Financial statements,
Independent auditor's report
and Directors' report as at 31 December 2016

Intesa Sanpaolo Bank Luxembourg S.A.
Société Anonyme
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R.C.S. Luxembourg: B 13.859

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Directors' report
31 December 2016

Development of the activity

The economic scenario of 2016 has been rather volatile and affected by several contrasting trends. The initial months of the year were marked by a sharp drop in oil prices, which went below USD 30 per barrel for the first time in 13 years, by a sharp fall of China financial markets worried by an impending slowdown and a potential debt bubble and by the Bank of Japan joining the ECB and the Swiss National Bank in "the adoption of a negative rate policy".
Though some of the trends reversed during the year, with oil returning back to USD 57, bullish US Financial Markets following Mr. Trump election and the long expected 0.25% increase in USD interest rates, the first such signal after almost 10 years, the uncertainties surrounding the economic scenario remain high.

Europe in particular experienced significant incertitude in the economic and political scenario with a combination of low growth, below target inflation and the unexpected outcome of the Brexit referendum in the UK. The ECB not only maintained throughout the year a negative interest rate policy, but also took unprecedented measures with an asset purchase program averaging around EUR 80 billion per month, which effectively pushed below zero the return of almost all EU short term government bonds, even joined by a few selected corporate ones.

The generalized high liquidity and low interest rate environment, in particular in Europe, is also testing the ability of the banking sector to generate acceptable returns, in particular at a time when liquidity and capital requirements are becoming increasingly demanding.

Despite the elements of weakness and risk indicated above, during 2016 Intesa Sanpaolo Bank Luxembourg S.A. (the "Bank") was able to reach a positive performance, continuing in the implementation of its renewed business model, strengthening its capital base and successfully adapting to changes in the market environment and new economic conditions.
A description of the main changes is provided in the "Perspectives" paragraph below.

Although 2016 results were lower than the previous year, all business units achieved a positive result and the activities started during the year are expected to provide a robust base for the sustainability of the results in the coming exercises.

Corporate governance

The Bank is 99.5675% owned by Intesa Sanpaolo Holding International S.A., Luxembourg and 0.4325% owned by Intesa Sanpaolo S.p.A., Italy; Intesa Sanpaolo Holding International S.A. is itself fully owned by Intesa Sanpaolo S.p.A. ("the Parent Company").

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

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

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

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

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

In Luxembourg, the Bank has chosen Luxembourg as its origin member country and therefore 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 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 Chief Risk Officer with the Risk Management department.

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

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

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

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

Subsidiaries and branches

In June 2012, the Bank transferred the ownership of Intesa Sanpaolo Private Banking (Suisse), Lugano, to its local shareholder, Intesa Sanpaolo Holding International S.A., Luxembourg, through a partial demerger.

On 31 December 2014, the Bank held only one fully owned subsidiary, Lux Gest Asset Management S.A., Luxembourg, which is active as a management company for investment funds.

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

As a consequence, the Bank operates through its head-office located in Luxembourg-city and through its Branch located in Amsterdam at 31 December 2016.

Perspectives

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

During 2016 the Bank continued in the implementation of its 2014-2017 business plan.

The main activities completed during the year are:

1 The transfer of the Amsterdam branch from the Parent Company to the Bank, effective as of 1 February 2016;

2 The completion of implementation of a new business and organisational model in line with those adopted by foreign entities of the Corporate Investment Bank ("CIB") division of the Parent Company, which also included a change in the Authorized Management of the Bank and the appointment of a new Head of Corporate and Financial Institutions Division;

3 The Board of Directors of the Bank in accordance with Parent Company Intesa Sanpaolo S.p.A. have approved an own funds strengthening of the Bank for a global amount of EUR 1,249,999,892.27 maximum, to be realized in several tranches through:
   - a capital increase (TIER 1) of EUR 849,999,892.27 maximum to be realized in two tranches, the first by the end of September 2016;
   - a subordinated loan (TIER 2) of EUR 400,000,000 maximum to be granted during the second tranche of capital increase normally between the end of 2016 or during 2017.

   This own funds increase is aimed at supporting the Bank's business growth during the next years in line with the development plan and at respecting the regulatory requirements. According to this, on 22 September 2016 at 11 a.m. an Extraordinary General Shareholders' Meeting of the Bank was held aimed at increasing the share capital of the Bank. More in detail the following resolutions were adopted:
   - approval of the capital increase (TIER 1 capital) of EUR 449,999,892.27 by issuing new shares (1,445,911) without nominal value, having the same rights and privileges of the existing ones;
   - acceptance of the subscription of the new shares by the shareholder Intesa Sanpaolo Holding International and acceptance of the full payment by a contribution in cash for such new shares;
   - introduction of an authorized share capital for a global amount of EUR 1,389,370,555.36;
   - Amendment of article 5 of the Articles of Association of the Bank so as to reflect the new share capital (EUR 989,370,720.28 represented by 3,178,983 shares) and the said authorized share capital (EUR 1,389,370,555.36).

As a result of the above, and in accordance with the goals of the plan, Intesa Sanpaolo Bank Luxembourg S.A. promoted during the year a significant growth of its corporate lending activity resulting in a more diversified balance sheet structure with a reduced concentration on intra-group transactions, and in a larger contribution from the Corporate and Financial Institutions division to the overall revenues of the Bank, while at the same time maintaining and promoting its private/wealth management and its financial markets activities.

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 760,921 and to contribute to the FGDL paying an amount of EUR 60,072.

Financial elements for 2016

Total assets as at 31 December 2016 stood at EUR 18.0 billion (31 December 2015: EUR 16.2 billion).

Loans and advances to credit institutions (including balances with central banks) amounted to EUR 8.4 billion as at 31 December 2016, showing a decrease when compared to 31 December 2015 (EUR 9.8 billion). Loans and advances granted to customers other than credit institutions amounted to EUR 6.5 billion.

Financial assets held for trading are composed of derivative financial instruments measured at their fair value and amounted to EUR 25 million at 31 December 2016 (31 December 2015: EUR 107 million). These are mainly composed of interest rate swaps and foreign exchange derivative contracts.

Financial assets designated at fair value through profit or loss, which amounted to EUR 16.6 million as at 31 December 2016 (31 December 2015: EUR 18.3 million), are composed of a financial debt instrument purchased to be kept in the Bank's portfolio but measured at fair value.

Available-for-sale financial assets, which amounted to EUR 2.9 billion (31 December 2015: EUR 2.7 billion), are composed of sovereign debt securities (Italian Government) for an amount of EUR 2.6 billion, debt securities issued by the European Investment Bank for an amount of EUR 0.2 billion and covered bonds for an amount of EUR 0.1 billion.

Concerning liabilities, during 2016 Intesa Sanpaolo Bank Luxembourg S.A. participated in the LTRO mechanism with the Luxembourg Central Bank ("BCL") for an amount of EUR 1,317 million. To enter into such program, the Bank pledged in favour of the BCL part of its debt instruments kept in its available for sale portfolio which were eligible for such purpose.

Deposits from customers amounted to EUR 5.3 billion at end of the year (31 December 2015: EUR 5.3 billion). The Bank also issued debt certificates for an amount of EUR 8.5 billion (31 December 2015: EUR 8.1 billion) composed as follows:

- certificates of deposit: EUR 4.7 billion (mainly subscribed by Intesa Sanpaolo Holding International S.A., the Bank's local parent company);
- non-convertible bonds: EUR 3.8 billion, which are part of a European Commercial Paper program and of the European Medium Term Notes program described herein.

The net profit for the year amounts to EUR 122 million (2015: EUR 164 million), with a ROE equal to 8.23%.

Net interest income amounts to EUR 94 million at the end of 2016 (end 2015: EUR 130 million). Interest income and expense reflects the decrease in 2016 interest rates and early repayment of several intra-group loans.

Net fee and commission income is positive and amounts to EUR 45 million, showing a significant increase when compared with 2015 (EUR 16 million).

Net (un)realised losses on financial assets and liabilities held for trading amount to EUR 5 million as at 31 December 2016 (31 December 2015: loss of EUR 12 million). The lower loss compared to last year is mainly due to less negative fluctuations generated by derivatives fair value.

Net realised gains on financial assets and liabilities not at fair value through profit or loss amount to EUR 28 million as at 31 December 2016 (31 December 2015: gain of EUR 60 million) mainly thanks to gains of EUR 8 million realised on the sale of several AFS securities and gains of EUR 20 million realised on early redeemed intra-group loans as mentioned above.

Total administrative expenses amounted to EUR 35 million, higher than the previous year due to projects linked to the Bank new business development and the new Branch integration.

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

However, deferred tax assets and deferred tax liabilities generated by temporary differences have been booked as at 31 December 2016.

The net profit of the year available for distribution, including retained earnings (but excluding First Time Adoption "FTA") amounts to EUR 121,840,205. The Board of Directors will propose the following allocation of the profit to the Annual General Meeting which will be held to approve the financial statements as at 31 December 2016:

Net profit of 2016 financial year Retained profit from previous year (excluding first time adoption)	EUR 121,831,307 EUR 8,898
Amount attributable to shareholders	**EUR 121,840,205**
Allocation to legal reserve Allocation to other reserves	EUR 6,091,565 EUR 15,208,435

Dividend for the financial year	EUR 100,500,000
Total	EUR 121,800,000
Retained profit carried forward to the next financial year (excluding first time adoption)	EUR 40,205

Subsequent events

The Bank is not aware of any adjusting or non-adjusting event that would have occurred between 31 December 2016 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 2016. No research and development costs have been sustained during the year 2016.

Conclusion

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

Luxembourg, 17 February 2017

Ferdinando Angeletti
Administrateur Délégué & CEO

Cristiano PATALOCCHI
Chief Risk Officer
Directeur Agréé

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the financial statements

We have audited the accompanying financial statements of Intesa Sanpaolo Bank Luxembourg S.A., which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Responsibility of the Réviseur d'Entreprises agréé

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Intesa Sanpaolo Bank Luxembourg S.A. as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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.

Report on other legal and regulatory requirements

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

Luxembourg, 23 February 2017

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

S. Hustinx

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Intesa Sanpaolo Bank Luxembourg S.A.

Statement of financial position
31 December 2016
(expressed in EUR)

Assets	Notes	31.12.2016	31.12.2015
Cash and cash balances with central banks	3,4	79,503,903	54,111,918
Financial assets held for trading	3,5	25,469,017	107,139,364
Financial assets at fair value through profit or loss	3,5	16,550,671	18,295,521
Available-for-sale financial assets	3,6	2,944,460,046	2,669,278,226
Loans and advances	3,4,7		
Loans and advances to credit institutions		8,357,143,757	9,809,860,607
Loans and advances to customers		6,536,600,925	3,476,393,618
		14,893,744,682	13,286,254,225
Derivatives held for hedging	3,15	841,669	466,733
Tangible fixed assets	8	8,192,329	8,756,281
Intangible assets	9	3,843	4,967
Current tax assets	10	1,866,698	-
Deferred tax assets	10	7,882,772	4,657,927
Other assets	3,11	17,290,186	10,583,139
Total assets		17,995,805,816	16,159,548,301

Statement of financial position (continued)
31 December 2016
(expressed in EUR)

Liabilities and equity

	Notes	31.12.2016	31.12.2015
Deposits from central banks	3,12	1,316,971,256	591,259,790
Financial liabilities held for trading	3	88,695,094	17,094,289
Financial liabilities at fair value through profit or loss	3,13	16,065,533	17,670,580
Financial liabilities measured at amortised cost	3,14		
Deposits from credit institutions		584,302,635	478,821,979
Deposits from customers		5,342,660,924	5,299,298,971
Debts evidenced by certificates		8,505,566,000	8,085,075,796
		14,432,529,559	13,863,196,746
Derivatives held for hedging	3,15	97,582,506	112,144,797
Provisions	16	2,544,075	2,458,058
Current tax liabilities	10	2,225,310	-
Deferred tax liabilities	10	9,819,036	10,294,668
Other liabilities	11	50,057,644	27,981,052
Total liabilities		16,016,490,013	14,642,099,980
Equity	17		
Share capital		989,370,720	535,091,520
Share premium		7,720,692	-
Revaluation reserve		4,690,235	13,653,951
Other reserves and retained earnings		855,702,849	805,040,885
Net profit for the year		121,831,307	163,661,965
Total equity		1,979,315,803	1,517,448,321
Total liabilities and equity		17,995,805,816	16,159,548,301

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

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2016
(expressed in EUR)

	Notes	31.12.2016	31.12.2015
CONTINUING OPERATIONS:	18		
Interest income		244,580,215	267,582,510
Interest expenses		(150,611,323)	(137,866,727)
Net interest income		**93,968,892**	**129,715,783**
	19		
Fee and commission income		66,165,193	32,642,996
Fee and commission expenses		(21,541,885)	(16,326,809)
Net fee and commission income		**44,623,308**	**16,316,187**
Dividend income	20	**916,093**	**1,319,046**
Net (un)realised losses on financial assets and liabilities held for trading	21	**(5,185,722)**	**(12,177,585)**
Net (un)realised losses on financial assets and liabilities at fair value through profit or loss	22	**(60,114)**	**(160,422)**
Net realised gains on financial assets and liabilities not at fair value through profit or loss	23	**27,877,144**	**59,665,693**
Net other operating expenses	24		
Other operating income		1,546,129	1,596,797
Other operating expenses		(6,813,207)	(9,379,608)
		(5,267,078)	**(7,782,811)**
Administrative expenses	25,32	**(34,904,259)**	**(27,652,358)**
Depreciation and amortisation	8,9	**(613,078)**	**(728,941)**
Provisions	16	**(74,500)**	**(190,020)**
Net impairment result on financial assets	26	**2,775,931**	**1,525,797**
Tax (expense) income related to profit from continuing operations	10	**(2,225,310)**	**3,530,122**
Net profit for the year		**121,831,307**	**163,380,491**
DISCONTINUING OPERATIONS:			
Profit (loss) from discontinued operations, net of tax	27	**-**	**281,474**
NET PROFIT FOR THE YEAR		**121,831,307**	**163,661,965**

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

Statement of profit or loss and other comprehensive income (continued)
For the year ended 31 December 2016
(expressed in EUR)

	31.12.2016	31.12.2015
Net profit for the year	**121,831,307**	**163,661,965**
Other comprehensive income :		
Items that are or may be reclassified to profit or loss		
Net change in fair value on available-for-sale financial assets	(12,664,194)	194,577
Deferred tax relating to the components of other comprehensive income	3,700,478	(56,856)
Other comprehensive income for the year, net of tax	**(8,963,716)**	**137,721**
Total comprehensive income for the year	**112,867,591**	**163,799,686**

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of changes in equity
31 December 2016
(expressed in EUR)

	Issued share capital	Share premium	Revaluation reserve on AFS	Reserves: Legal reserve	Reserves: Other reserves	Reserves: Retained earnings	Total Reserve and retained earnings	Profit of the year before appropriation	Total
Note	17		17	17	17	17		17	
Balance as at 1st January 2015	**535,091,520**	**-**	**13,516,230**	**53,550,000**	**683,103,309**	**4,895,963**	**741,549,272**	**163,491,613**	**1,453,648,635**
Total comprehensive income	-	-	137,721	-	-	-	-	163,661,965	**163,799,686**
Transfers and appropriation of prior year's profit	-	-	-	-	63,570,000	(78,387)	63,491,613	(63,491,613)	-
Transfers	-	-	-	-	-	-	-	-	-
Dividend for the financial year	-	-	-	-	-	-	-	(100,000,000)	**(100,000,000)**
Capital decrease	-	-	-	-	-	-	-	-	-
Capital increase	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2015	**535,091,520**	**-**	**13,653,951**	**53,550,000**	**746,673,309**	**4,817,576**	**805,040,885**	**163,661,965**	**1,517,448,321**
Total comprehensive income	-	-	(8,963,716)	-	-	-	-	121,831,307	**112,867,591**
Transfers and appropriation of prior year's profit	-	-	-	-	62,660,000	1,965	62,661,965	(62,661,965)	-
Amsterdam Branch Contribution in Kind	4,279,308	7,720,692	-	-	(12,000,000)	-	(12,000,000)	-	-
Dividend for the financial year	-	-	-	-	-	-	-	(101,000,000)	**(101,000,000)**
Capital decrease	-	-	-	-	-	-	-	-	-
Capital increase	449,999,892	-	-	-	-	-	-	-	**449,999,892**
Balance as at 31 December 2016	**989,370,720**	**7,720,692**	**4,690,235**	**53,550,000**	**797,333,308**	**4,819,541**	**855,702,849**	**121,831,307**	**1,979,315,803**

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

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of cash flows
For the year ended 31 December 2016
(expressed in EUR)

		31.12.2016	31.12.2015
Profit before tax	**Notes**	**124,056,617**	**160,131,843**
Adjustments:			
Depreciation / amortisation	**8,9**	613,078	728,941
Impairment for credit losses	**26**	287,605	693,646
Reversal of loan impairment	**26**	(3,063,536)	(2,219,443)
Provisions and other income/expenses		86,017	176,047
Fair value adjustments		(23,579,542)	47,354,616
Cash flows from operating profits before changes in operating assets and liabilities		**98,400,239**	**206,865,650**
Net (Increase)/decrease in trading assets		92,260,725	5,391,584
Net (Increase)/decrease in loans and advances to credit institutions		1,723,572,567	(240,894,631)
Net (Increase)/decrease in loans and advances to customers		(3,057,431,376)	(1,200,882,371)
Net (Increase)/decrease in available-for-sale assets		(288,762,106)	167,047,504
Net (Increase)/decrease in financial assets designated at fair value through profit and loss		1,394,698	381,375
Net (Increase)/decrease in other assets		(8,573,747)	3,861,614
Net (Increase)/decrease in trading financial liabilities		69,792,544	(6,338,395)
Net (Increase)/decrease in deposits from credit institutions		105,480,656	(376,019,301)
Net (Increase)/decrease in deposits from Central bank		725,711,466	500,334,108
Net (Increase)/decrease in deposits from customers		43,361,953	1,780,243,658
Net Increase/(decrease) in financial liabilities at FVtPL & in other liabilities		20,681,894	(10,770,279)
Net cash flows from/(used in) operating activities		**(474,110,487)**	**829,220,516**
Dividends received	**20**	916,093	1,319,046
Acquisition and disposal of property and equipment	**8**	(48,001)	(127,060)
Net cash flows/(used in) from investing activities		**868,092**	**1,191,986**
Dividends paid	**17**	(101,000,000)	(100,000,000)
Net increase/(decrease) in debts evidenced by certificates		420,490,204	1,227,722,571
Increase in share capital	**17**	449,999,892	-
Net cash flows/(used in) from financing activities		**769,490,096**	**1,127,722,571**
Net (decrease)/increase in cash and cash equivalents		**296,247,701**	**1,958,135,073**

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

Intesa Sanpaolo Bank Luxembourg S.A.

Statement of cash flows (continued)
For the year ended 31 December 2016
(expressed in EUR)

	Notes	31.12.2016	31.12.2015
Cash and cash equivalents at the beginning of the year		**2,016,313,243**	**58,178,170**
Net increase/decrease in cash and cash equivalents		296,247,701	1,958,135,073
Cash and cash equivalents: exchange rate fluctuations		-	-
Cash and cash equivalents at the end of the year	**4**	**2,312,560,944**	**2,016,313,243**

Note 1 – General information

Intesa Sanpaolo Bank Luxembourg S.A. (hereafter the "Bank") 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, private banking 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.

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

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

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

Based on the two above mentioned capital increase, as at 31 December 2016, 99.5675% of the Bank share capital is owned by Intesa Sanpaolo Holding International S.A. and the remaining 0.4325% is directly owned by Intesa Sanpaolo S.p.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 17 February 2017.

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

Note 2 – Significant accounting policies

(a) Basis of preparation

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

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted for use in the European Union ("IFRS") 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. The fair value of a liability reflects its non-performance risk.

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

If there is not quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation techniques incorporate all of the factors that market participants would take into account in pricing a transaction.

Note 2 – Significant accounting policies (continued)

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

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

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

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

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

Impairment losses on loans and advances

The Bank reviews its non-performing loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of profit or loss. In particular, judgement by the Board of Directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

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

- recent arm's length 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 requires significant estimation. The Bank calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions in the same instrument of from other available observable market data.

Impairment of available-for-sale equity investments

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

(c) Changes in accounting policies

New currently effective requirements

Except for the changes below, the Bank has consistently applied accounting policies as set out in Note 2.d to all periods presented in these financial statements.

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016:

- Annual Improvements to IFRSs 2012-2014 Cycle;
- IFRS 14 Regulatory Deferral Accounts;
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11);
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);
- Equity Method in Separate Financial Statements (Amendments to IAS 27);
- Disclosure initiative (Amendments to IAS 1).

These changes did not to have a material impact on the Bank's financial statements.

Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and earlier application is permitted; however the Bank has not yet early applied the following new or amended standards in preparing these financial statements.

Note 2 – Significant accounting policies (continued)

IFRS 9 Financial instruments

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

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.
The Bank has started the process of evaluating the potential effect of this standard, jointly with its Head Quarter Intesa Sanpaolo S.p.A.. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

Based on Local Regulators questions, a qualitative assessment has been performed and provided to evaluate IFRS 9 impacts. The Bank, jointly with its Head Quarter has informed CSSF that:

- It has foreseen to undertake a parallel run starting from 30 June 2017;
- No retrospective application will be will be made;
- A debt securities assessment has been performed on a "instrument by instrument" basis;
- Bonds carried at Fair value through Other Comprehensive income failing the Solely Payements of Principal and Interest (SPPI) test mainly refer to:
  - Contractually linked instruments which will require the look through test on the underlying pool of financial instruments;
  - Constant maturity rate bonds and assets with a structured rate of interest;
  - Convertible bonds and leveraged inflation linked instruments;
  - Instruments whose deferred interest does not accrue additional interests.
- In terms of hedge accounting, the Bank will continue on IAS 39 with carve-out.

With reference to the methodology used to estimate Expected Credit Losses, as at today the Intesa Sanpaolo Banking Group adopts the PD (Probability of Default) x LGD (Loss Given Default) approach for each performing loan portfolio (stages 1 and 2), using 12 month PDs / Lifetime PDs as well as LGDs, without including the so called "downturn" factors (no downturn LGDs).
At this level of the analyses, the Group expects that the PD x LGD approach will be also confirmed in the implementation of IFRS 9, even though some different considerations could be possibly made for specific portfolios or cases. On the basis of analyses carried out so far (but still to be completed) loss allowances on non performing instruments (stage 3) show no substantial changes with respect to IAS 39 measurement.
Moreover, the Group is planning to include an "add-on" on methodology parameters (PD and LGD) to incorporate multiple scenario impacts on ECL (Expected Credit Losses) and staging calculation and it will use the most likely scenario plus an add-on also to include forward looking information.
It is expected that the main difference between IAS 39 and IFRS 9 loss allowances will be allocated in Stage 2, due to loss on the expected lifetime, while it is not expected differences as relevant as those of Stage 2 in Stage 1 and Stage 3.

The Bank is currently preparing an IFRS 9 quantitative assessment.

Note 2 – Significant accounting policies (continued)

IFRS 15 Revenue from Contracts with customers

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

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

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

Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

The Bank intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the amendments.

The Bank does not expect any significant impact.

The other following recent changes to IFRS are not expected to have a significant impact of the Bank's financial statements:

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);
- Leases (IFRS 16);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

Note 2 – Significant accounting policies (continued)

(d) Summary of significant accounting policies

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

Foreign currency translation

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

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

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

(i) Classification

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

Financial assets at fair value through profit or loss

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

- it is classified as held for trading if it is acquired for the purpose of short term profit taking;

Note 2 – Significant accounting policies (continued)

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

<u>Loans and advances</u>

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

<u>Available-for-sale financial assets</u>

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

(ii) Initial recognition and subsequent measurement

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

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. However, if the transaction price of a financial instrument differs from the fair value and if such fair value is evidenced by a quoted price in an active market for an identical asset or liability, the Bank will recognize the instrument at fair value. The difference between the fair value at initial recognition and the transaction price will be accounted as a gain or loss in the statement of profit or loss.

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

However, interest calculated using the effective interest method is recognised in the statement of profit or loss.

Note 2 – Significant accounting policies (continued)

(iii) Derecognition

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

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

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

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

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

Note 2 – Significant accounting policies (continued)

(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.

The Bank assesses whether embedded derivatives are required to be separated from the host contracts when the Bank becomes party to the contract. Reassessment only occurs when:
- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- embedded instruments, even though separate, fully meet the definition of derivative;
- combined instruments are not measured at fair value with changes in fair value recognised through profit or loss."

An exception relates to call, put, prepayment options embedded in a host loan, where the exercise price compensates the lender for loss of interest by reducing the economic loss from re-investment risk.

Such a type of embedded derivatives is closely related to the host contract in either of the following scenarios:
- The exercise price of the option is approximately equal on each exercise date to the amortised cost of the host loan instrument;

Note 2 – Significant accounting policies (continued)

- The exercise price of the prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid, multiplied by the interest rate differential, which is the excess of the effective interest rate of the host contract over the effective interest rate that the lender would receive at the prepayment date if it re-invested the principal amount prepaid in a similar contract for the remaining term of the host contract.

(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.

Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to meet the definition of derivative are recorded separately from the host contract at fair value.

(iii) Trading

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

(iv) Hedging

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

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

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

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

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

Note 2 – Significant accounting policies (continued)

Fair value hedges

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

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

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

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

(v) Derecognition

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

Financial guarantee contracts and loan commitment

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

Loan commitments are firm commitments to provide loans or advances under pre-specified terms and conditions.

Financial guarantee contracts and loan commitments are recognised 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.

Note 2 – Significant accounting policies (continued)

Repurchase agreements and reverse repurchase agreements

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

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

Offsetting

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

Impairment of financial assets

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

Indicators of impairment include:

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

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

Note 2 – Significant accounting policies (continued)

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

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

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

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

Tangible and intangible fixed assets

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

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

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

- buildings	40 years
- transformation costs	5-10 years
- fixtures and fittings	5 years
- softwares	1-5 years

Note 2 – Significant accounting policies (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the 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, plant and equipment item at incurrence in the carrying amount of this item if that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the statement of profit or loss as an expense as incurred.

Other assets

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

Impairment of non-financial assets

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

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

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

Note 2 – Significant accounting policies (continued)

Cash and cash equivalents

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

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

Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.
Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. They include:

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

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.

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.

Note 2 – Significant accounting policies (continued)

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

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

In relation to negative interest rates, the Bank recognises negative interest rates generated by placements or assets in the interest expense caption, while positive interests generated by deposits or liabilities in the interest income captions.

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.

Dividend income

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

Note 2 – Significant accounting policies (continued)

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

Gains and losses on financial assets and liabilities are recognised in the statement of profit or loss at the date of sale, on the basis of difference between the consideration paid or collected and the carrying amount of such instruments. In case of Available for sale assets, gains and losses are adjusted to take into consideration premiums and discounts accrued as at the date of sale.

Taxes

Current income tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the statement of financial position date.
In accordance to the local law (article 164 LIR) a company can neutralise its current income taxes thanks to the consolidation of taxable results with the taxable losses generated by its Parent Company located in Luxembourg.

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

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

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

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

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

Note 2 – Significant accounting policies (continued)

Current tax and deferred tax relating to items recognised directly in other comprehensive income are also recognised in other comprehensive income and not in the statement of profit or loss.

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

Note 3 – Financial risk management

(a) Introduction and overview

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

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

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

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

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

(b) Credit risk

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

Credit risk arises due to:

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

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

- the Bank grants credits in priority to corporate clients who are often also clients of the Group or are part of the Group;
- calculation of the impact on capital requirements is made for all new credit transactions. The objective is to maintain the adequate ratio of the own funds beyond the 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;
- a large proportion of the loans are collateralised by pledges (cash or securities);
- the Bank does not systematically require a 100% collateral as a guarantee. It depends on the reputation of the borrower.

Credit risk is assessed by reviewing:

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

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.

Note 3 – Financial risk management (continued)

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

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

	Maximum exposure	
(in EUR)	**2016**	**2015**
Cash and cash balances with central banks	79,503,903	54,111,918
Financial assets held for trading	25,469,017	107,139,364
Financial assets at fair value through profit or loss	16,550,671	18,295,521
Available-for-sale financial assets	2,944,460,046	2,669,278,226
Loans and advances	14,893,744,682	13,286,254,225
Derivatives held for hedging	841,669	466,733
Other assets	17,290,186	10,583,139
Total	**17,977,860,174**	**16,146,129,126**
Guarantees	215,309,119	35,826,219
Commitments	3,520,103,961	585,824,899
Total	**3,735,413,080**	**621,651,118**

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

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

Note 3 – Financial risk management (continued)

(ii) Credit quality per class of financial assets

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

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

(in EUR)	Performing assets 2016	Doubtful assets 2016	Substandard exposures 2016	Past due exposures 2016	Total 2016
Financial assets held for trading	25,469,017	-	-	-	**25,469,017**
Financial assets at fair value through profit or loss	16,550,671	-	-	-	**16,550,671**
Available-for-sale financial assets	2,944,460,046	-	-	-	**2,944,460,046**
Loans and advances	14,772,347,647	132,342,967	-	-	**14,904,690,614**
Total	**17,758,827,381**	**132,342,967**	**-**	**-**	**17,891,170,348**

(in EUR)	Performing assets 2015	Doubtful assets 2015	Substandard exposures 2015	Past due exposures 2015	Total 2015
Financial assets held for trading	107,139,364	-	-	-	**107,139,364**
Financial assets at fair value through profit or loss	18,295,521	-	-	-	**18,295,521**
Available-for-sale financial assets	2,669,278,226	-	-	-	**2,669,278,226**
Loans and advances	13,165,814,905	131,947,484	-	-	**13,297,762,389**
Total	**15,960,528,016**	**131,947,484**	**-**	**-**	**16,092,475,500**

Note 3 – Financial risk management (continued)

(iii) Credit quality per class of financial assets

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

(in EUR)	Gross exposure 2016	Individual impairment 2016	Collective impairment 2016	Net exposure 2016
Performing loans	14,772,347,647	-	-	14,772,347,647
Doubtful loans	132,342,967	(10,945,932)	-	121,397,035
Past due exposures	-	-	-	-
Total	**14,904,690,614**	**(10,945,932)**	-	**14,893,744,682**

(in EUR)	Gross exposure 2015	Individual impairment 2015	Collective impairment 2015	Net exposure 2015
Performing loans	13,165,814,905	(653,199)	-	13,165,161,706
Doubtful loans	131,947,484	(10,854,965)	-	121,092,519
Past due exposures	-	-	-	-
Total	**13,297,762,389**	**(11,508,164)**	-	**13,286,254,225**

As at 31 December 2016, there is no credit position that could qualify for loan forbearance as defined by the ESMA (European Security and Market Authority).

(iv) Concentration of risks

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

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

As at 31 December 2016, the lending limit amounted to EUR 463 million (2015: EUR 335 million) and - except for intergroup operations and one sovereign risk (Government of Italy) - no borrower exceeded this amount. The main exposure relates to 70 borrowers or group of borrowers (2015: 25 borrowers or group of borrowers) with financing between EUR 8.6 billion and EUR 15 million each (2015: between EUR 9 billion and EUR 13 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 28.

Note 3 – Financial risk management (continued)

(v) Geographical allocation of risks

As at 31 December 2016 and 2015, the distribution by geographical area of the risks held in securities (except for trading positions and derivatives held for hedging) and loans and advances before taking into account collateral held and other credit enhancements can be summarized as follows:

(in EUR)	2016		2015	
	Securities (AFS, FVPL)	**Loans and advances**	**Securities (AFS, FVPL)**	**Loans and advances**
Italy	2.616.183.192	10.535.215.639	2.363.312.456	11.066.659.453
USA	-	73.796.009	-	29.403.876
Japan	-	200.285	-	491.008
France	24.811.034	195.092.343	-	235.273.379
Spain	-	121.036.433	-	12.462.060
Luxembourg	10.234.418	722.379.951	211.185	349.289.701
Belgium	7.855.911	76.221.102	-	126.594.496
Germany	5.025.202	150.248.742	-	149.336.772
United Kingdom	-	473.513.545	-	9.952.425
Switzerland	-	1.944.314	-	16.316.883
The Netherlands	26.780.739	1.351.468.661	18.295.521	396.653.814
Poland	-	3.993.964	-	4.716.971
Panama	-	1.438	-	-
Russia	-	167.900.967	-	527.718.397
Croatia	-	61.248.431	-	91.243.385
Hungary	-	1.412.636	-	1.212.244
Romania	-	132.773.101	-	131.762.274
Supranational	226.092.500	-	305.754.585	-
Slovenia	-	6.305.808	-	8.063.068
Portugal	-	1.465.674	-	1.525.977
Nigeria	-	2.685.170	-	5.198.763
Greece	-	753	-	2.020
Ireland	-	352.459	-	562.280
Czech Republic	-	68.243.209	-	2.624.642
Denmark	5.032.603	882.022	-	-
Norway	28.815.142	618.643	-	-
Canada	10.179.976	358.496	-	-
Other	-	744.384.889	-	119.190.337
Total	**2,961,010,717**	**14,893,744,682**	**2,687,573,747**	**13,286,254,225**

Note 3 – Financial risk management (continued)

(in EUR)	2016		2015	
	Guarantees	**Commitments**	**Guarantees**	**Commitments**
Belgium	-	400.536.809	-	-
Canada	35.000	-	15.000	-
France	181.162	-	97.486	-
Germany	262.678	-	-	-
Hungary	-	-	247.500	-
Iran	22.500	-	22.500	-
Italy	13.388.843	283.588.350	11.690.800	247.461.017
Luxembourg	29.130.393	111.479.562	23.009.006	-
The Netherlands	11.291.818	1.427.162.591	-	17.663.882
Switzerland	624.267	3.136.786	619.427	-
Turkey	11.500	-	7.500	-
USA	8.545.011	227.735.319	-	38.000.000
United Kingdom	151.745.947	292.186.766	87.000	282.700.000
Venezuela	17.500	-	7.500	-
Congo Dem. Republic	52.500	-	22.500	-
South Africa	-	24.277.778	-	-
Russia	-	750.000.000	-	-
Total	**215.309.119**	**3.520.103.961**	**35.826.219**	**585.824.899**

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

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

Republic of Italy

Maturing on :	**EUR**
2017	100,849,133
2018	775,295,096
2019	549,083,971
2020	778,424,761
2021	229,660,244
2022	86,056,347
2023	60,546,217
Total	**2,579,915,769**

Note 3 – Financial risk management (continued)

(vi) Industry sector allocation of risks

As at 31 December 2016 and 2015, 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)	2016		2015	
	Securities (AFS, FVPL)	**Loans and advances**	**Securities (AFS, FVPL)**	**Loans and advances**
Financial institutions	116,541,147	8,357,143,757	306,561,788	9,809,860,607
Public sector	2,806,008,265	29,722,572	2,362,505,253	3,001,585
Other industries	38,461,305	5,465,083,156	18,506,706	2,531,906,995
Individuals	-	1,041,795,197	-	941,485,038
Total	**2,961,010,717**	**14,893,744,682**	**2,687,573,747**	**13,286,254,225**

(in EUR)	2016		2015	
	Guarantees	**Commitments**	**Guarantees**	**Commitments**
Financial institutions	161,780,478	-	31,987,271	38,976,085
Other industries	52,360,535	3,520,103,961	3,227,949	546,774,042
Individuals	1,168,106	-	610,999	74,772
Total	**215,309,119**	**3,520,103,961**	**35,826,219**	**585,824,899**

(c) Liquidity risk

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

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

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

Note 3 – Financial risk management (continued)

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

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

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

As at 31 December 2016, the Liquidity Coverage Ratio of the Bank as defined in the article 416 of EU Regulation No 575/2013 was 137% (2015: 121%).

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 2016 (in million EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥3 months < 6 months**	**≥6 months < 1 year**	**≥1 year < 2 years**	**≥2 years < 5 years**	**≥ 5 years**	**Total**
Deposit from central banks	-	-	-	-	-	1,317	-	1,317
Financial liabilities held for trading and derivatives held for hedging	20	15	15	27	66	73	2	218
Financial liabilities at fair value through profit or loss	-	1	-	1	3	10	-	15
Financial liabilities measured at amortised cost	4,534	636	2,086	3,233	2,682	1,259	2	14,432
Total	**4,554**	**652**	**2,101**	**3,261**	**2,751**	**2,659**	**4**	**15,982**

31 December 2015 (in million EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥3 months < 6 months**	**≥6 months < 1 year**	**≥1 year < 2 years**	**≥2 years < 5 years**	**≥ 5 years**	**Total**
Deposit from central banks	-	-	-	-	-	591	-	591
Financial liabilities held for trading and derivatives held for hedging	1	7	14	33	60	38	-	153
Financial liabilities at fair value through profit or loss	-	-	1	1	3	8	4	17
Financial liabilities measured at amortised cost	4,330	775	520	1,104	4,279	2,687	277	13,972
Total	**4,331**	**782**	**535**	**1,138**	**4,342**	**3,324**	**281**	**14,733**

Note 3 – Financial risk management (continued)

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

2016	Government and central banks	Other public entities	Financial institutions	Non financial companies	Other	Total
Deposits from central banks	1,316,971,256	-	-	-	-	**1,316,971,256**
Financial liabilities held for trading and for hedging	-	-	167,484,552	1,478,319	17,314,729	**186,277,600**
Financial liabilities at fair value through profit or loss	-	-	16,065,533	-	-	**16,065,533**
Financial liabilities measured at amortised cost	-	286,006,138	587,152,750	788,765,955	12,770,604,716	**14,432,529,559**
Total	**1,316,971,256**	**286,006,138**	**770,702,835**	**790,244,274**	**12,787,919,445**	**15,951,843,948**

Note 3 – Financial risk management (continued)

2015	**Government and central banks**	**Other public entities**	**Financial institutions**	**Non financial companies**	**Other**	**Total**
Deposits from central banks	591,259,790	-	-	-	-	**591,259,790**
Financial liabilities held for trading and for hedging	-	-	124,324,971	560,163	4,353,952	**129,239,086**
Financial liabilities at fair value through profit or loss	-	-	17,670,580	-	-	**17,670,580**
Financial liabilities measured at amortised cost	-	108,549,218	525,555,224	1,325,133,595	11,903,958,709	**13,863,196,746**
Total	**591,259,790**	**108,549,218**	**667,550,775**	**1,325,693,758**	**11,908,312,661**	**14,601,366,202**

Note 3 – Financial risk management (continued)

2016	Zone EURO	Other European countries	Other	Total
Deposits from central banks	1,316,971,256	-	-	**1,316,971,256**
Financial liabilities held for trading and for hedging	185,932,865	228,028	116,707	**186,277,600**
Financial liabilities at fair value through profit or loss	16,065,533	-	-	**16,065,533**
Financial liabilities measured at amortised cost	13,876,999,521	514,962,237	40,567,801	**14,432,529,559**
Total	**15,395,969,175**	**515,190,265**	**40,684,508**	**15,951,843,948**

2015	Zone EURO	Other European countries	Other	Total
Deposits from central banks	591,259,790	-	-	**591,259,790**
Financial liabilities held for trading and for hedging	127,337,631	971,644	929,811	**129,239,086**
Financial liabilities at fair value through profit or loss	17,670,580	-	-	**17,670,580**
Financial liabilities measured at amortised cost	13,457,352,426	362,603,285	43,241,035	**13,863,196,746**
Total	**14,193,620,427**	**363,574,929**	**44,170,846**	**14,601,366,202**

(d) Market risk

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

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

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

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

Note 3 – Financial risk management (continued)

To assess market risk, the Bank has put in place a reporting addressed to the Authorized Management, the Internal Audit, the Financial Markets Division and any other operational service responsible.
The Risk Control Function carries out their own analyses and assessments and the results are communicated periodically to the members of Authorized Management of the Bank, to the Financial Markets Division, to the ALCO Committee and to the Board of Directors, through the Audit Committee .

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

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

Risk measurements

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

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

The approach used for the VaR computation is characterised by:

- a model of historical simulation using the platform Mark-to-Future (Algorithmics);
- a confidence interval of 99-th percentile;
- a considered holding period of 1 day;
- a full revaluation of positions.

A daily VaR limit is fixed at EUR 6.2 million.

Note 3 – Financial risk management (continued)

(i) Interest rate risk

Average interest rates

The average effective interest rates on financial instruments by main currencies for the year ended 31 December 2016 and 2015 are as follows:

	2016		**2015**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
EUR	0.6987%	0.4334%	1.0275%	0.6271%
USD	2.5547%	1.3789%	1.6215%	0.7781%

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

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

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

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

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

The set of "Shift sensitivity +100bps" limits for the Bank has been approved by the Group Financial Risk Committee and by the Bank Board on 25 October 2016 for the last time:

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

In addition a shift sensitivity +100bps limit for USD currency has been introduced and equal to +/- 3.6 million

Note 3 – Financial risk management (continued)

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

At year end, the values of shift sensitivity +/- 100bps were as follows:

Bucket	**Shift + 100bp per bucket**	**Shift - 100bp per bucket**	**Limits**
Short term	(14,108,021)	(7,997,647)	+/- 17 mln
Medium term	4,088,299	1,648,902	+/- 18 mln
Long term	(7,347,192)	3,722,665	+/- 8 mln
Total	**(17,366,914)**	**(2,626,080)**	**+/- 24 mln**

At 31 December 2016, the interest margin sensitivity, which measures movements generated by a parallel shift of the interest rate curve by +/- 100bps assuming an observation period of 12 months, has been as follows:

Shift + 100bps	**Shift - 100bps**
13,996,509	(21,205,474)

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

Note 3 – Financial risk management (continued)

31 December 2016 (in million of EUR)	**< 1 month**	**≥ 1 month < 3 months**	**≥ 3 months < 6 months**	**≥ 6 months < 1 year**	**≥ 1 year < 2 years**	**≥ 2 years < 5 years**	**≥ 5 years**	**Undetermined**	**Total**
Cash and cash balances with central banks	80	-	-	-	-	-	-	-	**80**
Financial assets held for trading and derivatives held for hedging	-	-	-	-	-	-	-	26	**26**
Financial assets at fair value through profit or loss	-	-	-	-	-	17	-	-	**17**
Available-for-sale financial assets	75	-	-	101	881	1,615	272	-	**2,944**
Loans and advances	4,833	485	896	1,859	1,929	4,280	612	-	**14,894**
Total financial assets	**4,988**	**485**	**896**	**1,960**	**2,810**	**5,912**	**884**	**26**	**17,961**
Deposits from central banks	-	-	-	-	497	820	-	-	**1,317**
Financial liabilities held for trading and derivatives held for hedging	-	-	-	-	-	-	-	186	**186**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	16	-	-	**16**
Financial liabilities measured at amortised cost	4,483	687	2,086	3,233	2,683	1,259	2	-	**14,433**
Total financial liabilities	**4,483**	**687**	**2,086**	**3,233**	**3,180**	**2,095**	**2**	**186**	**15,952**

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2016, a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR (17,366,914) and EUR (2,626,080) respectively.

Note 3 – Financial risk management (continued)

31 December 2015 (in million of EUR)	**< 1 month**	**≥ 1 month months**	**≥ 3 months months**	**≥ 6 months < 1 year**	**≥ 1 year < 2 years**	**≥ 2 years < 5 years**	**≥ 5 years**	**Undetermined**	**Total**
Cash and cash balances with central banks	54	-	-	-	-	-	-	-	**54**
Financial assets held for trading and derivatives held for hedging	-	-	-	-	-	-	-	107	**107**
Financial assets at fair value through profit or loss	-	-	-	-	-	-	18	-	**18**
Available-for-sale financial assets	46	-	-	646	415	1,562	-	-	**2,669**
Loans and advances	4,333	395	330	2,020	2,289	3,733	186	-	**13,286**
Total financial assets	**4,433**	**395**	**330**	**2,666**	**2,704**	**5,295**	**204**	**107**	**16,134**
Deposits from central banks	-	-	-	-	-	591	-	-	**591**
Financial liabilities held for trading and derivatives held for hedging	-	-	-	-	-	-	-	129	**129**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	18	-	**18**
Financial liabilities measured at amortised cost	4,332	383	510	1,588	5,001	1,772	277	-	**13,863**
Total financial liabilities	**4,332**	**383**	**510**	**1,588**	**5,001**	**2,363**	**295**	**129**	**14,601**

Under the assumptions as defined here above taking into account assets and liabilities as at 31 December 2015, a 100 bp increase or decrease in market interest rates would influence the interest income before tax by EUR (2,022,825) and EUR (523,516) respectively.

Note 3 – Financial risk management (continued)

(e) Foreign exchange rate risk

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

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

As at 31 December 2016 and 2015, the financial assets and liabilities denominated in EUR, in USD and in other currencies are as follows (in EUR):

31 December 2016	EUR	USD	Other	Total
Cash and cash balances with central banks	79,481,885	6,959	15,059	**79,503,903**
Financial assets at fair value through profit or loss and held for trading	1,998	15,828,184	26,189,506	**42,019,688**
Available-for-sale financial assets	2,944,460,046	-	-	**2,944,460,046**
Loans and advances	12,824,900,187	1,906,037,782	162,806,713	**14,893,744,682**
Total financial assets	**15,848,844,116**	**1,921,872,925**	**189,011,278**	**17,959,728,319**
Deposits from central banks	1,316,971,256	-	-	**1,316,971,256**
Financial liabilities held for trading and held for hedging	100,998,693	72,828,392	12,450,515	**186,277,600**
Financial liabilities at fair value through profit or loss	-	-	16,065,533	**16,065,533**
Financial liabilities measured at amortised cost	13,643,876,585	599,391,796	189,261,178	**14,432,529,559**
Total financial liabilities	**15,061,846,534**	**672,220,188**	**217,777,226**	**15,951,843,948**

Note 3 – Financial risk management (continued)

31 December 2015	EUR	USD	Other	Total
Cash and cash balances with central banks	54,074,553	20,660	16,705	**54,111,918**
Financial assets at fair value through profit or loss and held for trading	-	74,035,367	51,399,518	**125,434,885**
Available-for-sale financial assets	2,669,278,226	-	-	**2,669,278,226**
Loans and advances	12,286,696,769	849,444,954	150,112,502	**13,286,254,225**
Total financial assets	**15,010,049,548**	**923,500,981**	**201,528,725**	**16,135,079,254**
Deposits from central banks	591,259,790	-	-	**591,259,790**
Financial liabilities held for trading and held for hedging	115,645,879	3,683,569	9,909,638	**129,239,086**
Financial liabilities at fair value through profit or loss	-	-	17,670,580	**17,670,580**
Financial liabilities measured at amortised cost	12,921,677,670	869,812,054	71,707,022	**13,863,196,746**
Total financial liabilities	**13,628,583,339**	**873,495,623**	**99,287,240**	**14,601,366,202**

(f) Capital management and capital adequacy

Regulatory capital

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

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

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

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

Note 3 – Financial risk management (continued)

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

The Bank's regulatory position under Basel III at 31 December 2016, excluding income for the current year, is as follows:

	2016	2015
Tier 1 Capital		
Ordinary share capital	989,370,720	535,091,520
Share premium	7,720,692	-
Other reserves and retained earnings	855,699,007	805,035,917
less 50% of holdings in other credit and financial institutions amounting to more than 10% of their capital	-	-
Others deductions	-	-
Total Tier 1	**1,852,790,419**	**1,340,127,437**
Tier 2 Capital		
General credit risk adjustments	-	-
Total Tier 2	-	-
Total own fund elligible for solvency purposes	**1,852,790,419**	**1,340,127,437**

Note 3 – Financial risk management (continued)

Capital requirements and risk weights

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

	2016 Amount of risk weighted assets	**2015 Amount of risk weighted assets**
Credit and couterparty risk	**9,622,345,439**	**9,640,715,872**
Central governments and central banks	55,805,216	11,644,817
Corporates	4,723,695,529	1,650,676,418
Institutions	4,698,358,739	7,942,130,161
Retail	2,746,753	4,497,879
Exposures in default	537,763	11,092,012
Equity exposures	38,521,470	1,335,167
Other items	30,585,967	19,339,418
Covered bonds	72,092,004	-
Collective investments undertakings (CIU)	1,998	-
Market risk	-	-
Operational risk	**399,714,120**	**423,800,932**
Total risk weighted assets and capital requirements	**10,022,059,559**	**10,064,516,804**
Tier 1 capital ratio	*18.49%*	*13.32%*
Total capital ratio	*18.49%*	*13.32%*

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 2016, the solvency ratio of the Bank is 18.49% (2015: 13.32%), above the regulatory limit of 8% and above the Conservation buffer limit of 10.5%. Over the 2016 year, the higher solvency ratio amounted to 18.49% (December) and the lower amounted to 11.54% (March).

Capital management and planning

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise the shareholder value.
The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. No changes have been made to the objectives, policies and processes from the previous years.

Note 3 – Financial risk management (continued)

As part of the internal assessment process for its capital adequacy (relative to Basel 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 2016 and going forward.

The ICAAP (Internal Capital Assessment Process)

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

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

(g) Operational risk

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

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

(h) Derivative financial instruments

During 2016 and 2015, in order to manage efficiently its treasury position, the Bank used mainly foreign exchange transactions and interest rate swaps.

As at 31 December 2016 and 2015, the notional amount and fair value of the derivatives held for trading are as follows (in EUR):

	2016		2015	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	-	-	-	-
Currency instruments	2,166,371,502	25,467,019	1,895,535,883	107,139,364
	2,166,371,502	**25,467,019**	**1,895,535,883**	**107,139,364**
Liabilities				
Interest rate instruments	75,000,000	3,416,187	175,000,000	3,501,082
Currency instruments	3,729,449,890	85,278,907	1,928,153,929	13,593,207
	3,804,449,890	**88,695,094**	**2,103,153,929**	**17,094,289**

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

Note 3 – Financial risk management (continued)

(i) Fair values of financial assets and liabilities

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

	Carrying amount		Fair value	
	2016	**2015**	**2016**	**2015**
Assets				
Loans and advances	14,894	13,286	14,761	13,228
Liabilities				
Financial liabilities measured at amortised cost	14,433	13,863	15,803	14,444

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

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

The cash flows are discounted with reference to the 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.

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 2016 and 2015, 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).

Note 3 – Financial risk management (continued)

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.

(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".

Note 3 – Financial risk management (continued)

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

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

31 December 2016 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
- Derivatives held for trading	-	25,467,019	-	**25,467,019**
- Equity instruments	1,998	-	-	**1,998**
Financial assets at fair value through profit or loss				**-**
- Debt instruments	-	16,550,671	-	**16,550,671**
Available-for-sale financial assets				**-**
- Equity instruments (other than investments in subsidiaries)	630,497	211,185	-	**841,682**
- Debt instruments	2,943,618,364	-	-	**2,943,618,364**
Derivatives held for hedging	-	841,669	-	**841,669**
Total financial assets	**2,944,250,859**	**43,070,544**	**-**	**2,987,321,403**
Financial liabilities held for trading				
- Derivatives held for trading	-	88,695,094	-	**88,695,094**
- Short positions	-	-	-	**-**
Financial liabilities at fair value through profit or loss	-	16,065,533	-	**16,065,533**
Derivatives held for hedging	-	97,582,506	-	**97,582,506**
Total financial liabilities	**-**	**202,343,133**	**-**	**202,343,133**

Note 3 – Financial risk management (continued)

31 December 2015 (in EUR)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
- Derivatives held for trading	-	107,139,364	-	**107,139,364**
Financial assets at fair value through profit or loss				
- Debt instruments	-	18,295,521	-	**18,295,521**
Available-for-sale financial assets				
- Equity instruments (other than investments in subsidiaries)	807,203	211,185	-	**1,018,388**
- Debt instruments	2,668,259,838	-	-	**2,668,259,838**
Derivatives held for hedging	-	466,733	-	**466,733**
Total financial assets	**2,669,067,041**	**126,112,803**	**-**	**2,795,179,844**
Financial liabilities held for trading				
- Derivatives held for trading	-	17,094,289	-	**17,094,289**
- Short positions	-	-	-	**-**
Financial liabilities at fair value through profit or loss	-	17,670,580	-	**17,670,580**
Derivatives held for hedging	-	112,144,797	-	**112,144,797**
Total financial liabilities	**-**	**146,909,666**	**-**	**146,909,666**

During the reporting years ending 31 December 2016 and 31 December 2015, there were no transfers between Level 1 and Level 2 categories, and no transfers into and out of Level 3 category.

(j) Operating segments

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

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

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

Note 3 – Financial risk management (continued)

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

Results by strategic divisions in EUR '000	**2016**					
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Governance**	**Total revenues**
Net interest margin	28,073	344	67,115	(1,563)	-	93,969
Dividends	-	880	36	-	-	916
Net commission margin	35,340	4,344	4,765	174	-	44,623
Net trading income	134	538	22,257	(298)	-	22,631
Net other operating expenses	(44)	(135)	(2)	(5,086)	-	(5,267)
Profit from discontinuing operations	-	-	-	-	-	-
Impairment on financial assets	2,519	94	-	163	-	2,776
Total area results	**66,022**	**6,065**	**94,171**	**(6,610)**	**-**	**159,648**
Impairment on financial assets					-	-
Depreciation					(613)	(613)
Provision					(75)	(75)
Staff and administrative expenses					(34,904)	(34,904)
Tax expenses					(2,225)	(2,225)
Total operating & extraordinary expenses					**(37,817)**	**(37,817)**
RESULTS FOR THE YEAR						**121,831**

Results by strategic divisions in EUR '000	**2015**					
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Governance**	**Total revenues**
Net interest margin	11,804	448	110,634	6,830	-	129,716
Dividends	-	1,250	69	-	-	1,319
Net commission margin	6,461	5,156	4,661	38	-	16,316
Net trading income	2,266	940	43,001	1,121	-	47,328
Net other operating expenses	(143)	(153)	(10)	(7,477)	-	(7,783)
Profit from discontinuing operations	-	-	-	281	-	281
Impairment on financial assets	216	(2)	-	1,312	-	1,526
Total area results	**20,604**	**7,639**	**158,355**	**2,105**	**-**	**188,703**
Impairment on financial assets					-	-
Depreciation					(729)	(729)
Provision					(190)	(190)
Staff and administrative expenses					(27,652)	(27,652)
Tax expenses					3,530	3,530
Total operating & extraordinary expenses					**(25,041)**	**(25,041)**
RESULTS FOR THE YEAR						**163,662**

Note 3 – Financial risk management (continued)

Assets by strategic division in EUR'000	**2016**				
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Cash and cash balances with central banks	1,237	-	78,097	170	**79,504**
Financial assets held for trading	2,135	1,989	21,345	-	**25,469**
Financial assets designated at fair value through profit or loss	-	-	16,551	-	**16,551**
Available-for-sale financial assets	-	-	2,944,249	211	**2,944,460**
Loans and advances	6,526,054	11,545	5,568,344	2,787,802	**14,893,745**
Loans and advances to credit institutions	*153,538*	-	*5,567,040*	*2,636,566*	***8,357,144***
Loans and advances to customers	*6,372,516*	*11,545*	*1,304*	*151,236*	***6,536,601***
Derivatives held for hedging	351	-	-	491	**842**
Tangible fixed assets	10	-	-	8,182	**8,192**
Intangible assets	-	-	-	4	**4**
Current tax assets	1,867	-	-	-	**1,867**
Deferred tax assets	-	-	-	7,883	**7,883**
Other assets	2,643	473	987	13,186	**17,289**
Total assets	**6,534,297**	**14,007**	**8,629,573**	**2,817,929**	**17,995,806**

Assets by strategic division in EUR'000	**2015**				
	Corporate & Financial Institutions	**Wealth Management**	**Financial Markets**	**Others Financial Institutions**	**Total**
Cash and cash balances with central banks	-	-	53,781	331	**54,112**
Financial assets held for trading	52	742	106,345	-	**107,139**
Financial assets designated at fair value through profit or loss	-	-	18,296	-	**18,296**
Available-for-sale financial assets	-	-	2,669,067	211	**2,669,278**
Loans and advances	3,269,717	23,600	5,427,469	4,565,468	**13,286,254**
Loans and advances to credit institutions	-	-	*5,425,864*	*4,383,997*	***9,809,861***
Loans and advances to customers	*3,269,717*	*23,600*	*1,605*	*181,471*	***3,476,393***
Derivatives held for hedging	-	-	467	-	**467**
Tangible fixed assets	-	-	-	8,756	**8,756**
Intangible assets	-	-	-	5	**5**
Deferred tax assets	-	-	-	4,658	**4,658**
Other assets	110	573	601	9,299	**10,583**
Total assets	**3,269,879**	**24,915**	**8,276,026**	**4,588,728**	**16,159,548**

Note 3 – Financial risk management (continued)

Liabilities	Corporate & Financial	Wealth Management	Financial Markets	Others Financial Institutions	Total
Deposits from central banks	-	-	1.316.971	-	**1,316,971**
Financial liabilities held for trading	2.022	371	84.904	1.398	**88,695**
Financial liabilities designated at fair value through profit or loss	16.066	-	-	-	**16,066**
Financial liabilities measured at amortised cost	**2,816,903**	**662,161**	**10,932,021**	**21,445**	**14,432,530**
Deposits from credit institutions	*5.215*	-	*560.291*	*18.797*	***584,303***
Deposits from customers	*2.808.390*	*662.156*	*1.870.092*	*2.023*	***5,342,661***
Debts evidenced by certificates	*3.298*	*5*	*8.501.638*	*625*	***8,505,566***
Derivatives held for hedging	-	-	97.583	-	**97,583**
Provisions	23	-	-	2.521	**2,544**
Current tax liabilities	2.225	-	-	-	**2,225**
Deferred tax liabilities	-	-	-	9.819	**9,819**
Other liabilities	18.163	320	1.419	30.155	**50,057**
Total liabilities	**2,855,402**	**662,852**	**12,432,898**	**65,338**	**16,016,490**
Equity					
Share capital	-	-	-	989.371	**989,371**
Share premium	-	-	-	7.721	**7,721**
Revaluation reserve	-	-	6.626	(1.936)	**4,690**
Other reserves and retained earnings	399	(1.897)	6.241	850.960	**855,703**
Net profit for the year	82.074	8.081	(339)	32.015	**121,831**
Total equity	**82,473**	**6,184**	**12,528**	**1,878,131**	**1,979,316**
Total liabilities and equity	**2,937,875**	**669,036**	**12,445,426**	**1,943,469**	**17,995,806**

Liabilitis & Equity by strategic division in EUR'000 **2015**

Liabilities	Corporate & Financial	Wealth Management	Financial Markets	Others Financial Institutions	Total
Deposits from central banks	-	-	591.260	-	**591,260**
Financial liabilities held for trading	-	1.523	15.571	-	**17,094**
Financial liabilities designated at fair value through profit or loss	17.670	-	-	-	**17,670**
Financial liabilities measured at amortised cost	**9,093,024**	**938,687**	**3,806,969**	**24,517**	**13,863,197**
Deposits from credit institutions	*103.856*	-	*374.734*	*232*	***478,822***
Deposits from customers	*3.576.452*	*938.682*	*760.484*	*23.681*	***5,299,299***
Debts evidenced by certificates	*5.412.716*	*5*	*2.671.751*	*604*	***8,085,076***
Derivatives held for hedging	-	-	112.145	-	**112,145**
Provisions	-	-	-	2.458	**2,458**
Deferred tax liabilities	-	-	-	10.295	**10,295**
Other liabilities	1.694	296	2.294	23.697	**27,981**
Total liabilities	**9,112,388**	**940,506**	**4,528,239**	**60,967**	**14,642,100**
Equity					
Share capital	-	-	-	535.092	**535,092**
Revaluation reserve	-	-	19.291	(5.637)	**13,654**
Other reserves and retained earnings	399	(1.897)	6.241	800.297	**805,040**
Net profit for the year	(3.442)	3.181	76.193	87.730	**163,662**
Total equity	**(3,043)**	**1,284**	**101,725**	**1,417,482**	**1,517,448**
Total liabilities and equity	**9,109,345**	**941,790**	**4,629,964**	**1,478,449**	**16,159,548**

Note 3 – Financial risk management (continued)

(k) Return on assets ("ROA")

The Bank return on asset is as follow:

	2016	2015
Total assets	17,995,805,816	16,159,548,301
Net profit for the year	121,831,307	163,661,965
Return on assets	**0.68%**	**1.01%**

(l) Pillar III disclosures requirements

As part of Intesa Sanpaolo Group, proper Pillar III disclosures are provided in a dedicated and specific document the Parent Company elaborates and publishes on a quarterly basis on its web site.
The document, denominated "Terzo pilastro di Basilea 2 e Basilea 3 ("Pillar 3")" is available at the following web address:
"www.group.intesasanpaolo.com/scriptIsir0/si09/governance/ita_terzo_pilastro_basilea.jsp"

The ICAAP (Internal Capital 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.

Note 4 – Cash and cash equivalents

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

(in EUR)	Net carrying amount 2016	2015
Cash and cash balances with central banks	79,503,903	54,111,918
Loans and advances to banks with maturity ≤ 3 months	2,311,150,389	2,015,978,266
	2,390,654,292	**2,070,090,184**

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 2016 is EUR 78,093,348 (2015: EUR 53,776,941).

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

(in EUR)	Net carrying amount 2016	2015
Financial assets held for trading		
Derivatives held for trading	25,467,019	107,139,364
Mutual funds shares	1,998	-
	25,469,017	**107,139,364**
Financial assets designated at inception at fair value through profit or		
Securities	16,550,671	18,295,521
	16,550,671	**18,295,521**

As at 31 December 2016, the position is represented by a unique structured corporate bonds issued in JPY, maturing in February 2021, and funded by a deposit in the same currency from the Bank's ultimate Parent Company.

Note 6 – Available-for-sale financial assets

As at end of the year, the Available-for-sale portfolio was composed as follow:

Quoted debt instruments:

	Net carrying amount	
(in EUR)	2016	2015
Quoted debt instruments issued by:		
Financial institutions	115,910,650	305,754,585
Public sector	2,806,008,265	2,362,505,253
Other	21,699,449	-
	2,943,618,364	2,668,259,838

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

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

During 2016, EUR 90,000,000 has been reimbursed and a new TLTRO mechanism has been subscribed for an amount equal to EUR 821,440,000.

The last deposit received has been hedged entering in a hedge accounting relationship where an Interest Rate Swap has been used as hedging instrument: as a consequence of the hedge accounting, the TLTRO mechanism carrying amount of EUR 1,320,192,357 (of which negative accrued interests amount to EUR 1,247,643) as at 31 December 2016 has been adjusted for an amount equal to EUR 3,221,101 (NPV adjustment).

Those deposits are collateralised by eligible securities for an amount of EUR 1,341,807,539.

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

Quoted and not quoted shares:

As at 31 December 2016 the Bank holds shares issued by Intesa Sanpaolo S.p.A. for an amount of EUR 630,497, bought by the Bank at end 2014, to be distributed to the Bank employees in respect of a plan developed by the Parent Company.

(in EUR)	Net carrying amount 2016	Net carrying amount 2015
Quoteed & not quoted shares issued by:		
ISP Group	630,497	807,203
Corporates	211,185	211,185
	841,682	**1,018,388**

As at 31 December 2016, shares in affiliated undertakings, which are classified in this category, where the Bank held at least 20% are as follows:

	Registered office	Precentage owned	Net equity (in EUR) *	Of which Profit of the year (in EUR) *
Company				
Lux Gest Asset Management S.A.	Luxembourg	100%	869,227	533,050

* Based on unaudited figures

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

(in EUR)	Fixed Income securities	Floating Income securities	Equity securities	Total
Balance as at 31 December 2015	**10,588,776**	**2,908,228**	**156,947**	**13,653,951**
Increase (decrease) of unrealised gain	(634,312)	162,463	(176,705)	**(648,554)**
(Increase) decrease of unrealised loss	-	(848,690)	-	**(848,690)**
Amount reclassified from equity to profit or loss for the period	(10,145,958)	(2,185,624)	-	**(12,331,582)**
Unrealised fair value gain made on assets bought during the year	(1,754,912)	2,919,545	-	**1,164,633**
Deferred tax	3,662,781	(13,936)	51,632	**3,700,477**
Balance as at 31 December 2016	**1,716,375**	**2,941,986**	**31,874**	**4,690,235**

Note 7 – Loans and advances

(in EUR)	2016		2015	
	Net carrying amount	Of which: Impairment	Net carrying amount	Of which: Impairment
Unquoted loans and advances to:				
Financial institutions and public sector	8,386,866,329	-	9,812,862,192	-
Private customers	1,041,795,197	10,531,869	941,485,038	10,562,155
Corporate customers	5,465,083,156	414,063	2,531,906,995	946,009
Total	**14,893,744,682**	**10,945,932**	**13,286,254,225**	**11,508,164**

Impairment allowance for loans and advances

As at 31 December 2016, the Bank has determined its individual impairment at EUR 10,945,932 (2015: EUR 11,508,164).

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

(in EUR)	2016	2015
Impairment as at 1st January	11,508,164	22,130,296
Charge of the year/Transfers	493,517	416,684
Recoveries/amounts written off	(1,055,749)	(11,038,816)
Impairment as at 31 December	**10,945,932**	**11,508,164**
of which:		
Individual impairment	10,945,932	11,508,164
Collective impairment	-	-

Guarantees received as collateral

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

(in EUR)	2016		2015	
	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	6,536,600,925	8,357,143,757	3,476,393,618	9,809,860,607
Real guarantees				
Mortgage	-	-	-	-
Securities	2,606,944	-	-	-
Other real guarantees	2,202,071,568	45,000,000	1,857,751,249	-
Personal guarantees				
Government guarantees	71,150,746	-	-	-
Credit institutions guarantees	1,724,661,876	24,990,000	1,416,814,282	36,923,797
Total guarantees	**4,000,491,134**	**69,990,000**	**3,274,565,531**	**36,923,797**

Note 8 – Property and equipment

(in EUR)	Land & building	Office equipment	Other equipment	Total
Cost as at 1st January 2016	25,773,559	1,541,522	7,709,087	**35,024,168**
Additions	16,591	13,502	52,643	**82,736**
Disposals/Transfers	(710,432)	-	-	**(710,432)**
Cost as at 31 December 2016	25,079,718	1,555,024	7,761,730	**34,396,472**
Amsterdam Branch integration - Accumulated depreciation	-	-	(43,059)	**(43,059)**
Accumulated depreciation as at 1st January 2016	(18,005,961)	(1,440,548)	(6,821,378)	**(26,267,887)**
Depreciation charge	(332,584)	(37,036)	(234,009)	**(603,629)**
Depreciation reversal	710,432	-	-	**710,432**
Accumulated depreciation as at 31 December 2016	(17,628,113)	(1,477,584)	(7,098,446)	**(26,204,143)**
Net carrying amount as at 31 December 2016	7,451,605	77,440	663,284	**8,192,329**

(in EUR)	Land & building	Office equipment	Other equipment	Total
Cost as at 1st January 2015	25,672,802	1,652,047	8,352,715	**35,677,564**
Additions	100,757	11,303	9,379	**121,439**
Disposals/Transfers	-	(121,828)	(653,007)	**(774,835)**
Cost as at 31 December 2015	25,773,559	1,541,522	7,709,087	**35,024,168**
Accumulated depreciation as at 1st January 2015	(17,641,841)	(1,514,021)	(7,158,574)	**(26,314,436)**
Depreciation charge	(364,120)	(48,355)	(315,810)	**(728,285)**
Depreciation reversal	-	121,828	653,006	**774,834**
Accumulated depreciation as at 31 December 2015	(18,005,961)	(1,440,548)	(6,821,378)	**(26,267,887)**
Net carrying amount as at 31 December 2015	7,767,598	100,974	887,709	**8,756,281**

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

2016 figures include Amsterdam branch properties plant and equipment, which were not included in 2015 figures.

Note 9 – Intangible assets

(in EUR)	2016
Cost as at 1st January 2016	**4,968**
Additions	
Disposals/Transfers	-
Cost as at 31 December 2016	4,968
Accumulated depreciation as at 1st January 2016	(656)
Depreciation charge	(469)
Accumulated depreciation as at 31 December 2016	(1,125)
Net carrying amount as at 31 December 2016	**3,843**

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

Current taxes recorded are related to the Amsterdam branch of the Bank.

(in EUR)	2016	2015
Current tax assets	1,866,698	-
Current tax liabilities	(2,225,310)	-
Net deferred tax assets (liabilities)	**(358,612)**	**-**

In relation to the Luxembourg entity, instead, no current taxes are recorded considering the tax integration since 2002 with the Luxembourg Bank's local shareholder Intesa Sanpaolo Holding International S.A., which presents significant tax losses carried forward.

A new income tax rate equal to 27.08% will be applied in Luxembourg starting from 1 January 2017; as at 31 December 2016 deferred taxes have been calculated applying 2016 tax rate equal to 29.22%. The adoption of the new tax rate would have impacted the accounts not significantly: additional EUR 140,843 tax assets related to other comprehensive income.

Deferred tax assets and liabilities

(in EUR)	2016	2015
Deferred tax assets	7,882,772	4,657,927
Deferred tax liabilities	(9,819,036)	(10,294,668)
Net deferred tax assets (liabilities)	**(1,936,264)**	**(5,636,741)**

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

(in EUR)	1 January 2016	Income Statement	Equity	31 December 2016
Financial assets held for trading	(17,911,595)	(3,267,552)	-	**(21,179,148)**
Financial assets designated at fair value through profit or loss	4,987,538	42,707	-	**5,030,245**
Available-for-sale financial assets	(5,636,748)		3,700,478	**(1,936,269)**
Financial liabilities held for trading	12,345,107	3,283,401	-	**15,628,508**
Financial liabilities designated at fair value through profit or loss	370,283	(58,557)	-	**311,726**
Provisions and value adjustments	208,674	-	-	**208,674**
Net deferred income tax assets/(liabilities)	**(5,636,741)**	**(1)**	**3,700,478**	**(1,936,264)**

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

As at 31 December 2016, full recognition of deferred tax assets has been performed by the Bank because they have been lower than deferred tax liabilities amount.

A deferred tax amount has been booked even if the Bank calculates current income in relation to the tax integration with the Bank's local shareholder and its significant tax losses carried forward.
The deferred tax expenses presented in profit or loss are related to temporary differences generated by financial instruments fair value changes booked through profit or loss.

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

Note 11 – Other assets and other liabilities

(in EUR)	2016	2015
Prepaid charges	2.114.319	1.219.406
Taxes	10.131.046	7.215.181
Accrued commission income	2.944.889	476.996
Other	2.099.932	1.671.556
Other assets	**17,290,186**	**10,583,139**

(in EUR)	2016	2015
Social security charges	686.679	684.354
Withholding taxes and VAT	22.018.740	17.165.432
Administrative expenses to be paid	9.093.464	6.299.133
Accrued commission expenses	14.778.505	823.034
Short term payable and other sundry accounts	3.480.256	3.009.099
Other liabilities	**50,057,644**	**27,981,052**

The short term payable and other sundry accounts caption includes mainly fees and expenses due and booked in expenses but not yet paid. Increase in accrued commission are related to upfront fees to be paid and received.

Note 12 – Deposits from central banks

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

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

Note 12 – Deposits from central banks (continued)

During 2016, EUR 90,000,000 has been reimbursed and a new TLTRO mechanism has been subscribed for an amount equal to EUR 821,440,000.

The last deposit received has been hedged entering in a hedge accounting relationship where an Interest Rate Swap has been used as hedging instrument: as a consequence of the hedge accounting, the TLTRO mechanism carrying amount of EUR 1,320,192,357 (of which negative accrued interests amount to EUR 1,247,643) as at 31 December 2016 has been adjusted for an amount equal to EUR 3,221,101 (NPV adjustment).

Those deposits are collateralised by eligible securities for an amount of EUR 1,341,807,539.

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

As at 31 December 2016, the caption is composed of a financial liability which is eligible, according to IAS 39, to fair value option, with a fair value based on the discounted cash flows method. As at 31 December 2016, the fair value of this liability amounts to EUR 16,065,533 (2015: EUR 17,670,580).

Note 14 – Financial liabilities measured at amortised cost

(in EUR)	2016 Carrying	2015 Carrying	Variation in EUR	in %
Deposits from credit institutions				
Current accounts and amounts with period of notice	415,830,593	380,546,890	35,283,703	9%
Term deposits	168,472,042	98,275,089	70,196,953	71%
Total	**584,302,635**	**478,821,979**	**105,480,656**	**22%**
Corporate customers				
Current accounts and amounts with period of notice	1,801,012,570	962,999,408	838,013,162	87%
Term deposits	3,379,073,506	4,223,273,566	(844,200,060)	-20%
Total	**5,180,086,076**	**5,186,272,974**	**(6,186,898)**	**0%**
Private customers				
Current accounts and amounts with period of notice	125,650,350	77,291,422	48,358,928	63%
Term deposits	36,924,498	35,734,575	1,189,923	3%
Total	**162,574,848**	**113,025,997**	**49,548,851**	**44%**
Certificates of deposits				
Certificates of deposits	4,655,902,896	5,413,325,072	(757,422,176)	-14%
Bonds	3,809,477,284	2,396,024,859	1,413,452,425	59%
Commercial paper	40,185,820	275,725,865	(235,540,045)	-85%
Total	**8,505,566,000**	**8,085,075,796**	**420,490,204**	**5%**
Financial liabilities measured at amortised cost	**14,432,529,559**	**13,863,196,746**	**569,332,813**	**4%**

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

Commercial Papers:

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

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

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

As at 31 December 2016, ECP issued by the Bank amounted to EUR 40 million (2015: EUR 276 million).

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 at 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 2016, such notes issued by the Bank amount to EUR 3,809 million (2015: EUR 2,396 million).

Note 15 – 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 available-for-sale due to adverse changes in interest rates.

In more details, the risk investment strategy is to invest in fixed rate securities carried as available-for-sale. The exposure of the fixed interest rate hedged item to interest rate risk is converted to floating rates with an interest rate swap in order to mitigate a potential fall in its value. The investment in the hedged assets and the completion of the covering hedging instrument are done simultaneously (Asset Swaps).

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

Note 15 – Derivatives held for hedging (continued)

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)	2016		2015	
	Notional amount	**Fair value**	**Notional amount**	**Fair value**
Assets				
Interest rate instruments	70,000,000	841,669	90,000,000	466,733
	70,000,000	**841,669**	**90,000,000**	**466,733**
Liabilities				
Interest rate instruments	1,552,000,000	97,582,506	1,550,000,000	112,144,797
	1,552,000,000	**97,582,506**	**1,550,000,000**	**112,144,797**

Hedged items are as follows (in EUR):

(in EUR)	2016	2015
	Carrying value	**Carrying value**
Available-for-sale financial assets	1,052,133,173	1,727,450,603
Loans and advances	37,467,909	36,527,423
Deposits from central banks	818,218,899	-
Total	1,907,819,981	1,763,978,026

Note 16 – Provisions

(in EUR)	**2015**
Provision as at 1st January 2015	2,282,011
Reductions	(233,383)
Additions and forex impact	914,030
Provision reversed during the year	(504,600)
Provisions as at 31 December 2015	**2,458,058**

(in EUR)	**2016**
Provision as at 1st January 2016	2,458,058
Reductions	(65,072)
Additions and forex impact	151,089
Provision reversed during the year	-
Provisions as at 31 December 2016	**2,544,075**

Note 16 – Provisions (continued)

The above table shows provisions movements from 31 December 2015 to 31 December 2016. Additions have been generated by foreign exchange movements (linked to some provisions in foreign currency) for an amount of EUR 53,219 and by two risk for charges for an amount of EUR 97,870. Reductions have been generated by specific events for which the Bank incurred charges during 2016.

Note 17 – Equity

Share capital

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

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

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

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

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

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

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

The subscribed capital of the Bank as at 31 December 2016 was therefore of EUR 989,370,720.28, composed of 3,178,983 shares (integrally subscribed).

Note 17 – Equity (continued)

Revaluation reserve

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

Legal reserve

Under Luxembourg Law, the Bank must appropriate to a legal reserve an amount equivalent to 5% of the annual net profit until such reserve is equal to 10% of the share capital. This appropriation is made in the following year. Distribution of the legal reserve is restricted. As at 31 December 2016, the legal reserve amounts to EUR 53,550,000 as the previous year and, as a consequence of the share capital increase the Bank had during 2016, it will be increased by EUR 6,091,565 during 2017.

Other reserves

As at 31 December 2016, other reserves amount to EUR 797,333,308 (2015: EUR 746,673,309).

Retained earnings

As at 31 December 2016, retained earnings including the impact of the first time application (FTA) of IFRS as adopted by the European Union, amount to EUR 4,819,541 (2015: EUR 4,817,576).

Profit allocation proposal

The amount attributable to shareholders, including earnings profit from previous financial years but excluding the impact of the first time application of IFRS as adopted by European Union, totals EUR 121,840,205, which corresponds to a return on equity of circa 8.23% (2015: 10.08%). It is proposed to the Annual General Shareholders' Meeting approving the financial statements as at 31 December 2016 to allocate the above mentioned amounts as follows (in EUR):

	2016
Net profit of 2016 financial year	121,831,307
Retained profit from previous years (excluding FTA)	8,898
Amount attributable to Shareholders	**121,840,205**
Allocation to legal reserve	6,091,565
Allocation to other reserves	15,208,435
Dividend for the financial year	100,500,000
Total	**121,800,000**
Retained profit carried forward to the next financial year	40,205

Note 18 – Net interest income

(in EUR)	2016	2015
Cash balances with central banks	6,805	25,531
Financial assets held for trading	2,289	7,582
Financial assets at fair value through profit or loss	559,411	565,761
Hedging derivatives	880,673	6,436,241
Available-for-sale financial assets	41,911,896	64,295,021
Loans and advances	181,586,498	196,251,049
Interest income on liabilities	19,618,836	-
Other	13,808	1,325
Total interest and similar income	**244,580,215**	**267,582,510**

(in EUR)	2016	2015
Hedging derivatives	32,289,717	47,989,597
Financial assets held for trading	7,572	7,767
Financial liabilities measured at amortised cost	110,019,245	89,512,640
Financial liabilities at fair value thought profit or loss	348,786	356,723
Interest expense on assets	7,946,002	-
Total interest expenses and similar charges	**150,611,323**	**137,866,727**
Net interest income	**93,968,892**	**129,715,783**

No interest has been accrued in respect of impaired assets in 2016 and 2015.

Note 19 – Net fee and commission income

(in EUR)	2016	2015
Credit activities	43,862,613	8,977,882
Wealth management and Treasury activities	18,814,699	20,459,397
Corporate services	724,652	876,176
Other	2,763,229	2,329,541
Total fee and commission income	**66,165,193**	**32,642,996**
Credit activities	10,986,271	4,161,628
Brokerage and clearing fees	7,932,299	8,415,207
Other	2,623,315	3,749,974
Total fee and commission expenses	**21,541,885**	**16,326,809**
Net fee and commission income	**44,623,308**	**16,316,187**

Note 20 – Dividend income

As at 31 December 2016 and 2015, dividend income relates to available-for-sale financial assets.

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

As at 31 December 2016 and 2015, the net (un)realised (losses) on financial assets and liabilities held for trading are composed of:

(in EUR)	2016	2015
Equity instruments and linked derivatives	(20,830)	196,384
Interest rate instruments and linked derivatives	1,975,793	(1,092,827)
Foreign exchange transactions	(7,140,685)	(11,281,142)
	(5,185,722)	**(12,177,585)**

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

As at 31 December 2016 the net (un) realised losses on financial assets and liabilities at fair value through profit or loss are mainly composed of unrealised losses on assets classified at fair value through profit or loss for an amount of EUR 334 thousands (2015: EUR 437 thousands) and of realised gains on debt securities for an amount of EUR 274 thousands (2015: EUR 276 thousands).

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

As at 31 December 2016 net realised gains on financial assets and liabilities not at fair value through profit or loss are mainly composed of:

- gains realised on the early redemption of several loans granted to intragroup banks for an amount of EUR 20.1 million;
- gains realised on the sale of bond instruments held in the available-for-sale portfolio for an amount of EUR 7.8 million.

(in EUR)	2016			2015		
	Profits	Losses	Net	Profits	Losses	Net
Due from banks	20,106,513	-	20,106,513	40,004,773	(91,153)	39,913,620
Due from customers				2,176,677	-	2,176,677
Financial assets available for sale	8,237,994	(467,798)	7,770,196	21,127,683	(3,558,302)	17,569,381
Debt securities	*8,237,994*	*(467,798)*	*7,770,196*	*19,796,523*	*(3,558,302)*	*16,238,221*
Equities	-	-	-	*1,331,160*	-	*1,331,160*
Total assets	**28,344,507**	**(467,798)**	**27,876,709**	**63,309,133**	**(3,649,455)**	**59,659,678**
Securities issued	3,512	(3,077)	435	6,015	-	6,015
Total liabilities	**3,512**	**(3,077)**	**435**	**6,015**	**-**	**6,015**
Net realised gains and losses	**28,348,019**	**(470,875)**	**27,877,144**	**63,315,148**	**(3,649,455)**	**59,665,693**

Note 24 – Net other operating expenses

As at 31 December 2016 and 2015, net other operating expenses are mainly composed of withholding taxes and net worth tax, which are linked to the Bank's business activity.

Note 25 – Administrative expenses

(in EUR)	2016	2015
Wages and salaries	13,150,008	12,342,582
Social security charges	1,936,650	1,955,058
Legal pension and similar expenses	902,827	763,011
Employee benefits	1,441,451	547,477
Other	536,695	89,816
Total staff expenses	**17,967,631**	**15,697,944**
Operating expenses	2,895,167	1,586,746
Repair and maintenance	307,661	374,848
Training and moving	963,942	1,000,594
IT outsourcing costs	6,785,211	5,364,398
Legal and professional fees	3,828,976	1,837,912
Data provider fees	1,586,172	1,745,855
Charges linked to Corporate activity and other charges	569,499	44,061
Total general and administrative expneses	**16,936,628**	**11,954,414**
Total administrative expenses	**34,904,259**	**27,652,358**

Note 25 – Administrative expenses (continued)

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

	2016	2015
Senior Management	3	4
Middle Management	54	55
Employees	112	102
	169	**161**

Note 26 – Net Impairment on financial assets

During the year, the Bank has reversed impairment on financial assets as follow:

(in EUR)	2016	2015
Loans and advances	2,775,931	1,525,797
Impairment	**2,775,931**	**1,525,797**

Note 27 – Profit from discontinued operation

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

The "Profit from discontinued operations" net of tax caption includes in 2013 the consideration the Bank received in relation to the sale of the domiciliation activity mentioned above. The amount is composed as follows:

- EUR 3.33 million paid at the closing date;
- EUR 1.05 million to be paid 220 business days after the closing date.

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

- (Target revenues – Effective revenues)*0.77 where
  - o Target revenues: EUR 8.25 million as defined in the contract;
  - o Effective revenues: revenues generated during 2014 by the entities perimeter transferred;
  - o 0.77: multiplier defined in the contract.

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

In 2015, the Bank recorded an income of EUR 281,474 in relation to the second and last post-closing payment as agreed with the counterparty.

Note 28 – Related party disclosures

Identity of related parties

The Bank has a related party relationship with its direct and non-direct parent companies, entities of its Group and with its directors (hereafter "administrative bodies") and executive officers (hereafter "other key management personnel"). All transactions made with related parties are concluded on an arm's length basis.

The amount of main assets, liabilities, income and expenses as at 31 December 2016 and 2015 concerning Group entities and the parent companies are as follows:

(in EUR)	2016	2015
Assets and liabilities		
Assets held for trading and assets carried at fair value	19,809,595	97,479,843
Available-for-sale financial assets	841,682	1,018,389
Loans and advances	8,225,418,288	9,863,967,490
Hedging derivatives	841,669	466,733
Financial liabilities held for trading and liabilities carried	85,457,888	29,113,821
Financial liabilities measured at amortised cost	7,487,541,998	7,985,728,336
Hedging derivatives	97,582,506	112,144,797

(in EUR)	2016	2015
Income and expenses		
Interest income	93,615,918	136,858,693
Fees and commissions income	1,135,079	1,613,551
Dividend income	916,093	1,268,046
Interest expenses	(96,807,298)	(96,947,343)
Fees and commissions expenses	(5,959,884)	(1,942,932)
Administrative expenses	(8,221,329)	(7,056,432)
Other operating expenses	(1,545,071)	(1,227,863)

As at 31 December 2016 and 2015, no impairment loss was recognised on available-for-sale financial assets and loans and advances with related parties.

Note 28 – Related party disclosures (continued)

Key management personnel

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

(in EUR)	2016	2015
Administrative bodies	251,000	90,000
Other key management personnel	849,697	681,883
	1,100,697	**771,883**

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

As at 31 December 2016 and 2015, the Bank has no obligations related to retirement pensions for former administrative bodies and key management personnel.

As at 31 December 2016 and 2015, the Bank has not granted advances and credits and has not entered into guarantee commitments for the above mentioned bodies and personnel.

During 2016 the Bank has paid bonuses to Other Key management personnel for an amount of EUR 225,625 (2015 EUR: 135,000).

Note 29 – Commitments and contingent liabilities

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

(in EUR)	2016	2015
Unused confirmed credits	3,520,103,961	585,824,899
- out of which towards related parties	-	-
Guarantees and other direct subsitutes for credit	215,309,119	35,826,219
- out of which towards related parties	*161,191,121*	*57,710*

Note 29 – Commitments and contingent liabilities (continued)

Guarantees received by the Bank:

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

(in EUR)	2016		2015	
	Contingent liabilities	**Unused credits**	**Contingent liabilities**	**Unused credits**
Net carrying amounts	**215,309,119**	**3,520,103,961**	**35,826,219**	**585,824,899**
Real guarantees				
Mortgage	-	-	-	-
Securities	486,522	-	1,418,063	-
Other real guarantees	17,335,870	180,980,260	15,523,569	247,461,017
Personal guarantees				
Government guarantees	-	750,000,000	-	-
Credit institutions guarantees	5,153	83,246,371	208,105	-
Total guarantees	**17,827,545**	**1,014,226,631**	**17,149,737**	**247,461,017**

Note 30 – 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 2024 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.

Note 30 – Deposit guarantee and investor compensation schemes (continued)

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 is to be reached by the end of 2018 through annual contributions. The contributions are to be made in the form of annual payments during the years 2016 to 2018.

When the level of 0.8% is 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 31 – Investment management services and underwriting functions

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

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

Assets managed on behalf of third parties are as follows:

(in EUR)	2016	2015
Custody and administration of transferable securities	8,644,073,265	9,126,155,722
Fiduciary representation	3,032,183	273,815,030
Wealth Management	173,366,351	200,265,262

Note 32 – Audit fees

The audit fees and audit related fees for the years ended 31 December 2016 and 2015 are as follows:

(in EUR)	2016	2015
Audit fees	479,500	236,000
Audit related fees	15,000	85,000
Other	15,000	15,000
	509,500	**336,000**

Note 33 – Encumbered assets

In 2016 and 2015 the Bank participated to the Long Term Refinancing Operation mechanism organised by the Banque centrale du Luxembourg for an amount of EUR 1,312 million (2015: EUR 591 million). Those deposits are collateralised by eligible securities classified in the available-for-sale securities portfolio for an amount of EUR 1,342 million (2015: 808 million).

ASSET ENCUMBRANCE

	ENCUMBERED		UNENCUMBERED		CARRYING AMOUNT	
(in EUR)	Carrying amount	Fair value	Carrying amount	Fair value	2016	2015
Cash and cash equivalents	-	-	2,390,654,292	-	2,390,654,292	2,070,090,183
Debt securities	1,341,807,539	1,341,807,539	1,618,361,496	1,618,361,496	2,960,169,035	2,686,555,359
Equities	-	-	841,682	841,682	841,682	1,018,388
Loans and advances	125,700,000	-	12,456,894,293	-	12,582,594,293	11,270,275,960
Other financial assets	-	-	26,310,686	-	26,310,686	107,606,097
Non financial assets	-	-	35,235,828	-	35,235,828	24,002,314
Total 2016	**1,467,507,539**	**1,341,807,539**	**16,528,298,277**	**1,619,203,178**	**17,995,805,816**	**16,159,548,301**

Note 34 – Events after the reporting date

The Bank is not aware of any adjusting or non-adjusting event that would have occurred between 31 December 2016 and the date when the present financial statements were authorised for submission, by the Board of Directors, to the Annual General Meeting of Shareholders.