012
Net profit of 2012 financial year	133 512 755
Retained profit from previous years (excluding FTA)	54 393
Amount attributable to Shareholders	**133 567 148**
Allocation to other reserves	10 350 000
Allocation to legal reserves	43 150 000
Dividend for the financial year	80 000 000
Total	**133 500 000**
Retained profit carried forward to the next financial year	67 148

Note 18 – Net interest income

(in EUR)	2012	2011
Cash balances with central banks	423 618	1 355 478
Financial assets held for trading	17 125	96 121
Financial assets designated at fair value through profit or loss	5 406 315	7 851 054
Hedging derivatives	615 176	4 202 358
Available-for-sale financial assets	58 304 586	37 537 364
Held-to-maturity investments	1 268 748	7 477 330
Loans and advances	257 951 387	244 968 922
Other	71 024	5 807
Total interest and similar income	**324 057 979**	**303 494 434**

(in EUR)	2012	2011
Hedging derivatives	5 488 645	17 631 264
Financial assets held for trading	13 355	29 556
Financial liabilities measured at amortised cost	162 664 871	140 253 647
Financial liabilities designated at fair value thought profit or loss	471 611	1 195 600
Total interest expenses and similar charges	**168 638 482**	**159 110 067**
Net interest income	**155 419 497**	**144 384 367**

No interest has been accrued in respect of impaired assets in 2012 and 2011.

Note 19 – Net fee and commission income

(in EUR)	2012	2011
Credit activities	982 665	2 428 250
Asset management	16 884 017	16 021 418
Corporate services	8 749 782	9 148 588
Other	10 446 454	5 282 263
Total fee and commission income	**37 062 918**	**32 880 519**
Brokerage and clearing fees	4 478 077	5 487 119
Other	7 777 762	3 882 370
Total fee and commission expenses	**12 255 839**	**9 369 489**
Net fee and commission income	**24 807 079**	**23 511 030**

Note 20 – Dividend income

As at 31 December 2012 and 2011, dividend income relates to available-for-sale financial assets.

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

As at 31 December 2012 and 2011, the net un(realised) gains (losses) on financial assets and liabilities held for trading are composed of:

(in EUR)	2012	2011
Equity instruments and linked derivatives	192 608	402 817
Interest rate instruments and linked derivatives	-3 842 381	-5 777 573
Foreign exchange transactions	-10 322 074	714 705
	- 13 971 847	**-4 660 051**

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

The 2012 profit arises mainly from the sale of the Italian sovereign bonds for EUR 11 243 788, maturing 2023, designated at fair value through profit or loss that the Bank held in its books. The net profit realized from the sale of this investment bond amounts at EUR 7 111 000. The 2011 results suffered from a loss deriving from the high volatility registered on this sovereign bonds position.

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

As at 31 December 2012 and 2011, net realised gains on financial assets and liabilities not at fair value through profit or loss are mainly composed of gains realised on the sale of bond instruments held in the available-for-sale portfolio.

Note 24 – Net other operating expenses

As at 31 December 2012 and 2011, net other operating expenses are mainly composed of withholding taxes and net worth tax, which are linked to the Bank's business activity.

Note 25 – Administrative expenses

(in EUR)	**2012**	**2011**
Wages and salaries	16 533 538	16 812 409
Social security charges	2 100 244	2 072 665
Legal pension and similar expenses	848 106	813 147
Employee benefits	315 780	333 151
Other	2 597 682	104 763
Total staff expenses	**22 395 350**	**20 136 135**
Operating expenses	1 793 684	1 711 816
Repair and maintenance	316 217	287 772
Training and moving	1 149 622	1 108 069
IT outsourcing costs	5 076 926	4 599 700
Legal and professional fees	2 301 221	698 654
Marketing and representation fees	1 578 431	487 396
Charges linked to Corporate activity and other charges	2 050 976	1 886 799
Total general and administrative expenses	**14 267 077**	**10 780 206**
Total administrative expenses	**36 662 427**	**30 916 341**

Note 25 – Administrative expenses (continued)

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

	2012	2011
Senior Management	3	3
Middle Management	69	68
Employees	130	140
	202	**211**

Note 26 – Impairment

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

(in EUR)	2012	2011
Loans and advances	9 372 207	9 495 036
Impairment	**9 372 207**	**9 495 036**

Note 27 – Related party disclosures

Identity of related parties

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

Note 27 – Related party disclosures (continued)

The amount of main assets, liabilities, income and expenses as at 31 December 2012 and 2011 concerning Group entities and the parent companies are as follows:

(in EUR)	2012	2011
Assets and liabilities		
Assets held for trading and assets carried at fair value through profit or loss	17 356 732	61 625 902
Available-for-sale financial assets	373 052 172	567 333 433
Held-to-maturity investments	-	155 990 548
Loans and advances	10 035 115 158	8 896 802 582
Hedging derivatives	-	5 515 529
Financial liabilities held for trading and liabilities carried at fair value through profit or loss	117 176 508	201 122 655
Financial liabilities measured at amortised cost	9 282 168 268	9 354 264 314
Hedging derivatives	-	2 081 490

(in EUR)	2012	2011
Income and expenses		
Interest income	218 392 930	252 318 016
Fees and commissions received	3 256 935	3 359 844
Dividend income	2 025 000	2 963 221
Interest expenses	126 906 904	115 974 234
Fees and commissions paid	1 916 610	1 687 037

As at 31 December 2012 and 2011, no impairment loss was recognised on available-for-sale financial assets, loans and advances with related parties.

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

(in EUR)	2012	2011
Administrative bodies	105 000	105 000
Key management personnel	1 103 195	1 027 829
	1 208 195	**1 132 829**

As at 31 December 2012 and 2011, the Bank has no obligations related to retirement pensions for former administrative bodies and key management personnel.

Note 27 – Related party disclosures (continued)

As at 31 December 2012 and 2011, the Bank has not granted advances and credits and has not entered into guarantee commitments for the above mentioned bodies and personnel.

Note 28 – Commitments and contingent liabilities

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

(in EUR)	2012	2011
Unused confirmed credits	107 069 321	153 688 902
- out of which towards related parties	*15 000 000*	*15 000 000*
Guarantees and other direct substitutes for credit	45 364 172	80 170 590
- out of which towards related parties	*848 207*	*17 352 179*

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

(in EUR)	2012		2011	
	Contingent liabilities	**Unused confirmed credits**	**Contingent liabilities**	**Unused confirmed credits**
Amounts	**45 364 172**	**107 069 321**	**80 175 590**	**153 688 902**
Real guarantees				
Securities	1 727 485	37 159 088	3 952 298	-
Other real guarantees	27 318 461	-	31 317 135	87 318 574
Personal guarantees				
Government guarantees	-	-	336 869	11 398 897
Credit institutions guarantees	279 696	33 948 007	13 791 080	19 321 431
Total guarantees	**29 325 642**	**71 107 095**	**49 397 382**	**118 038 902**

Note 28 – Commitments and contingent liabilities (continued)

Association pour la Garantie des Dépôts, Luxembourg (AGDL)

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

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

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

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

Note 29 – Investment management services and underwriting functions

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

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

Assets managed on behalf of third parties are as follows:

(in EUR)	2012	2011
Custody and administration of transferable securities	10 661 775 274	8 696 086 315
Fiduciary representation	291 862 127	343 562 952
Wealth Management	268 392 728	-

Note 30 – Audit fees

The audit fees and audit related fees for the years ended 31 December 2012 and 2011 are as follows:

(in EUR)	2012	2011
Audit fees	119 000	180 155
Audit related fees	-	-
Other	41 000	30 000
	160 000	**210 155**

The fees for the year ended 31 December 2011 have been invoiced by the previous auditor Ernst & Young.

Note 31 – Events after the reporting date

The Bank is not aware of any adjusting or non-adjusting event that would have been occurred between 31st December 2012 and the date when the present financial statements were authorised for submission, by the Board of Directors, to the Annual General Meeting of Shareholders.