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Financial statements,
Independent auditor's report
and Directors' report as at 31 December 2022

Intesa Sanpaolo Bank Luxembourg S.A.
Société Anonyme
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L-1821 Luxembourg

R.C.S. Luxembourg: B 13.859

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Board of Directors' report as at 31 December 2022

Development of the activity

In 2022, the results of Intesa Sanpaolo Bank Luxembourg (the "Bank" hereafter) , despite an extension in the revenues base due to the new Business model developed in recent years, suffered from the repercussions of the Russia-Ukraine crisis: the Bank, in tight coordination with IMI CIB Division (a division of Intesa Sanpaolo SpA) and ISP Group relevant functions, decided to make conservative provisioning on Russian assets included in the Bank portfolio in the first part of the year, and to adopt a de-risk approach in the second part of the exercise, negotiating and executing different sell-off of assets to reduce the net exposure of the Bank to the Russian landscape.

In the **first quarter**, global economic activity showed signs of slowing down from the beginning of the year, owing to the spread of the Omicron variant of the coronavirus and subsequently to the growing geopolitical tensions, culminating in Russia invading Ukraine. Inflation has continued to grow almost everywhere, reflecting the rises in energy prices, supply-side bottlenecks and the recovery in demand.
Following the invasion, much of the international community responded quickly with sanctions on Russia that are unprecedented in terms of severity and scope. The immediate effects of the conflict on global financial market listings have been significant, although they have eased since mid-March; volatility remained high in many market segments. The prices of commodities, especially of energy products, for which Russia holds a considerable share of the global market, have risen further. Overall, the war in Ukraine has exacerbated downside risks to the global economic cycle and upside risks to inflation.
In the United States inflation continued to rise in the first quarter, reaching 7.9 percent in February and 6 percent in the Euro area, which then in the rest of the year reached in US 9.06 percent in June (the highest level in the last forty years) and 11.5 percent in the Euro area in October.
In a context of strong recovery in domestic demand, the increases in the prices of new and used cars (also driven by the persistent shortage of microprocessors), the rise in rents and those of energy continue to affect the situation.
The price of natural gas reached historical records in Europe, reaching levels in March around 20 times higher than those of the beginning of 2020 and more than 10 times in the first days of April; these price increases, more than those observed already from the second half of 2021, largely reflected the effects of possible sanctions on the energy sector. The increase in imports of liquefied natural gas (LNG), mainly from the United States, has partially mitigated prices.
In its meetings held on March 15 and 16, the Federal Reserve raised the target range of the federal funds rate, placing it between 0.25 and 0.50 percent, and justified the choice with the historically high level of inflation and the sharp drop in the unemployment rate.
The ECB's Governing Council revised in the first quarter the schedule for its asset purchase programme (APP) for the next few months and announced that any changes in the key ECB interest rates would have taken place sometime after the end of its net asset purchases and would have been gradual.
In this context, in the first quarter, the Bank performed well on the revenues side, in all the business areas and products. Despite this, the Bank decided from the earliest stages of the crisis following Russia's invasion of Ukraine, in tight coordination with IMI CIB Division and ISP Group relevant functions, to adopt a strong governance of the crisis, and a hedging strategic approach, by making conservative provisioning on Russian assets included in the Bank portfolio.

The cyclical indicators for the **second quarter** pointed to downside risks for economic activity in most of the advanced and emerging economies. The prices of energy commodities recorded considerable increases, especially in connection with the ongoing war in Ukraine. This led to new peaks in inflation, also pushed up by the prices of food products.
Inflation reached new heights in the second quarter (9.06 percent in US, in June, the highest level in the last forty years) and 8.5 percent in the Euro area, driven by the exceptional rises in energy prices, which have gradually passed through to food products and services.
The Federal Reserve stepped up the normalization of monetary policy by raising the target range for the federal funds rate significantly and repeatedly, and announced a plan to reduce its balance sheet; it raised the federal funds rate target range by 50 and 75 basis points respectively in its May and June meetings, setting it between 1.5 and 1.75 percent, while the European Central Bank's Governing Council took further steps in normalizing monetary policy, ending its net asset purchases and announcing in the second quarter its intention to proceed with an initial increase of key interest rates in July and a second increase in September.
The financial conditions on the international markets worsened. Share prices fell significantly, especially in the United States, and yields on long-term public sector securities rose. The dollar continued to appreciate against the euro, reaching parity in the first half of July, reflecting the swifter recalibration of monetary policy in the United States compared with the euro area.
The Bank continued to generate value in the second quarter, with a growth both in corporate lending and financial markets related businesses. Russian related IFRS9 provisioning was relatively stable in the quarter; the Bank started to elaborate a risk-off strategy for Russia related exposures.

In the **third quarter**, the global economy continued to be affected by exceptionally high inflation, worsening financial conditions, the uncertainty linked to the conflict in Ukraine, weak economic activity in China and, less so than at the beginning of the year, supply chain difficulties. The price of natural gas in Europe reached new heights in August and decreased after storage targets were met; futures contracts indicate that the prices will remain very high throughout next year, partially due to the risks weighing on energy supply security. Oil prices instead fell, owing to the widespread deterioration in the economic situation.
Following the expansion in the first half of the year, euro-area GDP stagnated in the third quarter, mostly as a consequence of further sharp rises in the prices of energy commodities and heightened uncertainty. Inflation reached 9.9 percent in September, driven above all by the most volatile components. Firms and households expect additional increases in inflation in the short term, while expectations three years ahead have stabilized.
Over the summer, harmonized consumer price inflation rose further, to 9.4 percent in September, as it continued to be affected by the exceptional rises in energy prices and by their pass-through to the prices of other goods and services.
At its July and September meetings, the Federal Reserve further increased the target range for the federal funds rate – on both occasions by 75 basis points – to between 3.0 and 3.25 percent. During the last meeting, the Chair of the Federal Reserve confirmed the need to maintain a firmly restrictive monetary policy stance until inflation is brought back in line with the target, even if this may weaken economic growth. In the Euro Area, in order to contain rising inflationary pressures, the ECB Governing Council, as anticipated in the second quarter, started to raise official interest rates in recent months towards levels that would ensure a return of inflation to values in line with the medium-term price stability target. It therefore decided to increase the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility by 50 basis points in July and by 75 basis points in September, bringing them to 1.25, 1.50 and 0.75 percent respectively. The Council also confirmed that it would have continued reinvesting the redemptions coming due under the asset

purchase programmes; as regards the pandemic emergency purchase programme (PEPP), reinvestment takes place in a flexible manner. At the July meeting, the Council also introduced the new Transmission Protection Instrument (TPI). The announcement in mid- June on the new instrument and on flexible reinvestment under the PEPP helped to curb the yield spreads between the government bonds of the countries most exposed to tensions on the sovereign debt markets and German bonds, as well as their responsiveness to changes in the expectations of rises in official interest rates.
The financial conditions in international markets became more tense from the beginning of July: government bond yields rose further and equity prices continued to fall; volatility continued to be very high. The appreciation of the dollar against the other leading currencies continued, reflecting the more rapid normalization of monetary policy in the United States.
The Bank continued in the third quarter to outperform versus the previous exercises, fully capitalizing all the sources of revenues coming from both loans and securities portfolios of the Bank. In the third quarter, moreover, the Bank, in tight coordination with IMI CIB Division and ISP Group relevant functions, shifted from a provisioning approach to Russian related assets to a strategic de-risking one, negotiating and executing the sell-off of Russia related assets to reduce the net exposure of the Bank to the Russian landscape.

The global economic outlook started to deteriorate again in the **fourth quarter** of 2022. Economic activity in the advanced economies slowed as a result of the repercussions of the war in Ukraine and high inflation. This was also the case in China, following the measures imposed in October and November to contain the COVID-19 pandemic. International trade also seems to have slackened significantly. The slowdown in global demand contributed to moderating the price of oil. Natural gas prices have fallen sharply in Europe but remain at historically high levels. International institutions expect global growth to weaken this coming year, mainly on account of still high energy prices, weak household disposable income and less favourable financial conditions.
Consumer price inflation has remained high (9.2 percent in December on an annual basis) although it has fallen since November. The core component has continued to strengthen, partly as a result of the gradual pass-through of earlier energy price rises. Wage growth has increased slightly since October. The marked recovery in the participation rate and the stagnation in labour productivity (trends which are different from those observed in the United States), together with government measures to support households, have helped to contain the demand for wage increases.

At its meetings of November and December 2022, the Federal Reserve decided to raise the target range for the federal funds rate by 75 and 50 basis points respectively.

From mid-October, conditions on the international financial markets improved overall, despite deteriorating temporarily in the second half of December, when they were affected by the tighter than expected monetary policy stance adopted by the main central banks. By mid-January 2023, the yields on long-term government securities in Europe and the United States were back to levels below those recorded in October.
According to the latest cyclical indicators, GDP in the euro area is likely to have stagnated in the last quarter of 2022.
At its meetings of October and December 2022, the ECB Governing Council raised its key interest rates by 75 and 50 basis points respectively and announced that they will still need to rise significantly and at a steady pace in order to support a timely return of inflation to its medium-term target. The Council also decided to make the conditions applied to its targeted longer-term refinancing operations (TLTRO III) less advantageous and in December published the criteria it will use for normalizing the Eurosystem's monetary policy securities holdings. The portfolio of the asset purchase programme

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(APP) will be reduced at a measured and predictable pace, averaging EUR15 billion per month from the beginning of March 2023 until the end of the second quarter of 2023. The reinvestment of maturing securities under the pandemic emergency purchase programme (PEPP) will instead continue until at least the end of 2024 and will be conducted flexibly.
The Bank's full year result reflects the advanced stage of de-risking completion of other important Russia related assets: behind a sustained and balanced level of revenues, the Bank closes the year with a negative net result totally related to credit risk and provisions on Russian assets. Not taking into consideration the Russia-Ukraine crisis impact, the result of the Bank is sustainable and growing year-on-year in terms of operating income, reflecting the expectations coming from the Business model evolution, more European high quality structured financing and fund financing focused.

Corporate Governance

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

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

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

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

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

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

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

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

Risk Control

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

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

The Investment Hold To Collect & Sale ("HTCS") Committee has the function of defining and monitoring over time the strategic direction of the Bank's proprietary portfolios in financial assets with an expected holding period of at least 30 days. The Committee also has the task of constantly liaising with the Parent Company playing a key role between Bank targets and risk framework, including any potential escalation process governed by the Bank's Financial Portfolio Policy. The Committee includes among its participants the Members of the Authorized Management, the Head of Financial Markets Division and the Risk Control Function.

The Compliance function identifies, assesses and controls the compliance risks by ensuring adherence to legal and regulatory requirements and ethical principles including AML.
Credit risk is mainly monitored by the Credit Department on a daily basis. A monthly report on Credit Risk is prepared by the Risk Control Function with periodical reporting of the risks to the corporate bodies of the Bank. The Bank has also structured a Credit & Asset Quality Committee which examines and approves the set-up and the renewal of the credit lines according to the credit powers approved by the Board and within the guidelines set by any applicable law and Intesa Sanpaolo Banking Group's policies.

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

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

Subsidiaries and branches

At the end of 2020, IMI Corporate & Investment Banking Division launched a project aimed at the reorganization and growth of the Division's internal activities. It was decided to transfer the Amsterdam Branch directly under the control of Intesa Sanpaolo S.p.A. and such transfer was completed by the end of 2021 and realised effectively as of 1 January 2022.

Perspectives

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

The Bank will continue developing current business lines during 2023, mainly focused on Euro area, for:

- Corporate Lending;
- Structured Finance (Project & Infrastructure);
- Structured Export Finance;
- Fund Financing (strongly developed during the last 2 years);
- HTCS Investment Portfolio;
- Brokerage and Execution.

Deposit guarantee scheme and Resolution mechanism

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

- 2014/59
- 2014/49.

which respectively established:

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

The introduction of the two above mentioned directives had a direct impact on the Bank, which was called to contribute to the Resolution Fund paying an amount of EUR 6,178,589 concerning 2022 and to contribute to the Fonds de Garantie des Dépôts (FGDL) paying an amount of EUR 6,341.

Financial elements for 2022

Total assets as at 31 December 2022 stood at EUR 18.4 billion (31 December 2021: EUR 21.1 billion).

Loans and advances to credit institutions (including balances with central banks) amounted to EUR 6.9 billion as at 31 December 2022, showing a lower amount than at 31 December 2021 (EUR 7.4 billion). Loans and advances granted to customers other than credit institutions amounted to EUR 8.0 billion as at 31 December 2022 (EUR 9.0 billion as at 31 December 2021).

Financial assets held for trading are mainly composed of derivative financial instruments measured at their fair value and amounted to EUR 1.8 million at 31 December 2022 (31 December 2021: EUR 5.9 million). Those are mainly composed of cross currency interest rate swaps and foreign exchange derivative contracts.

Financial instruments measured at Fair Value through Other Comprehensive Income (FVTOCI), which amounted to EUR 3.0 billion as at 31 December 2022 (31 December 2021: EUR 3.7 billion), are composed of sovereign debt securities for an amount of EUR 1.4 billion, debt securities issued by the other public entities for an amount of EUR 0.2 billion and other bonds for an amount of EUR 1.4 billion.

Concerning liabilities, during 2016 Intesa Sanpaolo Bank Luxembourg S.A. participated in the Long Term Refinancing Operation (LTRO) mechanism with the Luxembourg Central Bank ("BCL") for an amount of EUR 0.8 billion. To enter into such program, the Bank pledged in favour of the BCL part of its debt instruments kept in its financial assets at fair value through other comprehensive income portfolio, which were eligible for such purpose. As at 31 December 2022, deposits due to BCL were fully reimbursed.

Deposits from customers amounted to EUR 2.2 billion at end of the year (31 December 2021: EUR 3.0 billion). The Bank also issued debt certificates for an amount of EUR 7.5 billion as at 31 December 2022 (31 December 2021: EUR 7.2 billion) composed as follows:

- certificates of deposit: EUR 3.0 billion (mainly subscribed by Intesa Sanpaolo Holding International S.A., the Bank's local Parent Company);
- non-convertible bonds: EUR 4.5 billion, which are part of a European Commercial Paper program and of the European Medium Term Notes program described herein.

The net loss for the year amounted to EUR 153.8 million as at 31 December 2022 (2021: profit of EUR 160.8 million).

Net interest income amounted to EUR 130.5 million at the end of 2022 (2021: EUR 109 million). Interest income and expenses are mainly focused on the corporate lending activity and the increase in value is linked to both the increase in volumes and the increase of the interest rate experienced during the year.

Net fee and commission income was positive and amounted to EUR 44.4 million as at 31 December 2022, showing a decrease compared to 2021 amount (EUR 47.8 million).

Net unrealised losses on financial assets and liabilities held for trading amounted to EUR 14.1 million as at 31 December 2022 (31 December 2021: loss of EUR 24.1 million). The lower loss compared to last year is mainly due to NPV trend of derivatives contracts during 2022 and differentials paid during the year.

Net realised gains on financial assets and liabilities not at fair value through profit or loss amounted to EUR 16.2 million as at 31 December 2022 (31 December 2021: gain of EUR 13.6 million) mainly due to realised gains of EUR 16.0 million on the sale of several assets measured at FVTOCI.

Total administrative expenses amounted to EUR 49.2 million, higher than 2021 administrative expenses (EUR 47.2 million).

Due to the conflict between Russia and Ukraine, the Bank recorded significant impairment losses on financial assets with Russian counterparties, for a total amount of EUR 333,5 million (as at 31 December 2021 net provisions were positive and amounted to EUR 25,5 million). Detailed information is presented in Notes 3 and 25.

Due to the implementation of IFRS 16 principle, which came into force starting from 1 January 2019, the Bank booked depreciations for EUR 2.1 million in 2022 (31 December 2021: EUR 2.1 million), mainly due to operating leases on real estate location contracts.

Provisions booked in relation to current income taxes are mainly linked to the new horizontal fiscal consolidated financial statements between the Bank, its direct Parent Company Intesa Sanpaolo Holding S.A. and the other Luxembourg entities of the Group at the end of 2022. The entities also set up a tax sharing agreement based on which the Bank booked a tax income of EUR 55.7 million as at 31 December 2022.

The Bank booked deferred tax assets and deferred tax liabilities generated as at 31 December 2022. Deferred taxes are provided on temporary differences at the reporting date between assets and liabilities evaluated at fair value. They are measured at the tax rate that is expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The Board of Directors will propose the following allocation to the Annual General Meeting, which will be held to approve the financial statements as at 31 December 2022.

	EUR
Net loss of 2022 financial year Retained profit from previous year (excluding FTA and reclassification from revaluation reserves)	(153,827,760) 275,572,599
Amount attributable to shareholders	**121,744,839**
Allocation to legal reserve (5% net profit)	-
Allocation to the NWT reserve	17,500,000
Retained profit carried forward	**104,244,839**
Total	**121,744,839**

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Subsequent events

The Bank is not aware of any adjusting event that would have occurred between 31 December 2022 and the date when the present financial statements were authorised for submission by the Board of Directors to the Annual General Meeting of Shareholders.

Miscellaneous

The Bank did not purchase own shares during the year 2022. No research and development costs have been sustained during the year 2022.
The Bank changed its address during the month of February 2022, moving its offices to a new building located at boulevard de Kockelscheuer 28, L-1821 Luxembourg.

Risks, uncertainties and impacts due to Covid-19

More than two years since the first case of the Coronavirus Disease 2019 (Covid-19) was reported, the pandemic is still affecting entities, disrupting their operations, financials, risk management and internal control systems.

European regulatory and supervisory bodies published several documents essentially in 2020/2021 /2022 aimed at clarifying the methods of application of the IAS/IFRS in the pandemic context, with particular reference to IFRS 9, as well as the planned disclosure for the amendment to IFRS 16 on lease concessions related to COVID-19; the most relevant ones were:

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

EBA	29.01.21	Report on the implementation of selected COVID-19 policies	X		
ESMA	29.10.21	European common enforcement priorities for 2021 annual financial reports	X	X	X
ESMA	16.12.21	Report on the application of the IFRS 7 and IFRS 9 requirements regarding banks' expected credit losses (ECL)	X	X	X

During 2022 the health environment experienced a gradual and steady improvement related to the growing immunity achieved by the population. This trend has made possible a gradual zeroing of restrictive measures, with a consequent recovery of those economic activities that were still penalized by this context. A gradual resumption of payments for exposures that had enjoyed the support measures such as moratoria was also observed. Consequently, the Bank and the Group proceeded to reduce during FY2022 the measures put in place to make credit ratings consistent with the specific pandemic environment.

Uncertainty was one of the consequences of Covid-19. The preparation of financial statements, in accordance with IFRSs, requires that management make estimates and assumptions that affect the amount reported in the financial statements of assets, liabilities, revenues and expenses recognised during the year as well as other comprehensive income. Estimates made by management are based on historical experience and other assumptions that are believed to be reasonable.
The main areas of estimation uncertainty include those related to credit losses, fair value of financial instruments (including derivatives), corporate income taxes, employee benefits, derecognition of financial assets and liabilities and provisions for risks and charges[1].

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

- The default risk of a counterparty, measured by the delta probability of default ("PD") lifetime and calculated taking into consideration impacts of expected macro-economic scenarios;
- Past-due days, which become significant when the number of days is higher than 30 days;
- Granting of forbearance measure.

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

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

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

A further factor taken into consideration by the Group performing its ECL calculations was the impact of the pandemic crisis on the different micro-economic sectors belonging to the same macro-economic sector, which can be significantly different.

In terms of impact on the Bank's financial statements due to Covid-19, administrative expenses are no more significant.

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[1] Areas affected by estimations and analysis:

- Macro-economic scenario of Intesa Sanpaolo Group in the process of loans and receivables valuation;
- Loans and receivables classification and valuation in the Covid-19 scenario;
- Adjustments and overlays adopted in exposures valuation under the Covid-19 scenario

Conclusion

The Board of Directors is satisfied concerning the positive performance of the Bank despite geopolitical difficulties faced during the year and properly managed. It thanks the Authorised Management of the Bank for its activity and all the employees for their professional behaviour and the quality of the services provided to the Bank's clients.

Luxembourg, 24 February 2023

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Independent auditor's report

To the Board of Directors of
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Report on the audit of the financial statements

Opinion

We have audited the financial statements of Intesa Sanpaolo Bank Luxembourg S.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for opinion

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

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Key audit matters

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

Impairment of loans and advances to customers

As at 31 December 2022, loans and advances to customers amounts to EUR 7,995,418,925 representing 43.5% of the total assets. Assessing whether impairment on loans and advances to customers need to be recorded, require significant judgments, such as the identification of credit exposures that are deteriorating, the review and monitoring of customers' staging, the consideration of the forward-looking macro-economic scenarios, their probabilities and impacts, the estimation of expected credit losses as per IFRS 9 and of the recoverable value of credit exposures.

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

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

Please refer to notes 3, 7 and 24 of the financial statements for further information on the impairments of loans and advances to customers.

How the matter was addressed in our audit

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

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

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

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

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

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

Other information

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the Board of Directors on 25 February 2022 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 1 year.

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

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

Ernst & Young
Société anonyme
Cabinet de révision agréé

Papa Saliou DIOP

Luxembourg, 7 March 2023

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of financial position
31 December 2022
(expressed in EUR)

Assets	Notes	31.12.2022	31.12.2021
Cash and cash balances with central banks	3, 4	**1,303,175,105**	**619,219,659**
Financial assets at fair value through profit or loss ("FVTPL")	3, 5		
Financial assets held for trading		1,804,034	5,858,083
Financial assets mandatorily at fair value		400,214	502,820
		2,204,248	**6,360,903**
Financial assets at fair value through other comprehensive income ("FVTOCI")	3, 6	**2,994,980,170**	**3,695,807,871**
Loans and advances	3, 4, 7		
Loans and advances to credit institutions		5,564,965,464	6,747,752,961
Loans and advances to customers		7,995,418,925	8,957,308,950
		13,560,384,389	**15,705,061,911**
Derivatives held for hedging	3, 13	**404,038,445**	**29,160,068**
Property, equipment and right-of-use assets	8	**10,169,669**	**728.413**
Deferred tax assets	9	**18,047,157**	**1,248,466**
Other assets	3, 10	**72,972,831**	**23,727,288**
Non-current assets held-for-sale and disposal groups	3, 32	**-**	**1,010,638,094**
TOTAL ASSETS		**18,365,972,014**	**21,091,952,672**

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

Statement of financial position
31 December 2022
(expressed in EUR)

Liabilities and equity	Notes	31.12.2022	31.12.2021
Deposits from central banks	3, 11	-	1,984,444,766
Financial liabilities held for trading	3	24,260,166	33,444,115
Financial liabilities at amortised cost	3, 12		
Deposits from credit institutions		6,087,741,029	4,828,839,487
Deposits from customers		2,237,404,314	3,004,367,728
Debts evidenced by certificates		7,539,765,767	7,157,681,623
		15,864,911,110	**14,990,888,838**
Derivatives held for hedging	3, 13	15,681,046	40,860,032
Provisions	14	14,097,886	3,348,772
Deferred tax liabilities	9	366,289	455,922
Other liabilities	10	24,240,461	21,606,317
Liabilities associated with disposal group	32	-	1,397,368,360
TOTAL LIABILITIES		**15,943,556,958**	**18,472,417,122**
Equity	15		
Share capital		1,389,370,555	1,389,370,555
Share premium		7,720,692	7,720,692
Revaluation reserve		(44,942,013)	(1,893,026)
Other reserves and retained earnings		1,224,093,582	1,063,492,905
Net (loss) profit for the year		(153,827,760)	160,844,424
TOTAL EQUITY		**2,422,415,056**	**2,619,535,550**
TOTAL LIABILITIES AND EQUITY		**18,365,972,014**	**21,091,952,672**

Statement of Profit or Loss
31 December 2022
(expressed in EUR)

	Notes	2022	2021
CONTINUING OPERATIONS:	**16**		
Interest and similar income		287,546,133	174,230,179
Interest and similar charges		(157,045,542)	(65,204,410)
Net interest income		**130,500,591**	**109,025,769**
	17		
Fee and commission income		65,980,345	67,869,087
Fee and commission expenses		(21,609,030)	(20,055,990)
Net fee and commission income		**44,371,315**	**47,813,097**
Dividend income	**18**	**29,029**	**45,309**
Net gains/(losses) on financial assets and liabilities held for trading	**19**	**(14,111,743)**	**(24,075,289)**
Net gains/(losses) on financial assets and liabilities held for hedging		**(1,037,760)**	**389,352**
Net gains/(losses) on financial assets and liabilities at fair value through profit or loss	**20**	**(47,232)**	**83,110**
Net gains/(losses) on financial assets and liabilities not at fair value through profit or loss	**21**	**16,280,829**	**13,650,976**
Net other operating expenses	**22**		
Other operating income		71,042	4,668,574
Other operating expenses		(3,990,984)	(4,543,871)
		(3,919,942)	**124,703**
Administrative expenses	**23**	**(49,166,124)**	**(47,175,860)**
Depreciation of property, equipment and right-of-use assets	**8**	**(2,136,938)**	**(2,093,311)**
Provisions	**14**	**(10,727,799)**	**2,580,334**
Net impairment result on financial assets	**24**	**(333,477,587)**	**25,546,086**
Other extraordinary income	**33**	**15,000,000**	**1,020,000**
(LOSS) PROFIT BEFORE TAX		**(208,443,361)**	**126,934,276**
Tax (expense)/income related to profit from continuing operations	**9**	**54,615,601**	**417,778**
Discontinued operations	**32**	**-**	**33,492,371**
NET (LOSS) PROFIT FOR THE YEAR		**(153,827,760)**	**160,844,424**

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

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of other comprehensive income
31 December 2022
(expressed in EUR)

	2022	2021
Net (loss) profit for the year	**(153,827,760)**	**160,844,424**
Other comprehensive income :		
Items that are or may be reclassified to profit or loss		
Net change in fair value on financial assets at fair value through other compehensive income and expected credit losses before tax	(57,352,766)	(10,405,445)
Deferred tax relating to the components of other comprehensive income	14,303,779	2,595,117
Other comprehensive (loss) for the year net of tax	**(43,048,987)**	**(7,810,328)**
Total comprehensive (loss) income for the year	**(196,876,747)**	**153,034,096**

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of changes in equity
For the year ended 31 December 2022
(expressed in EUR)

				Reserves					
	Share capital	**Share premium**	**Revaluation reserve**	**Legal reserve**	**Other reserves**	**Retained earnings**	**Total Reserve and retained earnings**	**Profit of the year before appropriation**	**Total**
Note	**15**	**15**	**6, 15**	**15**	**15**	**15**		**15**	
Balance as at 1st January 2021	**1,389,370,555**	**7,720,692**	**5,917,302**	**76,319,275**	**858,524,575**	**86,375,210**	**1,021,219,060**	**82,594,316**	**2,506,821,925**
Total comprehensive income	-	-	(7,810,328)	-	-	-	-	160,844,424	**153,034,096**
Transfers and appropriation of prior year's profit	-	-	-	4,129,716	18,000,000	60,464,600	82,594,316	(82,594,316)	-
Dividend for the financial year	-	-	-	-	(40,000,000)	-	(40,000,000)	-	**(40,000,000)**
Foreign translation difference	-	-	-	-	-	(320,471)*	(320,471)*	-	**(320,471)***
Capital decrease	-	-	-	-	-	-	-	-	-
Capital increase	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2021	**1,389,370,555**	**7,720,692**	**(1,893,026)**	**80,448,991**	**836,524,575**	**146,519,339**	**1,063,492,905**	**160,844,424**	**2,619,535,550**
Balance as at 1st January 2022	**1,389,370,555**	**7,720,692**	**(1,893,026)**	**80,448,991**	**836,524,575**	**146,519,339**	**1,063,492,907**	**160,844,424**	**2,619,535,550**
Total comprehensive income	-	-	(43,048,987)	-	-	-	-	(153,827,760)	**(196,876,747)**
Transfers and appropriation of prior year's profit	-	-	-	8,042,221	18,000,000	134,802,203	160,844,424	(160,844,424)	-
Dividend for the financial year	-	-	-	-	-	-	-	-	-
Foreign translation difference	-	-	-	-	-	(243,747)*	(243,747)*	-	**(243,747)***
Capital decrease	-	-	-	-	-	-	-	-	-
Capital increase	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2022	**1,389,370,555**	**7,720,692**	**(44,942,013)**	**88,491,212**	**854,524,575**	**281,077,795**	**1,224,093,582**	**(153,827,760)**	**2,422,415,056**

**Foreign translation difference generated by IFRS 9 FTA due to loss allowance calculation on loans and advances denominated in foreign currencies.*

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

Statement of cash flows
For the year ended 31 December 2022
(expressed in EUR)

	Notes	31.12.2022	31.12.2021
(Loss) / Profit of the year – net of tax		**(153,827,760)**	**160,844,424**
Tax (income) / loss		(54,615,601)	(417,778)
Discontinued operation			(33,492,371)
(Loss) / Profit of the year – gross of tax		**(208,443,361)**	**126,934,276**
Adjustments:			
Depreciation / amortization	**8**	2,136,938	2,093,311
Impairment for financial assets	**24**	339,210,400	11,694,009
Reversal of financial assets impairment	**24**	5,732,813	(37,240,095)
Provisions and other income/expenses	**14**	10,727,799	(2,580,334)
Fair value adjustments		(202,980,115)	(10,286,083)
Cash flows from operating profits before changes in operating assets and liabilities		**(65,081,153)**	**90,615,084**
Net (Increase)/decrease in trading assets		1,548,548	42,349,361
Net (Increase)/decrease in loans and advances to credit institutions		(895,768,575)	675,302,011
Net (Increase)/decrease in loans and advances to customers		628,387,951	(1,122,571,567)
Net (Increase)/decrease in financial assets at FVTOCI		643,255,676	(1,710,695,884)
Net (Increase)/decrease in derivatives held for hedging		(186,394,004)	(57,563,600)
Net (Increase)/decrease in other assets		6,463,182	(2,374,442)
Net Increase/(decrease) in relation to leasing contracts	**8**	(18,858,867)	(4,014,615)
Net Increase/(decrease) in trading financial liabilities		(17,288,116)	13,990,661
Net Increase/(decrease) in deposits from credit institutions		1,258,901,542	1,555,712,383
Net Increase/(decrease) in deposits from central banks		(1,984,444,766)	1,184,466,988
Net Increase/(decrease) in deposits from customers		(757,562,454)	146,738,642
Net Increase /(decrease) in current taxes		-	52,871
Net Increase/(decrease) in financial liabilities at FVTPL & in other liabilities		(1,022,210)	(4,315,293)
Net cash flows from/(used in) operations activities from discontinued operations		(386,730,266)	(372,240,253)
Net cash flows from/(used in) operating activities		**(1,774,593,512)**	**435,452,347**
Dividends received		29,029	45,309
Acquisition and disposal of property and equipment	**8**	(2,120,287)	(14,620)
Net cash flows from/(used in) investing activities from discontinued operations		-	612
Net cash flows/(used in) from investing activities		**(2,091,258)**	**31,301**
Dividends paid		-	40,000,000
Net increase/(decrease) in debts evidenced by certificates	**12**	382,084,144	(529,724,057)
Net cash flows/(used in) from financing activities		**382,084,144**	**(569,724,057)**
Net (decrease)/increase in cash and cash equivalents		**(1,394,600,626)**	**(134,240,409)**

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

Statement of cash flows (continued)
For the year ended 31 December 2022
(expressed in EUR)

	Notes	31.12.2022	31.12.2021
Cash and cash equivalents at the beginning of the year		**5,835,035,056**	**5,969,275,465**
Net increase/decrease in cash and cash equivalents		(1,394,600,626)	(134,240,409)
Cash and cash equivalents: exchange rate fluctuations			
Cash and cash equivalents at the end of the year	**4**	**4,440,434,430**	**5,835,035,056**

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

Note 1 – General information

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

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

The main activities of the Bank are focused on corporate business and financial markets activities. Until 6 July 2008, the Bank provided services to investment funds such as central administration, transfer agent and custodian. On 7 July 2008, following a decision of the Extraordinary Shareholders' Meeting held on 25 June 2008, these activities were transferred for no consideration to another Luxembourg entity of the Intesa Sanpaolo Group. At the same date, private banking and corporate activities were transferred for no consideration from another Luxembourg entity of Intesa Sanpaolo Group to the Bank. On 1 August 2021 the Private Banking Division has been transferred to Fideuram Bank Luxembourg S.A. for a consideration of EUR 1,020,000.

On 1 January 2022 the Amsterdam branch of the Bank has been transferred to Intesa Sanpaolo S.p.A. for a consideration of EUR 15,000,000.

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

On 1 February 2016, the Bank purchased the Intesa Sanpaolo S.p.A. Amsterdam Branch (the "Branch") from the Group through a contribution in kind. For that purpose, 13,750 shares have been issued to Intesa Sanpaolo S.p.A. consisting of EUR 4,279,308 to share capital and EUR 7,720,691.99 to share premium in exchange of the Branch.

On 22 September 2016, the Bank performed a capital increase of EUR 449,999,892 through the issuance of 1,445,911 shares integrally subscribed by Intesa Sanpaolo Holding International S.A.. The subscribed capital of the Bank as at 31 December 2016 was therefore of EUR 989,370,720, composed of 3,178,983 shares (integrally subscribed).

On 25 October 2017, the Bank performed a capital increase of EUR 399,999,835 through the issuance of 1,285,254 shares integrally subscribed by Intesa Sanpaolo Holding International S.A.. The subscribed capital of the Bank as at 31 December 2017 was therefore of EUR 1,389,370,555 composed of 4,464,237 shares (integrally subscribed).

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

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

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

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

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

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

Note 2 – Significant accounting policies

(a) Basis of preparation

Statement of compliance

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

(b) Significant accounting judgements, estimates and assumptions

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

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

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

Fair value of financial instruments

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

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

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

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

Note 2 – Significant accounting policies (continued)

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

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

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

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

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

Impairment losses on financial assets

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

Classification of financial assets and liabilities

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

Valuation of unquoted equity investments and credit exposures

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

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

Note 2 – Significant accounting policies (continued)

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

(c) Changes in accounting policies

***IBOR Reform*:**

The phase 2 amendments:

Please refer to dedicated section in Note 3.

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

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

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

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

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

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

Note 2 – Significant accounting policies (continued)

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

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

A number of other new standards are also effective from 1 January 2022 but they do not have a material effect on the Bank's financial statements.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective and they are not expected to have a significant impact on the Bank's financial statements:

- *IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts;*
- *Definition of Accounting Estimates – Amendments to IAS 8;*
- *Disclosures of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2;*
- *IAS 12 Income taxes – Deferred tax related to Assets and Liabilities arising from a Single Transaction.*

(d) Summary of significant accounting policies

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

Foreign currency translation

Please find below a table presenting the main foreign exchange rates used as at 31 December 2022 and 2021:

Ex.rate/Euro	**31.12.2022**	**31.12.2021**
USD	1,0666	1,13260
GBP	0,8869	0,84028
CHF	0,9847	1,03310

Note 2 – Significant accounting policies (continued)

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

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

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

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

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

Financial assets and Financial liabilities

(i) Recognition and initial measurement

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

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

(ii) Classification

<u>Financial assets</u>

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

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

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated at FVTPL:

Note 2 – Significant accounting policies (continued)

- The asset is held within a Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

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

In assessing whether the contractual cash flows are SPPI, the Bank considered contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet the condition. In making the assessment, the Bank considers:

Note 2 – Significant accounting policies (continued)

- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

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

Financial liabilities

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

(iii) Derecognition

Financial assets

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

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

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

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

Financial liabilities

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

Note 2 – Significant accounting policies (continued)

(iv) Offsetting

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

Financial assets at fair value through profit or loss

Assets and liabilities held for trading

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

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

Designation at fair value through profit or loss

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

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

Loans and advances

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

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

Note 2 – Significant accounting policies (continued)

Financial assets at FVTOCI

The financial assets at FVTOCI in the statement of financial position include:

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

For the debt securities measured at FVTOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interests revenue using the effective interest method; and
- foreign exchange gains and losses.

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

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

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

Financial liabilities other than held for trading and hedging

(i) Classification

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

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and

Note 2 – Significant accounting policies (continued)

- information about the Bank is provided internally on that basis to the entity's key management personnel.

(ii) Initial recognition and subsequent measurement

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

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

(iii) Derecognition

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

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

Derivative financial instruments

(i) Classification

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

(ii) Initial recognition and subsequent measurement

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

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

(iii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:
- the host contract is not in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;

Note 2 – Significant accounting policies (continued)

- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

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

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

(iv) Trading

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

(v) Hedge accounting

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

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

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

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

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

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

Fair value hedges

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

Note 2 – Significant accounting policies (continued)

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

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

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

(vi) Derecognition

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

Financial guarantee contracts and loan commitments

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

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

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

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

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

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

Note 2 – Significant accounting policies (continued)

Repurchase agreements and reverse repurchase agreements

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

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

Impairment of financial assets

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

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

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

<u>*Measurement of ECL*</u>

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

Note 2 – Significant accounting policies (continued)

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVTOCI are credit-impaired (referred to as “Stage 3 financial assets”). A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- the market’s assessment of creditworthiness as reflected in the bond yields;
- the rating agencies’ assessments of creditworthiness;

Note 2 – Significant accounting policies (continued)

- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness;
- The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

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

Write-off

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

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

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

Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;

Note 2 – Significant accounting policies (continued)

- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

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

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

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

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

Property, equipment and right-of-use assets

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

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

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

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

Operating leases

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

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

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

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

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

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

Note 2 – Significant accounting policies (continued)

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

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

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

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

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

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

Classification and analysis of lease transactions in light of the applicable regulations

As noted above, the Standard applies to all types of contracts containing a lease, i.e. contracts that give the right to control the use of an identified asset for a particular period of time (period of use) in exchange for consideration.
Once it is established that the underlying asset of the contract is an identified asset, it is necessary to assess whether the entity has the right to control its use because it has both the right to obtain substantially all the economic benefits from the use of the asset and the right to direct the use of the identified asset. For the Bank, the analysis of contracts falling within the scope of this standard concerns those relating to the following cases:

Note 2 – Significant accounting policies (continued)

- real estate;
- and vehicles.

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

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

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

Short-term and leases of low-value assets

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

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

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

Other assets

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

Impairment of non-financial assets

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

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

Note 2 – Significant accounting policies (continued)

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

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

Cash and cash equivalents

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

Cash and cash equivalents include the following reserves:

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

Employee benefits

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

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

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

Note 2 – Significant accounting policies (continued)

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

Share-based payment transactions

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

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

There are two main categories of share-based payment transactions:

- equity-settled;
- cash-settled.

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

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

- non-vesting conditions that the counterparty can choose to meet: e.g. paying contributions towards the purchase (or exercise) price on a monthly basis, or complying with transfer conditions; and
- non-vesting conditions that the entity can choose to meet: e.g. continuing the plan.

Note 2 – Significant accounting policies (continued)

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

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

Provisions

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

Other liabilities

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

Discontinued operations

A discontinued operation is a component of the Bank’s business, the operations and the cash flows of which can be clearly distinguished from the rest of the Bank and which:

- represents a separate major line of business or geographical area of operations;
- is a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.
When an operation is classified as a discontinued operation, the statement of comprehensive income is re-presented as of the operation has been discontinued from the start of the comparative year.

Interest income and expense

<u>Effective interest rate</u>

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

Note 2 – Significant accounting policies (continued)

The “effective interest rate” is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

Note 2 – Significant accounting policies (continued)

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVTOCI; and
- interest in relation with derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost; and
- interest in relation with hedging derivatives designated in fair value hedges of interest rate risk.

Fee and commission income

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

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

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

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

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

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

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

Net gains/(losses) on financial assets and liabilities not at fair value through profit and loss

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

Note 2 – Significant accounting policies (continued)

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

Dividend income

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

Income Tax

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

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

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

Deferred income tax

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

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

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

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

Note 2 – Significant accounting policies (continued)

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

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

Segment reporting

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

Note 3 – Financial risk management

(a) Introduction and overview

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

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

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

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

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

The Accounting function 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 function 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) The impact of the military conflict between Russia and Ukraine

As soon as the conflict began on 24 February 2022, the Management Board of the Bank decided to set up an internal and cross-funtional Task Force ("TF") in order to strictly monitor

- the sanctions' development;
- the Bank credit exposures related to Russian risk;
- the loan portfolio management; and
- all Russian clients' requests.

All the members of the Authorized Management, together with Chief Internal Audit Officer, Chief Compliance Officer, Chief Risk Officer, Chief Lending Officer, Head of Corporate & Supervisory Affairs, Head of Legal, Head of Financial Markets Division, and the Head of Corporate & FI are part of this Task Force.

Each of them shall liaise with Head Office competent structures in order to be aligned and to provide every time the due exchanges on the Russian risk evolution and on the approach to be followed.

The impact of the Russian/Ukrainian situation on Bank's activities has been monitored on a real time basis with the obligation of all the staff involved to send every business and operational request involving "Russia" along with the relevant information (update on sanctions, operational guidelines coming from the Group) to the attention of this TF for analysis and clearing.

The TF met daily with all the functions involved, in order to share a regular update on the:

- evolution of the international sanctions framework and ISP Group operational guidelines/regulations on the matter;
- impact analysis of different sanctions on the existing contracts that are linked to the Bank role as lender and / or agent;
- impact of the ISP Group internal regulations (i.e. the Risk indications) on the execution of the obligations deriving from existing contracts;
- evaluation of the potential impacts on the commercial pipeline;
- potential impacts on the credit risk of the existing loans portfolio;
- interpretation of day-by-day activities linked directly or indirectly to Russian counterparties (including execution/ or blocking of clients instructions etc.) in order to address the doubts.

Representatives of International Department of the IMI CIB Division of the Parent Company participated in the daily TF meetings in order to have a continuous alignment with the IMI CIB Division Task Force/competent structures.

The Legal Department followed with the external lawyers and Group ones the evolution of the interpretation of the loan agreements clauses in the light of the sanctions. The Compliance function followed the evolution of the sanctions in strict cooperation with the Parent Company Anti Financial Crime.

At ISP SpA central level a similar TF "Russia-Ukraine Conflict Crisis Unit" has been set up to monitor the situation and assess the potential risks and consequent impacts on the Group.

Note 3 – Financial risk management (continued)

In particular, two Task Forces have been created to address the immediate priorities, improve the effectiveness of the decision-making and escalation process and empower the operational teams:

- The Risk Management and Control Task Force with the objectives of:
    - monitoring, assessing and identifying the actions to mitigate the financial risks arising from the Ukraine-Russia emergency;
    - applying strict procedures for compliance with the sanctions imposed by the competent authorities;

- The Operational Resilience Task Force with the objectives of:
    - organising and maintaining continuous cross-function communications;
    - managing the security of employees and their families, the operating model, business continuity and cybersecurity.

The Task Forces meet on a regular basis with the aim, among other things, of preparing reports for the top management, which are also provided to the ECB’s Joint Supervisory Team (JST) as necessary.

The Risk Management and Control Task Force and the Crisis Unit

One of the first actions was to block new operations that could lead to increased risk towards counterparties resident in Russia, Belarus and Ukraine. This also included initiating a review of the ratings of individual Russian companies.

The conflict between Russia and Ukraine has led to the imposition of heavy sanctions on Russia, adopted on a progressive basis by the Western countries. To ensure regulatory compliance, Intesa Sanpaolo immediately launched initiatives, monitored through a specific dashboard at Group level, aimed at overseeing the changes in the lists of sanctioned persons and entities at European and international level, identifying sanctioned persons and entities for the purpose of blocking positions and payments, complying with the specific ban on accepting deposits above the threshold set by the European regulations, and identifying and blocking financial instruments subject to sanctions.

Russia reacted with counter-sanctions and, by presidential decree of 5 March 2022, it introduced restrictions on capital movements in hard currencies and the possibility of using local currency to repay loans taken out in foreign currencies, in order to mitigate the impact on exchange rate volatility and protect the remaining share of reserves.

The three main rating agencies Fitch, Moody’s and Standard & Poor’s have also progressively downgraded Russia’s credit rating to the point of withdrawing their ratings. On 17 March 2022, Intesa Sanpaolo changed the internal sovereign and transfer ratings assigned to the country, applying a reduction of 7 notches, which led to Russia’s downgrade to CCC.

Note 3 – Financial risk management (continued)

The main accounting aspects and the approach adopted by the Intesa Sanpaolo Group

In its lending activities, IMI C&IB Division has over time financed counterparties resident in the Russian Federation. Over two-thirds of the loans to Russian customers involve leading industrial groups, which have established commercial relationships with customers belonging to the main international supply chains, a significant amount of which derives from commodity exports.

The Bank maintains financing relationships with large companies that have significant and well-established business relationships with European and international customers and a significant share of revenues from commodity exports. In addition, the vast majority of exposure to the main Russian counterparties is to groups with very solid credit and liquidity ratios, as reflected in the investment grade rating assigned by the major international rating agencies. The Bank, in coordination with the Group's dedicated structures, continued and will continue to constantly monitor the decisions taken at EU and international level, with which the Bank complies, as well as their possible impact on the operations of Russian counterparties.

The Bank suffered effects on the statement of profit or loss related to the impacts deriving from the conflict for a total of 332 million euro gross of the tax effect, deriving mainly from existing credit risk to customers, valued based on IFRS 9.

During the year, in connection with the Group, active steps have been taken to significantly reduce the credit risks associated with the Russian-Ukrainian conflict and the Bank has been directly involved in the disposal of two counterparties with the transfer of assets for a total amount of EUR 1 billion.

Those significant adjustments and the above-mentioned sales therefore resulted in an exposure (net of ECA and Intragroup guarantees) to counterparties resident in Russia of EUR 0.6 billion as at 31 December 2022, lower than the amount of EUR 1,6 million euro as at the beginning of the year (-63%).

As at 31 December 2022 the Bank has in its name a deposit account belonging to the “S account” category (as set forth by the applicable Russian sanctions countermeasures), denominated in Roubles, for an amount of 20.9 million EUR equivalent; this deposit account has been mandatorily opened (in compliance with the applicable Russian sanctions countermeasures) by one of the Bank’s related parties located in Russia, which has transferred to this deposit account [, inter alia,] amounts due to the Bank in respect of intercompany loans’ principal reimbursement and interest payment.
The Bank has legal rights to receive these amounts, but their repatriation is subject to the authorization from Russian authorities to demobilize the “S Account”.
The Bank did not impair the value of such receivables because the above mentioned constraints did not affect the credit risk profile of the Russian-located intragroup counterparty; on the other hand, the carrying amount has been adjusted to incorporate the financial effects of the abovementioned limitations.

Note 3 – Financial risk management (continued)

In view of the above, the Intesa Sanpaolo Group has conducted a normative analysis of the international accounting standards to check for any guidance or criteria for the measurement of the expected credit loss (below also ECL) in crisis/war situations like the current one. The analyses of IFRS 9 and the related Annexes show no indications or examples aimed at setting out specific guidelines for the measurement of Expected Credit Losses in contexts of war or defining specific methods of increasing credit risk due to sudden, serious geopolitical crises such as the current one.

The most pertinent references to the current scenario seem to be those set out in the Application Guidance of the standard. These allow/suggest the use of collective assessment to verify the existence of a Significant Increase in Credit Risk (SICR) with a view to staging the credit exposures, as well as, in line with the treatment set out for capturing the critical issues of another recent emergency situation (COVID-19), using the management overlay in calculating the ECL, to define the most suitable methods to incorporate the aspects linked to the ongoing conflict into provisions.The Group has therefore decided, since the Interim Statement as at 31 March 2022, to adopt a measurement approach strongly driven by the emergence of geopolitical risk applied on the basis of the country of residence of the counterparties, both for the determination of the SICR and the calculation of the ECL through the application of management overlays.

This was considered the most appropriate way to incorporate the provisions for country and geopolitical risk related to the current conflict that would otherwise not be properly captured by the risk measurement systems normally used. These choices have been applied consistently to the cross-border exposures and the ones of the two subsidiaries. As already noted, with specific reference to the cross-border exposures, the Russian companies financed before the outbreak of the conflict all had high ratings and therefore, for most of them, their business outlook does not include any increased risks other than those generated by the geopolitical situation. Consequently, for these companies, the main current risk is transfer risk, i.e. the risk that they will fail to honour their debt repayment commitments, not because of aspects directly related to their business, but because of government-imposed restrictions.
This type of risk was captured both through a revision of the ratings of Russian counterparties and the consequent downgrading to classes with higher risk and classification in Stage 2 or Stage 3 and the introduction of management overlays consisting of the application of an estimated loss rate based on the risk of the country of residence and considering the elements of uncertainty and risk connected with the conflict, in relation to potential additional worsening of the counterparties' creditworthiness.

(c) Credit risk

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

Credit risk arises due to:

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

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

Note 3 – Financial risk management (continued)

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

Credit risk is assessed by reviewing:

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

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

(i) Credit quality analysis

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

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

Note 3 – Financial risk management (continued)

The table below details the amount of loss allowances by stage and type of exposure as at 31 December 2022 and 2021:

	2022			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances	7,165,664	118,126,323	22,560,423	**147,852,410**
Off balance sheet exposures	723,620	10,986,951	-	**11,710,571**
Financial assets at FVTOCI	922,599	258,493	-	**1,181,092**
IFRS 9 Loss allowance	**8,811,883**	**129,371,767**	**22,560,423**	**160,744,073**
Total exposures	**17,511,036,830**	**6,306,972,828**	**50,474,760**	**23,868,484,418**
Coverage rate	***0,05%***	***2,05%***	***40,70%***	***0,67%***

	2021			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances	5,411,525	13,304,867	-	**18,716,392**
Luxembourg	*5,186,623*	*13,298,509*	-	***18,485,132***
Amsterdam	*224,902*	*6,358*	-	***231,260***
Off balance sheet exposures	778,718	1,261,940	-	**2,040,658**
Luxembourg	*564,922*	*1,024,252*	-	***1,589,174***
Amsterdam	*213,796*	*237,688*	-	***451,484***
Financial assets at FVTOCI	1,086,772	61,236	-	**1,148,008**
Luxembourg	*1,086,772*	*61,236*	-	***1,148,008***
Amsterdam	-	-	-	**-**
IFRS 9 Loss allowance	**7,277,014**	**14,628,044**	**-**	**21,905,058**
Total exposures	**26,818,882,009**	**2,315,356,244**	**-**	**29,134,238,253**
Coverage rate	***0.03%***	***0.63%***		***0.08%***

The following table shows the distribution of loss allowance calculated on loans and advances as at 31 December 2022 and 2021 by level of risk and stages, specifying the amount of impairment calculated in relation to each bucket.

Note 3 – Financial risk management (continued)

	2022			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to credit institutions at AC				
Grades A: Low-fair risk	5,519,660,357	48,485,753	-	**5,568,146,110**
Grades B: Medium risk	-	7,678	-	**7,678**
Grades C: Higher risk	-	398,064	-	**398,064**
Grades D: UR (“Unrated”)	793,333	-	-	**793,333**
Grades E: Credit-impaired	-	-	-	**-**
Loss allowance	(4,255,741)	(123,980)	-	**(4,379,721)**
Carrying amount	**5,516,197,949**	**48,767,515**	**-**	**5,564,965,464**

	2022			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at AC				
Grades A: Low-fair risk	2,050,335,300	32,514,339	-	**2,082,849,639**
Grades B: Medium risk	609,284,694	30,218,094	-	**639,502,788**
Grades C: Higher risk	21,907,240	2,124,638,319	-	**2,146,545,559**
Grades D: UR (“Unrated”)	1,412,533,472	1,807,075,395	-	**3,219,608,867**
Grades E: Credit-impaired	-	-	50,384,760	**50,384,760**
Loss allowance	(2,909,922)	(118,002,343)	(22,560,423)	**(143,472,688)**
Carrying amount	**4,091,150,784**	**3,876,443,804**	**27,824,337**	**7,995,418,925**

Total amount loans and advances	**13,560,384,389**
Including loss allowances:	*(147,852,410)*

Note 3 – Financial risk management (continued)

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

Note 3 – Financial risk management (continued)

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

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

Note 3 – Financial risk management (continued)

The following table shows the distribution of loss allowances calculated on guarantees, loan commitments and uncommitted off balance sheet items as at 31 December 2022 and 2021 by level of risk and stages, specifying the amount of impairment calculated in relation to each bucket.

	2022			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees, loan commitments and uncommitted credit lines				
Grades A: Low-fair risk	3,889,467,916	300,000,000	-	**4,189,467,916**
Grades B: Medium risk	616,471,467	225,000,000	-	**841,471,467**
Grades C: Higher risk	32,040,292	534,556,075	-	**566,596,367**
Grades D: UR ("Unrated")	372,981,105	1,196,371,779	-	**1,569,352,884**
Grades E: Credit-impaired	-	-	-	**-**
Loss allowance	(723,620)	(10,986,951)	-	**(11,710,571)**
Carrying amount	**4,910,237,160**	**2,244,940,903**	**-**	**7,155,178,063**
Financial guarantees, loan commitments and uncommitted credit lines				**7,166,888,634**
Uncommitted off balance sheet items				(3,788,029,587)
Financial guarantees and loan commitments				**3,378,859,047**

Note 3 – Financial risk management (continued)

	2021			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantees, loan commitments and uncommitted credit lines				
Grades A: Low-fair risk	5,483,255,365	3,712,417	-	**5,486,967,782**
Luxembourg	*2,607,904,630*	-	-	***2,607,904,630***
Amsterdam	*2,875,350,735*	*3,712,417*		***2,879,063,152***
Grades B: Medium risk	1,403,037,568	298,996,802	-	**1,702,034,370**
Luxembourg	*980,163,993*	*281,012,087*	-	***1,261,176,080***
Amsterdam	*422,873,575*	*17,984,715*	-	***440,858,830***
Grades C: Higher risk	59,580,187	56,001,596	-	**115,581,783**
Luxembourg	*41,887,357*	*30,701,596*	-	***72,588,953***
Amsterdam	*17,692,830*	*25,300,000*	-	***42,992,830***
Grades D: UR (“Unrated”)	1,036,529,153	379,567,275	-	**1,416,096,428**
Luxembourg	*1,036,529,153*	*379,567,275*	-	***1,416,096,428***
Amsterdam	-	-	-	**-**
Grades E: Credit-impaired	-	-	-	**-**
Luxembourg	-	-	-	**-**
Amsterdam	-	-	-	**-**
Loss allowance	(778,718)	(1,261,941)	-	**(2,040,659)**
Luxembourg	*(564,922)*	*(1,024,252)*	-	***(1,589,174)***
Amsterdam	*(213,796)*	*(237,689)*	-	***(451,484)***
Carrying amount	**7,981,623,555**	**737,016,149**	**-**	**8,718,639,705**

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

Note 3 – Financial risk management (continued)

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

	2022			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at FVTOCI				
A	112,022,746	-	-	**112,022,746**
A-	315,483,249	-	-	**315,483,249**
AA	204,834,609	-	-	**204,834,609**
AA+	189,438,849	-	-	**189,438,849**
AA-	111,460,121	-	-	**111,460,121**
AAA	842,054,862	-	-	**842,054,862**
B+	-	7,707,332	-	**7,707,332**
BB	11,878,245	-	-	**11,878,245**
BB+	63,159,371			**63,159,371**
BBB	791,106,115	-	-	**791,106,115**
BBB+	155,446,247	-	-	**155,446,247**
BBB-	188,677,239	-	-	**188,677,239**
Loss allowance	(922,599)	(258,493)	-	**(1,181,091)**
Total amount net of loss allowance	**2,984,639,055**	**7,448,839**	-	**2,992,087,894**
Luxgest Asset Management				1,711,185
Total amount gross of loss allowance	**2,985,561,653**	**7,707,332**	-	**2,994,980,170**

	2021			
(in EUR)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial assets at FVTOCI				
A	122,657,129	-	-	**122,657,129**
A-	28,161,637	-	-	**28,161,637**
AA	392,841,372	10,475,445	-	**403,316,817**
AA+	607,026,096	6,406,941	-	**613,433,037**
AA-	41,733,134	-	-	**41,733,134**
Aa2	8,992,800	-	-	**8,992,800**
AAA	853,862,947	5,034,568	-	**858,897,515**
BB	29,545,940	-	-	**29,545,940**
BB+	23,266,119			**23,266,119**
BBB	593,263,729	-	-	**593,263,729**
BBB+	30,177,560	-	-	**30,177,560**
BBB-	942,151,268	-	-	**942,151,268**
Loss allowance	(1,086,772)	(61,236)	-	**(1,148,008)**
Total amount net of loss allowance	**3,672,592,959**	**21,855,718**	-	**3,694,448,677**
Luxgest Asset Management				211,185
Total amount gross of loss allowance	**3,673,679,731**	**21,916,954**	-	**3,695,807,871**

Note 3 – Financial risk management (continued)

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

	Transfers between Stage 1 & 2		Transfers between Stage 2 & 3		Transfers between Stage 1 & 3		No transfers	Total
	From 1 To 2	**From 2 To 1**	**From 2 To 3**	**From 3 To 2**	**From 1 To 3**	**From 3 To 1**		
Balance at 31 December 2022								**21,905,058**
Amsterdam branch disposal								(682,744)
Balance at 1 January 2022								**21,222,314**
New financial assets originated or purchased	-	-	-	-	-	-	8,561,916	**8,561,916**
Remeasurement of loss allowance – increase	100,145,465	103	-	-	22,560,423	-	14,443,957	**137,149,948**
Remeasurement of loss allowance – decrease	(5,019)	(803,440)	(2)	-	-	-	(701,010)	**(1,509,471)**
Write-offs and assets derecognized	-	-	-	-	-	-	(4,680,634)	**(4,680,634)**
Balance at 31 December 2022								**160,744,073**

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

During the year, following the evolution of the crisis between Russia and Ukraine, the reassessments of the model performed to imply the consideration of new forward-looking elements, it has been observed a transfer of exposures from stage 1 to stage 2 and from stage 1 to stage 3 for two counterparties.

Note 3 – Financial risk management (continued)

Inputs, assumptions and methodology used for estimating impairment

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

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

In particular:

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

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

Note 3 – Financial risk management (continued)

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

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

this refers in particular to the watch lists, i.e. the credit monitoring systems that, based on the current credit quality of the borrower, identify performing exposures above a certain level of risk.

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

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

Including "forward-looking" information

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

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

Note 3 – Financial risk management (continued)

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

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

Briefly stated, this methodology provides that:

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

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

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

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

Note 3 – Financial risk management (continued)

Determination of forward-looking scenarios

Definition of the Most-likely + Add-on model

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

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

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

Forward looking – quantitative analysis

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

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

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

Note 3 – Financial risk management (continued)

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

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

In the period 2022-2025, the macroeconomic variables most relevant for the determination of the ECL and used for the Most likely scenario have compound annual growth rates for the period (CAGR) of +0.10% in 2023 for Real GDP Eurozone and +7.7% for Inflation Eurozone.

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

		Baseline				Improving scenario				Worsening scenario			
		2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Area euro	Real GDP Eurozone (annual variation)	3.3%	0.1%	1.6%	1.8%	3.3%	0.7%	2.0%	2.3%	3.3%	-0.9%	-0.4%	1.9%
	Inflation Eurozone (annual variation)	8.5%	7.7%	2.7%	1.9%	8.5%	8.0%	3.6%	2.2%	8.0%	8.7%	5.1%	1.5%
	EurIRS 10Y	1.92	2.82	3.11	3.28	1.93	2.86	3.51	3.98	1.93	2.61	3.19	3.73
	Euro/USD	1.05	1.07	1.11	1.13	1.05	0.99	1.05	1.09	1.05	0.99	1.04	1.09
Italia	Real GDP Italy (annual variation)	3.8%	0.6%	1.8%	1.2%	3.6%	0.9%	2.2%	1.8%	3.6%	-1.0%	-1.1%	0.4%
	Italian Inflation (annual variation)	8.2%	6.8%	2.4%	1.3%	8.1%	7.2%	3.4%	2.2%	8.1%	13.3%	4.9%	2.3%
	Italian Real Estate prices (annual variation)	5.1%	1.5%	1.5%	1.5%	5.1%	1.9%	1.6%	1.9%	5.1%	-1.2%	-3.1%	-1.7%
	6-month BOT yield	0.5	2.7	2.9	2.6	0.5	2.7	3.4	3.5	0.5	2.4	2.9	3.0
	10-year BTP yield	3.0	4.1	4.6	4.9	3.0	4.1	5.0	5.6	3.0	4.2	5.1	5.9
	10-year BTP-Bund spread (basis points)	187	201	190	179	187	200	184	173	187	242	232	230
	Unemployment rate %	8.2	8.5	8.2	8.1	8.2	8.5	8.1	7.9	8.2	8.8	9.4	10.0
Beni	Prezzo gas naturale (€/MWh)	134	145	107	79	135	157	116	83	135	246	201	127
	Prezzo petrolio (BRENT)	100.8	93.0	87.0	82.0	100.8	93.0	90.5	84.2	100.8	92.3	83.4	79.4
USA	Real GDP (annual variation)	2.0%	0.3%	1.1%	2.4%	2.0%	1.1%	2.1%	2.4%	2.0%	-0.6%	0.9%	2.2%
	Unemployment rate %	3.7	4.5	4.5	3.9	3.7	4.3	4.0	3.5	3.7	4.7	4.7	4.2

** The scenarios were elaborated in December 2022 by the Study and Research Department of the Intesa Sanpaolo Group. Forecast data and estimates for 2022*

The estimations of the prospective improving and worsening scenarios compared with the most Likely scenario show the following differences: Real GDP Eurozone +60 bps for the improving scenario in 2023 and -100 bps for the worsening scenario, Inflation Eurozone +30 bps for the improving scenario and +100 bps for the worsening scenario.

Note 3 – Financial risk management (continued)

In consideration of the high level of uncertainty that has characterized the economic and financial environment in 2022, highlighted by the extreme volatility of the above-mentioned scenarios, the Bank's Expected Credit Loss (ECL) for 2022, determined according to the logic of IFRS 9, was subject to sensitivity analysis in order to analyse the variability with regard to the individual alternative scenarios, also in the light of the strengthening of the indications provided in this sense by the regulators in 2022, aimed at sensitising financial institutions to include in their Financial Statements adequate disclosure to allow stakeholders to interprete possible evolutions and potential impacts of credit risk in the short/medium term.

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

The Bank's Expected Credit Loss (ECL) for 2022, determined in accordance with IFRS 9, was subject to sensitivity analysis in order to analyse the variability with regard to the individual alternative scenarios. This analysis was carried out on the performing loans portfolio (Stage 1 & Stage 2) in relation to the Group's representative perimeter (Parent Company and banks in the CIB Division, which account for approximately 90% of the Group's total exposure), taking as a reference scenario the worsening scenario which, together with the improving scenario, contributes to the determination of the Add-on. The sensitivity of the portfolio to the worsening scenario shows an increase in 2022 ECL of approximately EUR 4 million.

Conversely, the sensitivity analysis of the Bank portfolio to the best-case scenario would imply a potential economic benefit on the 2022 ECL, which would decrease of approximately EUR 0.6 million.

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

The effectiveness of IFRS 9 models is also monitored by the Validation function at least once a year on risk parameters (staging criteria, PD, LGD and haircut models), both through model performance tests and in terms of model design and data treatment. The results are shown, similarly to what described above, in the annual report on internal models for management purposes. With regard to the analyses carried out during 2022, no particular critical issues emerged and an opinion of general adequacy was expressed with respect to the areas under analysis.

Note 3 – Financial risk management (continued)

Definition of the Most-likely macroeconomic scenario

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

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

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

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

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

Definition of alternative paths to calculate Add-on

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

(in EUR)	Maximum exposure 2022	2021 Lux.	2021 Ams.	2021 Tot.
Cash and cash balances with central banks	1,303,175,105	619,219,659	7,042,789	626,262,448
Financial assets held for trading	1,804,034	5,858,083	-	5,858,083
Financial assets mandatorily at FVTPL	400,214	502,820	-	502,820
Financial assets at FVTOCI	2,994,980,170	3,695,807,871	-	3,695,807,871
Loans and advances	13,560,384,389	15,705,061,911	994,182,897	16,699,244,807
Derivatives held for hedging	404,038,445	29,160,068	-	29,160,068
Other assets	72,972,831	23,727,288	1,227,432	24,594,720
Total	**18,337,755,189**	**20,079,337,700**	**1,002,453,118**	**21,081,790,817**
Guarantees	107,595,777	140,665,853	124,884,091	265,549,944
Commitments	3,271,263,269	2,802,675,661	1,732,060,850	4,354,736,511
Total	**3,378,859,047**	**2,943,341,514**	**1,856,944,941**	**4,800,286,455**

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

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

(iii) Credit quality per class of financial assets

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

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

(in EUR)	Performing assets 2022	Past due exposures 2022	Unlikely to Pay 2022	Doubtful assets 2022	Total 2022
Financial assets held for trading	1,804,034	-	-	-	**1,804,034**
Financial assets mandatorily at FVTPL	400,214	-	-	-	**400,214**
Financial assets at FVTOCI	2,994,980,170	-	-	-	**2,994,980,170**
Loans and advances	13,532,560,052	-	27,824,337	-	**13,560,384,389**
Derivatives held for hedging	404,038,445				**404,038,445**
Total	**16,933,782,917**	**-**	**27,824,337**	**-**	**16,961,607,389**

Note 3 – Financial risk management (continued)

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

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

(in EUR)	**Gross exposure 2022**	**Individual impairment 2022**	**Collective impairment 2022**	**Total 2022**
Performing loans	13,657,852,040	-	(125,291,987)	13,532,560,052
Doubtful loans	-	-		-
Unlikely to Pay	50,384,760	(22,560,423)		27,824,337
Total	**13,708,236,800**	**(22,560,423)**	**(125,291,987)**	**13,560,384,389**

(in EUR)	**Gross exposure 2021**	**Individual impairment 2021**	**Collective impairment 2021**	**Total 2021**
Performing loans	16,717,961,196	-	(18,716,392)	**16,699,244,807**
Luxembourg	*15,723,547,050*		*(18,485,132)*	***15,705,061,911***
Amsterdam	*994,414,156*		*(231,260)*	***994,182,897***
Doubtful loans	-	-	-	**-**
Luxembourg	-	-	-	**-**
Amsterdam	-	-	-	**-**
Unlikely to Pay	-	-	-	**-**
Luxembourg	-	-	-	**-**
Amsterdam	-	-	-	**-**
Total	**16,717,961,196**	**-**	**(18,716,392)**	**16,699,244,807**

As at 31 December 2022 there is one credit position qualified for loan forbearance as defined by the ESMA (European Security and Market Authority) (there were two positions as at 31 December 2021).

Note 3 – Financial risk management (continued)

(iv) Concentration of risks

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

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

As at 31 December 2022, the lending limit amounted to EUR 606 million (2021: EUR 612 million) and no borrower exceeded this amount after the application of credit risk mitigation. The main exposures relates to 143 borrowers or group of borrowers (2021: 158 borrowers or group of borrowers) with financing between EUR 5.9 billion and EUR 12.8 million each (2021: between EUR 8.3 billion and EUR 12.5 million).

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

Following the Bank's request, the CSSF has approved an exemption from including in its calculation of the large risk exposures, in accordance with point 24, part XVI of CSSF circular 06/273 as subsequently amended and article 400.2 of the EU Regulation No 575/2013, the risks to which the Bank is exposed with the Intesa Sanpaolo Group. The exposures on related parties are disclosed in Note 25.

(v) Geographical allocation of risks

As at 31 December 2022 and 2021, the distribution by geographical area of the risks held in securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

Note 3 – Financial risk management (continued)

(in EUR)	2022		2021			
	Investment Secs. (FVTOCI, FVTPL)	Loans and advances	Investment Secs. (FVTOCI, FVTPL)	Loans and advances		
				Lux.	Ams.	Tot.
Italy	658,411,011	5,072,723,435	923,833,356	6,421,265,461	374,745,163	6,796,010,624
USA	174,323,343	44,528,573	242,487,776	44,561,289	271,703	44,832,992
Japan	34,493,174	691,122	41,733,134	-	-	-
France	360,036,038	106,659,863	314,284,253	36,971,581	51	36,971,632
Spain	276,691,409	72,784,427	593,263,732	60,115,610	-	60,115,610
Luxembourg	381,362,244	2,774,100,414	245,943,793	2,230,570,507	-	2,230,570,507
Belgium	104,019,745	110,379,528	89,032,566	110,815,832	153,928,535	264,744,367
Germany	206,684,137	223,701,277	232,686,268	35,089,580	34	35,089,614
Portugal	22,906,640	79,984,395	29,545,940	-	-	-
United Kingdom	33,766,985	316,090,361	16,318,143	299,703,033	-	299,703,033
Switzerland	-	46,627,573	-	27,750,411	177,859,589	205,610,000
The Netherlands	185,400,119	89,931,122	306,149,048	254,170,570	242,700,398	496,870,968
Poland	-	776,569	-	2,732,673	110	2,732,783
Qatar	-	1,035,622,966	-	875,341,322	-	875,341,322
Russia	-	1,512,269,153	-	2,635,103,230	-	2,635,103,230
Hungary	-	-	-	743	-	743
Romania	14,027,932	70,392,506	18,820,732	80,211,993	-	80,211,993
Supranational	101,486,549	-	209,630,991	-	-	-
Slovenia	29,098,100	-	22,159,350	-	-	-
South Africa	-	86,971,130	-	35,557,350	-	35,557,350
South Korea	7,863,210	-	8,992,800	-	-	-
Ireland	52,133,445	140	122,657,128	564	-	564
Czech Republic	-	26,710	-	448	-	448
Denmark	-	20,620	-	19,008	-	19,008
Norway	37,321,212	55,097,360	17,870,116	47,583	-	47,583
Canada	111,404,031	222,691,019	96,732,758	30,005	-	30,005
Austria	74,610,529	145,826,122	44,630,550	1,206,821,405	-	1,206,821,405
Sweden	36,712,231	36,699,997	35,124,183	148,336	-	148,336
Cyprus	-	24,587	-	-	-	-
Azerbaijan	-	-	-	29,249,096	-	29,249,096
Mexico	9,038,178	-	10,472,678	-	-	-
Peru	-	-	19,704,882	-	-	-
Man Island	-	-	20,165,662	-	-	-
Egypt	-	385,717,986	-	321,234,233	-	321,234,233
Ghana	-	-	-	50,252,308	-	50,252,308
Brazil	-	59,535,216	-	55,286,368	-	55,286,368
India	-	531,052,382	-	598,261,804	-	598,261,804
Lithuania	5,553,127	-	6,002,287	-	-	-
Saudi Arabia	-	-	-	79,716,531	-	79,716,531
Thailand	-	-	-	-	-	-
Indonesia	33,618,007	-	23,266,119	-	-	-
Australia	-	30,175	4,802,450	2,833	-	2,833
Jersey Island	-	124,699,086	-	147,051,522	-	147,051,522
Turkey	-	-	-	1,859	3,956,453	3,958,313
China	-	-	-	5	40,714,236	40,714,241
Cayman Island	-	134,970,363	-	66,776,877	-	66,776,877
Guernsey Island	-	167,460,118	-	-	-	-
Israel	27,463,762	-	-	-	-	-
Slovakia	16,955,228	-	-	-	-	-
Chile	-	51,523,987	-	-	-	-
Other	-	774,107	-	196,938	6,626	203,564,088
Total	**2,995,380,385**	**13,560,384,389**	**3,696,310,695**	**15,705,061,911**	**994,182,897**	**16,699,244,807**

Note 3 – Financial risk management (continued)

(in EUR'000)	2022		2021					
	Guar.	**Commit.**	**Guar.**			**Commit.**		
			Lux.	**Ams.**	**Tot.**	**Lux.**	**Ams.**	**Tot.**
Belgium	103,131	444,000	433,475	6,670	121,450	164,000	377,273	541,273
Germany	-	105,793	66,497	-	-	37,189	-	39,178
France	-	13,695	-	-	-	13,696	-	13,696
Ghana	-	-	20,781	-	-	33,551	-	33,551
Italy	2,011	-	22,011	6,077	28,088	119,000	32,667	151,667
Luxembourg	1,566	902,367	2,890	11,158	14,048	352,630	63,158	415,788
The Netherlands	-	7,999		18,525	18,525	28,844	178,873	207,717
Kuwait	-	70,317	-	-	-	66,219	-	66,219
Qatar	-	282,093	-	-	-	478,220	-	478,220
Spain	-	229,060	-	-	-	11,120	-	11,120
Switzerland	617	16,106	581	-	581	-	17,590	17,590
USA	-	1	-	2,432	2,432	-	-	-
United Kingdom	200	111,935	200	80,022	80,222	43,802	-	43,802
Tunisia	20	-	134	-	134	-	-	-
South Africa	-	97,748	-	-	-	214,075	-	214,075
Russia	-	530,819	-	-	-	965,747	-	965,747
India	-	1,965	-	-	-	5,382	-	5,382
British Virgin Isl.	30	-	50	-	50	-	-	-
Abu Dhabi	-	-	20	-	20	-	-	-
Egypt	-	72,862	-	-	-	160,110	-	160,110
Curacao	-	-	-	-	-	-	62,500	-
Cayman Island	-	173,886	-	-	-	65,102	-	65,102
Dubai	20	-	-	-	-	-	-	-
Guernsey Island	-	168,709	-	-	-	-	-	-
Norway	-	41,910	-	-	-	-	-	-
Total	**107,595**	**3,271,265**	**140,666**	**124,884**	**265,550**	**802,676**	**732,061**	**534,736**

Note 3 – Financial risk management (continued)

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

Maturing On	Fair Value (Eur)	
	2022	**2021**
2023	34,077,750	-
2024	340,062,633	408,221,551
2025		46,918,586
2026		-
2027		25,594,916
2028	41,275,293	48,804,793
2029	20,057,493	
2030	80,262,793	25,009,993
2031	19,060,868	24,653,868
	534,796,830	**579,203,707**

(i) Industry sector allocation of risks

As at 31 December 2022 and 2021, the breakdown by industry sector of the risks held in securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(in EUR)	**2022**		**2021**			
	Investment Securities (FVTPL, FVTOCI)	**Loans and Advances**	**Investment Securities (FVTPL, FVTOCI)**	**Loans and Advances**		
				Lux.	**Ams.**	**Tot.**
Financial institutions	590,703,518	5,564,965,464	473,702,013	6,747,752,960	360,790,201	7,108,543,161
Public sector	1,564,706,585	1,153,487,656	2,091,036,391	942,886,898	-	942,886,898
Financial services	323,111,626	3,333,553,981	483,798,231	1,881,527,030	-	1,881,527,030
Mining & quarrying		1,080,420,654		1,209,025,569	-	1,209,025,569
Manufactoring	82,549,672	1,045,936,936	54,363,662	1,133,319,799	-	1,133,319,799
Wholesale and retail trade	21,768,826	235,449,000	29,308,578	2,571,605,964	-	2,571,605,964
Information and communication	146,876,427	21,430,377	187,322,268	-	-	-
Other industries	248,055,724	1,124,282,124	754,792,737	1,217,328,075	633,392,696	1,850,720,771
Individuals	17,608,005	858,197	-	1,615,615		1,615,615
Total	**2,994,980,170**	**13,560,384,389**	**3,695,807,801**	**15,705,061,911**	**994,182,897**	**16,699,244,807**

(in EUR'000)	**2022**		**2021**					
	Guar.	**Commit.**	**Guar.**					
			Lux.	**Ams.**	**Tot.**	**Lux.**	**Ams.**	**Tot.**
Financial institutions	105,759	3,163	138,877	88,304	227,181	245	-	245
Public sector	,	354,955	-	-	-	638,330	-	638,330
Other industries	1,603	2,913,145	1,599	36,580	38,179	2,164,101	1,732,061	3,896,162
Individuals	233	-	190	-	190	-	-	-
Total	**107,595**	**3,271,263**	**140,666**	**124,884**	**265,550**	**2,802,676**	**1,732,061**	**4,534,737**

Note 3 – Financial risk management (continued)

(d) Liquidity risk

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

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

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

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

As at 31 December 2022, the Liquidity Coverage Ratio of the Bank as defined in the article 416 of EU Regulation No 575/2013 and Delegated Regulation EU No 2015/61 was 161% (2021: 160%). As at 31 December 2022, the Net Stable Funding Ratio as defined by the EU Regulation 2019/876 (known as CRR2) is 123.26% (2021: 112.45%).

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 2022 (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**
Deposits from central banks	-	-	-	-	-	-	-	**-**
Financial liabilities at FVTPL and derivatives held for hedging	9	1,451	215	597	1,010	139	-	**3,421**
Financial liabilities at amortised cost	3,682	3,090	1,389	1,172	2,139	4,088	306	**15,866**
Total	**3,691**	**4,541**	**1,604**	**1,769**	**3,149**	**4,227**	**306**	**19,287**

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

Note 3 – Financial risk management (continued)

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

2022	**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	-	-	39,941,212	-	-	**39,941,212**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	**-**
Financial liabilities at amortised cost	-	993,586,617	6,699,046,484	611,564,395	7,560,713,614	**15,864,911,109**
Total	**-**	**993,586,617**	**6,738,987,696**	**611,564,395**	**7,560,713,614**	**15,904,852,321**

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

Note 3 – Financial risk management (continued)

2022	Zone EURO	Other European countries	Other	Total
Deposits from central banks	-	-	-	**-**
Financial liabilities held for trading and for hedging	39,941,212	-	-	**39,941,212**
Financial liabilities at fair value through profit or loss	-	-	-	**-**
Financial liabilities at amortised cost	14,189,296,871	1,665,207,090	10,407,148	**15,864,911,109**
Total	**14,229,238,083**	**1,665,207,090**	**10,407,148**	**15,904,852,321**

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

(e) Market risk

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

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

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

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

To assess market risk, the Bank has put in place a reporting addressed to the Authorized Management, the Internal Audit, the Financial Markets Division and any other operational service responsible.

The Risk Control Function carries out their own analyses and assessments and the results are communicated periodically to the members of Authorized Management of the Bank, to the Financial Markets Division, to the ALCO Committee and to the Board of Directors, through the Risk Committee.

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

Note 3 – Financial risk management (continued)

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

Risk measurements

Value at Risk is a monetary estimate of risk based on statistical techniques that summarise the maximum probable loss that the Bank may suffer in a determined length of time due to changes in the risk factors underlying the valuation models, as a result of market trends.

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

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

The approach used for the VaR computation is characterised by:
- a historical simulation model;
- a 99-th percentile confidence interval;
- a disposal period considered to be of 1 day;
- a full revaluation of outstanding positions.

A Stressed VaR is also applied to the Bank entire perimeter of securities in portfolio. The Stressed VaR is a risk metric based on the same VaR measurement techniques used for VaR calculation. Differently from the VaR, this metric is calculated in particular market stress conditions over an uninterrupted historical period of 12 months.

The Stressed VaR measures highlight the potential losses not captured by the most recent changes in the risk factors and focus on more remote and adverse time horizons for the portfolio, ensuring a countercyclical capital buffer.

The last time in 2022 the VaR limits have been revised and approved by ISPBL Board of Directors in December 2022:

- Early Warning on VaR set to EUR 12.1 mln (EUR 8 mln for investment portfolio and EUR 6.3 mln for liquidity portfolio) and has been calibrated on the basis of the expected scenario.
- Soft limit on VaR set to EUR 15.4 mln (EUR 9.5 mln for investment portfolio and EUR 8.5 mln for liquidity portfolio) and has been calibrated on the basis of a high parameter volatility period.
- Early Warning on Stressed VaR set to EUR 42.3 mln (EUR 28.65 mln for investment portfolio and EUR 13.65 mln for liquidity portfolio) and has been calibrated on the basis of the expected scenario.
- Stressed VaR has been fixed at EUR 53 mln (EUR 36.65 mln for investment portfolio and EUR 16.35 mln for the liquidity portfolio).

Note 3 – Financial risk management (continued)

Sensitivity indicators are also used for the HTCS securities portfolio as CR01 (change in the market value of a CDS as a result of changes in the credit spread of 1 basis point) and PV01 (change in market value as a result of changes in the zero-coupon rate curve of 1 basis point). The sensitivity measures the risk attributable to a change in the theoretical value of a financial position as a result of changes in a defined quantity of the related risk factors.

For the Originate to Share business (OtS), an HTCS ceiling is allocated to the Bank. It is set at EUR 3 bln defined in nominal value. In order to further circumscribe the HTCS component of the Originate to Share business, within the HTCS OtS plafond limits, sub-limits are introduced, expressed in terms of:

- rating buckets;
- concentration for single borrower exposure.

Interest rate risk

Average interest rates

The average effective interest rates on financial instruments by main currencies for the year ended 31 December 2022 and 2021 are as follows:

	2022		**2021**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
EUR	2.049%	1.263%	0.363%	0.022%
USD	5.068%	4.336%	1.228%	0.549%

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

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

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

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

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

Note 3 – Financial risk management (continued)

The set of "Shift sensitivity +100bps" limits for the Bank have been approved by the Group Financial Risk Committee in February 2022 and by the Bank Board in May 2022:

	Limit per time bucket		
Limits	**Short term**	**Medium term**	**Long term**
Total	0 – 18 months	18 months– 5 years	> 5 years
+0 / -24 million	+6 / -17 million	+6 / -14 million	+6 / -10 million

In addition a shift sensitivity +100bps limit for USD currency was set to +2/- 3.5 million and a limit for HTCS portfolio net of hedging derivatives has been introduced and equal to 0/-50 million.

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

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

Bucket	**Shift +100p per bucket**	**Shift -100p per bucket**	**Limits**
Short term	(9,342,345)	9,264,455	+6/-17 mln
Medium term	(6,870,852)	7,120,379	+6/-14 mln
Long term	(2,551,796)	2,876,534	+6/-10 mln
Total	**(18,764,993)**	**19,261,368**	**+0/-24 mln**

The shift sensitivity +100 bps limit for USD as of 31 December 2022 is EUR (592,266) (Limit +2/- 3.5 million) and for HTCS portfolio net of hedging derivatives as of 31 December 2022 is EUR (3,318,871) (Limit 0/-50 million).
At 31 December 2022, the Net Interest Income Sensitivity (NII), which measures the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of +/- 50 bps, over a period of 12 months, has been as follows:

-50 bps	**+50 bps**
(4,232,381)	**4,227,388**

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

Note 3 – Financial risk management (continued)

31 December 2022 (in million of EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥ 3 months < 6 months**	**≥ 6 months < 1 year**	**≥ 1 year < 2 years**	**≥ 2 years < 5 years**	**≥ 5 years**	**Total**
Cash and cash balances with central banks	1,303	-	-	-	-	-	-	**1,303**
Financial assets held for trading derivatives held for hedging and financial assets mandatorily at FVTPL	1	1	-	3	48	48	304	**405**
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	**-**
Financial assets at FVTOCI	167	55	67	323	506	500	1,377	**2,995**
Loans and advances	1,637	3,387	1,262	1,481	1,326	1,993	2,473	**13,559**
Total financial assets	**3,108**	**3,443**	**1,329**	**1,807**	**1,880**	**2,541**	**4,154**	**18,262**
Deposits from central banks	-	-	-	-	-	-	-	**-**
Financial liabilities held for trading and derivatives held for hedging	24	1	-	12	2	-	-	**39**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	**-**
Financial liabilities at amortised cost	3,681	3,090	1,389	1,172	2,139	4,087	306	**15,864**
Total financial liabilities	**3,705**	**3,091**	**1,389**	**1,184**	**2,141**	**4,087**	**306**	**15,903**

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2022, a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR (18,764,993) and EUR 19,261,368 respectively.

Note 3 – Financial risk management (continued)

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

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

Note 3 – Financial risk management (continued)

(f) 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 2022 and 2021, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR):

31 December 2022	**EUR**	**USD**	**Other**	**Total**
Cash and cash balances with central banks	1,303,158,821	6,383	9,901	**1,303,175,105**
Financial assets at fair value through profit or loss and held for trading	402,869,537	2,017,488	1,355,670	**406,242,694**
Financial assets at FVTOCI	2,994,980,170	-	-	**2,994,980,170**
Loans and advances	11,516,695,874	1,843,861,909	199,826,606	**13,560,384,389**
Total financial assets	**16,217,704,402**	**1,845,885,780**	**201,192,177**	**18,264,782,359**
Deposits from central banks	-	-	-	**-**
Financial liabilities held for trading and held for hedging	18,575,265	20,642,973	722,974	**39,941,212**
Financial liabilities at fair value through profit or loss	-	-	-	**-**
Financial liabilities at amortised cost	13,475,973,446	2,245,753,564	143,185,637	**15,864,911,110**
Total financial liabilities	**13,494,548,711**	**2,266,396,537**	**143,907,073**	**15,904,852,322**

Note 3 – Financial risk management (continued)

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

Note 3 – Financial risk management (continued)

(g) Capital management and capital adequacy

Regulatory capital

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

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

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

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

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

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

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

	2022	**2021**
Tier 1 Capital		
Ordinary share capital	1,389,370,555	1,389,370,555
Share premium	7,720,692	7,720,692
Other reserves and retained earnings	1,029,994,204	1,069,854,725
less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital	-	-
Others deductions	(1,658,754)	(1,795,261)
Total Tier 1	**2,425,426,697**	**2,465,150,711**

Note 3 – Financial risk management (continued)

	2022	2021
Tier 2 Capital		
General credit risk adjustments	54,466,161	(15,769,421)
Subordinated loan	200,000,000	200,000,000
Total Tier 2	**254,466,161**	**184,230,579**
Total own fund eligible for solvency purposes	**2,679,892,859**	**2,649,381,290**

Capital requirements and risk weights

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

	2022 Amount of risk weighted assets	**2021 Amount of risk weighted assets**
Credit and couterparty risk	**7,849,390,975**	**7,660,925,724**
Central governments and central banks	76,358,957	29,823,165
Regional governments or local authorities	-	-
Public Sector Entities	16,043,936	73,916,760
Corporates	5,684,099,871	5,396,376,455
Institutions	1,854,749,729	2,045,335,691
Retail	723,182	980,375
Exposures in default	-	-
Equity exposures	4,478,071	527,964
Other items	83,150,731	27,792,374
Covered bonds	129,786,497	86,172,941
Collective investments undertakings (CIU)	-	-
Market risk	**-**	**-**
Operational risk	**365,832,514**	**382,041,966**
Credit Valuation Adjustment	**952,881**	**1,471,100**
Total risk weighted assets and capital requirements	**8,216,176,370**	**8,044,438,790**
Tier 1 capital ratio	*29.52%*	*30.64%*
Total capital ratio	*32.62%*	*32.93%*

Note 3 – Financial risk management (continued)

Capital adequacy

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

As at 31 December 2022, the solvency ratio of the Bank is 32.62% (2021: 32.93%), above the regulatory limit of 8% and above the regulatory limit including conservation buffer limit of 10.5%. Over the year 2022, the higher solvency ratio amounted to 32.62% (December) and the lower amounted to 24.28% (March).

Capital management and planning

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

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

As part of the internal assessment process for its capital adequacy (relative to Basel III Pillar 2), the Bank considers that the Pillar 1 risks (credit, market and operational risks) are sufficiently covered by the regulatory capital under Pillar 1 as at 31 December 2022 and going forward.

The ICAAP (Internal Capital Adequacy Assessment Process)

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

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

(h) 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.

(i) Derivative financial instruments

During 2022 and 2021, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.

Note 3 – Financial risk management (continued)

As at 31 December 2022 and 2021, the notional amount and fair value of the derivatives held for trading are as follows (in EUR):

	2022		2021	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	-	-	-	-
Currency instruments	267,370,084	1,804,034	293,021,536	5,858,083
	267,370,084	**1,804,034**	**293,021,536**	**5,858,083**
Liabilities				
Interest rate instruments	315,000,000	2,894,219	700,000,000	682,830
Currency instruments	765,156,083	21,365,947	1,258,499,382	32,761,285
	1,080,156,083	**24,260,166**	**1,958,499,382**	**33,444,115**

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

(j) Fair values of financial assets and liabilities

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

	Carrying amount		Fair value	
	2022	**2021**	**2022**	**2021**
Assets				
Loans and advances	13,560	16,699	14,848	16,761
Luxembourg	*13,560*	*15,705*	*14,848*	*15,767*
Amsterdam		*994*		*994*
Liabilities				
Financial liabilities measured at amortised cost	15,865	16,377	15,878	18,431
Luxembourg	*15,865*	*14,991*	*15,878*	*17,045*
Amsterdam		*1,386*		*1,386*

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

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

Note 3 – Financial risk management (continued)

Fair value hierarchy

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

(i) Valuation models

As at 31 December 2022 and 2021, the Bank uses the following fair value hierarchy for determining and disclosing the fair value of financial instruments, which reflects the significance of the inputs used in making the measurements:

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

(ii) Valuation framework

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

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

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

31 December 2022 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss (FVTPL):				
- Financial assets held for trading	-	1,804,034	-	**1,804,034**
- Financial assets mandatorily at fair value	400,214	-	-	**400,214**
- Financial assets designated at fair value	-	-	-	**-**
Financial assets at FVTOCI				
- Equity instruments (other than investments in subsidiaries)	-	1,711,186	-	**1,711,186**
- Debt instruments	2,993,268,984	-	-	**2,993,268,984**
- Loans	-	-	-	**-**
Derivatives held for hedging	-	404,038,445	-	**404,038,445**
Total financial assets	**2,993,268,984**	**407,553,666**	**-**	**3,401,222,864**
Financial liabilities held for trading				
- Derivatives held for trading	-	24,260,166	-	**24,260,166**
- Short positions	-	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	**-**
Derivatives held for hedging	-	15,681,046	-	**15,681,046**
Total financial liabilities	**-**	**39,941,212**	**-**	**39,941,212**

Note 3 – Financial risk management (continued)

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

During the reporting years ending 31 December 2022 and 31 December 2021, there were no transfers between Level 1 and Level 2 categories, and no transfers into and out of Level 3 category.

(k) Operating segments

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

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

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

Note 3 – Financial risk management (continued)

Results by strategic division in EUR '000 – 2022	Corporate & Financial Institutions	Wealth Management	Financial Markets	Others Financial Institutions	Governance	Total revenues
Net interest margin	168,263	-	(36,043)	(1,719)	-	130,501
Dividends	-	-	29	-	-	29
Net commission margin	31,802	-	12,570	(1)	-	44,371
Net trading income	(50,611)	-	52,892	(1,197)	-	1,084
Net other expenses	(141)	-	(237)	(3,541)	-	(3,920)
Impairment on financial assets	(331,402)	-	(227)	(1,848)	-	(333,478)
Total area results	(182,090)	-	28,983	(8,306)	-	(161,413)
Depreciation	-	-	-	-	(2,137)	(2,137)
Provision	-	-	-	-	(10,728)	(10,728)
Staff and operating expenses	-	-	-	-	(49,166)	(49,166)
Tax expenses	-	-	-	-	54,616	54,616
Extraordinary income	-	-	-	-	15,000	15,000
Total operating & extraordinary expenses	-	-	-	-	7,585	7,585
RESULTS FOR THE YEAR						(153,828)

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

Note 3 – Financial risk management (continued)

Assets by strategic division in EUR'000	**2022**				
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Cash and cash balances with central banks	-	-	1,302,941	234	**1,303,175**
Financial assets held for trading	-	-	1,804	-	**1,804**
Financial assets mandatorily at fair value	-	-	400	-	**400**
Financial assets at FVTOCI	-	-	2,993,269	1,711	**2,994,980**
Loans and advances	8,165,416	-	5,203,611	191,357	**13,560,384**
Loans and advances to credit institutions	172,560	-	5,201,049	191,357	**5,564,965**
Loans and advances to customers	7,992,856	-	2,563	-	**7,995,419**
Derivatives held for hedging	-	-	402,485	1,553	**404,038**
Tangible fixed assets	-	-		10,170	**10,170**
Intangible assets	-	-		-	**-**
Tax assets	-	-		18,047	**18,047**
Other assets	2,182	-	1,782	69,009	**72,973**
Total assets	**8,167,598**	**-**	**9,906,292**	**292,081**	**18,365,972**

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

Note 3 – Financial risk management (continued)

Liabilities & Equity by strategic division in EUR'000 **2022**

Liabilities	**Corporate & Financial Institutions**	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Deposits from central banks					
Financial liabilities held for trading			24,260		**24,260**
Financial liabilities designated at fair value through profit or loss					
Financial liabilities at amortised cost	**322,607**		**15,327,607**	**214,697**	**15,864,911**
Deposits from credit institutions	11,559		6,076,106	76	**6,087,741**
Deposits from customers	311,048		1,712,357	213,999	**2,237,404**
Debts evidenced by certificates			7,539,144	622	**7,539,766**
Derivatives held for hedging			15,681		**15,681**
Provisions	11,420		290	2,387	**14,098**
Tax liabilities				366	**366**
Other liabilities	1,913		4,475	17,853	**24,420**
Total liabilities	**335,940**		**15,372,313**	**235,303**	**15,943,556**
Equity					
Share capital and share premium				1,397,091	**1,397,091**
Revaluation reserve			(59,875)	14,933	**(44,942)**
Other reserves and retained earnings	1,493		(14,963)	1,237,564	**1,224,094**
Net profit for the year	(192,147)		28,845	9,475	**(153,828)**
Total equity	**(190,654)**		**(45,994)**	**2,659,063**	**2,422,415**
Total liabilities and equity	**145,286**		**15,326,319**	**2,894,366**	**18,365,972**

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

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

Note 3 – Financial risk management (continued)

(l) Return on assets ("ROA")

The Bank return on assets is as follow:

	2022	2021
Total assets	18,365,972,015	21,091,952,672
Net profit for the year	(153,827,760)	160,844,424
Return on assets	**(0.84)%**	**0.76%**

(m) Pillar III disclosures requirements

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

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

The ICAAP (Internal Capital Adequacy Assessment Process)

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

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

The Benchmark Regulation

In recent years, the European benchmark rates have been undergoing extensive reform, largely due to the introduction of the European regulation on benchmarks (Benchmark Regulation, Regulation (EU) 2016/1011), published in 2016 and in effect since January 2018.
In the specific case of the short-term benchmark rates declared critical by the European authorities, reforms relating to the following were required:

- Euribor: the revision by the EMMI (European Money Market Institute) of the method for determining fixings ("hybrid" method), using transactions concluded on the unsecured money market of up to 12 months by provider banks, where available, came into full effect from November 2019.
- Eonia: from October 2019, the fixings have been calculated using the risk-free rate published by the European Central Bank (€STR rate), identified on the basis of the overnight transactions concluded by the major European banks. In October 2021, the European Commission designated €STR also as the interest rate to be applied when a statutory replacement of the Eonia is required.

The €STR rate also constitutes the basis for the calculation of the Euribor fallback rate, to be indicated in the contracts and to be used in the event of any future permanent cessation of publication of the Euribor. To facilitate the calculation of replacement rates, since April 2021 the ECB has launched the daily publication of the Compounded €STR Index and compounded €STR average rates.

Note 3 – Financial risk management (continued)

Outside the Euro Area, in the last few years the supervisory authorities, central banks, specialised associations and market operators in the various jurisdictions have actively worked to identify the risk-free rates (RFR) that could be used as the new benchmarks on the monetary markets.

More specifically, from 2016 onwards, various working groups indicated, also through official recommendations, the risk-free rates that will act as fallback rates for the Libor and which, in addition to complying with the IOSCO principles, will be more representative of the real market conditions, as they are based on actual transactions with significant, stable volumes. The following is a summary of the framework of risk-free rates:

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

Fonte: ICE Benchmak Administration, Intesa Sanpaolo

With its announcement of 5 March 2021, the Financial Conduct Authority (FCA) confirmed that the Libor would no longer be published or would lose validity (i) immediately after 31 December 2021 for all maturities of Pound Sterling, Euro, Swiss Franc and Japanese Yen and 1-week and 2-month maturities for the US dollar and (ii) immediately after 30 June 2023 for the remaining maturities on the US dollar (i.e. overnight, 1-month, 3-month, 6-month and 12-month).

On 29 September 2021, the FCA also announced that it was exercising its powers, compelling the Administrator of the Libor, ICE Benchmark Administration (IBA), to publish a synthetic Libor for the Pound Sterling and Yen for the 1-, 3- and 6-month maturities, clarifying that the use of those synthetic Libor indices is permitted exclusively for existing contracts that have not yet been converted to the alternative risk-free rates SONIA and TORF, respectively for the Pound Sterling and Yen, in order to guarantee the orderly wind down of the Libor. Though that publication in synthetic format is guaranteed for all of 2022, the FCA pointed out that the exercise of those powers is accompanied by an annual review, noting its intention not to renew the publication of the Yen Libor (which, therefore, would be wound down at the end of 2022) and the possible gradual restrictions to the use of the synthetic Libor of the Pound Sterling in legacy contracts.

Lastly, with regard to the US dollar, the main currency involved in the elimination of the Libor, the Alternative Reference Rates Committee (ARRC) took action on various fronts to accelerate the transition from the Libor to alternative rates based on the SOFR index, and specifically:

- publication of recommendations on best practices for the various product categories (e.g. loans, floating-rate bonds, derivatives, etc.) and the related timing for winding down the use of the US dollar Libor in new contracts;
- announcement of agreements for the various categories of contracts (e.g. pool loans, floating-rate bonds, cross-currency swaps, etc.);
- publication of the fallback clauses for the various categories of products.

Note 3 – Financial risk management (continued)

The Benchmarks Project in Intesa Sanpaolo Group

In recent years, Intesa Sanpaolo has closely monitored the developments relating to benchmarks, and in 2016 it launched a dedicated project involving the participation of all the corporate functions involved in various capacities.

Leveraging the work of the special projects and within the expenditure limits set out in the project capital budget, the project work also continued in the first half of 2022, focusing on the following aspects in particular:

- continuation of the bilateral negotiations with counterparties to change the rate of return of the collateral of Credit Support Annexes (CSA) from €STR plus a spread of 8.5 basis points to the flat €STR, where requested by the specific counterparties;
- progressive greater use of €STR derivatives;
- definitive wind down of the offer of products linked to the Libor in GBP, CHF and JPY;
- continuation of the initiatives to facilitate and move up, to the extent possible, the winding down of the USD Libor in accordance with the recommendations of the ARRC and, where applicable, of EU or US legislation on statutory replacement, in preparation of the final transition to the SOFR rate in June 2023 and the correlated activities to include robust fallback clauses in the outstanding contracts linked to the Libor:

    - continuation of the projects and lines dedicated to bonds linked to the overnight risk-free rates (owned by the Bank and customers) and activation of projects to manage short-term and MLT issues;
    - with regard to the transition with clearing houses for derivatives in USD subject to clearing with underlying USD Libor, the Group participated in the Consultation of the Central Counterparty (CCP) LCH, addressed to its members, to gather feedback on operating aspects of the transition – which will occur in the second quarter of 2023 – in a similar manner to that carried out in December 2021 for derivatives with underlying GBP, JPY, CHF and EUR Libor. That active transition mechanism, similar to that set out in 2021 for other Libor currencies, is based on standard rules for all participants and considers the criteria for determining spreads based on the fallback provisions drawn up by the industry as part of the benchmark reform;

- completion of preparation of the IT structure necessary for the use of RFRs in the Bank's accounting and management systems;
- constant reporting to the Group's International Subsidiaries and Branches;
- collaboration with the Italian authorities to support the development of the new RFR market;
- participation in surveys and public consultations at European level;
- providing feedback on transition readiness for foreign authorities in countries where Group companies are present, and to the ECB Joint Supervisory Team for general aspects related to the Group;
- planning additional delivery of specialist training to staff via remote learning and courses on the digital learning platform;
- updating of the disclosure to customers on the pages of the Group's website dedicated to illustrating the issue of the transition of benchmarks.

Note 3 – Financial risk management (continued)

Intesa Sanpaolo has also continued to take part in various initiatives, among which the most significant were European working groups organised by EMMI, and by ESMA (the latter replaced the ECB in managing the Secretariat of the Working Group on Euro Risk-Free Rates).

In this latter area in particular, Intesa Sanpaolo also acted in the last year as a voting member and participant in individual project streams in the working group on euro risk free rates, in which it has also held the new role of Ambassador for Italy since 2020.

As reported in the "Accounting Policies", in the 2021 Financial Statements, Regulation (EU) 2021/25 of 13 January 2021, adopting the document "Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16" published by the IASB on 27 August 2020 regarding issues pertaining to the second phase of the interest rate benchmark reform project (IBOR Reform), became binding and applicable for the first time from 2021. The main amendments introduced concern the possible accounting impacts of the application of the new rates (so-called replacement issue), in particular the accounting treatment of amendments to existing contracts and of hedge accounting. No impacts on the Intesa Sanpaolo Group were caused by the modifications with the characteristics envisaged by the standard, in line with the objective of the amendments introduced by the IASB aimed at preventing distortions in the financial statements as a result of the reform.

In light of the regulatory measures and actions undertaken by the Group, no critical issues were identified in completing the transition by the planned deadlines, nor are any critical issues forecast in view of the future discontinuation of the USD LIBOR. Specifically, to manage the stock of existing instruments, the Group set out the mass adoption of the new Risk Free Rates (RFR) on the financial instruments newly subscribed, thus abandoning the use of the benchmarks impacted by the reform and stabilising the stock of transactions to be transitioned, on the one hand, while setting up the solutions for the transition to the new RFR, defined based on the main international recommendations, capable of minimising the financial impacts of the transition, on the other.

With reference to the benchmarks being wound down at the end of 2021, the transition activities have been successfully completed for all these benchmarks. Specifically, as regards the remaining derivative contracts still outstanding at the end of 2021 with an underlying EONIA benchmark rate (EONIA OIS), as well as the contracts in which the EONIA is the collateral benchmark, no positions were open as at 30 June 2022. It is also noted that the exposures relating to derivative contracts linked to the Libor to be wound down as at 31 December 2021 (mainly in relation to those expressed in GBP, CHF, JPY and EUR) were nil at the beginning of this year. With regard to the other instruments linked to the GBP LIBOR, the renegotiations were completed according to the main international recommendations published and recognised by market participants. Likewise, actions were also completed for transition to the respective RFRs for loans linked to the JPY LIBOR and CHF LIBOR.

With reference to instruments linked to the USD LIBOR, the transition must be carried out by 30 June 2023 (the last date of publication of only the 1-week and 2-month USD LIBOR rates was 31 December 2021). The date on which the USD LIBOR will no longer be used does not give rise to specific uncertainties except for those linked to trading timescales, which could be deferred by the counterparties. In any event, phases similar to those that were implemented for instruments linked to other benchmarks wound down at the end of 2021, both for cash and derivative instruments, are expected to follow. Lastly, as regards the stock of outstanding instruments linked to the USD LIBOR, the financing side shows substantial stability

Note 3 – Financial risk management (continued)

However, with regard to derivative instruments, the reduction in respective exposures open to risk, in some cases, was carried out through transactions of the opposite sign (in terms of sensitivity) which may have resulted in an increase in the number of transactions and nominal values if considered in absolute terms, on the one hand, while it resulted in a gradual reduction in exposure to that benchmark in terms of risk measures, on the other.

With reference to the benchmarks being wound down at the end of 2021, the transition activities have been successfully completed for all these benchmarks. Specifically, as regards the remaining derivative contracts still outstanding at the end of 2021 with an underlying EONIA benchmark rate (EONIA OIS), as well as the contracts in which the EONIA is the collateral benchmark, no positions were open as at 30 June 2022. It is also noted that the exposures relating to derivative contracts linked to the Libor to be wound down as at 31 December 2021 (mainly in relation to those expressed in GBP, CHF, JPY and EUR) were nil at the beginning of this year. With regard to the other instruments linked to the GBP LIBOR, the renegotiations were completed according to the main international recommendations published and recognised by market participants. Likewise, actions were also completed for transition to the respective RFRs for loans linked to the JPY LIBOR and CHF LIBOR.

With reference to instruments linked to the USD LIBOR, the transition must be carried out by 30 June 2023 (the last date of publication of only the 1-week and 2-month USD LIBOR rates was 31 December 2021). The date on which the USD LIBOR will no longer be used does not give rise to specific uncertainties except for those linked to trading timescales, which could be deferred by the counterparties. In any event, phases similar to those that were implemented for instruments linked to other benchmarks wound down at the end of 2021, both for cash and derivative instruments, are expected to follow. Lastly, as regards the stock of outstanding instruments linked to the USD LIBOR, the financing side shows substantial stability. However, with regard to derivative instruments, the reduction in respective exposures open to risk, in some cases, was carried out through transactions of the opposite sign (in terms of sensitivity) which may have resulted in an increase in the number of transactions and nominal values if considered in absolute terms, on the one hand, while it resulted in a gradual reduction in exposure to that benchmark in terms of risk measures, on the other.

Furthermore, the Intesa Sanpaolo Group has applied since the 2019 Financial Statements Regulation (EU) 34/2020 of 15 January 2020, which adopted the document issued by the IASB on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)", which introduced several amendments regarding hedge accounting designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform from causing the discontinuation of existing hedges and difficulties in designating new hedging relationships. Hedging derivatives impacted by the IBOR Reform are exclusively represented by derivatives linked to the USD LIBOR.

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

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

The following instruments are in-scope of the Project:

- Interest rate swaps derivative contracts;

Note 3 – Financial risk management (continued)

- Cross currency swaps derivative contracts;
- Bond for clients;
- Debt securities and EMNT.

The Bank has analysed its financial instruments to identify connections with the above mentioned rates. The outcomes are presented as follows in dedicated tables as at 31 December 2022:

Hedging derivatives (EUR mio - nominal) Benchmark	**Hedging type**	**Maturity 2023**	**2024**	**2025 2027**	**2028 & more**	**Total**
EURIBOR	FVH	463	1,172	625	1,657	**3,916**
	Macro FVH	-	-	-	-	-
	CFH	-	-	-	-	-
	Macro CFH	-	-	-	-	-
Total EURIBOR		**463**	**1,172**	**625**	**1,657**	**3,916**
Libor USD	FVH	-	-	**38**	-	**38**
	Macro FVH	-	-	-	-	-
	CFH	-	-	-	-	-
	Macro CFH	-	-	-	-	-
Total LIBOR USD		-	-	38	-	**38**
Libor GBP	FVH	-	-	-	-	-
	Macro FVH	-	-	-	-	-
	CFH	-	-	-	-	-
	MacroCFH	-	-	-	-	-
Total LIBOR GBP		-	-	-	-	-
Other benchmarks affected by the reform	FVH	**24**	-	-	-	**24**
	Macro FVH	-	-	-	-	-
	CFH	-	-	-	-	-
	MacroCFH	-	-	-	-	-
Total other benchmarks		24	-	-	-	**24**
Total		**487**	**1,172**	**663**	**1,657**	**3,978**

Trading derivatives (EUR mio - nominal) Benchmark	**Leg type**	**Maturity 2023**	**2024**	**2025 2027**	**2028 & more**	**Total**
EURIBOR	Placement	315	-	-	-	**315**
	Deposit	315	-	-	-	**315**
Libor USD	Placement	129	-	-	-	**129**
	Deposit	141	-	-	-	**141**
Other benchmarks	Placement	28	-	-	-	**28**
	Deposit	24	-	-	-	**24**
Fix rates	Placement	-	-	-	-	-
	Deposit	-	-	-	-	-
Total	**Placement**	**472**	-	-	-	**472**
	Deposit	**480**	-	-	-	**480**

Note 3 – Financial risk management (continued)

Financial assets valued at amortized cost (EUR mio)	**Rate type**		**Total**
	Floating	**Fix**	
Loans and advances to credit institutions	454	5,112	**5,567**
Euribor	*230*		***230***
Libor USD	*178*		***178***
Libor GBP	*-*		***-***
Other	*47*		***47***
Loans and advances to customers	6,378	1,618	**7,995**
Euribor	*5,334*		***5,334***
Libor USD	*942*		***942***
Libor GBP	*-*		***-***
Other	*102*		***102***
Financial assets valued at amortized cost	**6,832**	**6,730**	**13,562**

Financial assets measured at FVTOCI (EUR mio)	**Rate type**				**Total**
	Floating	**Mixed**	**Fix**	**Zero C.**	
Debt securities	142	16	2,448	387	**2,993**
Euribor	*142*				***142***
Financial assets measured at FVTOCI	**142**	**16**	**2,448**	**387**	**2,993**

Financial liabilities measured at amortized cost (EUR mio)	**Rate type**		**Total**
	Floating	**Fix**	
Deposits from credit institutions	3,906	2,182	**6,088**
Euribor	*3,444*		***3,444***
Libor USD	*460*		***460***
Libor GBP	*1*		***1***
Other	*2*		***2***
Deposits from customers	595	1,642	**2,237**
Euribor	*539*		***539***
Libor USD	*45*		***45***
Libor GBP	*7*		***7***
Other	*4*		***4***
Debts evidenced by certificates	3,045	4,495	**7,540**
Euribor	*3,044*		***3,044***
Libor USD	*1*		***1***
Libor GBP	*-*		***-***
Other	*-*		***-***
Financial liabilities measured at amortized cost	**7,546**	**8,319**	**15,865**

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

Note 3 – Financial risk management (continued)

Sustainable Finance

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

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

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

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

- **Green Asset Ratio:** it is the proportion of the assets invested in taxonomy-aligned activities, as a share of total balance sheet assts (excl. sovereigns). Assets need to be broken down into:
    - Environmental Objective;
    - Stock vs flow;
    - Transitional vs enabling activities;
    - General purpose vs specialized lending.

- **Green ratio – Financial guarantees**: share of guarantees supporting debt instruments aligned with green activities over total guarantees;
- **Green ratio – AuM**: share of AuM financing green activities over total AuM;
- **Green ratio – Fees & Commissions**: share of fees and commission income associate with green activities over total F&C income.

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

Note 3 – Financial risk management (continued)

The Sustainable finance Project in Intesa Sanpaolo Group

The Intesa Sanpaolo Group is one of the top banking groups in Europe, with a significant ESG commitment, an excellent position in Social Impact and strong focus on climate.

Sustainability is summarized with the acronym ESG, and is gaining more and more importance in the business context.
The growing importance of ESG (Environmental, Social and Governance), implied a 360-degree integration of these issues into banking activity, from defining strategy and the business model, to risk models, lending policies, to the development of new products and services (e.g. green investment products) and to the Impact Bank.

Intesa Sanpaolo has long stood out for its role in ESG – and particularly as a global best practice for the social component – and aims to strengthen this leadership across all dimensions of the ESG paradigm.

Supporting the economy in the transition to Net-Zero is a priority for Intesa Sanpaolo Group. The Group has in fact committed to Net-Zero on its own emissions by 2030 and Net-Zero on its loans and investment portfolios by 2050. In this context, the Group has also adhered to the Net-Zero Banking Alliance (NZBA) in October 2021, fostering its commitment to fight against climate change.

Since then, the Group has taken multiple concrete steps to achieve its ambition. First, Intesa Sanpaolo has set Net-Zero targets on Automotive, Power generation and Oil & Gas sectoral portfolios and is committed to phase-out from the Coal mining sector. The targets will be updated over time following the evolution of the emission calculation methodology, as required by NZBA, SBTi and any issuance of new external guidelines.

Intesa Sanpaolo is in the main sustainability indexes and rankings, prepared by specialized companies who select companies not only for their economic performance, but also for the results achieved in the ESG dimensions. Intesa Sanpaolo is the only Italian bank included in the Dow Jones Sustainability Index World and Europe; ranked first among competitors by MSCI, Sustainalytics and Bloomberg and ranked as the best European bank and the best Italian company for ESG aspects by Institutional Investor.

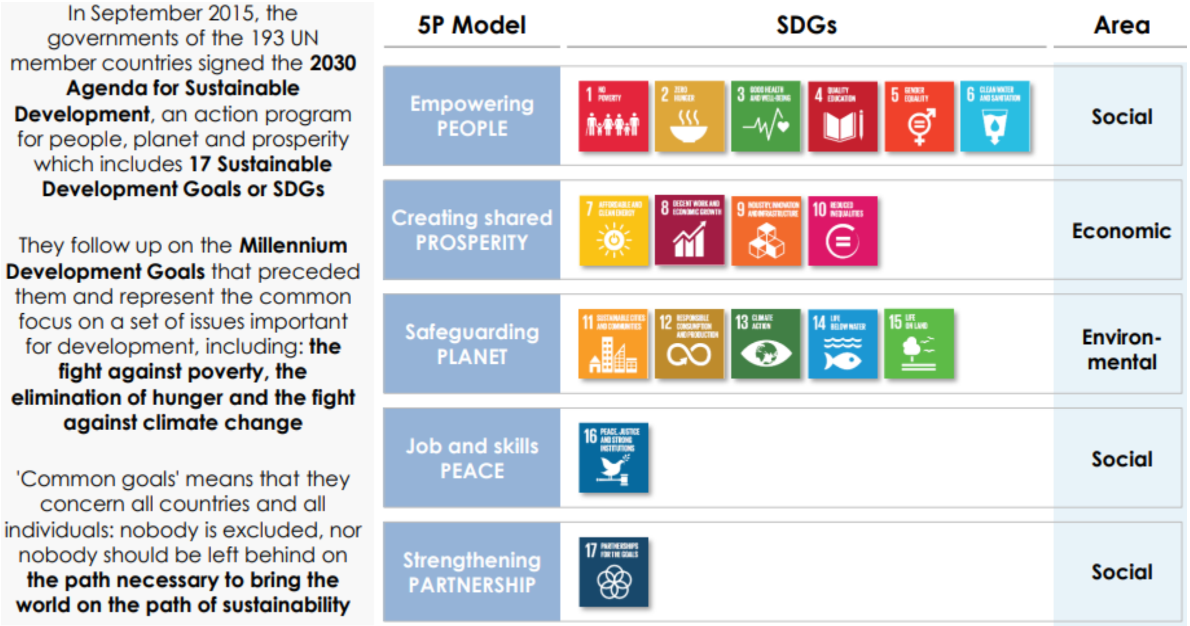
With reference to ESG issues, in its 2022-2025 Business Plan, Intesa Sanpaolo Group intends to further strengthen its role as a leading bank in ESG, continuing at being a model of reference in terms of sustainability and social and cultural responsibility.
ISP Group has been promoting ways of engagement that are focused on social and environmental responsibility and an increasing inclusion of these issues in the traditional and institutionalized engagement activities.

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

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

Note 3 – Financial risk management (continued)

Companies link their sustainability goals to the **UN Sustainable Development Goals**.



The Intesa Sanpaolo Group participates in the Global Compact initiative and is an active member of the community of businesses that support the **UN Sustainable Development Goals**.

Note 3 – Financial risk management (continued)

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

Environmental

In order to provide material support to clients in their transition towards Net-Zero, the Group has defined a comprehensive set of products and services (constantly updated and integrated with new innovative solutions). Products range from traditional lending and capital market instruments designed with climate components to sophisticated advisory services.

Solutions	Main features compared to the standard solutions	
Loans (Bilateral and Syndicated)	▪ **Green Loan**	Aimed exclusively at financing or refinancing **eligible Green projects**[1] in line with Green Loan Principles[2]
	▪ **Sustainability-linked Loan**	Aimed at incentivizing the **transition to a more sustainable business** (without restriction on the allocation of funds) through a **rewarding system for adjusting the rate to the achievement of specific ESG KPIs** in line with the Sustainability Linked Loans Principles[2]
	▪ **Circular Economy Loan**	Aimed at encouraging the **transition to a circular economic model** through a **rewarding system for adjusting the rate to the achievement of specific Circular KPIs**
Bonds	▪ **Green / Social / Sustainability Bond**	Use of proceeds exclusively to finance or refinance **Green / Social projects** defined in line with Green / Social / Sustainability Bond Principles[3] and / or EU Taxonomy; during the life of the bond, **continuous monitoring** and **adequate disclosure** on the progress of these projects are required
	▪ **Sustainability-linked Bond**	Non-specific use of proceeds, also for "**general corporate purposes**"; set by the issuer **one or more ESG objectives** during the life of the bond, with a **penalty mechanism** for the issuer[4] in the event of **failure to achieve the predefined target(s)**, in line with Sustainability-Linked Bond Principles[3]
	▪ **ESG Secured bonds and other securities**	**Collateralized by one or more specific sustainable projects**, including, but not limited to, covered bonds, ABS (Asset-backed securities), MBS (Mortgage-backed securities) and other structures, and according to the ICMA Principles[3]
Equities	▪ Equity-linked financing instruments directly connected with **Green or Social projects**	
Hedging Solutions	▪ Solutions for the **management of financial risks** while providing for an **improvement of the contractual conditions in favor of the client** according to the achievement of ESG objectives ➢ESG Securitisation: envisage mechanisms of reduction/increase of pricing (intended as spread) considering certain targets on ESG parameters	
Structured Export Finance	▪ Medium and long-term loans (minimum 2 years) to **support Italian export**; the proceeds are made **available based on a number of conditions, including some of an environmental topics**	

Intesa Sanpaolo Bank Luxembourg has developed during the 2022 about 14% of its Total Loan portfolio on ESG exposure through Loan Solutions (Bilateral and Syndicated) on both Sustainability linked Loan and Circular Economy Loan.

Social

The continuous enhancement, growth and satisfaction of Intesa Sanpaolo Bank Luxembourg people represent fundamental objectives to be pursued. ISPBL continue investing in its talents, encouraging diversity and inclusion, creating a unique ecosystem of skills suited to the evolution of the Bank.
The ISPBL Diversity & Inclusion Policy was approved in March 2022 with the aim of promoting a more diverse and inclusive culture in ISP Bank Luxembourg and in order to stay relevant to ISPBL customers, employees, shareholders and society in the future.

In order to promote an inclusive culture, the policy aims to create and develop a sense of belonging in the workplace, welcoming and embracing multiple competencies, viewpoints and perspectives and promoting equal opportunities for employees and value as a workplace and a business.

During the year 2022 the Bank organized a charity fundraising in favour of a Luxembourg foundation that supports families and children with cancer: Fondatioun Kriibskrank Kanner.

The fundraising initiative was intended to be addressed to bank employees and the sum raised was EUR 15,322. The initiative received a favourable opinion from the parent company structure "Social

Note 3 – Financial risk management (continued)

Initiatives", which considered this initiative as interesting and impactful, in line with the Group values of social cohesion, mentioning that, "the relationship and support to the Fondatioun Kriibskrank Kanner can contribute to strengthening the Group's positioning as a player attentive to ESG issues also at international level".

The initiative represent a strengthening of the ESG proposal, with a particular attention to the support to the community, in order to reconcile environmental and social needs.

Governance

In accordance with ISP Group ESG Guidelines and strategy, and CSSF Circular 21/773 concerning Management of Climate-related and Environmental Risks, ISPBL integrated ESG considerations and raise ESG awareness of members of the management body and institutions' staff, in order to ensure an adequate ownership and oversight of ESG and sustainability related topics.

Within the Luxembourg Banking Association (ABBL), Intesa Sanpaolo Bank Luxembourg takes part in Sustainability Committee and in specific Working Groups (WGs), as Corporate Sustainability and EU Taxonomy, dealing with the relationship between risks related to environmental and climate change and corporate social responsibility of the Bank and the activities performed.

The ISPBL contributes to defining ABBL position on sustainability, with the aim of a productive dialogue with national and European decision-makers.
At this purpose and to booster culture sustainability within the Bank several internal events have been organized with the collaboration of ESG HO team for the employees and Board's members.

In order to boost culture sustainability within the Bank, two events focused on ESG HO & IMI CIB strategies have been organized, with the collaboration of HO ESG Management Committee, and the Head of Strategic Marketing and Coordinator of ESG IMI CIB. The initiative represents a strengthening of the ESG proposal, with a particular attention to the consolidation of employee's skills.

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

To place ESG issues at the core of its business, Intesa Sanpaolo Bank Luxembourg, in accordance with Intesa Sanpaolo Group strategy, is continuously adopting dedicated policies in all areas of business, from credit to commercial functions, from finance to risk management, from compliance to audit.

In 2022 the update of the "Group Guidelines for the Governance of Environmental, Social and Governance (ESG) Risks" were implemented, with the aim of integrating and expanding the contents of the previous version. In particular, for expanding and describing the ESG risk governance framework, for representing the integration of ESG risk factors with respect to the different risk families (focus on climate risks), strengthening the supervision of ESG and reputational risks in the credit process, through the formalization of the articulation on two levels of the ESG & Reputational Risk Clearing process control, and the provision of the enhanced assessment procedure.

The confirmation of the list of sensitive sectors from an ESG / Reputational profile.

Note 4 – Cash and cash equivalents measured at amortized cost

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

	Net carrying amount			
(in EUR)	**2022**	**2021**		
		Lux.	**Ams.**	**Tot.**
Cash and cash balances with central banks	1,303,175,105	619,219,659	7,042,789	626,262,448
Cash on hand	*234,033*	*111,590*	-	*111,590*
Cash balances with central banks	*1,302,941,072*	*619,108,069*	*7,042,789*	*626,150,858*
Loans and advances to credit institutions with maturity <= 3 months	4,440,200,397	5,834,923,466	481,625,417	6,316,548,882
	5,743,375,502	**6,454,143,125**	**488,668,206**	**6,942,811,330**

In accordance with the requirements of the European Central Bank, the Luxembourg Central Bank implemented effective on 1 January 1999, a system of mandatory minimum reserves applicable to all Luxembourg credit institutions. The amount outstanding as at 31 December 2022 is EUR 1,302,941,072 (2021: EUR 619,108,069).

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

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

	Net carrying amount	
(in EUR)	**2022**	**2021**
Financial assets held for trading	**1,804,034**	**5,858,083**
Derivatives held for trading	1,804,034	5,858,083
Financial assets mandatorily at fair value through profit or loss ("FVTPL")	**400,214**	**502,820**
Securities	400,214	502,820
	2,204,248	**6,360,903**

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

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

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

	Net carrying amount	
(in EUR)	**2022**	**2021**
Quoted debt instruments issued by:		
Financial institutions	590,303,303	473,199,193
Public sector	1,564,706,585	2,091,036,389
Financial and non financial companies	838,259,096	1,131,361,104
	2,993,268,984	**3,695,596,686**

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

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

During 2022, the total TLTRO deposits have been reimbursed and there are no eligible securities collateralized.

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

	Net carrying amount	
(in EUR)	**2022**	**2021**
Quoted & not quoted shares issued by:		
Corporates (shares in affiliated undertakings)	1,711,185	211,185
	1,711,185	**211,185**

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

As at 31 December 2022, shares in affiliated undertakings, which are classified in this category, where the Bank held at least 20% are as follows:

	Registered Office	Percentage Owned	Net equity (in EUR)*	Of which Profit of the year (in EUR)*
Company:				
Lux Gest Asset Management S.A.	Luxembourg	100%	1,488,229	(148,548)

* *Based on unaudited figures*

In September 2022, the Bank (the “Contributor”), and Lux Gest Asset Management S.A. (the “Company”) entered into a contribution agreement and the contributor made a contribution in cash to the capital reserves of the Company to be allocated to the freely distributable account (*Compte 115*) of the Company named “contribution to equity capital without issue of shares” pursuant to the grand ducal decree dated 12 September 2019 on the presentation and content of the standard chart of accounts, for an agreement amount of EUR 1,500,000. The Bank kept the participation booked at its cost.

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

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

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

(in EUR)	Fixed Inc. securities	Floating Inc. securities	Total
Balance as at 31 December 2021	**(1,643,901)**	**(249,125)**	**(1,893,026)**
Increase (decrease) of unrealised gain	(7,478,453)	(845,757)	(8,324,210)
(Increase) decrease of unrealised loss	(25,654,005)	203,377	(25,450,628)
Amount reclassified from equity to profit or loss for the year	(4,382,319)	-	(4,382,319)
Unrealised fair value gain made on assets bought during the year	(16,035,136)	(3,106,582)	(19,141,718)
Loss allowance movement	(56,468)	2,577	(53,891)
Deferred taxes	13,369,431	934,348	14,303,779
Balance as at 31 December 2022	**(41,880,851)**	**(3,061,162)**	**(44,942,013)**

Note 7 – Loans and advances

(in EUR)	2022		2021	
	Total Net carrying amount	**Of which: Impairment**	**Total Net carrying amount**	**Of which: Impairment**
Unquoted loans and advances to:				
Financial institutions and public sector	11,488,893,911	(147,189,697)	8,051,430,059	(2,472,936)
Private customers	858,197	(12,959)	1,615,616	(4,315)
Corporate customers	2,070,632,281	(649,755)	8,646,199,133	(16,239,140)
Total	**13,560,384,389**	**(147,852,411)**	**16,699,244,808**	**(18,716,391)**

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

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

Impairment allowance for loans and advances

As at 31 December 2022, the Bank individual impairment amounting to EUR 22,560,423 (2021: EUR 0) and a collective provision amounting to EUR 125,291,988 (2021: EUR 18,716,391).

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

(in EUR)	2022	2021
Impairment as at 1st January	18,716,391	44,203,891
Amsterdam branch disposal	(231,259)	-
Charge of the year	134,217,467	10,766,896
Recoveries/amounts written-off	(4,850,188)	(36,254,396)
Impairment as at 31 December	**147,852,411**	**18,716,391**
of which:		
Individual impairment	22,560,423	-
Collective impairment	125,291,988	18,716,391

Note 7 – Loans and advances (continued)

Guarantees received as collateral

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

(in EUR)	2022		2021	
	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	**7,995,418,925**	**5,564,965,464**	**9,456,988,524**	**7,242,256,283**
Lux			*8,957,308,950*	*6,747,752,961*
AMS			*499,679,574*	*494,503,322*
Real guarantees				
Securities	1,010,992,819	-	999,506,184	-
Other real guarantees	11,500,001	37,502,344	15,941,782	35,316,970
Other guarantees				
Government guarantees	1,832,712,574	-	1,653,296,097	-
Credit institutions guarantees	161,564,887	-	1,033,474,800	-
Total guarantees	**3,016,770,281**	**37,502,344**	**3,702,218,862**	**35,316,970**

Note 8 – Property, equipment and right-of-use assets

(in EUR)	Land & building	Office equipment	Other equipment	Total
Carrying value before depreciation as at 1st January 2022	**6,021,526**	**1,413,823**	**3,137,237**	**10,572,585**
Additions	10,822,093	-	605,902	**11,427,995**
Disposals/Transfers	(790,300)	(1,345,093)	(1,921,321)	**(4,056,714)**
Cost as at 31 December 2022	**16,053,319**	**68,730**	**1,821,818**	**17,943,867**
Accumulated depreciation as at 1st January 2022	(5,659,844)	(1,328,660)	(2,694,648)	**(9,683,152)**
Depreciation charge	(1,756,301)	(5,614)	(375,023)	**(2,136,938)**
Depreciation reversal	710,555	1,334,273	2,001,062	**4,045,891**
Accumulated depreciation as at 31 December 2022	(6,705,590)	-	(1,068,609)	**(7,774,199)**
Net carrying amount as at 31 December 2022	**9,347,729**	**68,730**	**753,210**	**10,169,669**

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

Note 8 – Property, equipment and right-of-use assets (continued)

The Bank leases cars and office premises under operating leases.

Right-of-use-assets

Right-of-use-assets mainly relate to leased branch and office premises that are presented within property and equipment (see Note 8).

(in EUR)	**Right-of-use assets**
Balance at 1 January 2022	**770,131**
Depreciation charge of the year	*(2,120,287)*
Indexing	-
Additions	*11,578,194*
Reductions	*(127,099)*
Balance at 31 December 2022	**10,100,938**

(in EUR)	**Right-of-use assets**
Balance at 1 January 2021	**2,266,888**
Depreciation charge of the year	*(2,069,000)*
Indexing	*11,408*
Additions	*560,835*
Balance at 31 December 2021	**770,131**

As at 31 December 2022, the future minimum lease payments under non-cancellable operating leases are mainly composed of Luxembourg real estate location contract, which will arrived at maturity at the end of December 2022.

Lease liabilities

Lease liabilities mainly relate to real estate operating leases of the branch and of the office premises.

(in EUR)	**Lease liabilities**
Balance at 1 January 2022	**772,505**
Reductions	*(21,947,176)*
Additions	*31,348,137*
Balance at 31 December 2022	**10,173,465**

(in EUR)	**Lease liabilities**
Balance at 1 January 2021	**2,366,666**
Reductions	*(2,201,281)*
Additions	*607,120*
Balance at 31 December 2021	**772,505**

Note 8 – Property, equipment and right-of-use assets (continued)

Amounts recognised in profit or loss

(in EUR)	2022
Interest on lease liabilities	(150,569)
Depreciation charge of the year	*(2,120,287)*
Expenses relating to short-term leases	-
Expenses relating to leases of low-value assets	(47,428)
Total amount	**(2,318,284)**

(in EUR)	2021
Interest on lease liabilities	(1,453)
Depreciation charge of the year	*(2,069,000)*
Expenses relating to short-term leases	-
Expenses relating to leases of low-value assets	(23,117)
Total amount	**(2,093,570)**

As at 31 December 2022, the future minimum lease payments under non-cancellable operating leases were payable as follows:

In EUR	Motor vehicles	Real estate location contracts	Total
Within 1 year	16,240	1,878,571	1,894,811
1 to 5 years	424,891	3,757,141	4,182,032
Over 5 years	-	4,242,266	4,242,266
Total	**441,131**	**9,877,978**	**10,319,109**

Note 9 – Tax expense, current and deferred tax assets and liabilities

(in EUR)	2022	2021		
		Lux.	**Ams.**	**Tot.**
Current tax assets	-	-	8,023,956	8,023,956
Current tax liabilities	-	-	(6,387,381)	(6,387,381)
Net current tax assets (liabilities)	**-**	**-**	**1,636,575**	**1,636,575**

Deferred tax assets and liabilities

	2022	2021		
		Lux.	**Ams.**	**Tot.**
Deferred tax assets	18,047,157	1,248,466	-	1,248,466
Deferred tax liabilities	(366,289)	(455,922)	-	(455,922)
Tax assets (liabilities)	**17,680,868**	**792,544**	**-**	**792,544**

Note 9 – Tax expense, current and deferred tax assets and liabilities (continued)

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

(in EUR)	1 January 2022	Statement of P/L	Equity	31 December 2022
Financial assets held for trading	(20,699,958)	78,213	-	(20,621,745)
Financial assets mandatorily measured at fair value	145,765	11,420	-	157,185
Financial assets measured at FVTOCI	575,246	-	14,303,779	14,879,025
Financial liabilities held for trading	20,562,817	2,494,912	-	23,057,729
Provisions and value adjustments	208,674	-	-	208,674
		-	-	
Net deferred income tax assets/(liabilities)	**792,544**	**2,584,545**	**14,303,779**	**17,680,868**

The deferred tax expenses presented in profit or loss are related to temporary differences generated by financial instruments fair value changes booked through profit or loss.
The deferred tax assets calculated on financial assets at fair value through other comprehensive income are showing a net deferred tax asset balance. The deferred tax amount has been consequently shown in deduction of the relative comprehensive income.

As at the end of 2022, with retroactive effect starting from 1 January 2022, the Bank entered in the new horizontal fiscal consolidated financial statements organized by its direct parent company Intesa Sanpaolo Holding S.A. and including the Luxembourgish entities of the Group.
Please refer to note 10 for the impacts on the 2022 financial statements of the Bank.

Note 10 – Other assets and other liabilities

(in EUR)	2022	2021		
		Lux.	**Ams.**	**Tot.**
Prepaid charges	1,113,407	1,397,751	31,230	1,428,982
Taxes	10,709,662	10,455,315	-	10,455,315
Accrued commission income	49,842	57,386	416,304	473,690
Commissions to be received	1,100,808	9,822,324		9,822,324
Other	59,999,110	1,994,511	779,898	2,774,408
Other assets	**72,972,831**	**23,727,288**	**1,227,432**	**24,954,720**

(in EUR)	2022	2021		
Social security charges	1,848,739	1,697,417	50,870	1,748,287
VAT	2,545,749	1,612,169	7,808	1,619,977
Administrative expenses to be paid	15,578,200	13,945,741	3,266,266	17,212,007
Accrued commission expenses	1,760,473	1,738,088	1,343,771	3,081,858
Short term payable and other sundry accounts	2,507,300	2,612,902	173,880	2,786,783
Other liabilities	**24,240,461**	**21,606,317**	**4,842,595**	**26,448,912**

The item “Other”, part of the caption “Other assets”, includes the receivable due from Intesa Sanpaolo Holding S.A. equal to EUR 55,708,725 and linked to the tax sharing agreement formalized between the parties in relation to the new horizontal fiscal consolidated financial statements. The amounts comprise tax receivables on the losses realised by the Bank and represent the best estimate of the credit tax amount expected to be collected.

Note 11 – Deposits from central banks

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

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

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

TLTRO III (Targeted Longer Term Refinancing Operation) aims to stimulate bank lending to the real economy and strengthen the transmission of monetary policy.

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

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

The interest rate for each operation is targeted to the average of the main refinancing operations in the Euro-zone (MRO), currently equal to 0%, with the exception of the period between 24 June 2020 and 28 June 2023 (*special interest rate period*) during which a -0.5% rate will be applied.

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

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

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

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

The TLTRO mechanism carrying amount is EUR 1,984,444,766 as at 31 December 2021, of which total negative accrued interests amount to EUR 15,555,555, which include the adjustment of EUR 7,500,000 due to the application of IFRS 9 paragraph B.5.4.6 and of the *catch-up mechanism*.

Note 11 – Deposits from central banks (continued)

The Bank, in fact, was able to exceed the TLTRO benchmark for the additional reference period October 2020 – December 2021 as at the end of the year and, as per consequence, it had the opportunity to apply the interest rate of DFR-0,5% = -1% for the period June 2021 – June 2022. Before exceeding the benchmark, the Bank was applying the MRO rate – 0,5% = -0,5%, but that event gave the opportunity to re-estimate the futures cash flows and thanks the application of the above mentioned rules to book the whole difference between the rates as interest income.

During 2022, the total TLTRO deposits have been fully reimbursed.

Note 12 – Financial liabilities at amortised cost

(in EUR)	2022 Carrying amount	2021 Carrying amount			Variation	
		Lux.	Ams.	Tot.	in EUR	in %
Deposits from credit institutions						
Current accounts and amounts with period of notice	1,266,614,462	183,997,106	2,507,948	171,023,431	1,082,617,356	588%
Term deposits	4,821,126,567	4,644,842,381	424,343,514	7,069,284	176,284,186	4%
Total	**6,087,741,029**	**4,828,839,487**	**426,851,462**	**7,240,135,715**	1,258,901,542	**26%**
Corporate customers						
Current accounts and amounts with period of notice	612,059,214	2,157,229,923	691,679,190	2,848,909,113	(1,545,170,709)	(72%)
Term deposits	1,620,642,964	844,071,316	267,156,247	1,111,227,564	776,571,648	92%
Total	**2,232,702,178**	**3,001,301,240**	**958,835,437**	**3,960,136,677**	**768,599,061**	**(26%)**
Private customers						
Current accounts and amounts with period of notice	4,702,136	3,066,488	-	3,066,488	1,635,648	53%
Term deposits	-	-	-	-	-	-
Total	**4,702,136**	**3,066,488**		**3,066,488**	**1,635,648**	**53%**
Debts evidenced by certificates						
Certificates of deposits	3,044,840,463	3,082,281,063	-	3,082,281,063	(37,440,600)	(1%)
Term notes	-	391,229,247	-	391,229,247	(391,229,247)	(100%)
Commercial paper	4,494,925,304	3,684,171,313	-	3,684,171,313	810,753,992	22%
Total	**7,539,765,767**	**7,157,681,623**	**-**	**7,157,681,623**	**382,084,145**	**5%**
Financial liabilities measured at amortised cost	**15,864,911,110**	**14,990,888,838**	**1,385,686,899**	**16,376,575,737**	**874,022,272**	**6%**

European Medium Term Notes :

Since November 2011, the Bank participates as an additional issuer in a EUR 70 billion Euro Medium Term Notes (EMTN) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The programme is guaranteed by Intesa Sanpaolo S.p.A.. The EMTN (the "bonds") issued under this programme bear a maturity date of maximum 5 years. The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 70 billion or the equivalent thereof in other currencies. The notes are denominated in any currency subject to compliance with any applicable legal and or regulatory and or central bank requirements. As at 31 December 2022, there were no subscribed notes (2021: EUR 391 million).

Note 12 – Financial liabilities at amortised cost (continued)

Commercial Paper:

Since March 2011, the Bank participates as an additional issuer in a EUR 30 billion Euro Commercial Paper (ECP) Programme, developed by its ultimate Parent Company, alongside Intesa Sanpaolo Bank Ireland (INSPIRE). The ECP (further the "notes") issued under this programme bear a maturity date under 1 year (short term notes) and are denominated in Euro, US Dollars or any other currency subject to compliance with any applicable legal and regulatory requirements. The maximum aggregate principal amount of notes from time to time outstanding in respect of all issuers will not exceed EUR 30 billion or the equivalent thereof in other currencies. As at 31 December 2022, such ECP issued by the Bank amount to EUR 4,495 million (2021: EUR 3,684 million).

Note 13 – Derivatives held for hedging

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

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

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

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

(in EUR)	2022		2021	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	3,576,763,210	404,038,445	2,603,483,833	29,160,068
	3,576,763,210	**404,038,445**	**2,603,483,833**	**29,160,068**
Liabilities				
Interest rate instruments	1,173,700,000	15,681,046	2,075,616,970	40,860,032
	1,173,700,000	**15,681,046**	**2,075,616,970**	**40,860,032**

Hedged items are as follows (in EUR):

	2022	**2021**
	Carrying value	**Carrying value**
Financial assets at fair value through other comprehensive income	2,059,682,982	2,899,574,838
Loans and advances	909,326,053	424,090,602
Deposits	490,635,890	-
Debts evidenced by certificates	144,936,931	569,043,410

Note 13 – Derivatives held for hedging (continued)

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

		2022		
		Gains/(losses) attributable to the hedged risk		
Hedged items	**Hedging instruments**	**Hedged items**	**Hedging instruments**	**Ineffectiveness**
Fixed rate corporate loans	Interest rate swaps	(16,158,253)	15,120,493	(1,037,760)
Fixed rate FVOCI debt instruments	Interest rate swaps	(347,678,039)	347,6787,039	-
Total		**(362,798,532)**	**362,798,532**	**(1,037,760)**

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

Note 14 – Provisions

(in EUR)	**2022**	**2021**		
		Lux.	**Ams.**	**Tot.**
Financial guarantee contracts issued	2,516	11,838	132,799	144,637
Loan commitments issued and uncommitted credit lines	11,708,055	1,575,617	318,686	1,894,303
Other provisions	2,387,315	1,716,317	-	1,761,317
Total	**14,097,886**	**3,348,772**	**451,485**	**3,800,267**

Financial guarantee contracts, loan commitments issued and uncommitted credit lines

As at 31 December 2022, the amount in respect of financial guarantee contracts issued, loan commitments issued and uncommitted credit lines represent the sum of ECL provisions calculated following IFRS 9 implementation.

Other provisions
The following table sets out other provisions.

(in EUR)	**2022**
Provision as at 1st January 2022	1,761,317
Additions	550,000
Reductions	(26,727)
Forex impact	102,725
Provisions as at 31 December 2022	**2,387,315**

Note 14 – Provisions (continued)

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

The above table shows provisions movements from 31 December 2021 to 31 December 2022. Increase in value has been mainly generated by foreign exchange movements (linked to some provisions in foreign currency) and by a tax credit due from Russian fiscal authorities generated by a transaction finalized in 2021: taking into consideration the high probability the Bank will not be reimbursed due the consequences of the conflict between Russia and Ukraine, a specific provision for the total amount of the receivable has been booked.

Note 15 – Equity

Share capital

On 22 September 2016, the Bank performed a capital increase of EUR 449,999,892 through the issuance of 1,445,911 shares integrally subscribed by Intesa Sanpaolo Holding International S.A..

The Board of Directors of the Bank during the last meeting held on 25 October 2017 resolved to increase – within the limit of the statutory authorized capital - the share capital by an amount of EUR 399,999,835 to raise it from EUR 989,370,720 to the amount of EUR 1,389,370,555 by creation and issue of 1,285,254 new shares without any nominal value.

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

As at 31 December 2022, the subscribed capital was therefore EUR 1,389,370,555 represented by 4,464,237 shares (integrally subscribed).

Share premium

On 1 February 2016 the Bank purchased a branch from the Group through a contribution in kind. For that purpose, 13,750 shares has been issued consisting of EUR 4,279,308.01 to share capital and EUR 7,720,691.99 to share premium.

Revaluation reserve

Revaluation reserve caption is composed of the cumulative net change in fair value of debt securities measured at FVTOCI until the assets are derecognised or reclassified and it amounts to EUR -44,942,013 (2021: EUR -1,893,026). This amount includes the ECL loss allowance equal to EUR 53,891. FTA revaluation reserve calculated as at 1 January 2018 following the IFRS 9 implementation has been recorded in Retained Earnings.
These revaluation reserves are not distributable.

Note 15 – Equity (continued)

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 2022, the legal reserve amounts to EUR 88,491,212 (2021: EUR 80,448,991), with an increase of EUR 8,042,221.

Other reserves

As at 31 December 2022, other reserves amount to EUR 854,524,575 (2021: EUR 836,524,575).

Net Wealth Tax

During 2022, the Bank allocated to the Net Wealth tax reserve an amount equal to EUR 18,000,000, which constitutes an unavailable reserve.

Retained earnings

As at 31 December 2022, retained earnings amount to EUR 281,077,795 (2021: EUR 146,519,341) and mainly include :

- the impact of the implementation (FTA) of IFRS 9 as adopted by the European Union (EUR -15,082,330);
- the impact of the first time adoption (FTA) of IAS/IFRS standards as adopted by the European Union (EUR 4,850,848);
- the impact of the disposal of the functional property carried at fair value (EUR 24,513,535);
- the impact of other retained earnings for an amount of EUR 267,039,489.

Allocation proposal

The amount attributable to shareholders, including earnings profit from previous years, but excluding the impact of the first time application of IFRS as adopted by European Union, totals EUR 121,744,839. It is proposed to the Annual General Shareholders' Meeting approving the financial statements as at 31 December 2022 to allocate the above mentioned amounts as follows (in EUR):

Net loss of 2022 financial year Retained profit from previous year (excluding FTA and reclassification from revaluation reserves)	(153,827,760) 275,572,599
Amount attributable to shareholders	**121,744,839**
Allocation to legal reserve (5% net profit)	-
Allocation to the NWT reserve	17,500,000
Retained profit carried forward	**104,244,839**
Total	**121,744,839**

Note 16 – Net interest income

(in EUR)	2022	2021		
		Lux.	**Ams.**	**Tot.**
Financial assets held for trading	1,473,037	487,005	-	487,005
Financial assets at fair value through profit or loss	-	-	-	-
Hedging derivatives	23,818,757	1,982,683	-	1,982,683
Financial assets at FVTOCI	18,578,852	12,474,494	-	12,474,494
Loans and advances	130,531,379	68,892,198	7,493,494	76,385,697
Interest income on liabilities	113,143,819	90,386,540	1,850,402	92,236,942
Other	289	7,259	-	7,259
Total interest and similar income	**287,546,133**	**174,230,179**	**9,343,900**	**183,574,079**

(in EUR)	2022	2021		
		Lux.	**Ams**	**Tot.**
Hedging derivatives	(27,195,952)	(21,255,344)	-	(21,255,344)
Financial liabilities held for trading	(7,232)	(4,796)	-	4,796)
Financial liabilities measured at amortised cost	(129,842,359)	(43,944,270)	-	(43,944,270)
Total interest expenses and similar charges	**(157,045,542)**	**(65,204,410)**	-	**(65,204,410)**
		-	-	-
Net interest income	**(130,500,591)**	**(109,025,769)**	-	**(109,025,769)**

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

Note 17 – Net fee and commission income

A. Disaggregation of fee and commission income

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

(in EUR)	2022	2021		
		Lux.	**Ams.**	**Tot.**
Credit activities	36,290,259	40,239,378	6,848,189	47,087,567
Wealth management and Treasury activities	27,200,483	24,886,097	-	24,886,097
Corporate services	391,820	220,662	-	220,662
Other	2,097,782	2,522,950	629,982	3,152,932
Total fee and commission income	**65,980,345**	**67,869,087**	**7,478,171**	**75,347,257**
Credit activities	(5,527,159)	(5,329,691)	(29,888)	(5,359,579)
Brokerage and clearing fees	(10,887,014)	(8,993,051)	-	(8,993,051)
Other	(5,194,857)	(5,733,248)	(14,037)	(5,747,285)
Total fee and commission expenses	**(21,609,030)**	**(20,055,990)**	**(43,925)**	**(20,099,915)**
Net fee and commission income	**44,371,315**	**47,813,097**	**7,434,246**	**55,247,342**

Note 17 – Net fee and commission income (continued)

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

(in EUR)	2022	2021		
		Lux.	Ams.	Tot.
Wealth management and Treasury activities	27,195,842	24,837,612		24,837,612
Structuring fees	6,207,496	4,200,200		4,200,000
Commitment fees	13,825,375	12,829,803	4,595,947	17,425,750
Commission income on limited recourse transactions	-	18,856	68,649	18,856
Upfront fees	7,633,122	1,816,206		1,816,206
Arrangement fees	7,474,078	15,841,481		15,841,481
Cash management fees	20,833	54,167		54,167
Amendment fees	557,215	4,492,040	6,691	4,498,731
Participation fees	-		1,101,723	1,101,723
Corporate services fees	759,801	276,253		276,253
Credit activities – other	44,801	414,886	735,027	1,149,913
Commission income on guarantees	209,128	358,023		426,673
Program and administrator fees	769	2,083		2,083
Other	2,051,884	2,727,677	970,134	3,697,811
Total fee and commission income	**65,980,345**	**67,869,087**	**7,478,171**	**75,347,257**
Brokerage and clearing fees	10,930,862	9,027,817		9,027,817
Servicing fees	714,219	890,397		890,397
Credit activities – other	4,089,468	2,365,010	29,888	2,394,898
Commitment fees	669,806	937,726		937,726
Arrangement fees	-	567,864		567,864
Commission expesnes on guarantees	-	587,635		587,635
Other	5,204,675	5,679,542	14,037	5,693,579
Total fee and commission expenses	**21,609,030**	**20,055,990**	**43,925**	**20,099,915**
Net fee and commission income	**44,371,315**	**47,813,097**	**7,434,246**	**55,247,342**

Note 17 – Net fee and commission income (continued)

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

(in EUR)	2022	2021		
		Lux.	Ams.	Tot.
LUXEMBOURG	16,243,053	12,862,126	163,836	13,025,962
ITALY	1,931,445	3,769,248	146,118	3,915,367
NETHERLAND	872,903	1,253,867	5,317,751	6,571,618
QATAR	1,631,270	2,470,580	-	2,470,580
U.S.A.	6,178,290	3,545,792	22,362	3,568,154
FRANCE	2,780,892	1,606,365	6,658	1,612,883
UNITED KINGDOM	2,889,563	2,284,247	58,434	2,342,680
GERMANY	3,043,898	987,264	956	988,220
SOUTH AFRICA	1,470,465	1,580,523	-	1,580,523
SPAIN	3,033,414	957,445	-	957,445
BELGIUM	984,498	579,861	957,584	1,537,446
IRELAND	2,287,503	2,233,444	-	2,233,444
RUSSIA	6,830,345	11,106,382	-	11,106,382
CYPRUS REP.	24,001	12,664	-	12,664
HONG KONG	362,774	948,183	-	948,183
JAPAN	942,732	1,053,536	-	1,053,536
GHANA	15,059	791,384	-	791,384
SWITZERLAND	714,378	284,917	449117	734,034
SOUTH KOREA	529,007	633,434		633,434
CHINA	354,551	398,637	83,951	482,588
KUWAIT	296,407	409,001	-	409,001
CAYMAN ISL	1,312,020	1,183,373	-	1,183,373
TAIWAN	666,740	768,806	8,833	777,639
AUSTRIA	43,666	11,380,488	-	11,380,488
CANADA	167,116	77,817	-	77,817
INDIA	3,620,511	670,470	-	670,470
GUERNSEY ISL.	580,954	-	-	-
NIGERIA	14,005	2,477	3,687	6,164
MONACO	-	32,570	-	32,570
BRAZIL	243,662	267,162	-	267,162
SAUDI ARABIA	796,125	1,188,609	-	1,188,609
EGYPT	472,912	774,952	-	774,952
NORWAY	1,851,889	-	-	-
CHILE	741,024	-	-	-
OTHER COUNTRIES	2,053,272	1,752,763	257,439	2,010,201
Total fee and commission income	**65,980,345**	**67,869,087**	**7,478,171**	**75,347,257**

Note 17 – Net fee and commission income (continued)

(in EUR)	2022	2021		
		Lux.	**Ams.**	**Tot.**
UNITED KINGDOM	1,568,924	947,595	-	947,595
ITALY	1,860,994	3,205,159	12,787	3,217,947
U.S.A.	2,215,059	1,226,380	-	1,226,380
LUXEMBOURG	653,797	756,152	-	756,152
FRANCE	4 804 408	948,340	-	948,340
RUSSIA	1,072,078	2,529,671	-	2,529,671
CYPRUS REP.	41	421	-	421
GERMANY	4,054,147	4,906,694	-	4,906,694
JAPAN	331,414	369,196	-	369,196
SOUTH KOREA	295,995	365,675	-	365,675
IRELAND	318,774	577,220	-	577,220
CHINA	287,041	312,795	-	312,795
SWITZERLAND	109,285	84,674	300	84,974
INDIA	392,180	406,062	-	406,062
TAIWAN	402,282	487,702	-	487,702
CAYMAN ISL	563,529	595,814	-	595,814
SOUTH AFRICA	228,335	179,539	-	179,539
HONG KONG	300,116	282,236	-	282,236
NETHERLAND	305,153	123,702	30,837	154,539
CANADA	63,496	26,807	-	26,807
SAUDI ARABIA	399,891	317,659	-	317,659
SPAIN	276,162	190,745	-	190,745
BRAZIL	104,007	115,419	-	115,419
PHILIPPINES	42,185	66,000	-	66,000
OTHER COUNTRIES	959,738	1,034,334	-	1,034,334
Total fee and commission expenses	**21,609,030**	**20,055,990**	**43,925**	**20,099,915**
Net fee and commission income	**44,371,315**	**47,813,097**	**7,434,246**	**55,247,342**

B. Contract balances

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

C. Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.
The following table provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Note 17 – Net fee and commission income (continued)

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 9 and 15 (applicable from 1 January 2018)
Corporate banking service	The Bank provides banking services to corporate customers. Fees for ongoing account management are charged to the customers' account on a monthly basis. Transaction-based fees are charged when the transaction takes place.	Revenue from account service is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Asset management service	The Bank provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customers' account balance on a monthly basis.	Revenue from asset management services is recognised over time as the services are provided.

Note 18 – Dividend income

As at 31 December 2022 dividend income relates to financial assets mandatorily measured at fair value and amount to EUR 29,029 (2021: EUR 45,309).

Note 19 – Net gains/(losses) on financial assets and liabilities held for trading

As at 31 December 2022 and 2021, the net (un)realised (losses) on financial assets and liabilities held for trading are composed of:

(in EUR)	**2022**	**2021**		
		Lux.	**Ams.**	**Tot.**
Equity instruments and linked derivatives	2,154	7,154	-	7,154
Interest rate instruments and linked derivatives	(4,825,374)	(5,634,417)	-	(5,634,417)
Foreign exchange transactions	(9,288,523)	(18,448,026)	21,332,704	2,884,678
	(14,111,743)	**(24,075,289)**	**21,332,704**	**(2,742,586)**

As at 31 December 2022 net (un)realised (losses) on financial assets and liabilities held for trading are mainly composed of :

- Losses unrealised on Interest rate swap contracts for an amount of EUR -5.1 million (of which EUR -2.4 linked to their NPV and EUR -2.6 million linked to interest rate differentials); as at 31 December 2021 corresponding figures were respectively EUR -3.9 million, EUR 0.02 million and EUR -3.9 million;

Note 19 – Net gains/(losses) on financial assets and liabilities held for trading (continued)

- Losses unrealised on Cross Currency Interest rate swap contracts for an amount of EUR -5.2 million, of which EUR 0.5 million of gains linked to their NPV and EUR -5.7 million of losses linked to the interest rate differentials related to the hedging of forex exposures; as at 31 December 2021 corresponding figures were respectively EUR -1.9 million, EUR 0.6 million and EUR -2.5 million.
- Global negative impact generated by foreign translation differences and fex contratcs for an amount of EUR -4.1 million (2021: EUR -17 million).

Note 20 – Net gains/(losses) on financial assets and liabilities at fair value through profit or loss

As at 31 December 2022 the net (un)realised losses on financial assets and liabilities at fair value through profit or loss are mainly composed of unrealised gains on assets classified at fair value through profit or loss for an amount of EUR (47,232) (2021 unrealised gains: EUR 83,110).

Note 21 – Net gains/(losses) on financial assets and liabilities not at fair value through profit or loss

As at 31 December 2022 net realised gains on financial assets and liabilities not at fair value through profit or loss are mainly composed of net gains realised on the sale of bond instruments measured at FVTOCI perfectly hedged by interest rate swaps (asset swaps portfolio).

(in EUR)		**2022**			**2021**	
	Profits	**Losses**	**Net**	**Profits**	**Losses**	**Net**
Due from banks and customers	140,635	-	140,635	2,040,485*	(166,898)	1,873,587
Financial assets measured at FVTOCI	127,450,756	(111,310,563)	16,140,193	14,404,326	(2,624,164)	11,780,162
Debt securities	*127,450,756*	*(111,310,563)*	*16,140,193*	*14,404,326*	*(2,624,164)*	*11,780,162*
Equities	-	-	-	-	-	-
Total assets	**127,450,756**	**(111,310,563)**	**16,140,193**	**16,444,811**	**(2,791,062)**	**13,653,749**
Securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-
Net realised gains and losses	**127,591,391**	**(111,310,563)**	**16,280,829**	**16,444,811**	**(2,791,062)**	**13,653,749**
					Lux	*13,650,976*
					AMS	*2,773*

**Of which 2,773 EUR generated by Amsterdam branch*

Through the disposal of each asset swap before maturity, losses realised by the Bank on each bond have been compensated by gains realised on the related hedged (and vice versa).

The amounts presented in the table are composed by losses realised on bonds for an amount of EUR 106 million and gains realised on interest rate swap contracts unwinded before their maturity for an amount of EUR 122 million.

As at 31 December 2021 corresponding figures were respectively EUR -4.2 million, EUR -1.5 million and EUR -2.7 million. Those contracts have been unwinded in relation to the sale of bond instruments disclosed in note 22.

Note 22 – Net other operating expenses

As at 31 December 2022 and 2021, net other operating expenses are mainly composed of withholding taxes which are linked to the Bank's business activity and VAT and amount to EUR 3,919,942 (2021: EUR 4,543,871).

Note 23 – Administrative expenses

(in EUR)	2022		2021	
		Lux.	Ams.	Tot.
Wages and salaries	16,843,835	15,566,866	819,940	16,386,806
Social security charges	2,524,949	2,429,490	216,285	2,645,775
Legal pension and similar expenses	839,731	793,632	161,147	954,779
Employee benefits	1,837,942	1,986,195	179,676	2,165,871
Other	1,862,306	1,646,475	9,414	1,655,889
Total staff expenses	**23,908,762**	**22,422,658**	**1,386,462**	**23,809,120**
Operating expenses	8,843,674	8,874,091	36,204	8,910,295
Repair and maintenance	273,425	301,118	959	302,077
Training and moving	1,694,400	941,779	98,246	1,040,025
IT outsourcing costs	8,748,559	8,869,681	178,871	9,048,552
Legal and professional fees	1,445,225	1,757,475	39,735	1,797,210
Marketing and representation fees	2,068,000	1,587,714	-	1,587,714
Charges linked to Corporate activity and other charges	2,183,478	2,421,345	186,559	2,607,904
Total general and administrative expenses	**25,257,362**	**24,753,203**	**540,576**	**25,293,778**
Total administrative expenses	**49,166,124**	**47,175,860**	**1,927,038**	**49,102,898**

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

	2022	2021
Senior Management	3	4
Middle Management	52	55
Employees	110	106
	165	**165**

Note 24 – Net impairment result on financial assets

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

(in EUR)	2022			2021
	Write-downs	**Write-backs**	**Total**	**Total**
Loans and advances	(338,558,276)	5,0056,202	(333,502,074)	26,077,536
Luxembourg	*(338,558,276)*	*5,056,202*	*(333,502,074)*	*25,839,533*
Amsterdam	-	-	-	*238,003*
Debt securities	(652,123)	676,611	24,488	(293,447)
Luxembourg	*(652,123)*	*676,611*	*24,488*	*(293,447)*
Amsterdam	-	-	-	-
Impairment	**(339,210,400)**	**5,732,813**	**(333,477,587)**	**25,784,089**

Lux	*25,546,086*
Ams	*238,003*

Note 25 – Related party disclosures

Identity of related parties

The Bank has a related party relationship with its direct and non-direct parent companies, entities of its Group and with its directors (hereafter "administrative bodies") and executive officers (hereafter "other key management personnel"). All transactions made with related parties are concluded on an arm's length basis.

The amount of main assets, liabilities, income and expenses as at 31 December 2022 and 2021 concerning Group entities and the parent companies are as follows:

(in EUR)	2022	2021
Assets and liabilities		
Assets held for trading and assets carried at fair value through profit or loss	1,363,232	4,829,853
Investment securities mandatorily measured at FVTPL	400,214	502,820
Investment securities at FVTOCI	1,711,186	211,185
Loans and advances	5,282,017,820	6,880,457,841
Hedging derivatives – Assets	404,038,445	29,152,464
Tangible assets*	9,347,729	770,131
Other assets	55,789,741	8,854
Financial liabilities held for trading and liabilities carried at fair value through profit or loss	20,349,058	32,574,299
Financial liabilities measured at amortised cost*	7,870,960,394	8,198,362,995
Hedging derivatives – Liabilities	15,681,046	40,860,035
Provisions	290,706	183,724
Othher liabilities	519,736	217,257

Note 25 – Related party disclosures (continued)

(in EUR)	2022	**2021**
Income and expenses		
Interest income*	71,765,879	15,743,634
Fees and commissions income	322,563	378,349
Dividend income	29,029	45,309
Net (un)realised gains and losses on financial assets and liabilities held for trading	(34,748,049)	(104,281,298)
Net unrealised losses on financials assets and liabilities held for hedging	401,038,472	43,062,861
Net (un)realised gains and losses on financials assets and liabilities at fair value through profit or loss	(47,232)	83,110
Interest expenses*	(104,309,274)	(58,753,410)
Fees and commissions expenses	(6,022,571)	(3,954,584)
Impairment	(99,113)	1,632,149
Administrative expenses	(12,905,321)	(12,321,887)
Other income and expenses	(2,035,132)	(1,667,712)
Depreciation*	(1,756,301)	(1,671,992)
Provisions	(131,719)	(106,122)
Discontinued operations	15,000,000	1,020,000

**Tangible assets amount (and the related amount booked in caption "Depreciation") relates to real estate operating lease contract subscribed by the Bank with its Parent Company Intesa Sanpaolo Holding International S.A. (ISPH); concerning financial liabilities measured at AC, the amount includes EUR 240 mio of deposits and EUR 2,905 mio of debt certificates with ISPH. In relation to Income and expenses captions, interest expenses related to transactions with ISPH amounted to EUR 28 mio.*

Key management personnel

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

(in EUR)	**2022**	**2021**
Administrative bodies	124,501	98,681
Other key management personnel	670,126	804,392
	794,627	**903,073**

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

As at 31 December 2022 and 2021, the Bank has no obligations related to retirement pensions for former administrative bodies and key management personnel.

As at 31 December 2022 and 2021, the Bank has not granted advances and credits and has not entered into guarantee commitments for the above mentioned bodies and personnel.

Note 25 – Related party disclosures (continued)

During 2021 the Bank has paid bonuses to other key management personnel for an amount of EUR 112,814 (2021: EUR 192,863).

Share-based payment transactions

On 30 April 2019, 17 March 2020, 23 February 2021 and 29 April 2022 the Bank granted share appreciation rights (SARs) to employees identified as *Group Risk Takers* that entitle the employees to a cash and shares payment. The amount of the shares payment is determined based on the increase/decrease in the share price of the Ultimate Parent Company shares between grant date and the time of exercise.

The terms and conditions of the grants are as follows:

Grant date	Number of instruments	Assignment	Number of instruments	Vesting conditions
SARs granted at 30 April 2019	25,707	25,707	-	3 years services
SARs granted at 17 March 2020	32,862	28,261	4,600	2 years services
SARs granted at 23 February 2021	24,725	14,836	9,889	2 years services
SARs granted at 29 April 2022	92,136	-	92,136	2 years services
	175,429	**68,804**	**106,625**	

Details of liabilities arising from SARs are as follows:

(in EUR)	2021	2020	2019	Total
Total carrying amount of liabilities	409,131	42,836	27,892	431,664
- *Cash*	*215,000*	*22,000*	*18,200*	*255,200*
- *Shares*	*194,131*	*20,836*	*9,692*	*176,464*

Note 26 – Commitments and contingent liabilities

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

(in EUR)	2022	2021		
		Lux	Ams	Tot.
Unused confirmed credits	3,271,263,269	2,802,675,661	1,732,060,850	4,534,736,511
- out of which towards related parties	*3,162,933*			*245,260*
Guarantees and other direct substitutes for credit	107,595,777	140,665,853	124,884,091	265,549,944
- out of which towards related parties	*2,051,515*	*23,556,515*	*88,304,193*	*111,860,708*

Note 26 – Commitments and contingent liabilities (continued)

Guarantees received by the Bank:

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

(in EUR)	2022		2021	
	Contingent liabilities	**Unused confirmed credits**	**Contingent Liabilities**	**Unused confirmed credits**
Net carrying amounts	**107,595,777**	**3,271,263,269**	**272,861,908**	**4,172,820,132**
Real guarantees				
Securities	-	-	-	-
Other real guarantees	479,690	2,715,831	484,691	2,579,373
Personal guarantees				
Government guarantees	-	615,659,385	-	723,199,034
Credit institutions guarantees	-	8,435,113	-	-
Total guarantees	**479,690**	**626,810,329**	**484,691**	**725,778,408**

Note 27 – Deposit guarantee and investor compensation schemes

The law related to the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes ("the Law"), transposing into Luxembourgish law the directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and the directive 2014/49/EU related to deposit guarantee and investor compensation schemes, was passed on 18 December 2015. The deposit guarantee and investor compensation scheme "Association pour la Garantie des Dépôts Luxembourg" (AGDL) was replaced by a new contribution based system of deposit guarantee and investor compensation scheme. This new system covers eligible deposits of each depositor up to an amount of EUR 100,000 and investments up to an amount of EUR 20,000. The Law also provides that deposits resulting from specific transactions or fulfilling a specific social or other purpose are covered for an amount above EUR 100,000 for a period of 12 months.

The funded amount of the "Fonds de résolution Luxembourg" (FRL) shall reach by the end of 2026 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States. This amount will be collected from the credit institutions through annual contributions during the years 2015 to 2024.

The target level of funding of the "Fonds de Garantie des Dépôts Luxembourg" (FGDL) is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and was to be reached by the end of 2018 through annual contributions. The contributions were made in the form of annual payments during the years 2016 to 2018.

Since the level of 0.8% was reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

Note 28 – Investment management services and underwriting functions

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

- Corporate services;
- Custody.

Assets managed on behalf of third parties are as follows:

(in EUR)	**2022**	**2021**
Custody and administration of transferable securities	9,698,519,997	10,097,965,350

Note 29 – Audit fees

The audit fees and audit related fees for the years ended 31 December 2022 and 2021 are as follows:

(in EUR)	**2022**	**2021**
Statutory audit fees	224,826	180,164
Audit related fees	365,786	360,500
Other	113,790	158,000
	704,402	**698,664**

Note 30 – Encumbered assets

In 2022 and 2021 the Bank participated to the Long Term Refinancing Operation mechanism organised by the Banque centrale du Luxembourg for an amount of EUR 1,500 million (2021: EUR 1,500 million). Those deposits were collateralised by eligible securities classified in the securities at fair value through OCI portfolio for an amount of EUR 2,191 million in 2021 and they have been fully reimbursed at the end of 2022 explaining the significant decrease in value of assets encumbered as at the end of 2022, compared to the end of 2021.

	ENCUMBERED		**UNENCUMBERED**		**CARRYING AMOUNT**	
(in EUR)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**2022**	**2021**
Cash and cash equivalents	-	-	5,743,375,502	-	5,743,375,502	6,942,811,330
Debt securities	11,224,741	11,224,741	2,983,755,429	2,983,755,429	2,994,980,170	3,695,807,871
Equities	-	-	400,214	400,214	400,214	502,820
Loans and advances	-	-	9,120,183,992	-	9,120,183,992	10,382,695,925
Other financial assets	-	-	405,842,480	-	405,842,480	35,018,151
Non financial assets	-	-	100,189,656	-	100,189,656	35,116,575
Total 2022	**11,224,741**	**11,224,741**	**18,354,747,274**	**2,984,155,643**	**18,364,972,014**	**21,091,952,672**

Note 31 – Analysis of changes in financing during the year

In EUR	Liabilities Debt Securities	 Subordinated Liabilities	Equity Ordinary Shares	 Share Premium	 Retained Earnings	Total
Opening balance at 1 January 2022	**4,157,280,112**	**200,000,000**	**1,389,370,555**	**7,720,692**	**146,519,338**	**5,900,890,698**
Changes from financing cash flows						
Proceeds from issue of debt securities	4,494,925,304					4,494,925,304
Repayment of debt securities	(4,157,280,113)					(4,157,280,113)
Proceeds from issue of subordinated loans						
Proceeds from disposal of assets						
Total changes from financing cash flow	337,645,192					337,645,192
Other changes					(243,747)	(243,747)
Allocation of 2021 result					134,802,203	134,802,203
Balance at 31 December 2022	**4,494,925,304**	**200,000,000**	**1,389,370,555**	**7,720,692**	**281,077,795**	**6,373,094,346**

In EUR	Liabilities Debt Securities	 Subordinated Liabilities	Equity Ordinary Shares	 Share Premium	 Retained Earnings	Total
Opening balance at 1 January 2021	**3,794,685,682**	**200,000,000**	**1,389,370,555**	**7,720,692**	**86,375,207**	**5,478,152,136**
Changes from financing cash flows						
Proceeds from issue of debt securities	4,042,256,908	-	-	-	-	4,042,256,908
Repayment of debt securities	(3,679,530,007)	-	-	-	-	(3,679,530,007)
Proceeds from issue of subordinated loans	-	-	-	-	-	-
Proceeds from disposal of assets	-	-	-	-	-	-
Total changes from financing cash flow	362,726,901	-	-	-	-	12,735,740
Allocation of 2020 result	(132,470)	-	-	-	(320,469)	(452,939)
Other changes	-	-	-	-	60,464,600	60,464,600
Balance at 31 December 2021	**4,157,280,112**	**200,000,000**	**1,389,370,555**	**7,720,692**	**146,519,338**	**5,900,890,698**

Note 32 – Non-current assets held for sale and disposal groups

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

Discontinued operations relate to the branch of the Bank in Amsterdam, which has been transferred to Intesa Sanpaolo S.p.A. in January 2022 with effectiveness starting from 1 January 2022.

At the end of 2020, IMI Corporate & Investment Banking Division ("IMI CIB") launched a project aimed at the reorganization and growth of the Division's international activities.
Among the initiatives planned by the project to implement the pillars of the new strategy, it has been decided the transfer of Intesa Sanpaolo Bank Luxembourg S.A.'s ("the Bank" or "ISPBL") Amsterdam branch to its ultimate Parent Company Intesa Sanpaolo S.p.A. ("ISP S.p.A."), including it in the coordination of the new Hub in Milan.

The project has been presented to the Board of Directors of the Bank in December 2020 and it resolved to approve the start of the process related to the transfer of the Bank Amsterdam Branch to ISP S.p.A..

The Board of Directors also resolved to give mandate to all members of the Authorized Management of ISPBL to perform the tasks necessary to implement the transfer including the engagement of the advisors.

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

The transfer has been realised in January 2022 with effectiveness starting from 1 January 2022.

The table below provides details of the amounts presented in the statement of profit or loss with respect to 2021 discontinued operations:

(in EUR)	**2021**
Net interest margin	9,343,900
Net commission margin	7,434,246
Net (un)realised gains on financial assets and liabilities held for trading	21,332,704
Net realised gains on financial assets and liabilities not at FVTPL	2,773
Net operating margin	14,929
Administrative expenses	(1,927,038)
Depreciation and amortization	(228,939)
Provisions	377,714
Net impairment loss on financial assets	238,003
Tax (expense) related to profit from continuing operations	(3,095,923)
Net profit after taxes	**33,492,371**

Note 32 – Non-current assets held for sale and disposal groups (continued)

The table below provides details of the assets held for sale and liabilities directly associated with the 2021 assets held for sale in the statement of financial position:

ASSETS	**2021**
(in EUR)	
Cash and cash balances with central banks	7,042,789
Loans and advances	994,182,897
Loans and advances to credit institutions	*494,503,322*
Loans and advances to customers	*499,679,574*
Tangible fixed assts	161,020
Current tax assets	8,023,956
Other assets	1,227,432
Non-current assets held-for-sale and disposal groups	**1,010,638,094**

LIABILITIES	**2021**
(in EUR)	
Financial liabilities measured at Amortized Cost	1,385,686,899
Deposits from credit institutions	*426,851,462*
Deposits from customers	*958,835,437*
Provisions	451,484
Current tax liabilities	6,387,381
Other liabilities	4,842,595
Non-current liabilities held-for-sale and disposal groups	**1,397,368,360**

Figures presented in the above tables do not include transactions between the branch and the Bank.

The transfer has generated a cash consideration paid by Intesa Sanpaolo S.p.A. to the Bank for an amount of EUR 15,000,000.

Private Banking transfer to Fideuram Bank S.A.

The Bank has negotiated with Fideuram Bank S.A. the transfer of its private banking business, which has been finalized on the 1st of August 2021.

The transfer included resources directly involved in the private banking business and the transfer of deposits for a total amount of EUR 506 million, split in different currencies.

In terms of asset under management, the Bank transferred an amount of EUR 700 million.

The transfer has generated a cash consideration paid by Fideuram Bank S.A. to the Bank for an amount of EUR 1,020,000.

Note 33 – Events after the reporting date

The Bank is not aware of any adjusting event that would have occurred between 31 December 2022 and the date when the present financial statements were authorised for submission by the Board of Directors to the Annual General Meeting of Shareholders.